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Optimization of Multilayer Lobbying

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Abstract

Lobbying is the act of attempting to influence decisions made by officials in the government, managers in any business sector, etc. Lobbying is done by many different types of people and organized groups, including individuals in the private sector, corporations, fellow legislators or government officials, or advocacy groups. In this paper we propose a model for lobbying in the probabilistic environment. Interested side (individual or a group) seeks to influence voters' preferences of voting for or against one issue. We form a 3-layers lobbying process with the Lobbyist in the first layer, one group of voters whom the Lobbyist bribes in the second, and persuaded voters in the third layer. We include in the model ability of one voter to persuade another voter to vote in the Lobbyist favor.

Keywords

Optimization, lobbying, multilayer lobbying process, persuasion ability

1. Introduction

From the literature we conclude that both the classification of lobby groups and, the explanation what exactly lobbying is, are difficult to define in a consequent way. "Lobbying" (also "lobby") is a form of advocacy with the intention of influencing decisions made by the government by individuals or more usually by lobby groups; it includes all attempts to influence legislators and officials, whether by other legislators, constituents, or organized groups (Encyclopedia Britannica 2014).

A "lobbyist" is a person who tries to influence legislation on behalf of a special interest or a member of a lobby (Dictionary, R. H. W. S. U. 2006). Lobbyists may be among a legislator's constituencies or they may engage in lobbying as a business. The ethics and morality of lobbying are dual-edged. Lobbying is often spoken of with contempt. Another side of lobbying is making sure that others' interests are properly defended against others' corruption, or even simply making sure that minority interests are fairly defended against will of majority. Today, governments often define and regulate organized group lobbying that has become influential.

From the perspective of business politics as intentional influence, business aims to secure favorable political outcomes by lobbying (Bernhagen & Bräuninger, 2005). Lobbying refers to influencing the formation of public policy, its passage through the legislature and its implementation, by means of contacting and pressurizing policymakers such as individual legislators, ministers and civil servants (Richardson, 1993; Baumgartner & Leech, 1998). Research in this area concerns the resources available to business and its interest organizations (Getz, 1997), party and campaign finance (Wright, 1996).

In (Binkele-Raible, Erdélyi, Fernau, Goldsmith, Mattei & Rothe, 2013) authors propose models for lobbying in a probabilistic environment, in which an actor (called "The Lobby") seeks to influence voters' preferences of voting for or against multiple issues when the voters' preferences are represented in terms of probabilities. They provide two evaluation criteria and two bribery methods to formally describe these models. Also, they consider the resulting forms of lobbying with and without issues weighting. In (Binkele-Raible et al., 2013) authors also examine ways in which money can be channeled into the political process. They consider two methods that an actor ("The Lobby") can use to influence the voters' preferences of voting for or against multiple issues: microbribery and voter bribery. These authors were the first to study lobbying in the context of direct democracy where voters vote on multiple referenda.

In (Marshall, 2010) authors explain how institutional conditions in the European Parliament's committees shape strategic behavior of lobbyists and they demonstrate how influence and, by implication, lobbying activity are skewed in favor of a committee elite.

Benedetto (2005) and Kaeding (2004) say that the distribution of influence within the committee is far less clearly defined. Yet, the extent to which ordinary committee members are able to challenge this power, and the distribution of influence amongst these legislators, remain uncertain. As a consequence, our understanding of the pathways that lobbyists take to influencing a committee's final position is limited (Marshall, 2010).

2. Description of the Lobbying Model

In our model of lobbying process we take into consideration the following participants: one interested side (we call it the Lobbyist) and one group of voters. We consider that we can only influence the probability that group members vote as the Lobbyist desires. We are taking into consideration only one issue over which the voters can vote – they can vote for or against it, depending on the Lobbyist's wish.

We can present the situation as a directed graph. We introduce persuasion ability of one voter to another and it represents probability that the persuasion of the persuaded voter will be successful.

2.1. 3-layers lobbying process

The idea of our model is that the Lobbyist is lobbying a group of voters. The Lobbyist chooses one number of voters from the group and bribes them to vote for the Lobbyist issue. The bribed members, beside the given vote, get the list of other members they have to persuade to vote. As a result, the bribe covers two issues: the persuasion of the bribed member to vote for the issue and the list of members the bribed one has to persuade to vote in the favor of the Lobbyist.

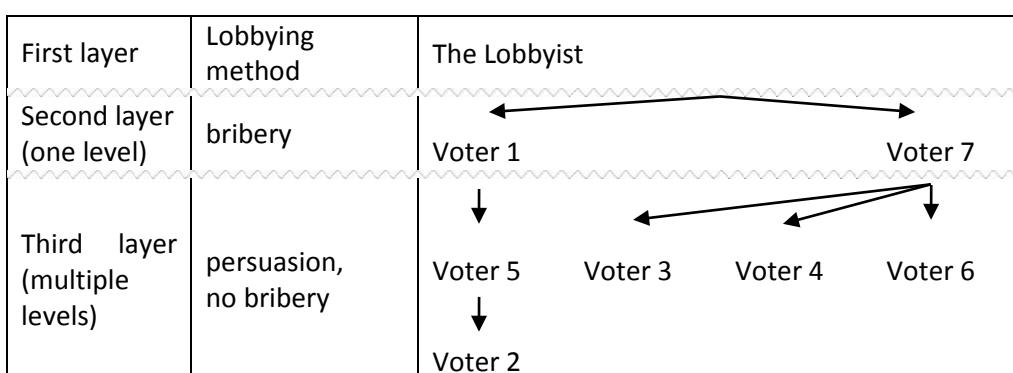
Essential decision to this process is the choice of voters from the group who will be bribed. The model and one of its possible solutions is presented in Fig. 1. In this example, we have the Lobbyist and 7 voters. The example solution is that the Lobbyist is bribing two voters, and they persuade the other five voters. Voter 1 has to persuade Voter 5, and Voter 7 has to persuade voters 3, 4 and 6.

In Fig. 1 we can notice the 3-layers lobbying process. The first layer is the Lobbyist, i.e. the interested side. The Lobbyist is choosing voters who will be bribed and they are presented in the second layer. The bribe given to the voters of the second layer ensures that these voters will:

- Vote for the Lobbyist's issue and
- Persuade the voters of the third layer that are assigned to them to vote in the favor of the Lobbyist.

Second layer of the lobbying process has only one level. But, the third layer can consist of numerous levels.

Figure 1: The 3-layer solution of the lobbying optimization



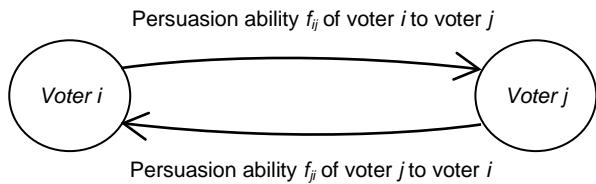
2.2. Persuasion ability of one voter to another voter

In our approach we introduce a value called persuasion ability of the voter toward another voter. We perceive this ability as an influence of one voter to another voter in order to change its attitude or behavior toward some event, idea, object or any other issue. The influence is the relative impact of an individual on the other individual.

We assume that this persuasion ability of one voter to another one from the group does not have to be equal (see Fig. 2). If the persuasion ability of voter i to voter j is greater than the persuasion ability

of voter j to voter i it means that the voter i has a greater personal or positional resources to change voter's j behavior or attitude toward the Lobbyist's issue.

Figure 1: Idea of persuasion ability of one voter toward another one



For further reading about the influence, see (Marshall, 2010), where authors explain that lobbyists understand how influence is distributed.

2.3. Evaluation criteria

To describe the whole process, we introduce evaluation criteria. From the various evaluation criteria, we have chosen the most natural one: probabilistic majority. The important question that arises now is: how can one tell that enough money is donated to influence the vote? In (Binkele-Raible et al., 2013) authors also ask several questions regarding evaluation criteria: Does it mean that the probability that a single vote will go our way is greater than some threshold? That the probability that all the votes go our way is greater than that threshold? These authors consider two methods for evaluating the outcome of a vote:

- Strict majority, where a vote on an issue is won by a strict majority of voters having a probability of accepting this issue that exceeds a given threshold, and
- Average majority, where a vote on an issue is won exactly when the voters' average probability of accepting this issue exceeds a given threshold (Binkele-Raible et al., 2013).

For the evaluation criterion we use mathematical expectation of number of votes for the Lobbyist's issue.

Naturally, this problem will be modeled as a directed graph. The voters will be presented as vertices of the graph. We introduce a variable for each voter that represents probability that the voter will vote for the Lobbyist's issue.

3. Optimal Lobbying Model

Here we distinguish bribed voters (voters in the second layer) and persuaded (not bribed) voters (voters in the third layer).

Given a directed complete graph $G' = (N, A)$ with a set of vertices N and the set of edges A . Voters of the group that is being lobbied are modeled with vertices N . Connections between the voters are modeled with a set of edges A . We now add one vertex to the set of vertices N (1). This vertex represents the Lobbyist. The connections between the Lobbyist and all the other voters are added also to the graph. Now we construct a graph $G = (V, E)$ (which is not complete) where

$$V = N \cup \{0\} \quad (1)$$

$$E = A \cup \{(0, j), j \in N\} \quad \square \quad (2)$$

For all the voters, we define prices for bribing them c_j (3).

$$c_j \geq 0, j \in N \quad (3)$$

The decision variables z_{ij} , $i \in V, j \in N$ are binary variables and are equal to 1 if voter i is lobbying voter j , otherwise 0 (4).

$$z_{ij} \in \{0,1\}, \quad (i, j) \in E \quad (4)$$

Persuasion ability f_{ij} of voter i toward voter j represents probability that the persuasion will be successful (5). This value is pre-calculated by the Lobbyist.

$$0 \leq f_{ij} \leq 1, \quad (i, j) \in E \quad (5)$$

We presume that the persuasion ability of the Lobbyist bribing f_{0j} toward any voter is 1 (6).

$$f_{0j} = 1, \quad j \in N \quad (6)$$

For each voter we introduce a variable x_j , $j \in N$ which presents a probability that the voter will vote for the Lobbyist's issue (7). We presume that if some voter is being bribed (second layer voters), than his probability of voting for the Lobbyist's issue is 1.

$$x_j \in [0,1], \quad j \in V \quad (7)$$

The problem that occurs here is that the Lobbyist must be familiar with all the voters of the group and their mutual relations in order to estimate the value of persuasion ability among the voters.

It is natural to presume that the Lobbyist's budget for the bribing is limited. So we introduce parameter B representing total amount of money (or other resource) available for bribing. This budget is used only for the voters of the first layer (see Fig. 1). For the purpose of the model, we introduce large positive number M .

Now we can formulate the optimal lobbying model:

$$(\max) \sum_{j \in N} x_j \quad (8)$$

subject to

$$\sum_{j \in N} c_j z_{0j} \leq B \quad (9)$$

$$x_j \geq z_{0j}, \quad j \in N \quad (10)$$

$$\sum_{i \in \Gamma_j^{-1}} z_{ij} = 1, \quad j \in N \quad (11)$$

$$f_{ij} x_i - M(1 - z_{ij}) \leq x_j \leq f_{ij} x_i + M(1 - z_{ij}), \quad (i, j) \in E \quad (12)$$

$$z_{ij} + z_{ji} \leq 1, \quad (i, j) \in E \quad (13)$$

$$x_0 = 1 \quad (14)$$

The objective function (8) represents mathematical expectation of number of votes for the Lobbyist's issue. The Lobbyist's budget is distributed among the certain number of voters and this is modeled as a constraint (9). Constraint (10) ensures that if the voter is bribed (part of the layer two) that the voter's persuasion ability is equal to 1. Persuasion ability of every voter that is being lobbied by The Lobbyist is equal to 1. Constraint (11) ensures that every voter is being lobbied by only one voter. If voter i is predecessor voter of voter j (voter j is lobbied by the voter i) than:

$$z_{ij} = 1 \quad (15)$$

Constraint (12) means that the persuasion ability of the voter j will be calculated:

$$x_j = f_{ij} x_i \quad (16)$$

if voter j is lobbied by voter (lobbyist) i where x_i is the persuasion ability of the predecessor voter. To secure that there are no loops (the voters are lobbying each other simultaneously) between the voters, we introduce constraint (13). Naturally, we presume that the persuasion intensity of The Lobbyist is 1 (14).

3.1. The numerical example

The solution of the optimal lobbying model represents a directed tree. We performed several experiments with GLPK solver, v4.52.

Consider the following problem instance with $n = 7$ (there are seven voters). Our example consists of a vector of lobbying prices for each voter $C = (10, 17, 15, 14, 16, 18, 19)$. The total budget for the lobbying is equal to 30. Lobbying ability matrix is given below:

Table 1: Lobbying ability of the voters

Voters	Voters						
	1	2	3	4	5	6	7
1	/	0.8	0.8	0.7	0.9	0.7	0.7
2	0.1	/	0.3	0.6	0.5	0.4	0.5
3	0.3	0.7	/	0.4	0.6	0.6	0.9
4	0.6	0.8	0.7	/	0.7	0.7	0.5
5	0.5	0.9	0.7	0.3	/	0.4	0.5
6	0.2	0.5	0.2	0.1	0.1	/	0.2
7	0.6	0.4	0.9	0.9	0.9	0.8	/

The solution of this numerical example with seven voters is given in Figure 1. Total persuasion is 6.31 out of 7.0. The persuasion abilities of the voters are $X = (1.0, 0.81, 0.9, 0.9, 0.9, 0.8, 1.0)$.

4. Conclusion and Further Work

In this paper we formulated a mathematical model for the problem of optimal lobbying and illustrated the application on one numerical example. After the optimization, the Lobbyist decides whether he accepts the solution (if the value of an objective function exceeds certain threshold). Otherwise, the Lobbyist can increase the budget for the lobbying.

The authors are going to perform experiments with different problem dimension. We can also introduce concepts of weighting persuasion ability, and standard deviation.

The further work may go towards modeling several issues (multiple referenda) of the Lobbyist's interest, see (Christian, Fellows, Rosamond & Slinko, 2007).

Some of the authors' ideas for the further work:

- Limit the number of levels in the third layer.
- Limit the number of voters in the second layer.
- Introduce minimal probability of voting for the Lobbyist's issue for each voter (for one or multiple layers).
- Different way of budget distribution, etc.

Presented model is applicable to the lobbying problem and, with some modifications, can be applied to the lobbying in politics and in business.

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Efficiency and Effectiveness of Audits in the Public Sector

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Abstract

The economic, social, and financial developments in face of a very fast globalizing environment and the efficiency required in the appropriate use of public funds has lead to very significant changes and advances in our world, which have to reevaluate the role that the auditor profession entitles. The world today requires more effective public institutions and auditing agencies in order to promote honesty and competent governance, for the benefit of the present and the future of every nation.

Keeping this objective at mind, this study concentrates on the efficiency and effectiveness of audits in the public sector in terms of improving governance while focusing specifically on issues related to efficiency indicators and their effectiveness. This study gives an overview of public sector audits and the institutions that carry out these duties, as well as the theoretic basis of conducting an audit in the public sector.

Measuring effectiveness and efficiency of an audit is evaluated through several factors and indicators, which we believe are very influential in the process. The study realistically examines the current situation of the auditing process in Albania and gives relevant recommendations which conclude that the effectiveness of audits depends on factors related to the process itself as well as how it is perceived, such as the characteristics of the institution being audited, the characteristics of the environment, independence, integrity, as well as professionalism. The result from an audit process aims to be an added value to governing activities and is often of little economic significance. Nevertheless the effect it has on improving governance is very positive thus helping change the notion that the auditing process should be regarded as merely a necessity or need.

Keywords

Auditing, auditor, public sector, effectiveness, efficiency, governance, measures of effectiveness, internal audit, ISA, International Standards of Auditing, corruption, performance auditing, financial auditing, compliance audit, IT auditing

Modeling the Impact of the Resource-Acquisition Network Signaling of Legitimacy on Firm Performance

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Abstract

In this paper, we examine business legitimacy-related effects of resource acquisition networks on firm performance. We argue that elements of personal resource acquisition networks have a positive effect on firm performance which can at least partially be explained by legitimizing effects of association with external, established actors. Results of structural equation modeling analysis of data from a sample of Slovenian entrepreneurs and managers indicate that network signaling of legitimacy can have positive effects on firm performance, particularly for entrepreneurs. Results also suggest that due to the higher uncertainty that is typical for entrepreneurs, entrepreneurs can achieve benefits for performance of their firms by using resource acquisition network signaling of legitimacy, while this may tend not to hold for managers, who may be faced even with negative effects.

Keywords

Networking, legitimacy, resource acquisition, signaling theory

1. Introduction

A number of different definitions of networking and social capital have been developed in recent years; however, they share similar central argument that personal and business networks constitute a valuable resource for existing but even more so for new, emerging firms.

Nahapiet and Ghoshal (1997) described three dimensions of social capital: structural, relational and cognitive. Structural dimension of social capital is based on social interaction, meaning that people use their contacts to obtain resources, get jobs etc. The relational dimension refers to assets such as trust and trustworthiness that are part of these relationships. The cognitive dimension is based on shared paradigms or shared codes which underlie “common understanding or common goals and proper ways of acting in a social system” (Tsai & Ghoshal, 1998, p. 464).

Inkpen and Tsang (2005) distinguished three common network types: intracorporate networks, strategic alliances and industrial districts and through the use of structural, cognitive and relational dimensions identified conditions that facilitate knowledge transfer for the different network types. We argue that apart from knowledge transfer there are many other benefits of networking activity: information sharing, resource acquisition, problem solving.

We focus on the resource-acquisition network and examine the institutional/legitimacy effects that are acquired in such networks. Arguments in this paper are based on tenets of signaling theory: legitimacy has socially constructed components and networking can be seen as a legitimizing activity - the sounder your business idea and in line with shared paradigms, more people will participate in your resource acquisition networks (Nahapiet & Ghoshal, 1998).

2. Hypotheses

Young companies have to convince other social actors that the firm's business idea is viable and that resources invested in the company will have a positive return. Organizational legitimacy has been defined as the acceptance of the organization by its environment (Dowling & Pfeffer, 1975; Meyer & Rowan, 1976). An organization is deemed to be legitimate by the extent to which its means and ends appear to conform to social norms, values and expectations (Dowling & Pfeffer, 1975).

Legitimacy arises over time as a complex dynamic between the persistent behavioral patterns and their evaluation (Hybels, 1995). Desirable behaviors become continuously reproduced and thereby legitimated in social interactions. The desirability of the organization and its role in society are determined by opinions of numerous constituencies that evaluate various “aspects of the organization with varying degrees of knowledge and with varying degrees of influence on the overall level of legitimacy” (Ruef & Scott, 1998, p. 880). Legitimation is based on resource acquisition. Resources acquired from external constituencies give rise to organizational legitimacy; however, some minimal level of legitimacy is required before external actors are willing to invest resources. This seemingly contradictory assertion can be resolved by recalling that legitimacy changes over time (Hybels, 1995). The accumulation of resources leads to increased legitimacy and increased legitimacy brings additional resources into the organization.

A number of definitions of organizational legitimacy have been developed, some of them based on categories of relevant social actors (Hybels, 1995; Suchman, 1995). Hybels (1995) argued that a well-grounded theory of legitimation should identify the critical actors whose approval is necessary for stable inflow of resources needed for the organization's survival and growth. Governmental bodies (the state) are the first group of actors that play a vital role in legitimation and through regulation try to ensure utility and responsibility of organizations. The public, as the second constituency, controls resources on the demand side as consumers, but perhaps even more importantly on the supply side

as a source of labor and capital. The financial community provides very sophisticated evaluations of new and established organizations “based on collective assessments of future performance” (Hybels, 1995, p. 244) and thus plays a very important role in the legitimization process. Although the media, as the last group of critical external actors, has little direct control over the flow of resources, they greatly influence the allocation decisions of other groups.

By having the appropriate (or socially approved) capabilities, the firm’s means appear to conform to social norms, values and expectations. Therefore, the external actors (regulators, investors, and customers) are more willing to engage in transactions with the firm (to provide assistance, to invest, or to buy products and services of the firm). Factors that increase the legitimacy of an organization decrease the selection pressures on an organization and increase the survival rate (Singh et al., 1986).

H1: Resource acquisition network signaling of legitimacy is associated with higher firm performance.

H2: This association is stronger in the sample of entrepreneurs than in the sample of managers due to the higher uncertainty that is typical for entrepreneurs.

While H1 may be equally true for entrepreneurs and managers, signaling theory would predict that this relationship is more important for entrepreneurs, because of their more precarious (unlegitimized) status in society.

3. Methodology

3.1. Sample

The model was tested by using responses from a sample of 169 businesspersons from Slovenia (108 entrepreneurs and 61 managers; entrepreneurs 70.1% male, 29.9% female; managers 55.0% male, 45.0% female). Respondents were partially selected at random from the list of Slovenian companies and partially selected at convenience from students at three different educational institutions in five Slovenian towns. The sample groups of entrepreneurs and managers were relatively well matched in terms of age and marital status (the average respondent in the sample was more than 30 to 40 years old, and married). The average firm in the sample was small for entrepreneurs (50 or less employees – full-time equivalent; revenue up to 500,000 US Dollars) and medium-sized for managers (more than 50 to 250 employees; revenue 5-25 Million US Dollars); it was (similarly in both groups) 11-20 years old and operated in the service industry (followed by manufacturing firms; similar to the population of Slovenian firms).

3.2. Data collection

Data were collected via semi-structured interviews about the businessperson’s ego-centered resource-acquisition network. Each person was first asked to list up to ten persons with whom they had had direct personal relationships and have been most important for resource acquisition (material, financial, and/or human resources) for their firm. The businessperson and the listed persons were used as rows and columns for the composition of a relationship matrix. The businessperson was then asked to evaluate on a scale from 0 (not important) to 10 (very important) each person’s importance as a resource provider to the businessperson’s firm, the perceived importance of each person for all other persons in the matrix, as well as the position of the person relative to the firm (in the firm; not in the firm: buyer, supplier, competitor, or other). The businessperson was also asked to provide some additional information about himself or herself (mostly demographic data) and about the firm (age, size, industry, performance).

3.3. Measures

We used a number of items for operationalizations of independent and dependent variables to examine the hypothesized relationships. The independent variable – network signaling of legitimacy – was assessed on the basis of the data in the network matrix by four items:

- 1) Importance of business contacts for resource acquisition (the average of importance of the person (range 0-10) calculated by using only business persons (buyer, supplier, or competitor) in the network; if there were no business persons in the network the average was coded 0).
- 2) Absolute number of business contacts (the number of business persons (buyers, suppliers, or competitors) in the network; range 0-10).
- 3) Relative number of business contacts (the percentage of business persons in the network (buyers, suppliers, or competitors) relative to all persons (up to 10) in the resource acquisition network).
- 4) Key resource provider – business (a dummy variable indicating the existence or non-existence of a business contact with the most important resource provider (central person) in the network; the central person was determined on the basis of the highest average outdegree (resource provision to other members in the network without the ego) among the persons in the network without the ego).

The dependent variable – firm performance – was assessed by two dimensions (scales from Antoncic & Hisrich, 2001, 2004): (1) growth (including three items: average growth in sales, employees, and market share in the last three years); (2) profitability (three items: ROS, ROA, and ROE in the last three years).

3.4. Data analysis

The independent and dependent variables were modeled as latent factors in a structural equation model. The factor structure and internal consistency was confirmed by exploratory (one factor solution for network signaling of legitimacy and two factor structure for performance) and confirmatory factor analysis. The hypothesized relationships were tested in the structural equation model, in which the first-order network signaling legitimacy factor was used as a predictor of the second-order performance factor (composed of growth and profitability factors). Three indices that are not sensitive to sample size (Bentler, 1990): Normed fit index (NFI), Non-normed fit index (NNFI), and Comparative fit index (CFI), and one indicator of approximation errors – Root-mean-square error of approximation (RMSEA) – were used to assess the model fit. The model was estimated on the overall sample ($n=169$) and on the sub-samples (entrepreneurs, $n=108$; managers, $n=61$).

4. Results

The results of structural equation modeling are shown in Table 1. The fit of estimated models can be considered moderate, as indicated by model fit indices (NFI, NNFI and CFI close or above the desired threshold of 0.90; RMSEA somewhat too high – over 0.05 threshold – in the overall sample and in the entrepreneurs group).

Hypothesis 1 postulated a positive relationship between resource acquisition network signaling of legitimacy and firm performance. Results of structural equations were found in support of the hypothesized relationship in the overall sample (standardized coefficient 0.51, significant) and in the entrepreneurs group (stan. coef. 0.19, significant), while in the managers group the relationship was found negative (stan. coef. -0.15, significant). Thus, H1 received partial support indicating that network signaling of legitimacy can have positive effects on firm performance, particularly for entrepreneurs.

Hypothesis 2 predicted a stronger association between network signaling of legitimacy and firm performance in the sample of entrepreneurs than in the sample of managers. Results are in support of H2 (positive relationship for entrepreneurs, negative for managers). It seems that due to the higher uncertainty that is typical for entrepreneurs, entrepreneurs can achieve benefits for performance of their firms by using resource acquisition network signaling of legitimacy, while this may tend not to hold for managers (it might have even negative effects).

Table 1: Results - structural equation modeling (method ERLS)

Sample/Group	Independent Factor (a)	Dependent Factor (b)		Model Fit Indices	
		Performance (standardized coefficient)	R-square		
Entrepreneurs and managers (n=169)	Network signaling of legitimacy	0.51*	0.26	NFI NNFI CFI RMSEA	0.89 0.90 0.92 0.13
Entrepreneurs (n=108)	Network signaling of legitimacy	0.19*	0.04	NFI NNFI CFI RMSEA	0.86 0.89 0.91 0.14
Managers (n=61)	Network signaling of legitimacy	-0.15*	0.02	NFI NNFI CFI RMSEA	0.82 0.97 0.98 0.05

(a) Network signaling of legitimacy: latent factor composed of four items: importance of business contacts for resource acquisition, absolute number of business contacts, relative (percentage) number of business contacts, central person – business contact (all coefficients positive, high and significant)

(b) Performance: latent factor composed of two factors: growth: latent factor composed of three items: growth in sales, growth in employees, growth in market share (all coefficients positive, high and significant); profitability: latent factor composed of three items: ROS, ROA, ROE (all coefficients positive, high and significant)

* significant at 0.05

5. Discussion and Conclusion

The key findings of this study indicate that network signaling of legitimacy can have positive effects on firm performance, particularly for entrepreneurs, and that entrepreneurs can achieve benefits for performance of their firms by using resource acquisition network signaling of legitimacy, while this may tend not to hold for managers, who may be faced even with negative effects.

The main contributions of this study are conceptual and methodological. Personal network signaling can be important for firm performance, but not for all businesspersons' groups. Due to the higher uncertainty that is typical for entrepreneurs, entrepreneurs can achieve higher benefits for performance of their firms from using resource acquisition network signaling of legitimacy than managers. A methodological contribution was made by deriving measurement items for the network signaling factor directly from the personal resource acquisition network matrix data. It has been confirmatory tested and found that this new four-item factor tends to be internally consistent and nomologically valid.

Implications of the study are particularly relevant for small business entrepreneurs. They can increase their firm performance by building networks for acquisition of resources (human, material and financial) for their firm by including many business contacts (buyers, suppliers, and competitors) as important people on the personal basis and to build personal networks or personally connect into

networks, which are built around important business people, who can be related to the firm vertically (buyers and suppliers) or horizontally (competitors). This finding and implication may seem a little bit at odds with the arguments that family and friends play important roles in small firm performance in early stages (Birley, 1985). In contrast, our study focused on business people from firms that are mostly beyond the start-up phase.

The study has limitations, which need to be noted. Some limitations lie in the study design (cross-sectional, moderate to small semi-random sample groups, data collection in one country) and measurement (ego-centric network data collection, informant bias, perceptual measures). Despite the limitations, the study contributed with provision of new knowledge and evidence on the relationship between personal network legitimacy signaling and firm performance.

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Towards a Theory of Event Management

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Abstract

Event Management is not a coherent academic field of research and study and a generic and comprehensive theory of event management doesn't exist so far. One of the basic problems regarding theory construction and modeling in event management certainly is the ambiguity in the use of the term "event", there is little agreement on standardized categories so far. This lack of conceptual clarity is due to the mere fact that its perception contains diverse contextualizations and implications from several disciplines (sociology, economy, psychology, cultural studies, communication science etc.). Moreover events occur "throughout all sections of society and across all different types of organizations" (Berridge, 2007, p. 5). The event sector is thus not one coherent but many sectors (Goldblatt, 2000, p. 3) including a wide range of different types of events, like conferences/meetings, exhibitions, incentive travel, festivals, corporate hospitality and associated organizations, such as events management companies, events industry suppliers, venues, industry associations etc. Not least events are embedded in and subject to social change; they are in this regard modern forms of social representation and hence constitute new ways of social interaction and communication (cf. Kaiser, 2014).

Due to this complexity und diversity most of the literature in the field of event management focuses on practical guidelines and tools. The suggested methods largely originate from the field of project management. That proofs to be rather obvious as for the practitioner events in all their forms are nothing but specific kinds of projects. To build a theory about event management this perspective is a dead end. Theory building would end up constantly lining out the certain aspects that qualify an event over a project. The authors notion of a theory of event management is centered around the various causes of events. And in the end the cause of every event is a social interaction. This is the common focus that is necessary to identify the subject of the theory. The social interaction however is not an end in itself. What really separates different kinds of events is not the number of participants, or the activities included, it is the intent of the social interaction. The intend is the differentiation necessary to categorize several forms of the subject. The intentions of events can cover a broad variety, like motivating employees, winning new patrons, entertaining people and so on. The problem is to find an aspect all possible intends may have in common. At that point the concept of symbolic interactionism seems to be a useful approach. Blumer (1969 / 1998) explains that symbolic interactionism is about the meaning things (according to Blumer a thing can be almost anything from physical objects to ideas and theories) have for people and how the meaning of a thing to a person is shaped by the reactions of others toward that thing.

„The meaning of a thing for a person grows out of the ways in which other persons act toward the person with regard to the thing. Their actions operate to define the thing for the person.

Thus, symbolic interactionism sees meanings as social products, as creations that are formed in and through the defining activities of people as they interact." (Blumer, 1998, p. 4-5)

In this context events can be seen as a purposefully conducted action that is aimed to create a space where different people can express and align their perceived meaning of a certain thing. Where Blumers idea is rather descriptive and explains a phenomenon that constantly happens in social situations the authors focus of a theory of event management transfers this concept to an idea that the reason of every event is to set up a situation where that phenomenon is being concentrated on a specific thing. The management part then is centered around the question how to set up those situations and create spaces of purposeful interactions.

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The Main Factors Influencing the Destination Choice of Ski Resorts Visitors in the Context of Different Research Approaches

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Abstract

The paper summarizes scientific approaches to researches on the field of destination choice of ski resorts visitors. Information about existing models and trends from scientific journals are analysed. Multiattribute models are widely used in researches dealing with destination choice of ski resort visitors. The results will be useful for researchers and practitioners who deal with tourist destination choice in particular for ski resorts operators. This paper represents the initial phase of the project aimed at researching the topical factors with their relationships and links influencing satisfaction and loyalty of ski resort visitors in selected countries.

Keywords

Destination choice, destination image, ski resort visitor, loyalty, satisfaction

1. Introduction

Since 1980, several authors of all over the world have addressed the issue of destination choice of ski resorts visitors or partial themes. For the last five years, however, lacks new innovative methods and approaches to this issue.

The influence of image on destination choice process has been studied by various authors (e.g., Crompton & Ankromah, 1993; Gartner, 1989; Goodall, 1988). It is believed that destinations with more positive images will more likely be included in the process of decision making. In addition, destination image exercises a positive influence on perceived quality and satisfaction. More favourable image will lead to higher customer satisfaction. In turn, the evaluation of the destination experience will influence the image and modify it (Chon, 1991; Echtner & Ritchie, 1991; Fakye & Crompton, 1991; Ross, 1993). Lastly, destination image also affects the behavioral intentions of customers. For example, Court and Lupton (1997) found that the image of the destination under study positively affects customers' intention to revisit in the future.

In the tourism context, satisfaction with travel experiences contributes to destination loyalty (Alexandris, Kouthouris & Meligdis, 2006; Bramwell, 1998; Oppermann, 2000; Pritchard & Howard, 1997). The degree of visitor's loyalty to a destination is reflected in their intentions to revisit the destination and in their willingness to recommend it (Oppermann, 2000).

Baloglu and McCleary (1999) identified two key forces which influence image formation; the forces were stimulus factors and personal factors. Gartner (1993) classified image formation into five sections; overt induced, covert induced, autonomous, organic and visit the destination. Um and Crompton (1990) personal factors affect the formation of destination image. Beerli and Martin (2004) classified personal factors into two sections; socio-demographic characteristics and psychological characteristics. Socio – demographic characteristics included gender, age, level of education, family life, social class, place of residence, occupation, income, marital status and country of origin (Dominique Ferreira Lopesi, 2011; Asli & Tasci, 2007; Beerli & Martin, 2004; Chen & Kerstetter, 1999; Baloglu & McCleary, 1999; Baloglu, 1997; Stabler, 1995; Stern & Krakover, 1993; Walmsley & Jenkins, 1993; Um & Crompton, 1990; Woodside & Lysonsky, 1989; Calantone, Di Benetton, Hakam & Bojanic, 1989). Psychological factors included motivations, values, personality, lifestyle, need, past experience, prior knowledge, preference and satisfaction (Schreyer, Lime & Williams, 1984; Woodside & Lysonsky, 1989; Asli & Tasci, 2007; Sergio Dominique Ferreira Lopesi, 2011).

2. Materials and Methods

The main purpose of this study is to provide the overview about methods, models, forces and approaches influencing destination choice of ski resort visitors all over the world. The article analyzes the results of the key factors examined in the context of using variables of different methods, models and approaches. The information about existing models and trends from scientific journals of authors who have dealt with the issue all over the world is analysed. Primary data entering the models have been gained almost by means of questionnaire surveys. This paper represents the initial phase of the project aimed at researching the topical factors with their relationships and links influencing satisfaction and loyalty of ski resort visitors in selected countries which is a necessary part of required topical loyalty model proposal.

An alternative approach is developed by Zajonc and Markus (1982) and Hirschman and Holbrook (1982). It aims to analyze consumers' experience. An experience provides sensory emotional, cognitive, behavioral, and relational values that replace functional values. The experiential model developed by Holbrook and Hirschman (1982) aims at understanding consumer experience.

According to this approach, consumers are emotionally, symbolically, and rationally driven. They are capable of rational assessment while being also driven by emotions and symbols.

Structural equation modeling is the method to test the relationship of constructs in the model. According to Hair et al. (2006), structural equation modeling is a technique combining factor analysis and multiple regression to study a series of interrelated dependence relationships among the measures or observed variables and latent constructs, and also the relationships between or among many latent constructs. In addition, structural equation modeling is also considered a method for theory testing. Hair et al. (1999) suggested that theory can be concerned as a systematic set of relationships providing a comprehensive explanation of phenomena or events and the model is used to represent and explain the relationships in the theory. Adequate convergent validity is achieved with the evidence of factor loadings more than 0.60 on each construct.

The proposed model also demonstrated adequate discriminant validity. Since Anderson and Garbing (1988) suggested that the difference between the fixed and free model of each pair of construct should be greater than 3.841. Therefore, with sufficient results of convergent validity and the discriminant validity, the constructs can be further tested in the structural model and hypothesis testing can be performed.

Geng-Qing Chia and Hailin (2007) studied an integrated approach for understanding destination loyalty and to examine the theoretical and empirical evidence on the causal relationships among destination image, tourist satisfaction, and destination loyalty. A research model was proposed and tested. The model investigated the relevant relationships among the constructs by using a structural equation modeling (SEM) approach. The empirical data for the study was collected in a major tourism destination in the state of Arkansas—Eureka Springs. The main purpose of the study was to develop and test a theoretical model, which represented the elements contributing to the building of destination loyalty: destination image, attribute satisfaction, and overall satisfaction. Below is a brief overview of the interrelationships of the constructs in the model.

Understanding why people travel and what factors influence their behavioural intention of choosing a travel destination is beneficial to tourism planning and marketing. One popular typology for understanding travel decision is the “push and pull” model (Crompton, 1979). Travel motivation is a push factor, which provides an impetus to an individual to make a trip. Holiday motivations can be characterized as need of relaxation, social contact, mastery and intellectual stimulation (Ryan, 1998). According to Leiper (1990) tourists are pushed by their own motivations towards the places where they expect their needs will be satisfied. Pull factors are those that attract people to a specific destination once the decision to travel has been made. They are destination specific attributes, such as natural attractions, food, people, recreation facilities, or activities, which determine whether the traveler will go to destination A or B, when both destinations fulfill the expectations derived from the push factors.

According to Pearce (2005), research on destination choice has been directed to broadly referred choice set models in which destination images are seen as the result of the destination characteristics; i.e. how they are presented and how they are integrated with the social psychological factors such as motives and interests. Price is also present in these choice set models. Nevertheless, Pearce (2005) argues that there is a substantial basis in the tourism literature for choosing activities as a linking mechanism between destinations and the tourists. Pearce proposes that understanding motives and the visitors’ preference for activities represents a promising direction in linking visitors’ needs and the attributes of destinations. Following Pearce (2005) we assume that a decision to travel to a ski resort in winter time is a result of internal input of the traveler (personal characteristics and motives) and external input of the destination (destination characteristics). Based on the input, the traveler desires a set of activities which are a way to realize desired experiences. Activities available

in the destination affect the destination choice. Following Alexandris et al. (2006), the experiential states that might be expected from a ski destination are physical, social or psychological.

The loyalty was researched in various studies, predominantly as the loyalty to the destination. In the context of travel and tourism, a review of literature reveals an abundance of studies on tourist satisfaction; and destination loyalty has not been thoroughly investigated (Chi & Qu, 2007; Yoon & Uysal, 2003; Zhang et al., 2013). If tourists' experience at a destination is understood as a product, the level of loyalty can be reflected in their behavioral intention to revisit the destination and intention to recommend the experience to friends and relatives (Oppermann, 2000). Generally, loyalty has been measured in one of the following ways: the behavioral approach, the attitudinal approach and the composite approach (Yoon & Uysal, 2003; Yuksel et al., 2009; Zhang et al., 2013).

Baloglu and McCleary (1999) proposed 'dimensions of image' from a non-typical quantitative model which was based on the inference that destination images are specific classes of attitudes which involve cognitive, affective and universal impression on a destination.

3. Results and Discussion

The relationship between the destination choice and loyalty intentions is very important to the literature in the areas of customer loyalty. The empirical research supports the notion that destination loyalty is significantly influenced by visitors' satisfied experience or memorable experience. In other words, it has been noted that when visitors have a more enjoyable experience with a particular destination, are more likely to return than otherwise. Focusing on the value proposition and ensuring visitors to the destination are satisfied with their experiences are also important predictors of the attitudinal loyalty from the destination visitors.

Table I compares the results of studies aimed at factors influencing the destination choice where different research tools and models were used. In their research Hudson and Shephard (1998) used the method of Importance Performance Analysis, which involves assessing different aspects of an organization's features in terms of visitors' perceptions of performance and of the importance of this performance.

Konu et al. (2011) used in the research method of exploratory factor analysis using the principal component method with varimax rotation and method of confirmatory factor analysis. Six different customer segments were identified using the factor-cluster method: passive tourists, cross-country skiers, want-it-all, all-but-downhill skiing, sports seekers, and relaxation seekers.

Laukkanen & Kompulla (2011) used in the research method of exploratory factor analysis using the principal component method with varimax rotation to determine the factors of the phenomenon. Thereafter the resulting factor structure was verified with a confirmatory factor analysis.

To illustrate an application of the conjoint approach, cluster analyses were performed (Green & Krieger, 1991). The biggest cluster was named the 'excitement and safety' cluster because this cluster prioritized the snow quality and trail variety, which influences the level of excitement and safety in skiing or snowboarding activities (Klenosky et al., 1993). Cluster analyses were conducted to segment the sample for two consumption situations.

Table 1: Comparison of the results of studies dealing with factors influencing the destination choice and loyalty

Authors and title	Methodology	Results
Klenosky et al. (1993) Understanding the factors influencing ski destination choice: a means-end analytic approach	Cluster analysis	- Variety of the hills and trails, - snow conditions, - social atmosphere, - time and money savings - resort services, - local culture.
Hudson and Shephard (1998) Measuring service quality at tourist destinations: An application of importance-performance analysis to an Alpine ski resort	Importance Performance Analysis	- Tourist information services, - accommodation, - ski shops, - ski slopes, - ski slope services, - tour operator services.
Laukkanen and Kompulla (2011) Attributes of ski destination choice: A Finnish survey	Exploratory factor analysis	- Downhill skiing services, - cross – country skiing services, - restaurants, - social life, - spa services.
Won et al. (2008). Relative Importance of Factors Involved in Choosing a Regional Ski Destination: Influence of Consumption Situation and Recreation Specialization.	Conjoint analyses	- The snow condition - travel time - expected daily expense - trail variety - the variety of amenities.
Konu et al. (2011). Attributes of ski destination choice: A Finnish survey	An exploratory factor analysis, confirmatory factor analysis	- Downhill skiing services, - cross-country skiing services, - restaurants, - social life, - spa services.

Source: author

4. Conclusion

Nowadays destinations competition amongst each other and it may become tougher in years to come. As such, marketing managers should understand reasons why tourists are faithful to destinations and what influences their loyalty.

The area of tourism has been significantly expanding in recent years, which is beneficial for economic and political as well as social spheres of many countries. Tourism becomes an inseparable part of social and modern lives for many people. The tourism industry environment is constantly changing and the level of competition on tourism market is still increasing.

It can be said that tourist attribute satisfaction is also directly influenced by destination image, and destination loyalty is in turn influenced by overall satisfaction and destination choice.

This paper represents the introductory part of the project dealing with the most important factors with their relationships influencing the loyalty of ski resort visitors in the Czech Republic, Slovakia and Austria which is going to support required topical loyalty model proposal of a ski resort visitor. Using confirmatory factor analysis and structural equation modeling to test the destination loyalty model is planned. The results of the gap analysis are going to reveal the discrepancy between visitor's and provider's satisfaction and loyalty factors perception which brings especially practical benefit of the research.

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The Effects of Local Fiscal Policy on Firm Growth

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Abstract

The effects of fiscal policy on economic activity is a subject which has attracted attention from both scholars and policy makers for a long time. Taxation and government expenditure constitute an important part of the business climate, which can be seen as a central factor in determining a region's ability to attract businesses and promote growth (Paul & Pluta, 1983). With respect to tax policy, common belief among policy makers is that effect sizes are of such order of magnitude that it is possible to manipulate the tax system in an attempt to attract business or to foster. This stance however is not completely validated by the relevant empirical research.

Governments might employ their tax policy in an effort to stimulate economic activity, but also the demand for a lenient corporate taxation regime often comes from the part of the corporations. Corporate interest groups, employers' organizations, etc. typically try to put pressure on governments in an effort to minimize the amount of taxes paid by the organizations they represent. Furthermore, the recent financial crisis has forced many European governments to monitor and possibly increase the competitiveness of their economy. This translates in a demand to lower the taxes borne by corporations. At the same time there is still a lack of agreement among different economic schools on whether it is a better approach to stimulate the economy by increasing public expenditure or on the other hand to rationalize budgets in order to lower public debt. It should be clear that policy makers have a large interest in accurate figures with respect to the impact of fiscal policy on economic activity.

Given the importance of the subject, it should not come as a surprise that a great deal of research has already been performed. However, as stated in a review of the literature by Wasylenko (1997, p. 38): "In the state and local area, researchers have struggled mightily over the past 20 year to resolve the extent to which tax policy influences the level and distribution of employment and investment among states or regions". Results have been rather inconclusive up till now. Most studies find statistically significant effects but the magnitude of elasticities is very divergent and the direction of effects is sometimes found to be contradictory (Bartik, 1994; Fisher, 1997; Wasylenko, 1997). Conducive is the fact that the literature in this domain is very broad: few studies can be found which use the same methodology, measure of economic activity, control variables and level of government (Philips & Goss, 1995).

A number of explanations have been postulated in order to account for the variation in results. Next to the fact that many studies are dissimilar in their research settings, two should be mentioned. First, many studies use aggregate data to measure economic activity. Analyzing micro data would allow for a clearer picture (Fisher, 1997). Second, relevant fiscal policy variables are often inaccurately measured (Bartik, 1992; Philips & Goss, 1995). Accurately calculating effective tax rates or exact figures with respect to tax revenues and other relevant variables often poses problems (Wasylenko, 1997).

We identify another lacuna in the literature: most research has focused on fiscal policy at the federal or the regional level. Considerably less attention has been given to how local fiscal policy affects economic activity. Belgium however is a good example which shows that the local government level should not be neglected: as a result of a subsidiarity principle incorporated in the constitution, Belgian municipalities have a far-ranging fiscal autonomy which has resulted in the proliferation of local taxes. And with respect to government expenditures it has been shown that in Belgium more than 50 % of government investments is done by local governments. This high percentage of local government investments is rather the rule than the exception in the European Union. In 2006, on average 63% of investments was done by local governments in the EU25 (Dexia, 2006).

We contribute to the literature by addressing these issues. Using a comprehensive firm-level dataset and very accurate and detailed data with respect to local government tax revenues and expenditures, we look at the impact of local fiscal policy on firm growth. We have constructed this unique dataset by combining data from a number of different databases. Data with respect to municipal taxation and public spending was obtained from a dataset compiled by the Flemish government (Flanders is the largest region in Belgium, accommodating more than half of its population). This dataset consists of exact monetary figures, encompassing all taxation and spending categories, as well as data on other municipal income and outcome flows and municipal assets, liabilities, etc. for all Flemish municipalities. Firm data was retrieved from the Belfirst database. This database contains accounting information from all Belgian firms. Belgium is one of the few countries where it is obligatory for all firms to hand in financial statements (this being in contrast to most countries where only larger firms are obliged to do this). This ensures that our sample is representative for the population with respect to the size distribution. Data on over 50.000 firms for the time period from 2005 to 2009 was included in the analysis.

The effects of local fiscal policy on firm growth were estimated using a regression specification which is consistent with the firm growth literature, which found its origin in the work of Gibrat (1931) (Evans, 1987; Hall, 1987). A fixed effects regression analysis was performed using three different measures for growth: asset growth, value added growth and employment growth. Prior research has shown that growth is not a uni-dimensional construct. Different growth measures are not necessarily correlated and Delmar et al. (2003, p. 12) argue that "the use of multiple measures of firm growth would likely provide a more complete picture of any empirical relationships as well as provide a way to test the robustness of any theoretical model to misspecifications in the dependent variable".

Results of the regression analyses were in line with the hypotheses. Both taxation and government expenditure variables were found to have statistically significant effects. Notable findings are: first, the estimate of the positive effect of public expenditures on firm growth is of a greater magnitude than the estimate of the negative effect of taxation. This is a confirmation of the findings of Gabe & Bell (2004). Studying firm localization decisions as a function of local fiscal policy they conclude that businesses might favor municipalities that spend high amounts on public goods and services, even when these expenditures are financed by higher local taxes. Second, a statistically significant interaction effect was found between the effects of firm size and local taxes. It appears that taxation constitutes a larger burden for smaller firms than for larger firms.

Keywords

Fiscal policy, local governments, firm growth, taxation, government expenditure

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On The Country Personality Scale: Is a Five-Dimensions Model Better Than the Original Six-Dimensions

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Abstract

The current paper investigates the country personality scale and explores the usage of a five-dimension scale instead of the six dimensions originally proposed by d' Astous and Boujbel (2007), and then applies the new reduced five-dimension scale on consumer's behavioral intentions to visit. Country personality is defined as a mental representation of a country on a spectrum that typically captures human-like characteristics, and the measurement scale was borrowed from the original country personality scale (d' Astous & Boujbel, 2007), and translated to Brazilian Portuguese. Behavioral intentions are treated as an assessment of the subjective possibility to perform a particular behavior in the future. A quota sample of 821 individuals from São Paulo and Bahia states in Brazil were surveyed and 685 usable questionnaires were analyzed. Preliminary tests were done with a valid pretest sample of 115 Brazilian consumers. Portugal was chosen as the country for scrutiny (as the stimulus country). At a first stage, the analysis involved the validity testing of the country personality and behavioral intentions to visit scales. The resulted country personality model (pretest data based) was taken as the baseline for the confirmatory factor analysis conducted in AMOS 20.0 using the data of the main study (N=685). The findings suggest that a five-dimension model (agreeableness, assiduousness, conformity, snobbism, and unobtrusiveness) should be considered when measuring country personality. Thereafter, the proposed research model relating the five-dimensions of country personality to the behavioral intentions to visit was estimated within the structural equation model framework, and the hypotheses were tested. The percentage of the variance of the behavioral intentions explained by its predictors equals 24.3%. Assiduousness showed a positive significant influence on behavioral intentions to visit, whereas snobbism showed a negative significant influence. The findings suggest differences from earlier studies. Practical and theoretical implications are discussed. Complementarily, and as suggested by the personality traits frequency analysis, Portugal is perceived as a conformist country.

Keywords

Country personality, behavioral intentions, country image, Portugal, Brazil

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The Direct and Indirect Impact of Country Personality on Behavioral Intentions for Traveling: The Full Mediation Effect of the Affective Country Image

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1. Introduction

The purpose of the current research is to investigate the direct and indirect influence of country personality dimensions on consumer behavioral intentions to travel/visit to a specific country, considering affective country image as a mediator. A quota sample of 685 valid respondents from Brazil was analyzed. Portugal was chosen as the stimulus country and the questionnaire was delivered in Portuguese for Brazilians.

Knowing that today's international environments are highly substitutable concerning to countries competitiveness we believe that a unique identity can differentiate and positioning countries. Thus, a distinctive country personality appeal may clearly identify a country in the consumers mind and therefore differentiate it from its competitors (Lee & Lijia, 2012).

Europe is ranked as the second most attractive investment region in the world, with a score of 35 percent. It comes immediately after China which scores 38 percent according to the Ernst & Young "Europe Attractiveness Survey Report" (Ernst & Young, 2011). On the other end we can see countries such as Brazil that have increased around 15 percent its expenditures in 2013 and still being one of the major outbound markets in international tourism in 2013 (Kester, 2014). Brazil has around 200 million people (IBGE, 2013) speaking Portuguese, and there are around 240 million people speaking Portuguese in the world (PLC, 2013). Thus it seems to be a valid issue to utilize Portugal, a European country, and Brazil in developing the empirical research as we propose.

2. Literature Revision

Country personality captures the human-like characteristics of a country; affective country image is related to the consumers' emotional connections to a certain country; and the behavioral intentions to travel/visit to, are associated with the individual's future-oriented desired acts.

2.1. Country personality

Personality is most commonly defined as characteristics or qualities within an individual and that may include virtually everything about a person. McCrae and Costa (1996) defined personality as the traits that differentiate individuals, and the Big Five personality model (Goldberg, 1990) is the most widely applied personality theory that is based on trait psychology.

The conceptual roots of the country personality construct can be traced back and refers to "*the tendency of people to make attributions of human-like characteristics to animals and nonhuman entities*" (Kiesler, 2006, p. 149). In this context, individuals need to anthropomorphize objects in order to facilitate their interactions with the non-material (inanimate) world (Fournier, 1998). Other research studies in tourism and country of origin have paid attention to a personified approach

towards countries (Chao & Rajendran, 1993; Nebenzahl, Jaffe, & Usunier, 2003). That approach leads the authors (d' Astous & Boujbel, 2007) to develop a specific country personality scale. The scale showed that human traits include universal representations that are easily activated due to a previous knowledge and usage on humans in specific or in general contexts or environments to predict people behavior. These authors proposed the personification of countries to qualify them and measure country's image as a symbolic component of a wider construct. In country of origin research, country personality is a concept defined as "*the mental representation of a country on dimensions that typically capture an individual's personality*" (d' Astous & Boujbel, 2007, p. 233).

The concept of image is powerful and influent; it seems that human behavior depends upon perceived image rather than an objective reality as posed by Kenneth Boulding (1956). Accordingly to Boulding (1988; 1956) people' decision "*involves images in the mind of alternative futures with varying degrees of probability, related to certain acts or behaviors...*" (Boulding K. E., 1956, p. 175; Boulding K. E., 1988, p. 20). He defined behavior as acting in a way that the image of the most preferred future is expected to be realized. The author considered image not as a product of a particular stimulus but as a whole image of the world in the mind of the behaving person (Boulding K. E., 1988). Likewise, a typical and attractive country personality can effectively leverage the perceived image of a country and thus influence consumer behavior. Although the country image concept has been analyzed by many, few have focused on personality scales (Nebenzahl, Jaffe, & Usunier, 2003; Chao & Rajendran, 1993; d' Astous & Boujbel, 2007).

2.2. Affective country image

Country image, appear to be not one-dimensional just like any other image-types. Researchers such as Roth and Diamantopoulos (2009) argued that country image join up affect and cognition components. Hence, beliefs about another country are captured by the cognitive component while consumers' emotions to another country are captured by the affective component. It is also accepted that emotions and symbolic aspects (Verlegh, Benedict, & Steenkamp, 1999) are part of the image construct of a country (Papadopoulos & Heslop, 1993) although these may depend on intangible or non-functional aspects. This approach supports our proposed model.

The affective component of the country image represents consumers' feelings toward a country and becomes operational during the evaluation stage of the selection process (Wang & Hsu, 2010; Gartner, 1993). Even though, according to Brijs (2006), Heslop et al. (Heslop, Lu, & Cray, 2008), and Orbaiz and Papadopoulos (2003) the affective component of a country's image seems to have higher and quicker effects on consumers' purchase intentions when compared to the cognitive elements (Maher & Carter, 2011). Verlegh et al. (Verlegh, Benedict, & Steenkamp, 1999) found that affect could be associated to a future act toward hedonic products while cognitions may determine action tendencies toward functional objects. Thus we may consider emotions directly connected to the outcome we propose.

2.3. Behavioral intentions

Intentions may be recognized as connections with future acts and are usually conceived as evaluation-free, and this may be the key difference between intention and attitude. Moreover, the authors (Soderlund & Ohman, 2003) defined intentions as basic units that emerge when individuals appoint in future-oriented cognitive activities such as mental simulation, planning, imagination, and thoughts (like individual's perception of other one' intentions) (p. 54). Moreover, the marketing literature is prolific on propositions about the future, reflected on the explicit usage of intentions labeling to cover several acts in the marketplace. Hence, intentions are usually part of satisfaction models and are treated as dependent variables; generally the researcher assumes that satisfaction affects customer behavior and designs empirical studies focusing on behavioral intentions. That's

why intentions are often used as proxies for behavior. Behavioral intentions can be seen as a result of anticipated satisfaction with an object and therefore very useful for marketing purposes. In that vein we can conclude that an act should exist to be evaluated and to predict intentions (Soderlund & Ohman, 2003). Hence, the same researchers introduced the sense of ownership to explore and explain the link between evaluative judgments and intentions (p. 54). We applied it in as a visit intention behavior.

According to consumer behavior and personality literature, an established personality influences consumer preferences (Sirgy, 1982; d' Astous & Boujbel, 2007; Ekinci & Hosany, 2006). Fournier (1998) referred that the stronger the emotional relationships between consumers and brands the greater the trust and loyalty of them, and we believe it also happen in the context of countries. Thus we purpose to investigate the perceived country personality of a specific country as a whole and to empirically examine its direct and indirect influence on behavioral intentions. Specifically, to determine the extent to which country personality dimensions (agreeableness, assiduousness, conformity, unobtrusiveness, and snobbism) influence behavioral intentions to travel/visit, considering the affective country image as a mediator construct. Country personality, affective country image and behavioral intentions to travel/visit constructs were measured using previous tested scales.

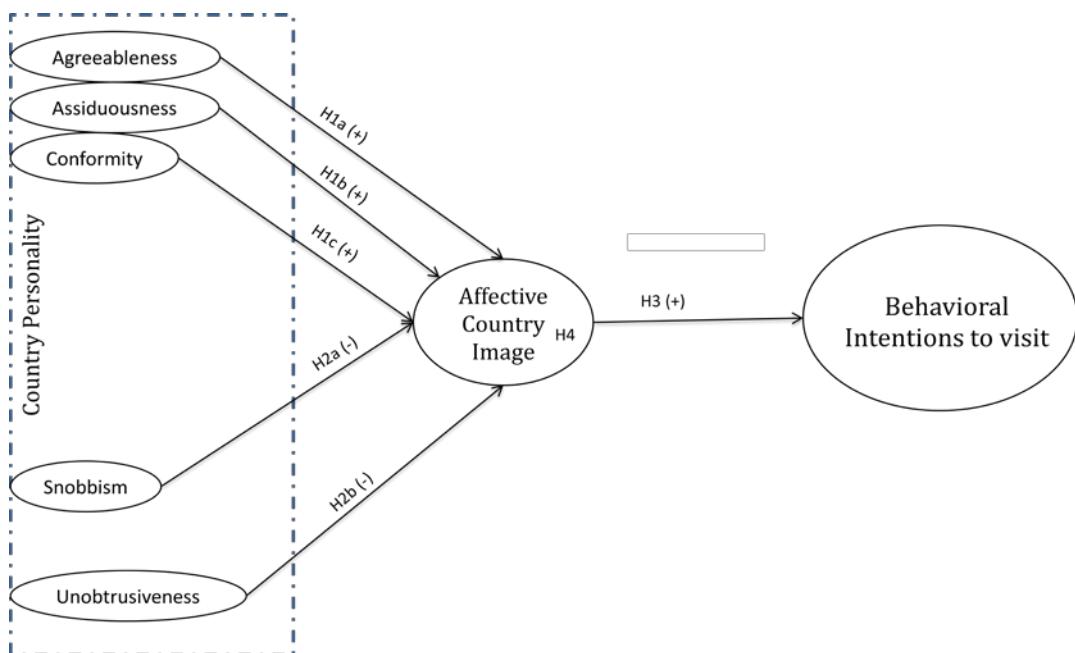
To date, we did not see any research like the one we propose - testing the mediation effect of the affective component of country image on the relationship between the country personality dimensions (as country symbolic image) and behavioral intentions to visit. However, we did not consider the cognitive component of country image for this stage on the study.

3. Conceptual Model

In line with personality literature, no direct effects of country personality traits on behavioral intentions are postulated for the hypothesized conceptual model - considering the fact that we are using a scale created accordingly the Big Five human personality scale assumptions (d' Astous & Boujbel, 2007), we corroborate with the fact that the personality traits can be seen as highly abstract instances and thus not expected to directly predict specific behavioral patterns (Geuens, Weijters, & De Wulf, 2009). Indeed, in consumer behavior research, personality traits are most commonly linked to behavior via indirect variables.

We proposed the hypothesized research model shown in figure 1 to be the baseline of the empirical research to test the relationship between the independent variables represented by the five country personality dimensions - three of them were hypothesized to have a positive influence on the outcomes, and the other two were hypothesized to have a negative impact on the outcomes; the mediation variable represented by the affective country image; and the dependent variable represented by behavioral intentions to visit.

Figure 1: Hypothesized research model



Source: adapted form: Knight & Calantone, 2000; Roth & Diamantopoulos, 2008; Nebenzahl, Jaffe & Usunier, 2003; Burcio, Da Silva & Salgueiro, 2014

Hypotheses statements:

H1a; H1b; and H1c: (a) Agreeableness; (b) Assiduousness; (c) Conformity has a positive impact on affective country image.

H2a; and H2b: (a) Snobbism; (b) Unobtrusiveness has a negative impact on affective country image.

H3: Affective country image has a positive impact on behavioral intentions to visit.

H4: Affective country image mediates the relationship between country personality dimensions and behavioral intentions to visit.

4. Methodology

The study was conducted in two states in Brazil - São Paulo and Bahia. The economic powerhouse and multicultural state of São Paulo, and the state of Bahia with more natives and a powerful historical link to Portugal were chosen. Three criteria guided the choice of the stimulus country: (1) cultural affinity, familiarity and mother language, (2) geographic distance, and (3) economic and demographic diversity.

The questions used in the online questionnaire were mostly close-ended in order to collect the required quantitative data for the study. The questionnaire consisted of four main sections: (a) the consumers' perceived country personality construct, (b) the emotional links to the stimulus country, (c) behavioral intentions to visit, and (d) demographic information of the respondents.

The first section consisted of 24 items (statements / adjectives) assessing country personality symbolic image. The respondents were asked to think of the country as if it were a person and to ascribe human personality traits to it (Davies, Chun, Da Silva, & Roper, 2001). The stimuli country (Portugal) had to be evaluated using 24 personality traits with the help of a 5-point scale, with anchors (1) *does not describe this country at all* and (5) *describe this country perfectly* (d' Astous & Boujbel, 2007, p. 239).

The second section consisted of five questions including 5 affective evaluation items. The respondents had to indicate the extent to which they felt about five specific emotions (items) toward Portugal on the 5-point scale. Affective country image was measured using five items (e.g, "I like [Country]") adopted from (Knight & Calantone, 2000; Roth & Diamantopoulos, 2008; Nebenzahl, Jaffe, & Usunier, 2003) with anchors (1) *totally disagree* and (5) *totally agree*.

The third section captured the behavioral intentions to visit. Behavioral intentions to travel/visit was measured using five items (e.g, "I would recommend going to [country] to others"; "I have plans to visit [Country] in the next two years"), adopted from Um & Crompton (1990), with anchors (1) *totally disagree* and (5) *totally agree*.

The last section of the questionnaire consisted of the socio-demographic questions including gender, age, and level of education, occupation, average monthly individual income, mother language, and residential location. The average response time to complete a questionnaire was around 5 minutes.

4.1. Sample description

The empirical data was taken from a defined quota sample of Brazilian individuals older than 18, having internet access and a registered e-mail, speaking Portuguese, having an income, and having residence at the states where the study was conducted (São Paulo or Bahia).

Approximately 59% of the respondents were males and the majority of the sample was between 36 and 55 years old (54.2%). The level of education was high, with 72.2 % having completed college. The level of individual monthly income was also high as 47.9% of the respondents referred to receive more than 10 times the minimum salary (baseline R\$ 510.00). Overall, the participants had internet access, had a registered e-mail, lived in the states of São Paulo or Bahia, and have a monthly income. São Paulo state residents were more numerous (65%). Almost all the participants referred to Portuguese as their mother tongue (96.8%). From the sample surveyed, 58.8% of the respondents visited Portugal in the last five years, mainly for tourist purposes (52.6%), and overall the participants demonstrated having affinity with Portugal.

4.2. Analysis of the data

SPSS® 20.0 and AMOS® 20.0 were used to analyze the data. Firstly, the data were cleaned up – evaluated by the square distance of Mahalanobis (D^2) using AMOS® 20.0. Observations having D^2/df exceeding 2.5 can be designated possible outliers (Hair, Black, Babin, Anderson, & Tatham, 2005, p. 75). Secondly, the proposed research model was estimated within the structural equation modeling (SEM) framework using AMOS® 20.0 and the research hypotheses were tested.

The five scale items proposed to measure the affective components of the country image were subject to an exploratory factor analysis using the principal component analysis (PCA) method. The resulting one-factor structure was consistent with the item-factor expected pattern. A KMO value of 0.847 showed a good adequacy, and the extracted factor explains 73.81% of the total variance. The affective country image statements demonstrated a strong internal consistency, shown by Cronbach's alpha= 0.911.

The six scale items proposed to measure the behavioral intentions, particularly the intention to visit/travel to a specific country were also subject to a PCA with Varimax rotation. The resulting one-factor structure was consistent with the item-factor expected pattern. However, one item had to be eliminated due to communalities below 0.5. After removing the item, the analysis was repeated with just 5 items. The KMO value was 0.738 and Bartlett's test was significant at the 0.001 level. The one-

factor solution accounted for 66.58% of the total variance with all communalities ranging from 0.533 to 0.766, and had a relatively high alpha reliability coefficient (0.858).

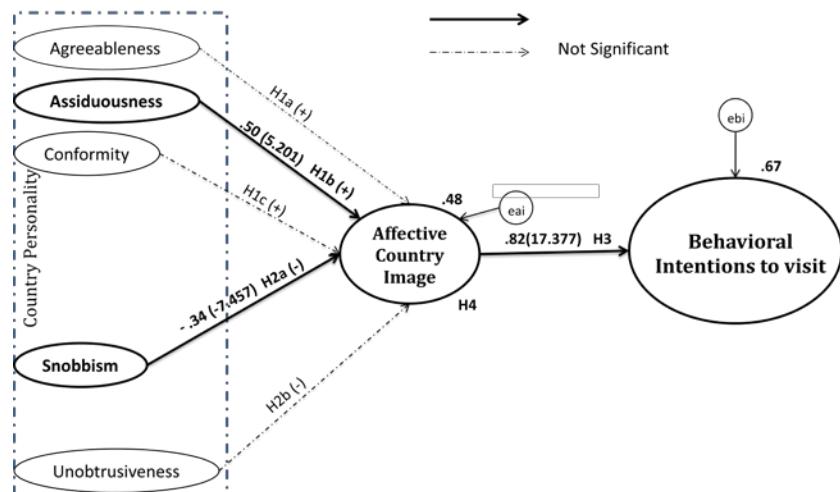
The proposed hypothesized research model was estimated within the structural equation modeling framework using AMOS® 20.0 and the research hypotheses were tested (figure 2). Model-data fit was assessed using various goodness of fit indices and measures, namely the chi-square and corresponding degrees of freedom (χ^2/df), the root mean square error of approximation (RMSEA - and corresponding 90% confidence interval), the goodness of fit index (GFI), and the comparative fit index (CFI), suggested (Hu & Bentler, 1999; Hair, Black, Babin, Anderson, & Tatham, 2005; Nunnally & Bernstein, 1994; Bryman & Cramer, 2009).

These fit indices met the cutoff requirements of suggested model fit indices. Maximum likelihood model estimation was used to test the model fit. The results of the SEM showed a good fit to the data ($\chi^2(247) = 499.741$, $p < .001$, $\chi^2/\text{DF} = 2.023$, $\text{CFI} = .975$, $\text{GFI} = .944$, $\text{RMSEA} = .039$).

The percentage of the variance of the construct behavioral intentions to visit/travel explained by the hypothesized model equals around 67%. Regarding the indirect impacts of the five country personality dimensions on behavioral intentions to travel/visit considering the affective country image as a mediator construct, the percentage of the variance of the mediator explained by the independent variables equals around 48% (see figure 2)

Figure 2 displays the path diagram of the hypothesized research model, with the estimates that were obtained in a standardized solution (with critical ratio (CR) values computed by AMOS in parenthesis).

Figure 2: Hypothesized model, with standardized estimates



4.3. Hypotheses testing

Path coefficients estimated by SEM and the results of hypotheses 1 to 4 are presented in figure 2. The path coefficient from the assiduousness country personality dimension to affective country image was significant at the 0.001 level, indicating a positive relationship (β Assiduousness \rightarrow Affective Country Image = .498, $p < .001$, $CR = 5.201$). The path coefficient from the conformity and agreeableness country personality dimensions to affective country image was not significant. The path coefficient from the snobbism country personality dimension to affective country image was negative, yet statistically significant at the 0.001 level, indicating a negative relationship (β Snobbism

-> *Affective Country Image* = -0.338 , $p < .001$, $CR = -7.457$). The path coefficient from the unobtrusiveness country personality dimension to affective country image was not significant. The relationship between affective country image and behavioral intentions to visit showed a positive relationship, significant at the .001 level (β *Affective Country Image* \rightarrow *Behavioral Intentions to Visit* = $.817$, $p < .001$, $CR = 17.377$). Therefore, while hypotheses H1b, H2a, and H3 were supported, hypotheses H1a, H1c and H2b were not supported.

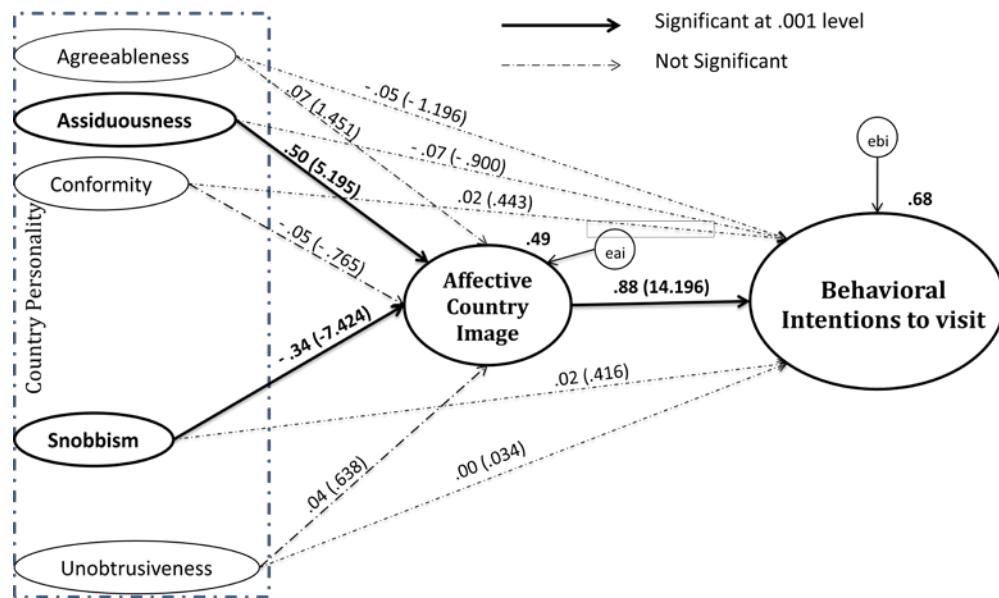
For determining the mediation we followed the suggested approach of Baron and Kenny (1986). The mediation is a hypothesized causal chain in which one variable affects a second variable that in turn, affects a third variable. The intervening variable mediates the relationship between the independent variable and dependent variable (Usakli, 2009, p. 85). According Hair, et al. (2005), the evaluation of the mediation, either structural equation modeling or a series of regression analyses can be utilized. We used SEM.

In order to validate the hypothesized research model and the mediating role of affective country image, an alternative model which included direct paths between country personality dimensions constructs and the behavioral intentions to visit was also examined.

A set of statistics indicated that the alternative model showed a good fit of the data (χ^2 (242) = 494.211 , $p < .001$, $\chi^2/DF=2.042$, $CFI=.975$, $GFI=.945$, $RMSEA=.039$). However the change in chi-square indicated that the fit of the alternative model did not perform better than the hypothesized structural research model ($\Delta\chi^2=5.53$, $df=5$, $p < .001$).

Figure 3 displays the path diagram of the alternative model, with the estimates that were obtained in a standardized solution (with critical ratio values computed by AMOS in parenthesis).

Figure 3: Alternative model, with standardized estimates



Examination of the individual direct path coefficients indicated that none of the direct paths between the independent variables (country personality dimensions) and the dependent variable (behavioral intentions to travel/visit) were statistically significant. Although, these results technically indicates full mediation (Baron & Kenny, 1986), given the fact that the hypothesized model fit the data better than the alternative model. Therefore, H4 was full supported.

The assiduousness country personality dimension showed a positive significant influence on affective country image, whereas snobbism showed a significant negative influence. However, none of the country personality dimensions show any significant direct influence on the dependent variable (behavioral intentions to visit). Thus, country personality dimensions have shown an indirect effect on behavioral intentions to travel, confirming the full mediation effect of the affective country image. The findings suggest differences from comparable earlier studies.

5. Contributions and Limitations

This article shows that people could easily think of personality traits and associate them to countries and communicate a country personality impression. Thus it confirms earlier proposals fo d' Astous & Boujbel (2007), (Geuens, Weijters, & De Wulf, 2009), and (Nebenzahl, Jaffe, & Usunier, 2003), and (Davies, Chun, Da Silva, & Roper, 2001). The findings confirmed that consumers attribute personality traits to countries and can set their emotions about a specific country. Thus, the current study may complement and confirm the conclusions earlier studies had about country personality scale usage. It confirmed its quality as a tool to measure country images perception in a symbolic way, and its importance as a complementary instrument to measure country image.

This study validates the role of affective country image as the bridge linking (mediator of) the situational input of country personality symbolic image to the psychological output of behavioral intentions to visit. Perhaps the most significant finding could therefore be concluded as a theoretically logical and empirically validated link of country personality dimensions, affective country image, and behavioral intentions.

The analyses of the hypothesized research model showed important achievements about the study of country personality, emotions, and behavioral intentions relationship. Since all SEM estimated coefficients of country personality dimensions were no longer significant when direct links between country personality dimensions and behavioral intentions to visit were included (alternative model), it was concluded that affective country image worked as a perfect/full mediator between country personality and behavioral intentions to visit.

Our findings provide evidence that the symbolic functions or benefits of a country personality can be crucial in understanding the complex consumer intention to travel/visit behavior. Indeed, the results indicate that country personality dimensions have significant impact on consumer's behavioral intentions. However it is important to keep in mind the higher importance of the emotional components of country image. Affective country image showed a full mediating effect on the relationship between the country personality and behavioral intentions to visit. Thus, international business marketers should focus on developing marketing strategies emphasizing the distinctive personality of their country destinations. However they should consider the country emotions effects.

Destination marketers of Portugal could differentiate it based on these personality dimensions, or these dimensions can be utilized in the positioning efforts of Portugal. In particular, focusing on the three of the five personality dimensions (snobbism, assiduousness, and agreeableness) that were found to be significant predictors for consumer' behavioral intentions to visit.

Complementarily, and as suggested by the personality traits frequency analysis, Portugal is seen as a religious and traditionalist country. Thus, marketers can potentially use these characteristics, when designing marketing strategies, to make their communication proposals to attract more Brazilians to Portugal. When applied to this work, emphasis must be placed on the more traditional, positive aspects of Portugal.

Like any other study, the present research has some limitations which have to be taken into account when considering a discussion on the findings. First, the findings of this study are specific to one country and cannot be generalized to others. Second, the present study focused on general customers (who have already visited / and who did not visit) perceptions, emotions, and behavioral intentions, therefore the results may not be generalized to cognitive outputs such as purchase attitudes or purchase decision.

Finally, the current sampling approach resulted in a highly educated sample (72.2 percent of the respondents held a graduate degree or higher); and wealthy sample (47.9 percent of the respondents receive more than ten times the minimum salary (R\$510)). This might have led to the overestimation of the relationship between country personality, emotional links, and behavioral intentions. Highly educated populations tend to be more receptive to foreign proposals (Canally, 2010), which might arise from their ability to travel abroad and interact with other countries, thus developing an appreciation for its people. Being wealthy may reinforced this fact. Future research should go deep and examine such a possibility.

Keywords

Country personality, affective country image, behavioral intentions, behavioral intentions to visit, Portugal, Brazil

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The Influence of Beliefs and Consumption Behavior on the Purchase of Products Packed in Environmentally-Friendly Packaging: A Study of Two Universities from Singapore

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Abstract

The aim of this study is to identify the influence of consumers' beliefs about sustainability and their sustainable consumption behaviors on their intention to purchase a product packed in an environmentally-friendly packaging. The study collected data from Business School's undergraduate students from two Universities in Singapore, namely Nanyang Technological University (NTU) and SIM University (UniSIM). Students from these two universities have very diverse demographics. NTU's students are full time students who have no/little working experiences and the average age of these students is 22. UniSIM's students are part-time students who have at least 2 years of working experiences and the average age of these students is 25. The two diverse demographics provide good comparison in our study. From our analysis, it was observed that the sustainability beliefs and the sustainable consumption behaviors of students from NTU do not influence the behavior of their purchase intention. However, our results from UniSIM's students show that the sustainable consumption behavior influences their purchase intention.

Keywords

Sustainability, beliefs, behavior, purchase intent, students

1. Introduction

The relationships between the mankind and the natural world are on a collision course. The influence of hyper-consumption will likely acceleration the intensity and frequency of collision between mankind and the natural world and thus will eventually lead to global decadence and chaos (Kaplan, 1994). Consequently, the research's and practitioner's community has been looking into ways to facilitate and encourage sustainable consumption, which allows us to continue with our consumption's behavior with no or minimum consequences to our national resources. Questions relevant to this process ought to be taken into account, such as: the way of consuming, the limits of consumption and what posture an individual ought to take towards individual and group attitudes, based on sustainability (Viegas, Gonçalves-Dias & Teodósio, 2010).

The consumer profile is changing; it is more alert and reflexive, paying more attention to topics beyond its ostentation (Lipovetsky, 2005). These changes have mainly occurred as a result of collective consumption decisions, and consequently by the manner these needs are met, resulting in consequences for people, countries and the Earth's species (Belz & Peattie, 2010).

In this perspective, the survey question of this article is: what is the influence of beliefs about sustainability and sustainable consumption behavior on the purchase intention of sustainably packaged products of undergraduate students in Business in two Singapore's Universities?

The need for this survey derives from the fact that no similar study at University level has been found, comparing the influence of beliefs and consumption behavior on purchase intention of undergraduate business students. There are studies on different influences of purchase intention, yet none analyzes beliefs as an influence on it. Studies like this could be used to plan the introduction or modification of products by companies.

2. Consumers' Intention to Purchase Sustainably Packaged Product and Beliefs

A consumer becomes a proactive key part within the possibilities of solutions focusing on sustainability (Belz & Peattie, 2010). It is within this context that the understanding of concepts of consumers' intention of buying sustainably packaged products becomes relevant. Both the supply of green products by companies and the intentions to purchase them by the consumers have been growing last two decades. Consequently companies are improving their attitudes and processes in order that their products can be considered green (Bedante, 2004). Among the attributes cited by Bedante (2004), particular relevance is given to packaging in which a product is placed for the sale to the final consumer. Thus, these products, placed in packaging with sustainability appeal, can be called sustainably packaged or ecologically packaged products.

Palhares (2003) illustrates some assumptions to be considered when ecologically or sustainably packaged products are analyzed: (i) aesthetic aspects: consumer's interest should be provoked and the quality standards of the product should be evident; (ii) technical aspects: the integrity of benefits intrinsic to transport, use, and storage ought to be guaranteed, enhancing the product functionality; and (iii) environmental aspects: the packaging ought to be seen in its entire cycle of life, considering its impacts during consumption and post-consumption. Upon contemplating these three assumptions, a product packaging is considered sustainable. Consequently, packaging should permeate the discussion involving sustainability, as it is important from the aspect of producing waste, and therefore, for a certain product to be considered environmentally or ecologically friendly, that is, sustainable, not only the product itself, but also its packaging must not be harmful for the environment (Bedante, 2004).

Some examples of sustainably packaged products can be those packaged in biodegradable plastic, which is a biological plastic manufactured with the use of some substances characterized by a rapid decomposing process in nature. Another example of sustainable packaging is the one using a 100% recyclable undulated cardboard, which contains fibers originating from planted and certified forests. In this context, there are already some indications in literature demonstrating there are consumers prone to purchasing sustainably packaged products (Bedante, 2004). Further, some authors (Schwepker Jr. & Cornwell, 1991; Bedante, 2004) defend that even those consumers who are not worried about buying products with the sustainability appeal, may be convinced, providing they are shown the environmental impact of these habits.

It should be emphasized that the consumers' intention to buy sustainably packaged products arises not only from situational aspects, but also from personal traits (Mainieri et al., 1997; Palhares, 2003). Mainieri et al. (1997) identified in their research, that the individuals who separate their recyclable trash are more concerned about the environment, which positively influences the intention to purchase ecologically packaged products.

Yang (1992) asserts that the beliefs may influence the behavior of individuals and cause strategies, that is, can help in elaboration of certain strategies, from the individuals' point of view of themselves. Furthermore, relative to other attributes involving beliefs, Dewey (1933) explains that the beliefs are related to knowledge.

There is still no documented research addressing and relating sustainability beliefs, therefore, this being a literature gap which this article aims to help filling. Thus for defining research hypotheses related to this construct, we have considered surveys within the scope of environmental conscience and beliefs relative to ecological factors. Some authors have already worked on this topic addressing its relationship with demographic characteristics (Murphy, Kangun & Locander, 1978; Zelenzy, Chua & Aldrich, 2000). Upon discussing the importance of sustainably packaged products, we move on to a theoretical discussion over the conceptual aspects of beliefs.

3. Research Methodology

Three different constructs have been marked out for measuring: (i) sustainability beliefs; (ii) sustainable consumption behavior; and, (iii) purchase intention of sustainably packaged products. Three hypotheses have been proposed in order to comprehend the relationships of influence:

- H1 – The higher a level of an individual sustainability belief, the higher a propensity for sustainable consumption behavior;
- H2 – The higher the sustainable consumption behavior, the higher the intention to buy sustainably packaged products;
- H3 – The higher a level of an individual sustainability belief, the higher a purchase intention of sustainably packaged products.

Several instruments of measuring sustainable consumption behavior have been found in literature (Maloney, Ward & Braucht, 1975; Stone, Barnes & Montgomery, 1995; Roberts, 1996; Straughan & Roberts, 1999; Thapa, 1999; De Young, 2000; Lages & Vargas Neto, 2002; Gonçalvez-Dias et al., 2009; Ribeiro & Veiga, 2011) and also those of purchase intention of sustainably packaged products (Bedante, 2004; Silva, 2011). Upon analysis of each of these instruments, we have opted to use the questionnaire proposed and validated by Ribeiro and Veiga (2011), contemplating 13 variables divided in 4 factors: recycling, ecological conscience, frugality and economy of resources. The justification of using this instrument is based on the aspect that the authors had compiled questions from various papers, cited above, and validated a new questionnaire on sustainable consumption behavior. This questionnaire has obtained composite reliability of 0,81, 0,66, 0,57 and 0,93,

respectively, for the constructs recycling, ecological conscience, frugality and economy of resources (Ribeiro & Veiga, 2011).

As for the purchase intention of sustainably packaged products, we have opted to use the Purchase Intentions Scale (PI Scale), proposed by Schwepker and Cornwell (1991), adapted and already used by Bedante (2004) and Silva (2011). This measuring instrument contemplates 5 questions and, in previous studies, had already been validated by variance extracted from the model of 0,55, reliability 0,91 and Cronbach's Alpha of 0,91 (Bedante, 2004).

An instrument proposed by Catapan (2014) was used to measure sustainability beliefs. This instrument has 17 indicators divided in 5 dimensions. All indicators have loads above 0,6 and all dimensions have composite reliability above 0,7 and extracted variance of over 50%.

Therefore, all the questionnaires were judged statistically valid for application, in accordance with the available literature (Fornell & Larcker, 1982; Hair et al., 2005; Maroco, 2010). The questionnaires were applied online at UniSIM and online and in paper form at NTU. The online platform chosen was Qualtrics. Afterwards, the results were analyzed using a statistical package SPSS.

4. Survey Results

This section shows the survey results from two sample universities in Singapore: SIM University and Nanyang Technological University. First, the aspects relative to characterization of sample are shown, and after that, the modelling of structural equations for each of the universities surveyed.

4.1. SIM University (UniSIM)

The questionnaires were applied to Business School undergraduate students in: (i) Accountancy; (ii) Business Analytics; (iii) Business; (iv) Finance; (v) Logistics and Supply Chain Management; (vi) Marketing; (vii) Security Studies; and, (viii) Visual Communication. Table 1 illustrates the total of responding students from these courses and their participation in the total number of respondents.

Table 1: Respondents: UniSim

Course	Respondents	%
Accountancy	43	13.44%
Business Analytics	29	9.06%
Business	118	36.88%
Finance	30	9.38%
Logistics and Supply Chain Manag.	27	8.44%
Marketing	31	9.69%
Security Studies	29	9.06%
Visual Communication	13	4.06%
Total	320	100.00%

Source: survey results

The total number of students responding the questionnaire was 320. The course with the highest participation was Business, with 118 students taking part in the survey, representing 36,88% of the total number of participating students of this University. The course with the fewest responding students was Visual Communication, with 13 students, representing 4,06% of the total number of participants.

Since this is a non-probability type sample, the minimum sample relative to the population was not calculated. Applying multi-group structural equation modeling, the results of fit indices obtained from respondents at UniSIM are shown in Table 2.

Table 2: Fit Indices: UniSIM

Fit Indices	Values
χ^2	1.351,85
Degrees of freedom	551
$\chi^2/\text{degrees of freedom}$	2,453
Root Mean Square Error of Approximation (RMSEA)	0,066

Source: survey data

Observing Table 2 it is possible to establish the ratio $\chi^2/\text{degrees of freedom}$ at 2,453. This ratio needs to be less than 5 in order to provide a model index of good fit. (MAROCO, 2010). In addition, the Root Mean Square Error of Approximation (RMSEA) was 0,066 and it ought to be up to 0,08 (Hair et al., 2005; Maroco, 2010). Thus, both indices point to a model with good fit. Table 3 shows other relevant indices, showing the model fit.

Table 3: Comparative Fit Indices: UniSIM

Comparative Fit Indices	Values	Lo90	Hi90
NFI	0,742	-	-
TLI	0,802	-	-
CFI	0,827	-	-
PRATIO	0,875	-	-
PCFI	0,649	-	-
NCP	800,85	696,72	912,65
FMIN	2,39	2,08	2,72

Source: survey data

Table 3 shows comparative fit indices, which are used as a basis for verifying the model fit. The NFI was calculated at 0,742 and shows a fit model (close to 1, on a 0 to 1 scale). The TLI result was 0,802, also close to 1, similarly showing a good model fit. As for the result of CFI, it was 0,827, demonstrating a fit model. The PRATIO was 0,875, and similarly interpreted to other indices, shows a fit model. The calculated PCFI was 0,649, also demonstrating a good fit, on a scale from 0 to 1 and, the closer to 1, the better a model fit (Hair et al., 2005; Maroco, 2010).

The NCP and the FMIN, with their demonstrated calculations also based on a standard model (at 800,85 and 2,39, respectively) are all between the established limits (Lo90 e Hi90), thus showing a goof fit of the model, as was the case with other indicators. Knowing that this is a model with good fit, we proceed with the hypothesis test with the respondents from UniSIM. The results of this test are shown in Table 4.

Table 4: Hypothesis Test: UniSIM

Relationship	Hypothesis	Estimator	p value
Behavior \leftarrow Beliefs	H1	3,082	0,127
Intention \leftarrow Beliefs	H3	3,381	0,148
Intention \leftarrow Behavior	H2	0,873	0,001

Source: survey data

Observing Table 4, the three hypotheses deduced (H1, H2 e H3) have p values of 0,127, 0,001 and 0,148, meaning that hypothesis 1 is rejected at the 10% level of significance, hypothesis 2 is accepted at 1% level of significance, and hypothesis 3 is rejected at the significance level of 10%.

Upon presenting the results for UniSIM, the next section contemplates the results for Nanyang Technological University.

4.2. Nanyang Technological University (NTU)

At NTU, the questionnaires were given to students at the Business School undergraduate courses in: (i) Business; e, (ii) Accountancy. Table 5 shows the total number of responding students and their participation in the total number of respondents.

Table 5: Respondents: NTU

Course	Respondents	%
Business	80	73.39%
Accountancy	29	26.61%
Total	109	100.00%

Source: survey data

At NTU, 109 students responded to the survey. Great majority of those are undergraduate students in Business (80 students). Applying multi-group structural equation modelling, the results of fit indices obtained from respondents among business students at NTU are shown in Table 6.

Table 6: Fit Indices: NTU

Fit Indices	Values
χ^2	907,26
Degrees of freedom	551
$\chi^2/\text{degrees of freedom}$	1,647
<i>Root Mean Square Error of Approximation (RMSEA)</i>	0,077

Source: survey data

Upon observing Table 6, we can verify the ratio $\chi^2/\text{degrees of freedom}$ of 1,647. In addition, the Root Mean Square Error of Approximation (RMSEA) was 0,077. Thus, both indices show a good model fit (Hair et al., 2005; Maroco, 2010). Table 7 shows other relevant indices, further confirming a good model fit.

Table 7: Comparative Fit Indices: NTU

Fit Indices	Values	Lo90	Hi90
NFI	0,652	-	-
TLI	0,731	-	-
CFI	0,751	-	-
PRATIO	0,826	-	-
PCFI	0,695	-	-
NCP	356,26	277,49	442,92
FMIN	3,30	2,57	4,10

Source: survey data

The NFI was found to be 0,652 and also shows a good fit model (close to 1, on a scale from 0 to 1), though with the fit lower than the ones obtained in other modellings , yet also found to be closer to 1 than 0. The calculated TLI was 0,731, also close to 1, further revealing an adequate model fit.

Meanwhile, the CFI was calculated at 0,751, further confirming a model fit, but also inferior to the previous ones, yet without interfering with the model fit. The PRATIO was 0,826, and upon similar interpretation to the previous ones, shows a good model fit. The PCFI was calculated at 0,695, likewise showing a good fit.

The NCP and the FMIN, whose shown calculations are too based on the standard model, are calculated (356,26 and 3,30, respectively) all between the established limits (Lo90 e Hi90), thus revealing a good fit of the model, and similarly to other indices, affirming this adequate fit. Therefore, knowing that the model has a good fit, we proceed to the hypothesis test for the model with the respondents from NTU Business School. The results of this test are shown in Table 8.

Table 8: Hypothesis Test: NTU

Relationship		Hypothesis	Estimator	p value
Behavior	←	Beliefs	H1	0,037
Intention	←	Beliefs	H3	2,308
Intention	←	Behavior	H2	8,889

Source: survey data.

Observing Table 8, the three hypotheses deduced (H1, H2 e H3) have their respective p values of 0,309, 0,255 and 0,474. Thus, we can observe that none of them was accepted, seeing that the p value in all of them exceeds 0,1, which would be the maximum value to accept the hypothesis considering a 10% significance.

It can thus be affirmed that sustainability beliefs do not influence the sustainable consumption behavior, sustainability beliefs do not influence the purchase intention of sustainably packaged products, and also, sustainable consumption behavior does not influence the purchase intention of products in sustainable packaging for NTU respondents. Since the results of hypothesis testing call for rejection of the hypotheses in question, we have opted not to present the direct, indirect, and total effects of the variables, once there is no relationship between the variables of statistical significance for NTU respondents.

Statistically, the differences have been observed (at the level of 1%), in the age of respondents between UniSIM and NTU. At NTU, most respondents are under the age of 25 (approximately 34% below 20 and 60% between 20 and 25), while at UniSIM, no respondent said being under 20. In this institution, 27,19% of the respondents reported being between 20 and 25, 30,62% between 25 and 30, 18,12% between 30 and 35 and 24,06% stated being over 35 years of age. Thereby, this trait of the survey participants may have influenced and accounted for the differences obtained with the relationships of influence (behavior and purchase intention). Having shown the survey results for two universities, the next chapter brings the conclusions of this article.

5. Conclusion

The aim of this survey was to identify the influence of sustainability beliefs and sustainable consumption behavior on the purchase intention of products in sustainable packaging among undergraduate students in Business Schools of two Universities in Singapore. Based on the results shown above, it has been observed that the three hypotheses proposed have been rejected for the respondents from NTU, while two hypotheses were rejected and one accepted for UniSim.

Therefore, considering NTU respondents, sustainability beliefs do not influence the sustainable consumption behavior or the purchase intention of sustainably packaged products, just as sustainable consumption behavior does not influence the purchase intention for products in sustainable packaging.

On the other hand, when the results of the respondents from UniSIM are analyzed, the answer obtained is that sustainability beliefs have no influence over sustainable consumption behavior nor do they influence the intention of purchase of sustainably packaged products, yet the sustainable consumption behavior influences positively the purchase intention of sustainably packaged products.

Upon confronting the control variables, it was observed that in the case of UniSIM, the respondents' average age was higher than that at NTU. This fact can explain hypothesis number 3 being accepted only at this university. Due to the non-probability nature of the sample, the results shown here may not be generalized to all students at both universities.

This survey was limited to analyzing the influence of sustainability beliefs and sustainable consumption behavior on the purchase intention of sustainably packaged products, considering only the respondents, who are undergraduate students in business of two Universities in Singapore. Seen in these terms, the results and conclusions hereby presented may not be generalized. For future surveys, it is suggested that the survey population be increased in order to provide more solid conclusions relative to relationships of influence here presented.

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Antecedents of Employees Attitudes that Safeguard the Information Security of the Firm

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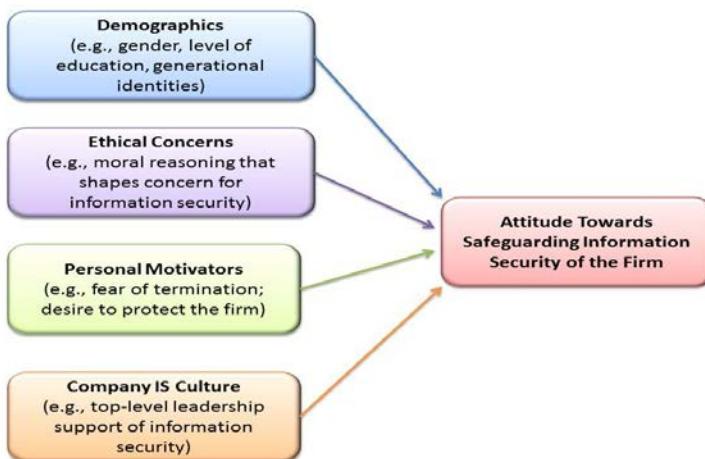
Abstract

The topic of Enterprise Information System (EIS) is an established discipline and in the current international business environment, it is crucial that companies cultivate and reinforce an information security module to combat both external (e.g., hackers) and internal (e.g., negligent employees) problems to safeguard their proprietary information (Swartz, 2007; Walsh, 2008). The ideal security module will protect a firm's intellectual property from both nefarious outsiders *and* avert insider violations from its employees. In general, there has been very little research conducted that evaluates the internal security measures of the firm (Kankahalli, Teo, Tan & Wei, 2003; Price-Waterhouse Coopers, 2012). We acknowledge that this type of information about the firm would be even more sensitive than publicly reporting external problems, such as the recent incident involving the loss of credit card data due to the external hacking of Target stores (Riley, Elgin, Lawrence & Matlock, 2014). Previous research has indicated that an EIS security model can be exhibited with four key components to address internal breaches (Chaudhry, Chaudhry, Clark & Jones, 2013). These components are *Security Policy* (e.g., set rules for employee behavior) (Boss, Kirsch, Angermeier, Shingler & Boss, 2009), *Security Awareness* (e.g., continued education of employees) (D'aubeterre, Singh & Iyer, 2008; Siponen, 2005), *Access Control* (e.g., access linked to employee job function) (Knapp, Morris, Marshall & Byrd, 2009; Sandhu, Cope, Feinstein & Youman, 1996), and *Top Level Management Support* (e.g., engrain information security into the company's culture) (Cyber-Ark Snooping Survey, 2011; Weil & Ross, 2005).

In this research, we plan to test a variety of antecedents related to assessing the role that organizational employees play in safeguarding the informational intellectual property of the firm (Chaudhry, Chaudhry & Honohan, 2014). Relevant exploratory research questions include 1) ascertaining differences in employees' attitudes towards security policy that are directly linked to demographics (e.g., a generational identity-exploring whether a tech-savvy younger generation is more willing to breach the internal security access of the firm) (Chaudhry et al., 2014); 2) using ethical ideologies to determine whether this type of moral reasoning shapes employees behavior to protect the firm's secured information (Herath & Rao, 2009; Myvry, Siponen, Pahnila, Vartiainen & Vance, 2009); 3) determining the key motivators for employees to safeguard the firm's internal data (e.g. fear of termination; desire to protect the firm's intellectual property) (Son, 2011); and 4) identifying key variables of a company's information security culture (e.g., top-level-management support drivers that shape the employees' work culture that foster a strong attitude to support the

firm's internal information security system) (Davenport, 1998; Boss et al., 2009). Figure 1 below is the conceptual framework that illustrates a typology of antecedents that we predict will influence an employee's attitudes about protecting the firm's internal information security. Developing a theory on assessing this type of employee attitude has major implications for companies across several sectors (Vroom & von Solms, 2004). Initial work that assesses this type of knowledge will help companies to evaluate the perceptions of its employees about their perceived role in safeguarding information security. Using this type of employee assessment, a firm can re-assess the value of current training programs on security policy, security awareness and role-based access control (Chaudhry et al., 2013). Finally, testing the salience a company's information security (IS) culture to evaluate whether the firm has developed an ingrained employee attitude towards information security has far-reaching implications for future research. For example, examining the role of top-level leadership, governance, downward corporate communication and training that an employee receives to create a company culture of "grass-roots vigilance" to protect the intellectual property of the firm (Knapp, Morris, Marshall & Byrd, 2009; Weill & Ross, 2005). To test the validity of this exploratory model, a questionnaire is being developed and will be administered to a convenience sample of respondents attending various graduate programs in Asia, Europe and North America.

Figure 1: Antecedents of Employees Attitudes that Safeguard the Information Security of the Firm



Keywords

Enterprise information systems, employee attitudes, internal information security

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Truth in Change – On the Emergence of Dominant Value-Added Logics

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Abstract

During the last decade scholars were striving to illuminate the changing value creation processes determined by a changing role of customers. For a long time, the manufacturer was responsible for creating value and delivering it to the market which only played the role of a 'place of exchange' (Prahalad & Ramaswamy, 2004). However, the growing service orientation as well as the development of internet technologies enabled customers not to be just passive receivers of goods but to play a more direct role in the development of a final solution. Customers can gain new knowledge, exchange their experiences and participate in value creation processes. The changing value creation mode was outlined by Vargo and Lusch (2004) who distinguished between goods- and service-dominant logics. The fundamental change is rooted in the value creation processes as the goods dominant logic (GDL) sees the value as 'value-in-exchange', while the service-dominant logic (SDL) argues it as 'value-in-use' constellation (Vargo & Lusch, 2004) – or a 'value-in-process' setting to stress the co-producer role of customers (Freiling, 2012). Indeed, the SDL sees customers as value co-creators and the value constellation is the one created in bilateral customer-supplier relationships. More than that, the notion of customers as co-creators is, by far, not entirely new and not restricted to manufacturing. In context of knowledge intensive firms and network collaboration, an integration of all participants is crucial for the value creation processes. Under the pressure of SDL limitations, Lusch and Vargo (2006; 2008) strive for broadening SDL boundaries by shifting the focus to network interactions. It was made in the attempt to respond to the reality requirements, predominantly caused by an increasing role of networks. However, the elaboration on the value-creation processes in the context of network interactions is rather taken for granted.

The SDL is predominantly seen as a dominant logic for marketing. However, we challenge the boundaries of this domain and strive to shed a light on innovation process. Innovation is one of the key determinants of company's survival (Cefis & Marsili, 2005), competitiveness (Lengnick-Hall, 1992) and, therefore, is a driver of value creation processes (Mele et al., 2011). There are already some attempts to analyze innovation through the lens of SDL. Michel et al. (2008) and Mele et al. (2011) infer SDL being a sufficient foundation to shed the light on the innovation process. However, considering the shift in innovation theory towards open innovation, in particular a significance of the involvement of all network participants, we question whether SDL is a sufficient foundation to tackle open innovation as a source of value co-creation? Or is there a new 'truth' of orchestrating value-added and innovation processes in terms of dominant logics? This paper seeks to develop a first answer to these research questions.

Companies, willing to survive under market uncertainty and volatility, need to be able to constantly renew and to innovate, respectively to set new and more favorable standards in industries (Schumpeter, 1934; Jacobides et al., 2006). However, as in case of GDL and SDL, the nature of innovation processes differs as a result of the changing role of customers. The shift towards the central role of the customer is grounded in the innovation process as well, and the early research on this topic is elaborated by von Hippel (1976; 1978). Traditionally, the innovation system was manufacturer-centric (William & von Hippel, 1994) and the manufacturer was investigating market needs and carrying on all the steps of product development. The dominant role of manufacturers was a leading cause for a successful product development (e.g. Myers and Marquis, 1969; Booz et al., 1968) – in times of much more stable economic conditions than today. However, von Hippel (e.g. 1975; 1976; 1994) questions this postulate and outlines the advantages of customer involvement into the innovation system and introduces an emerging trend - ‘user-centered innovation system’ - which appears as a substitute to the ‘manufacturer-based innovation system’ (von Hippel, 2005).

Meanwhile, internationalization, technology, in particular internet development, and the increasing role of networks prepared the foundation for a shift towards open innovation (Chesbrough & Crowther, 2006; Lee et al. 2010). It implies a shift from controlled in-house innovation processes towards commercializing external ideas and is defined as “(...)a paradigm that assumes that firms can and should use external ideas as well as internal ideas, and internal and external paths to the market, as they look to advance their technology” (Chesbrough et al., 2006, p.2). Under these circumstances, not only customers but other network participants can contribute to the product development and value co-creation, respectively. It challenges value creation processes and require a sufficient mechanism to embrace and explain the complexity of such value constellations.

The main prerequisites of open innovation are network interaction and establishment of network relationships between business actors (Dittrich & Duysters, 2007). Indeed, in certain industries and sectors, in particular high-tech and IT, the dominant role of network interaction superseded customer-supplier interaction. Yet, crossing the borders of IT industries, an increasing role of network collaboration via online platforms undermines the logic of value creation embedded into SDL since not only customers but other network participants can and do participate in the value co-creation processes. An increasing role of the information exchange and knowledge creation requires a new hybrid form of governance (Williamson, 1985) of such a structure. The challenge is determined by high flexibility networks and constant changes of their participants. What we experience in case of network interaction is that operant resources - competence, skills, knowledge etc. - are still important but not key resources anymore – as SDL suggests. In this case, not a possession of resources is critical but how the specific knowledge and competence to innovate are being created and developed through the constant interaction with other business actors, as innovation and learning are highly interdependent concepts (Brown & Duguid, 1991). In this vein, the emphasis shifts towards ‘meta-operant’ resources which aim to create the knowledge -a decisive input into the processes of value creation -through open innovation.

Further, Hamel and Prahalad (1991) insist on the preservation of company’s competitiveness through a shift towards the corporate imagination, aiming to create new markets. Implicitly, they pinpoint entrepreneurial spirit and corporate foresight on this meta level. In other words, companies should be oriented on the envisioning of the future solutions. To create a new market, the company should have a reference point, namely the information which would serve as a foundation for envisioning new markets, since relying on a gut decisions is an unjustified risk. Predominantly, the ‘need’ for information resides with the customers. Further, not only customers but other network participants possess the knowledge which would contribute to the innovation processes. This idea does not coincide with the core ideas of the SDL which rather focus on the satisfaction of current needs through the co-development of the solutions with a customer. In this point we intuit a formation of a

new ‘future oriented logic’ under the umbrella of a changing truth. However, it does not exclude or substitute SDL, rather complement it.

By contrasting open innovation and underlying network interaction against the SDL, we challenge SDL in its pure fashion being a sufficient foundation to illuminate open innovation as a value co-creation driver. In this vein, we elicit a new logic which to some extent challenges SDL in terms of value-creation processes through network interaction. We call it ‘knowledge-dominant logic’ (KDL) which aims to explain what is a decisive input for value co-creation. The key logic of value-added processes in SDL is ‘sense & respond’ which implies the focus on sensing and responding to current customer needs through the development of a ‘temporary unit’ (Vargo & Lusch, 2004). It bounds the idea of looking beyond the current customer needs and development of fundamentally new market solutions and even markets by generating knowledge, sharing it among all the network participants and envisioning new markets. Different from that, the key strategic logic of KDL is ‘generate, share and envision’. The KDL is rather pointing to the knowledge-intensive firms and is not necessarily bound to a specific industry, yet might affect the industry architecture by affecting the knowledge integrative structures (Brusoni et al., 2009). In the complex relationships build within the sectors and even industries, the organization knowledge creation and sharing activities are prerequisites for changing the industry architecture, as a way to control value appropriation processes (Jacobides et al., 2006). The knowledge phenomenon is essential for the innovating firms (Pavitt, 1998), whereas in case of open innovation the complexity of knowledge integration increases. Brusoni et al. (2009) argue that formation of a new knowledge bodies is a decisive for determining industry architecture. KDL strives to tackle the complex knowledge integration processes within industry architectures and network-wide interdependencies across firm’s boundaries. Given the arguments above, we indicate the emergence of a new dominant logic or a new ‘truth’ which would explicitly explain the network interaction and underlying processes of value creation. In this paper we contrast GDL, SDL and KDL and consider critical success factors in the new setting.

Keywords

Goods-dominant logic, service-dominant-logic, knowledge-dominant logic, innovation, open innovation, network

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On the Sustainability of Budget Deficits – A Dynamic Analysis of the Determinants of Credit Default Swaps

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Abstract

The recent Greek financial crisis has revealed that current budget sustainability tests did not anticipate default events. The reason is that these tests do not take investor's sentiment into account. As it is well known from finance, the credit default swap spreads can be used to calculate the default probability of a government bond. The question is therefore what determines the credit default swap spreads and also what is a good indicator that predicts the future behaviour of this security's spreads. In this paper, we investigate several variables which have been used in the past to predict CDS spreads. We do this by taking into account that the underlying data generating process changes as the crisis evolves. Moreover, we also want to determine which part of the dynamic of the CDS spreads is predicted by the variable in question. In order to do so, we use a time-frequency approach. As it turns out, some variables are better in explaining the short term behaviour of the CDS spreads whilst others explain the long term behaviour.

Keywords

Determination of credit default swaps, default probability, sovereign debt, fiscal sustainability

The Importance of Name at the Field of Nonprofit Organizations

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Abstract

When somebody is planning to start a business, it is important that from the beginning he has to find out an appropriate name for the company. Is this step as important for the nonprofit organizations as for the for-profits? The aim of this paper is to give answer what are those key words whose effect could help these organizations to improve their performance. By the help of a big database and the connection between word frequency and the size of donations we could identify names that could help the fundraising and of these organizations.

Keywords

Nonprofit, finance, fundraising

1. Introduction

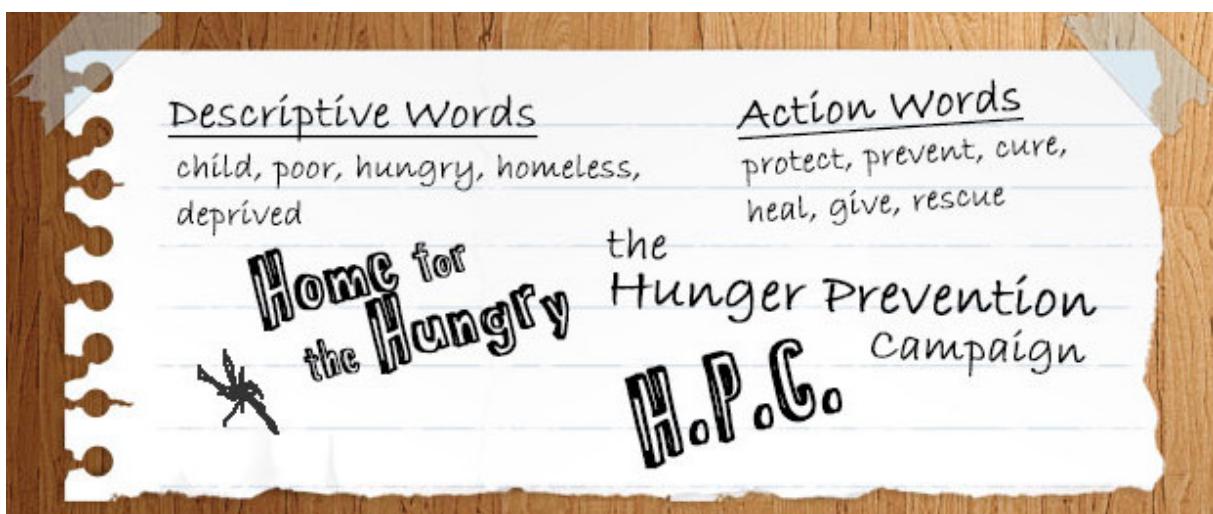
Weight and the role of nonprofit organizations in the Hungarian economy grew after the 1990's. During the past decades the sector and its regulation has also changed a lot. This trend is not occurred only in our country, but was specific to the neighboring countries. These changes represent an interesting area of research, but also the scene of international research.

Their development is not explained entirely by the generally accepted theories but most of them are commonly used. The first explanation for the formation was given by Weisbrod (1986), who showed that a significant number of non-profit organizations has been created because a significant proportion of consumers did not have an adequate level of public goods provided by the state. As these goods in the private sector cannot effectively ensure nonprofit organizations were established to provide them. Looking at the non-profit organizations Hansmann (1985) has come to the conclusion that in many cases consumers turn to the non-profit business as a result of one-sided dependence.

All in all we could conclude that the presence of these organizations became familiar to us in everyday life, and if we want to count on them, we have to finance them. This is why the Hungarian parliament decided, that the 1% of personal income tax could be contributed to nonprofits and an additional 1% to the churches. This database is given by the Hungarian tax authority and shows the percentage contributions for nonprofits. It contains the number of donors and the amount of total donation besides the name and tax number of the organization. The database therefore has 31130 rows which is approximately the half of the total number of Hungarian nonprofit organizations.

2. What Are the Requirements of a Successful Name for a Nonprofit?

Image 1: Words in nonprofits' name



Source: <http://nonprofitally.com/start-a-nonprofit/choose-a-name>

- Everyone could easily remember. Some of the nonprofits spent thousands of dollars to decide what name could be appropriate for a nonprofit, but sometimes a single brainstorming could be more successful and its cost is much lower.
- Embody the mission in the name, but at the same time it should be short and consist of simple, short words.
- Send a powerful message by your name. If you have no or just a small amount of money for marketing purposes, it is useful to promote your organization through its name. It is obvious

that you cannot tell everything in it, but make sure it conveys something unique or valuable about you.

- Make it emotional. It is easier to remember it when people feel something when hearing your name. It could be sad or hopeful, the emotions will help you.
- It is an advantage if the acronym of the name is simple or has a meaning as well. Today in Hungary it is not a widely used form, and nonprofits rarely use their acronyms. In the USA it is more popular.
- Action words could also help to express your activity: rescue, help, prevent
- Be sure that the name you want to use is easy to spell and to say. This way you could avoid the misspelling and mispronouncing and everybody could bravely use it.
- Use the founders' name but only in the case when they are well known. It gives your organization a trust.
- Have a domain. In the world of technology it is important to appear on the internet to communicate your mission, your achievements to as many people as you can for a low amount of money. So it is important to have a homepage, or a facebook profile to be accessible and transparent.
- Try to create a trademark. Use your name and create a logo and a unique appearance to be memorable. This could be the key of a success: people have to be able to recall your organization when they need.
- Before final decision test the name you chosen. Imagine it when you answer on the phone, ask your friends how they feel about it and make sure that it will fit some years later for a probably bigger organization.
- Finally check in databases and at Chamber of Commerce whether the name is available, not trademarked and not used by anyone else.

Or summarized by the words of Gwyneth Dwyer:¹

"A strong nonprofit name explains or suggests the nonprofit mission, communicates an emotion, lodges in the brain, and, ideally, compels action." After taking everything into account, sit down and start to brainstorm on a good name by thinking about:

- the aim of your nonprofit
- the people or animals you want to help
- the people who will help you in achieving your aim.

3. Word Frequency in the Hungarian Database

Naturally, the most common words in this database are the foundation and association. After eliminating them from the data we get the following wordle which shows the words most frequently used in the name of nonprofits.

¹<http://nonprofitmarcommunity.com/naming-nonprofit-organization-q-a-gwyneth-dwyer/>

Image 2: Wordle of Hungarian nonprofits



Source: www.wordle.net from the database of Hungarian Tax Authority

The bigger the letter size the word's frequency is higher, therefore the most common word in the name of Hungarian nonprofit organizations is "and" (ÉS). From this picture we could also see that the most common words usually stands for the aim of the organization like sport, children (gyermek), school (iskola), cultural (kulturális) and just some of the readable ones sign other things like the city (Szeged, Debrecen) or some common names (István, Ferenc).

Do they follow the advices which are given by marketing specialists? Yes. They want to show the mission of their entity to show to the outsiders what their aim is, where they want to help.

From the database of the Hungarian Tax Authority it could be calculated, that on the average one nonprofit firm has 109 contributors, and receives 424277 forints. The minimal donation level is 100 forint theoretically, and 102 forints in reality from just 1 people. On the other hand the most successful entity has more than 660 thousand donors and received approximately 2.5 billion forints, namely the Hungarian Catholic Church. Take a look to the top100 USA nonprofits' wordle:

Image 3: Wordle of USA top 100 nonprofits



Source: www.wordle.net

On this picture we could see that the location of activity or a geographical name is more frequently used in the name of nonprofit. Sometimes it could be a limit to a growing nonprofit if it wants to expand its services to other areas. In the names the usage of major aims are similar to the Hungarians like cancer, children or art. But the sport is missing here, because in the USA it is mainly operated by profit oriented organizations.

4. Results

The database about the 1% contributions contains more than 31 thousands organizations. It means that this number of nonprofits received at least 100 forints from the personal income tax contributions, and these are still working and has no belongings to the state. On the average they received 424 thousands forint from 109 donors which is not a small amount of money. On the other hand some of these nonprofits get the majority of its income from this source.

What are the effects of names? The major churches are the major beneficiaries of this system, because a separated 1% could be given to them. This is why they could get the top contributions. The Hungarian Catholic Church gets more than 22 billion forints from this source alone, but other Catholic organizations could receive donations from the other 1% which is accessible for the civil sphere. Overall, just those organizations whose name contains the word Catholic get almost 41 million forint on average from 10 thousand contributors.

In comparison, the second largest confession, the Calvinist Church gets 910 million forints in 2013. It means that those entities, that has the word Calvinist in their names has almost 7.5 million forint contributions on the average and has almost 2000 donors. These numbers are also much higher, than the total average for nonprofit organizations.

Table 1: Frequent emotional words in total database

	word	number of organizations	Average contribution	Average contributor
Total		31131	424275	109
Calvinist	református	128	7 490 677	1 926
Catholic	katolikus	64	40 494 718	10 636
child	gyermek	2073	695 712	190
sports	sport	943	284 723	73
cancer	rák	19	841 864	206
leukemia	leukémia	13	14 587 025	4 251
tumor	daganat	30	3 475 432	971
hospital	kórház	125	2 558 774	603
dog	kutya	32	4 903 107	1 204
animal	állat	140	4 416 258	1 227
culture	kultúra	108	93 272	26
Hungarian	magyar	435	10 502 803	2 649

In the next step I tried to highlight some emotional words. It is supposed, that a lot of people open their wallet when we speak about children. In this research it means that 2073 nonprofits use the

word “child” in its name, and receive 64% plus as an average nonprofit and has almost twice as many donors. The word sport appeared in almost 1000 cases, and we have already mentioned, that these kind of nonprofits are not in the top US nonprofits. Accordingly, the contribution is lower to them, and less people give their votes on them (in this system you could choose only one organization).

The most frequently used words that are connected to health are cancer, leukemia, tumor and hospital. Only 187 cases were recorded, but the average contribution is much higher than for an average nonprofit. We could conclude that these are surely among the most emotional words in Hungary nowadays. But animals and dogs receive also a lot of money with their more than 4 million forint average contribution and more than 1200 average contributors.

On the other hand culture gets only 93 thousands forints, which is just 22% of the total average. So it could be a good advice not to use this word in your name or try to find other way to find resources for your organization because more “important” aims are also presented to the taxpayers.

Similar consequences could be made from the top200 contributed nonprofits without churches. Just 2 organizations could get into the top 200 with the word sport in its name. In the first 200, the children get the average amount of money, cancer, tumor and leukemia are also big beneficiaries but hospitals get less. Just 6 organizations with dog in its name get a little more than the average contribution of the top 200, but the other 40 nonprofit dealing with animals are on a lower income. Culture received 4 places among the top, but here they receive just about the half of the average.

Table 2: Frequent words in top200 database

	word	number of organizations	Average contribution	Average contributor
Total		200	14710011	3803,266
child	gyermek	32	14957562	3870,21
sports	sport	2	5 990 674	1391,495
cancer	rák	4	18 181 517	4601,136
leukemia	leukémia	5	21 816 632	5503,188
tumor	daganat	3	53668057	14499,19
hospital	kórház	11	12 046 559	2923,18
dog	kutya	6	15 303 681	3769,669
animal	állat	40	9 896 378	2404,843
culture	kultúra	4	7 385 051	1795,307
Hungarian	magyar	21	8 188 502	1938,084

Finally we could have a look on geographical names. In the tables above Hungarian appeared at the last row showing that those organizations whose are working in the whole state could get more than the average. Table 3 shows the statistics of some smaller areas. The capital, Budapest has 6394 nonprofits from the 31 000. Among these nonprofits the word Budapest appears 182 times and these could get almost 1.5 million forints on average. Smaller cities like Debrecen or Szeged, whose name is almost as frequent as Budapest’s gets just 200 000 forint on average. As a conclusion we could say that it is better to use those geographical names that are bigger, and your income could be also bigger.

Table 3: Geographical names in the names of nonprofits

Geographical area	Average contribution	Average contributor	number of nonprofits in the area	Word frequency
Budapest	1 402 985	340	6394	182
Zala	148 659	46	1025	213
Debrecen	210 143	63	1473	155
Szeged	217 053	64	1360	217

5. Summary

As a consequence, it is obvious that at the field of nonprofit organizations where the emotions have huge impact, the naming of an entity could have the key of success. If you could draw attention just by the name of your organization you are on a good way to be able to finance your aims and achieve your goals. Just like Rex Shelter for Dogs, who get its name after a famous dog from the TV series. Use the word dog, as the favorite pet in its name, but deals with other kind of pets as well and finally gives you a strong emotional impact through the word Shelter. How successful they are? They are on the 5th place on the 1% contribution list.

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Accounting: Perception Based Truth

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Abstract

Accountants may be referred to as the *truth-keepers* of the corporate world. However, the worldwide accounting industry is not immune to corporate and societal dogmas which limit the interpretation and use of these truths. Accounting as a science is subjective and contextual in its application. From reduction of existential concepts and behaviors into linear or finite, measurable segments of data; accounting practices are inherently limited in their use. These accounting measurements are also open to a wide range of professional and public interpretations. Moreover, accounting phenomena are compounded in complexity by the variety of interpretations regarding the global hierarchy of evolving oversight, rules, and regulations. When taken holistically, these multi-dimensional variables create a mutable sense of truth which may change according to each individual or societal perception. Accounting educators and practitioners may refer to their discipline as *knowledge*. This presentation will describe the critical point that accounting knowledge (or truth) is based on human perception; therefore, the integrity of such knowledge is inherently limited to its respective bias, application, and context. This point underlies several pertinent global issues such as detrimental expectations within general societal constructs; profit based corporate and economic instability; and an increased propensity for accounting related fraud.

Keywords

Accounting, fraud, knowledge, truth, perception

Brazil's Country Image in Spain: A Study about Knowledge and Purchase Intention of a Brazilian Sports Equipment Brand

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Abstract

This study discusses the relevance of country image in knowledge and purchase intention of a Brazilian sports equipment brand for Spanish consumers, considering the role of involvement as a mediator of this knowledge and intention. From the theoretical framework of the influence of the country of origin on product evaluation, mediation of involvement in consumption decisions, the possible effect of the recognition of a country as a specialist in a particular activity and the importance of brand equity, an online survey was conducted in Spain using a Brazilian sports equipment brand settled in the country. The results showed that although brand's knowledge is usually affected by the country of origin, the same cannot be said about purchase intention. Confirmation that the brand's strength is the most important variable in consumer choices reinforces the idea that there is little relevance in using the country of origin as a quality attribute.

Keywords

Brazil, Country-image, involvement, sports equipment, Spain

The Effects of Company Responses to Negative Comments on Other Customers' Attitudes toward Brand in Company-Hosted Social Networking Sites

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Abstract

The aim of this ongoing research is to understand the effects of companies' responses to negative comments posted in company-hosted social networking sites on company image from the perspective of other customer. The study intends to provide insightful information and interpretations about the content and tone of the message and reaction of the company to this message based on the elaboration likelihood model. In addition, because of the brand sensitive structure of the company-hosted social networking sites, brand commitment is included in the study to propose comprehensive conceptual model. The findings are expected to make contribution to both complaint management literature and marketing professionals who crave to reduce the undesirable impacts of negative e-WOM by using social networking sites as an effective communication channel.

Keywords

Negative comments, company response, social networking sites

1. Introduction

With consideration to the increasing significance and impact of communication in virtual platforms, it is imperative for companies and customers to build closer relationships benefiting from company-hosted social networking sites. The influence of virtual communities where the information exchange is fast and easy is valuable especially in terms of electronic word-of-mouth (e-WOM) communication. On the other hand, these kind of online settings allow generation of negative e-WOM which is more important influential behavioral and attitudinal determinant than positive e-WOM in marketing literature for the products/services of a particular brand. Due to the common usage of social networking sites by companies, consumers are increasingly sharing their dissatisfying experiences as negative comments. Marketing professionals and complaint managers need to be sensible to explore their communication efforts to decode complaint messages (negative comments) by managing complaint communication process and reach the most appropriate company reactions. Uncontrolled negative e-WOM means company-related negative information-dissemination in a setting like official communication channel (e.g. company-hosted social networking sites). Major undesirable consequences could be damaging brand image and brand value.

Although previous studies have focused on the impact of company responses on consumer acquisition in offline environment, company complaint responses have not been investigated from observers' perspective in online platforms. Therefore, the major purpose of this study is to understand the effects of companies' responses to negative comments on other customers' attitudes toward brand in company-hosted social networking sites. The research intends to develop more insight into the message (negative comments) to guide companies in understanding and responding the negative e-WOM expressions of customer. Moreover, due to the brand oriented nature of the platform, brand commitment and brand image concepts are taken into account in this research from the third party (observer) point of view. The results are expected to provide insightful information about interrelation of communication dialogue taking place in a public online environment. The main intended contribution of this study lies in focusing the impacts of negative e-WOM from other customers' point of view.

2. Theoretical Background

2.1. Negative e-WOM

Word-of-mouth (WOM) communication is the process of transferring information from person to person and plays a critical role in consumer buying decisions (Richins & Root-Shaffer, 1988). In the marketing context, WOM communication involves consumers sharing attitudes, opinions or reactions about products or services with other people. WOM communication is generally accepted to play a significant role in affecting and shaping consumer attitudes and behavioral intentions (e.g., Herr et al., 1991; Xia & Bechwati, 2008). WOM communication is likely to be perceived as more persuasive because information from personal sources is considered more reliable, credible, and trustworthy than information from mass media or marketing sources (Bickart & Schindler, 2001; Brown et al., 2007) since consumers are independent from the brand they talk about.

The concept of WOM communication has been enlarged into virtual platforms and is called electronic word-of-mouth (e-WOM) (or also known as online word-of-mouth) because of the worldwide spread of the Internet. Electronic word of mouth (e-WOM) is a form of communication, defined as "a statement made by potential, actual, or former customers about a product or company, which is made available to a multitude of people and institutions via the Internet" (Hennig-Thurau et al., 2004, p. 39). This provides a platform for the exchange of opinions and experiences easily and quickly among consumers who are geographically dispersed by lowering barriers to communication (Cheung & Lee, 2012; Verhagen et al., 2013). In addition, it is more powerful because it has a significant reach and is immediate, credible by being in print, and accessible by others

(Hennig-Thurau et al., 2004). Study on WOM in the online context (e-WOM) suggests that this effect exists for word-of-mouth information obtained from online environments and social networking sites (Henning-Thureau et al., 2004). Therefore, both scholars and practitioners of marketing are particularly interested in WOM communication behavior in the context of company-hosted social networking sites because of the popularity, growth and influence of such communities. Online communities represent WOM networks, where individuals interact for information such as purchase advice or complaint about products or services (Kozinets, 1999; Hoffman & Novak, 1996).

Although one of the purposes of the companies for building online communities is to initiate positive e-WOM which is considered a powerful marketing tool for organizations to influence customers, negative e-WOM communication among the potential, current or former customers about a product, company or brand is available to public on company-hosted social networking sites (Karakaya & Barnes, 2010). While positive e-WOM includes favorable experiences with a product/service or encourages purchase intention of the product is desirable situation from company aspect, negative e-WOM contains unfavorable experience about a product/service can harm companies (Bambauer-Sachse & Mangold, 2011).

Consumers are willing to share their negative experiences or opinions about the particular products/services with others for several causes (Verhagen et al., 2013). First of all, they may want to focus attention on the reason of their displeasure to be able to reach possible solutions or express their anger at a company to decrease their anxiety level. Second, consumers may want to warn others not to experience the same dissatisfying situation. This kind of supportive shares may emerge in online communities where social relations with others are powerful due to nature of these communities. When consumers have benefited from others' comments or advices before, these situations encourage them to help others (Brown et al., 2007). Finally, consumers may report their disappointing experiences to provide improvement in company's activities which cause displeasures. Consumers tend to notice negative comments more than positive reviews evaluation and decision making since positive or neutral e-WOM is referred as being less diagnostic and informative than negative ones (Herr et al., 1991; Bambauer-Sachse & Mangold, 2011; Cheung & Thadani, 2012). Hence, Park and Lee (2009) assert that negative comments have more powerful impact than positive comments on other consumers in online communities (Bambauer-Sachse & Mangold, 2011). Due to the strong effects of negative comments in social networking sites on consumers, nowadays companies pay a higher attention to serve displeased consumers and decrease the possibility of spreading negative WOM communication by replying their complaints (Verhagen et al., 2013).

2.2. Company response for managing complaint and brand image

The reason of consumer complaints is dissatisfaction of product or service performance that generally leads to negative WOM today mostly negative e-WOM behaviors which may result reduction in company reputation if not solved (Harrison-Walker, 2001). Therefore, when a company encounters a complaint related its products or services, it tries to prove and legitimate what it commits to consumers to maintain its image (Conlon & Murray, 1996). Company-hosted social networking sites provide interactive platforms to companies to faster and easily communicate for managing complaints. Indeed, if the complaint which is represented in the online platform is satisfactorily handled, this lead to raise the level of consumer loyalty, satisfaction and positive (e)WOM (Breitsohl et al., 2010). Moreover, a pleased company response may be significant in the context of customer retention and for increasing company reputation (Breitsohl et al., 2010). Consequently, there are three actors of online complaint behaviors which emerged as negative comments in social networking sites. First, company is the sender of complaint response in a company-hosted social network. Second, the writer of the negative comments who has a dissatisfying experience is also receiver of the company response. Finally, other consumers also are called third party consumers are the observers of the public communication dialogue.

Companies have different reactions to negative comments. They may exhibit no reaction or react with detailed explanation including apologies or excuses (Conlon & Murray, 1996; Pantano & Corvello, 2013) or direct another links/sites to support. Each reaction to negative e-WOM may have different impacts in terms of complaint management. For instance, if a company apologizes following a negative comment in a social networking site, this situation may lead to increase perceived positive attitude toward the company by other consumers (Pantano & Corvello, 2013). On the other hand, although studies claim that deleting, neglecting or manipulating negative comments can have negative consequences such as decrease in corporate reputation, company may react by deleting, neglecting or manipulating negative comments (Conlon & Murray, 1996). However, public relations professionals assert that companies which host their own social networking sites, may ignore to reply to unsatisfied comments for discourage expanding possible unfavorable communication network (Dekay, 2012). Although, negative comments generally have troublesome for companies (Dekay, 2012), professionals of these firms have not developed a strategic path for handling this critical problem.

Bambauer-Sachse and Mangold (2011) assert that a company's unfavorable reaction in product crisis situation has negative impact on consumers' brand beliefs, attitudes and behavioral intentions. One of the most important brand associations that professionals of the companies should be taken into account during managing the complaint is brand image that is described by Keller (1993) as consumers' perceptions of a brand held in consumer memory. In other words, brand image make the brand distinctive from its competitors (Webster & Keller, 2004). Jalilvand and Samiei (2011) claim that every interaction between a company and its customers can be regarded as an input for brand image concept. Previous literature has confirmed that brand image affects brand loyalty and purchase intention (e.g. Sernes, 1993; Davies & Chun, 2002). Additionally, Johnson et al. (2001) asserts that higher brand image perception enables more qualified, valuable, satisfying products or services perception by consumers. Therefore, brand image is used as critical outcome of this research.

This study aims to analyze the impact of negative comments on brand image from the perspective of other consumers in company-hosted social networking sites. In line with the argument of Park and Kim (2008) based on elaboration likelihood model (ELM), content and tone of messages which are shown in negative comments and firm responses in company-hosted social networking sites may have an impact of other customers' evaluation on information processing. The ELM is also known as a dual route theory, stating that alterations in attitude depend on different level of heavy information processing (Petty & Cacioppo, 1984). A message is transferred and received through one of two possible routes including the central route and the peripheral route of persuasion based on the elaboration continuum. According to ELM, the elaboration continuum indicates the evaluation process of people who are motivated and able to assess central benefits of stimulus (Petty & Cacioppo, 1984). If an individual's motivation is high and her/his ability to proceed a message, she/he can deal with effortful cognitive action through the central route. On the other hand, if the message receiver does not have the motivation or ability to process detailed information, persuasion derive from the peripheral route; thus, message receiver tends to trust peripheral indications or mental heuristics instead of focal messages. Therefore, a message of some opinions can be evaluated lack of detailed analysis of the content (Park & Kim, 2008).

Content of message (negative comments) can be informative and give detail about the reason of the complaints such as customer service (i.e., contact possibilities, after-sale service, technical support), product (e.g., quality, performance, etc.), price, delivery problems, misleading information, security and trust issues, tracking and tracing and promotions (Cho et al., 2002). On the other hand, it may only include dogmatic pronouncements about the companies' products or services without giving detailed information (Dekay, 2012). Moreover, another important determinant about the assessment

of the message is tone of negative comments including profanity or respectful emotional negative expression such as sarcastic remarks or admonitions (Dekay, 2012). This study argues that content of the negative comments may have an impact on the tone of negative comments in company-hosted social networking sites.

H₁: The higher the level of informative negative comments the more likely respectful tone of comments

Careful analysis of the content of the negative comments and their tone may reveal identifiable patterns of company response in terms of other consumers' perspective including no reaction or reaction with detailed explanation (can be called as direct response) or directing to another links/sites to support (can be referred as indirect response). For instance, companies may be more likely to respond to reasoned, informative and respectful negative comments. Therefore, this study aims to investigate following hypotheses.

*H₂: The higher the level of informative negative comments, the higher the level of company response
H₃: The higher the level of respectful negative comments, the higher the level of company response*

In relation with the ELM, the level of informative dialogue between the complainer and the company may cause more powerful persuasive influence. Therefore, the company which responds to informative negative comments directly and with details, does not influence other customers' brand attitude negatively.

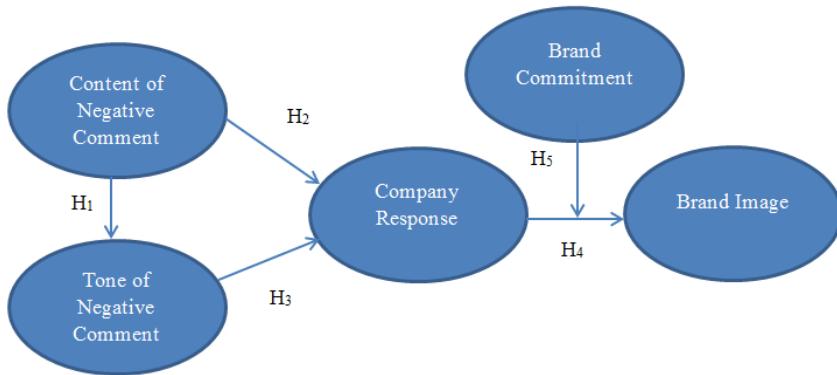
H₄: The higher level of company response has a more positive impact on brand image

Brand commitment has been widely used as a moderator in previous studies focused on especially brand related online platforms (Chang & Wu, 2014). By examining whether brand commitment concept moderate the influence of company response to negative comments on brand image, this study proposes to integrate this variable in the context of previous findings and deepen the understanding the impact of negative comments on attitudes toward brand from other customers' perspective. Chang and Wu (2014) assert that individuals tend to establish a sense of consistency, their beliefs toward a brand should not differentiate radically what they receive. Indeed, consumers who have a positive attitude toward a brand will take no notice of a negative comment of a particular brand due to their desire for consistency. Therefore, consumers with high brand commitment are less likely to bias the response level to negative comments and brand image. Hence, they resist attitude alteration toward the brand they committed to.

H₅: The level of observer's brand commitment can strengthen the relationship between company response level and brand image

2.3. Conceptual framework

The proposed model of the study is illustrated in Figure 1.

Figure 1: Proposed model of the study

3. Discussion

The main objective of this study is to assess the impacts of company responses to negative comments on other customers' brand image perception in company-hosted social networking sites. It is intended to focus complaint communication process between the comment writer and company from the observers' perspective.

As for research methodology, a $2 \times 2 \times 3$ factorial design is intended to be used in this study to examine whether different type of content and tone of negative comments have a different impact on company response. A company-hosted Facebook page as social networking site can be used to conduct the experimental survey. The content of negative comment will have two different levels- high informative and low informative. Another indicator of negative comment is its tone. There will be two different levels of negative comment tone- high respectful and low respectful. Moreover, concerning the company response, there will be three different company responses- no reaction, indirect response and direct response. The experiment is intended to be designed with twelve treatment conditions. To analyze the research hypotheses structural equation modeling (SEM) and ANOVA will be used in this research.

The major contribution of this study is expected to offer guidance marketing professionals for managing complaint in brand sensitive online platform which so far has been neglected. In addition, marketing literature may gain insights about the link between negative e-WOM and complaint response communication to increase favorable brand image in company-hosted social networking sites that are considered companies' official communication channels.

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Future of Islamic Banking in Turkey

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Abstract

Banking is the most important part of the Islamic financial system. Islamic banking has become widespread for three decades. Islamic banking competes with the commercial banking In Egypt, Indonesia, Malaysia, Sudan, and the Gulf Cooperation Council (GCC) countries and Turkey. Potential customers of Islamic banking is really challenging for commercial banks. Islamic banking future growth and development will depend on innovations introduced in the market. This study enlarge the potentials of Islamic banking in the banking and financial system for Turkey. The main problems, challenges, and opportunities facing Islamic banking in the Turkey are analyzed in detail. The study reports the results of interviews that were undertaken with senior officials of several key financial institutions who have had many years of experience in dealing with Islamic banking. The results of interviews identify the problems and opportunities that help for the solutions that are taken by authorities in financial system.

Keywords

Islamic banking, Turkey

Using Eye-Tracking Data to Understand Professional First Impressions in a Personal Selling Context

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Abstract

This study discusses the contributions of eye-tracking data to test measures for first-time viewers of potential professional salespeople. Participants viewed the professional portraits of two different individuals, one male and one female. Results showed that eye-movement data supplemented what users verbally reported in their reactions to an individual. In particular, the eye-tracking data revealed which aspects of the person received more visual attention and in what order they were viewed.

Introduction

As eye-tracking systems have become both more sophisticated and more affordable, there has been an increasing interest in the use of eye-tracking within the first impression domain (see Byrne, Anderson, Douglass, & Matessa, 1999; Kotval & Goldberg, 1998; Hornof & Halverson, 2003). Eye-tracking studies that have focused on web-based stimuli have gathered eye-movement data while participants were engaged in typical information search tasks on web pages (Cowen et al., 2002; Goldberg, Stimson, Lewenstein, Scott & Wichansky, 2002; Josephson & Holmes, 2002). Despite an increased amount of research in this area, it is still not entirely clear exactly how much eye-movement data contributes to the viewer's evaluation of another individual. As a part of a comparative test between two individual's images that were perceived as professionals, participant eye movements were recorded during the users' initial introduction to image. The eye-tracking data was examined to gain additional insight into how users initially viewed that individual and what elements attracted their visual attention.

Method

Twenty-two undergraduate students (11 female, 11 male) at Utah Valley University participated in this study. All of the participants were between the ages of 18 and 26 years. A 23" monitor was integrated with the Grinbath eye-tracking system, which was used to detect and collect participant eye-gaze data during testing. The Grinbath eye-tracker samples the position of the user's eyes on an average of every 20ms (i.e., 50Hz) and is characterized by a high-resolution camera and near infrared light-emitting diodes on an inexpensive headset.

Participants were seated approximately 24 inches away from the computer monitor. After calibration, participants were presented with the portrait of one of the two individuals used in the study and were asked to take about one minute to look over the portrait and verbally report their impressions as to their opinion of the individual.

Results

During this experiment, the participants' were provided time to create both System 1 and System 2 inferences about the portraits. Post-impression interviews were held to measure all judgment scales: attractiveness, likeability, trustworthiness, competence, and aggressiveness. Additionally, respondents were also asked to provide answers to likelihood-to-buy (LTB) scale questions.

Responses were often detailed including such comments as: "this individual is trustworthy/untrustworthy," "I feel comfortable with this individual," and "I do not perceive this individual to be a threat." The addition of the eye-tracking data allows sales professionals to better understand exactly what potential buyers are viewing in order to make sense of the seller and form an impression that has direct influence on further interaction.

Eye-gaze and eye-plotting software was used with the Grinbath device to examine the users' eye-movements by means of a post-hoc analysis of visual fixations falling within different areas of interest (AOI) within the provided stimulus. Specifically, the captured images naturally divided into segments of human facial features. The eye-tracking data was then examined in terms of fixations recorded within these AOI segments. The fixation data for these AOI's can be compared in a number of ways, including: (1) the order in which each AOI received its first fixation; (2) the number of fixations recorded in each AOI; and (3) the cumulative dwell time of fixations recorded in each AOI. This provides a way to determine what physical characteristics potential buyers generally look at first, for how many times, and for how long when they first encounter an individual. Further, the eye-tracking data was parsed based on extreme scores of the judgment scales. This produced findings indicating an individual respondent's gaze pattern may be directly related to their judgment processes. Gender response differences were also detected.

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Investigating Method Effects in Rosenberg's Self-Esteem Scale

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Abstract

Self-esteem is defined as “the individual’s positive or negative attitude toward the self as a totality” (Rosenberg et al., 1995, p.141). Individuals with high self-esteem are characterized as having high self-regard and self-worth, whereas individuals with low self-esteem are described as feeling less worthy and lacking self-respect (Rosenberg, 1979). As an important component of the self-concept, self-esteem is one of the most frequently studied psychological constructs in psychology and social psychology research (Marsh, 1996; Tomás & Oliver, 1999; Robins et al., 2001; Tomas et al., 2013), where understanding individuals personality and behavior is essential. Self-esteem also plays a significant role in determining employees’ work-related attitudes and behaviors, thus, it received widespread popularity also in social science domains like I/O psychology and organizational behavior (Judge & Bono, 2001; Pierce & Gardner, 2004; Burton et al., 2005; Ferris et al. 2010).

Self-esteem has assumed an important place in the fields of sales and marketing, as well. For instance, in their study, Banister and Hogg (2004) examined how the consumers use the rejection of products and brands to pursue and protect their self-esteem and they found that the motivation of self-esteem functioned to encourage and discourage individuals from consuming certain items, brands and styles of clothing. Tsai, et al. (2009) investigated how salespeople’s self-esteem affects their selling behavior and found that the level of self-esteem had a positive relationship with adaptive selling and hard work. In their study, Dommer et al. (2013) examined the role of self-esteem when consumers differentiate themselves from the group through the use of brands. Their findings indicated that under social exclusion, low self-esteem consumers have a greater attachment to brands which offer differentiation through the expression of personality, taste, traits, whereas under social inclusion, they have a preference for brands that offer differentiation by conferring status or demonstrating one’s superiority to others in a group.

Rosenberg’s Self-Esteem Scale (1965) is by far the most widely used self-report instrument for assessing individuals’ global self-esteem (Blascovich & Tomaka, 1991; Tomás & Oliver, 1999; Robins

et al., 2001; Halama, 2008). It was developed as a 10-item scale which consists of 5 straightforwardly-worded (e.g. "I feel that I have a number of good qualities.") and 5 reverse-worded items ("I feel I do not have much to be proud of."). Although originally designed as a dichotomously scored Guttman-type scale, it is typically scored using a 4-point scale from 1 ("strongly agree") to 4 ("strongly disagree") where higher scores represent higher self-esteem. Some authors have also adopted 5-point or 7-point Likert-type response formats which resulted in broader ranges of total self-esteem scores (Blascovich & Tomaka, 1991).

Rosenberg's Self-Esteem Scale (1965) has been developed to assess a global self-esteem factor and conceptually treated as a unidimensional scale. However, there is an ongoing controversy over the factor structure underlying the responses to the scale (Marsh, 1996; Tomás & Oliver, 1999; Tafarodi & Milne, 2002; Motl & DiStefano, 2002; Greenberger et al., 2003; Quilty, et al., 2006; Martín-Albo et al., 2007; Tomás et al. 2013). Many studies, where factor analysis was employed, resulted in a variety of solutions that are different from the conceptual single-factor model. In some of these studies, researchers found that positively- and negatively-worded items tend to group into two distinct dimensions (e.g. Carmines & Zeller 1974; Pullmann & Allik, 2000; Sheasby et al., 2000). In others, researchers argued that the resulting two-factor structure is a consequence of method effects associated with including both positively and negatively worded items in the same scale and reported that the method effects are substantively irrelevant (e.g., Marsh, 1996; Tomás & Oliver, 1999; Wang et al., 2001; Quilty, 2006; Martín-Albo, et al., 2007; Halama, 2008; DiStefano & Motl, 2009). On the other hand, some researchers contended that the resulting two-factor structure might not be a function of a single, theoretical dimension of self-esteem which is contaminated by a method artifact, and that the method effects might represent something that is substantively meaningful (e.g., Motl & DiStefano, 2002; Horan, DiStefano & Motl, 2003).

Two types of confirmatory factor analysis approach exist to model the possible method effect in scales that includes both straightforwardly and negatively worded items: The correlated trait-correlated uniqueness (CTCU) and the correlated trait- correlated method (CTCM) models. CTCU models infer method effects from error covariances (correlated uniqueness) among the items using the same phrasing style (i.e. straightforwardly worded items or negatively worded items). CTCM models, on the other hand, infer method effects from additional latent factors that are included in the model for each group of items with the same phrasing style (for details see: Quilty et al, 2006).

In this study, a series of confirmatory factor analyses were performed to compare both CTCU and CTCM models against the single factor and two-factor models. Besides, we also investigate whether the degree of the method effects varies with the number of response categories (4-point and 5-point Likert-type response scales).

Using convenience sampling, 777 undergraduate students of three universities in Turkey, predominantly from the schools of economics and administrative sciences, were required to participate in this study. Participants responded to only one of the randomly distributed, two versions of the 10-item Rosenberg's Self-Esteem Scale (in Turkish)that differed only in terms of the number of the response options (4-point and 5-point Likert-type scales).

The results of our analyses parallel the findings of Quilty et al. (2006) and Tomás and Oliver (1999): Although the two factor model based on positively and negatively worded item factors fits better than the single-factor model, fit indices did not reach adequate level. Both correlated methods (CTCM) and correlated uniqueness (CTCU) models resulted in nearly equal and adequate fit to the data, even though CTCU provided slightly better fits. These findings indicated that method effects needed to be included in the confirmatory factor analysis of the self-esteem scale for a close fit to the data. These results also suggest that self-esteem can be treated as a single factor construct as long as the method effects (CTCM or CTCU) are included in the model.

The results also indicated that the inclusion of method effects is equally necessary for 4-point and 5-point Likert-type scales, as well. That is, the number of categories does not have a dramatic effect on the fit of the models, and it is not very likely to reach an adequate level of fit with the models that does not incorporate method effects.

Keywords

Self-esteem, negatively worded items, method effects, correlated traits-correlated uniqueness, correlated traits-correlated methods

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An International Perspective on the Impact of Organizational Values on Product Innovations in Manufacturing Companies

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Abstract

The purpose of this paper is to contribute to a deeper understanding of the impact of organizational values on product innovation in manufacturing companies and to show an international perspective on the topic. On the basis of a detailed literature review the paper explains the results of qualitative, written online interviews amongst experts from 10 different European nations. Different value themes are judged according to their importance for product innovations. However, the findings result in experts' evaluation that manufacturers do not entirely set up their companies accordingly yet. With this, the paper holds various implications for managers and, in addition, suggests a number of future research fields to scientists.

Keywords

Organizational values, product innovation, manufacturing companies

1. Introduction

With a macroeconomic perspective, Schumpeter (1950, p. 83-84) argues that it is new consumer goods, new ways of production or transportation, new markets, or new organizational forms that keep capitalism alive. Clearly, the capability to acquire and utilize knowledge in a way that results in new products determines a company's success in the future (Trott, 2008, p. 9). To achieve economic welfare, societies as well as companies need radical innovations (Kesting & Ulhøi, 2010, p. 79). Innovation is considered to be a characteristic of healthy organizations and enables companies to change according to market needs and therefore stay competitively advanced (Delbecq & Mills, 1985, p. 24). The Organisation for Economic Cooperation and Development (OECD) distinguishes four types of innovation: product innovation, process innovation, marketing innovation, and organizational innovations (OECD & Eurostat, 2005, p. 47). Generally, product innovations can be seen as being tightly linked to the primary activity of the company (Naranjo-Valencia, Valle, & Jiménez, 2010, p. 468). However, research shows that, generally, success rates in new product development are below 25% (Evanschitzky, Eisend, Calantone & Jiang, 2012, p. 21). Therefore, for the context of the study, product innovations are the main interest, excluding services – in accordance with the OECD, this is understood as the successful market-introduction of new or significantly improved goods with respect to characteristics or intended use (OECD & Eurostat, 2005, p. 48).

Studies have shown that innovation is extremely complex and involves the effective management of a variety of different factors. While some studies claim a certain group of factors being crucial, other studies ignore the very same factors and claim very different factors to be decisive (van der Panne, van Beers & Kleinknecht, 2003, p. 310). However, particularly the idea how employee and management values relate to different aspects of organizational performance, such as product innovations, for example, has received only scant treatment and can be seen as a research gap (Connor & Becker, 1979, p. 71). Based on their thorough literature review concerning values, beliefs and norms playing a role in creativity and innovation, Martins and Terblanche (2003, p. 73) see a need for empirical research to support theoretical findings. For this reason, the paper presented here examines the interrelations of organizational values and product innovations in manufacturing companies and provides empirical insights from international experts on the topic. The paper does not address such issues as the overall influence of innovations on company success – this is taken as a starting point and prerequisite. Further, it does not include an overall model of influencing factors for innovation success. It only deals with the aspects of organizational values and their impact on product innovation. Neither the theoretical, nor the empirical part analyses other types of innovations (process, marketing, organizational, or service innovation) in detail. Moreover, the perspective of this paper is limited to the industry sector of manufacturing companies according to the Bureau of Statistics Germany. The industry sectors of section C10 to C33 – manufacturing sector – are obviously the most appropriate ones for this study. This section covers food products, textiles, wood, paper products, chemicals, plastic products, basic materials, computer and electrical equipment, machinery, motor vehicles, furniture and the like (Statistisches Bundesamt Deutschland, 2008, pp. 78–101).

2. Theoretical Background: Organizational Values Supporting Innovation

Generally, the explanations for the success of innovative companies can differ widely. Depending on the company, they range from the number of patents, over the scientific freedom of employees to the speed of product development (Trott, 2008, p. 25). Today, there are more than 300 different studies regarding the success factors for innovation that are completed and published (Dömöör, 2011, p. 44). Higgins and McAllaster (2002, p. 24) state that the real key contributor to innovation is the management of shared values and organizational culture. Different researchers believe that outstanding organizational performance results from strongly held shared values and that ultimately,

it is organizational values that drive business and reduce counterproductive behaviour (Zhang, Austin, Glass & Mills, 2008, p. 1011). A value is an enduring belief and something that is personally or socially preferable to some other state of existence (Rokeach & Regan, 1980, p. 577). Deal and Kennedy (1982, p. 14) regard values as the basic concepts and beliefs of an organization shared by employees that define success and establish standards of achievement. It is values that indicate what matters are to be attended to most importantly (Deal & Kennedy, 1982, p. 31). People use them as criteria to select and justify actions and to evaluate people, events, or even the self (Zhang et al., 2008, p. 1010–1011). In the context of this study, organizational values are considered as a set of underlying shared norms and standards which the employees of a company agree to and which they find valuable and worth pursuing, and which lead their activities and determine their daily organizational behaviour and decision-making. Shaping and enhancing values must be of primary concern and relevance to managers and leaders to make a company successful (Deal & Kennedy, 1982, p. 22).

At first sight, the literature on values interrelated with innovation only provides a very inconsistent and diversified picture. Different authors name some topics, such as freedom, trust, or commitment consistently and explicitly whereas other subjects such as result orientation or market orientation mainly need to be interpreted from latent content. In addition to that, there are topics that lack consensus regarding their contribution to innovation. Some authors outline that values like rigidity, control, predictability and stability mostly hinder creativity and innovation (Arad et al., 1997. In: Martins & Terblanche 2003, p. 70). For others, control values must be seen as an enabling potential for flexibility values such as freedom or empowerment (Khazanchi, Lewis & Boyer, 2007, p. 881), which is the reason for their further consideration in this study.

Table 1 shows the result of a thorough literature review of 40 academic articles contributing to the topic under research: Exact wordings and indirect content dealing with organizational values for innovation were grouped in accordance with other measurement instruments for organizational values. This results in 12 value themes that are seen to be predominant for enhancing product innovations in manufacturing companies.

Table 1: 12 value themes supportive to product innovations

Theme (Abstraction level 2)	Allocated subjects (Abstraction level 1)	Extract of list of Authors	Theme chosen accordance with
Achievement	Challenge, Discipline, Result orientation	Ahmed, 1998; Drucker, 1985; Newman, 2009	Schwartz' Value Survey (Zhang et al., 2008)
Altruism	Equality, Ethical behaviour, Integrity, Loyalty	Brooke Dobni, 2008; Claver, Llopis, Garcia, & Molina, 1998; Jassawalla & Sashittal, 2002	Work Values Survey (Cable & Edwards, 2004), Rokeach Value Survey (Rokeach, 1973)
Authority	Bureaucracy, Control, Formalization	Cooper, 1999; Cummings, 1965; McLean, 2005	Work Values Survey (Cable & Edwards, 2004)
Debate & Discussion	Debate, Diversity, Internal communication, Openness	Jamrog, Vickers, & Bear, 2006; Lorsch & Lawrence, 1965; Medina, Lavado, & Cabrera, 2005; Prajogo & Ahmed, 2006	Situational Outlook Questionnaire (Isaksen, Lauer, & Ekvall, 1999), Organizational Dynamics Instrument (Reynierse & Harker, 1986)
Freedom	Autonomy, Freedom, Independence	Amabile, Conti, Coon, Lazenby, & Herron, 1996; Cangemi & Miller, 2007; McLean, 2005	Situational Outlook Questionnaire (Isaksen et al., 1999), Work Values Survey (Cable & Edwards, 2004), Rokeach Value Survey (Rokeach, 1973)
Involvement	Commitment,	Amabile, 1997; Boerner &	Situational Outlook Questionnaire

Theme (Abstraction level 2)	Allocated subjects (Abstraction level 1)	Extract of list of Authors	Theme chosen accordance with
	Enthusiasm, Identification, Involvement, Motivation, Participation, Responsibility	Gebert, 2002; Feldman, 1988; Jucevičius, 2009; Kesting & Ulhøi, 2010; Naranjo-Valencia, Jiménez- Jiménez, & Sanz-Valle, 2011	(Isaksen et al., 1999)
Market orientation	Customer orientation, External competitiveness	Pelz, 1965; Schneider, Gunnarson, & Niles-Jolly, 1994	Organizational Dynamics Instrument (Reynierse & Harker, 1986)
Risk taking	Risk taking, Risk tolerance, Tolerance for failures	Delbecq & Mills, 1985; Ellonen, Blomqvist, & Puumalainen, 2008; Tushman & Nadler, 1986	Situational Outlook Questionnaire (Isaksen et al., 1999)
Self-direction	Curiosity, Entrepreneurship, Experimentation, Flexibility, Imagination	Cooper, 1999; Khazanchi et al., 2007; Matzler, Bailom, Anschober, & Richardson, 2010; Naranjo-Valencia et al., 2010; Zien & Buckler, 1997	Schwartz' Value Survey (Zhang et al., 2008), Rokeach Value Survey (Rokeach, 1973)
Social recognition	Appreciation, Internal competitiveness, Recognition, Respect	Amabile, 1997; Brooke Dobni, 2008; Cangemi & Miller, 2007; Feldman, 1988	Rokeach Value Survey (Rokeach, 1973), Organizational Dynamics Instrument (Reynierse & Harker, 1986)
Support	Empowerment, Encouragement, Support	Ahmed, 1998; Amabile et al., 1996; Eigenstetter & Löhr, 2008	Situational Outlook Questionnaire (Isaksen et al., 1999)
Trust	Intimacy, Relationships with others / Collaboration, Self- confidence, Teamwork, Trust	Boerner & Gebert, 2002; Cooper, 1999; Jamrog et al., 2006; Martins & Terblanche, 2003; Newman, 2009	Situational Outlook Questionnaire (Isaksen et al., 1999), Work Values Survey (Cable & Edwards, 2004), Organizational Dynamics Instrument (Reynierse & Harker, 1986)

Source: Own table elaborated from literature review

These elaborated 12 value themes are used for the following empirical research. The next sections show the data and methods used and present the findings.

3. Data and Methods

To provide an international perspective on the topic under research a qualitative research design with written online expert interviews was chosen. Therefore, contact details of 63 innovation experts across the EU28 countries plus Switzerland from universities, public or private research institutions, and private communities of interest with innovation reference, governmental institutions, research laboratories, or business consultancies, and even non-profit organizations with innovation reference were researched through the Internet. A precondition to fall into a possible sampling frame was participants' expertise with innovations or organizational values as stated on their web profiles. 13 experts from ten nations throughout Europe took part in the online written interview, which comes down to a response rate of almost 21%. Six participants were employed at university, three with business and management consultancy, and two with public research institutions. In addition, one person was employed with a bank and another one with a governmental institution. The nations throughout Europe dealt with in this investigation are: Latvia, Lithuania, Denmark, Germany, Switzerland, Italy, Slovenia, Croatia, Bulgaria, and Greece.

A written, online self-completion questionnaire was the preferable instrument of data collection. To ensure applicability and quality, the questionnaire underwent several pre-tests with ten test participants in February 2014 and was improved accordingly. The interviews took place between February 10th, 2014 and February 28th, 2014.

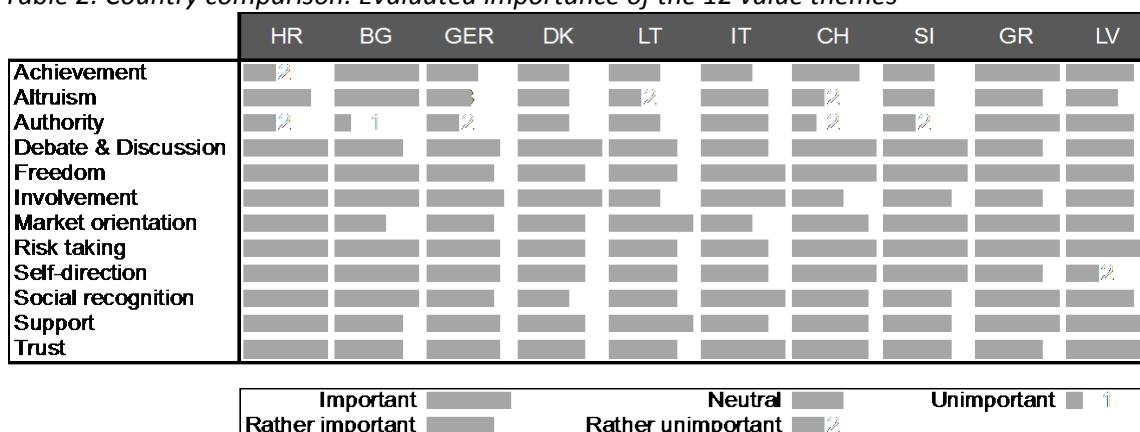
To begin with, the online questionnaire clarified the main terms of this research – organizational values and product innovation. In the following, the online interviews mainly consisted of closed questions, which always gave indications to participants of how to answer and how many answers were possible with the same question. For the purpose of this research, only fully completed questionnaires were analysed and considered. All data were analysed with the statistical software of IBM SPSS 21.

In question 1, where multiple statements were possible, 69% of participants (9) affirmed to have already read about the topic of organizational values in the academic literature (books, journals etc.). 46% of participants (6) declared to have already read about it in the business or daily press. Additionally, 38% of participants (5) indicated either to have already conducted research projects on the topic themselves, or to have values and guidelines defined for their organization that employees can and are supposed to use for their orientation, or to know that some business companies explicitly define values and guidelines for their employees' orientation. In fact, no participant stated not to have had any experience with the topic yet. Thus, the sample of participants for these written expert interviews seems highly appropriate, since all respondents did have a connection to product innovations through their professional career and additionally, showed profound previous knowledge about the topic of organizational values.

4. Results

To start with, experts had to indicate how important they consider organizational values to be for product innovations in general in question 2. 62% of participants decided the issue to be highly important, 31% ticked "rather high", and the remaining 7% put their cross in the box for a "neutral" evaluation. Unsurprisingly, the international experts perceive the importance of the proposed value themes differently. Table 2 demonstrates their evaluations in detail.

Table 2: Country comparison: Evaluated importance of the 12 value themes



Source: Interview results

However, as can be seen in this table, there is some consensus about some values as well. Trust, for example, is rated to be important or rather important in all countries involved as well as support. On the other hand, ratings differ a lot for the authority value theme, but also for altruism. To summarize, Table 3 shows the top 2 boxes of possible ratings ("important" and "rather important") for experts' overall evaluation of each value theme and its importance for product innovations.

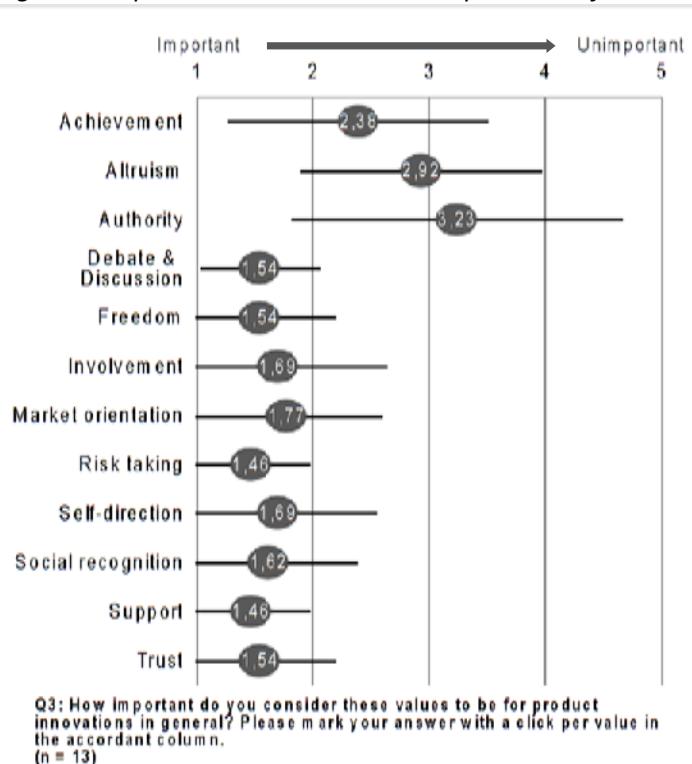
Table 3: Top 2 boxes comparison of evaluation of value themes by experts

	Important	Rather important
Achievement	31%	15%
Altruism	8%	23%
Authority	15%	15%
Debate & Discussion	46%	54%
Freedom	54%	38%
Involvement	54%	31%
Market orientation	46%	31%
Risk taking	54%	46%
Self-direction	46%	46%
Social recognition	54%	31%
Support	54%	46%
Trust	54%	38%

Source: Interview results

Again, the clear majority of respondents rate some values to be “important”. Contrarily, some value themes show a definite drift of ratings towards a “neutral” or even “rather unimportant” evaluation. Top rankers here are freedom, involvement, risk taking, social recognition, support, and trust while altruism and authority unambiguously are perceived as less important for product innovations.

Even though working with a small sample and non-normally distributed data, the means were explored here to achieve some ranking of the value themes. Figure 1 shows how the value themes are rated on a European average and it includes the standard deviation of ratings, which illustrates how much the ratings vary. In fact, it can be argued from this, that achievement, altruism, and authority are seen to be less essential for product innovations by experts throughout Europe.

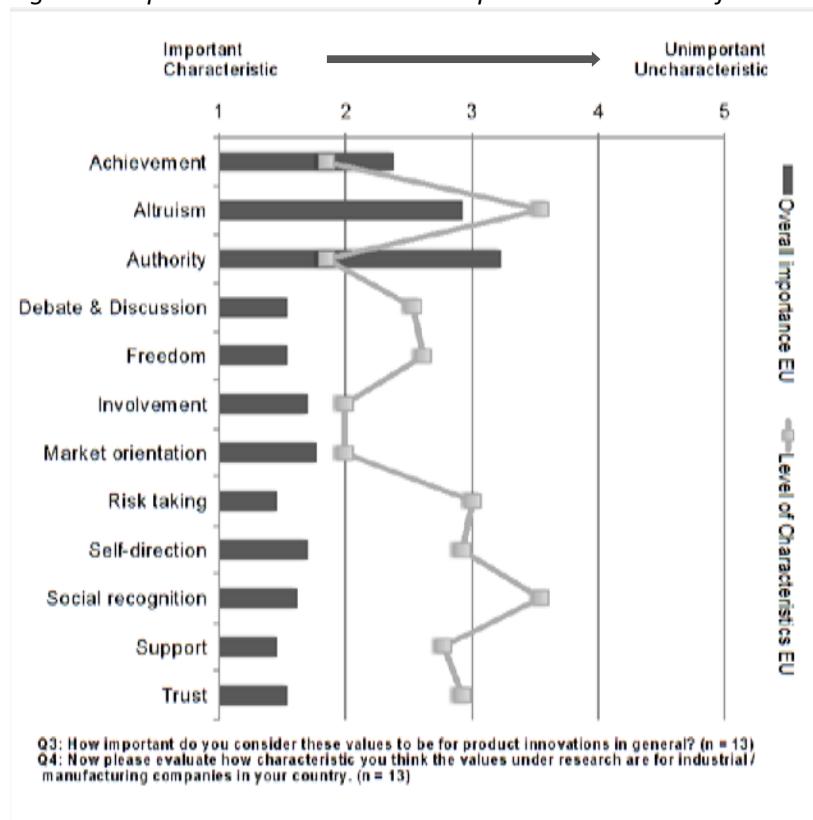
Figure 1: Explored means: Evaluated importance of value themes according to experts

Source: Interview results

All other value themes seem more or less equally important from an international perspective. Risk taking and Support achieve the highest mean with the smallest standard deviation here, though, and thus, must be seen as primary enablers for product innovations.

As a final question, experts had to estimate how much the values under research are characteristic of manufacturing companies in their countries. Clearly, there are only one or two answers per nation with this qualitative research strategy. However, summing up these assessments reveals a last interesting finding. For all countries, a mean was explored for the evaluated importance of each value theme and the levels of how much these value themes are characteristic of industrial companies. Even though this is not the perfect analysis due to sample size and the nature of the data set, it visualizes ideally where business managers throughout Europe face challenges according to experts (see Figure 2). Apparently, companies do not entirely set up their businesses according to values that are important for product innovation – at least not from an expert's perspective. Instead, it seems that this is a European challenge. Moreover, this comparison shows that throughout Europe we find companies characterized by organizational values that are not considered to be the most important ones for product innovations. In contrast, companies seem to be mostly characterized by values such as authority and achievement. Only involvement and market orientation are also rather characteristic according to experts and also important for innovations.

Figure 2: Explored means: Evaluated importance vs. levels of characteristics by experts



Source: Interview results

Clearly, country individual characteristics are not displayed here and may vary. However, it can be stated that there is no country among the European nations involved here where the importance of values fits to their levels of characteristics in manufacturing companies perfectly according to experts. Thus, this leaves enough space for future improvement throughout different nations.

5. Discussion and Limitations of the Study

Obviously, the results of the literature review and the empirical study presented hold various implications for business managers. First of all, the positive impact of organizational values on product innovation and their importance for it can no longer be denied. Instead, the study proves that, although being a very soft topic, appropriate values support innovation outcomes. Moreover, scientists and international experts agree on the fact that organizational values are of utmost importance for product innovations. Thus, the issue needs top management attention and awareness. Apart from value themes such as authority, achievement, and altruism the elaborated values are all important for enhancing product innovation outcomes.

Additionally, the empirical findings reveal that the fit between what is important for innovations and what is characteristic of manufacturing companies leaves a lot of possibilities for improvement. Therefore, it must be seen as an opportunity to actively manage the value profile of a company. This is where the issue of implementation comes in and evidently, there is a lot of questions still open to this. However, there is evidence that, for implementing any organizational values desired for a certain outcome, the fit between individuals' and the organization's values is vital. Creating congruency between an individual's values and those of an organization may be at the heart of a person-culture or person-organization fit (O'Reilly, Chatman & Caldwell, 1991, p. 492). Other analyses show that companies create a clear competitive advantage if they manage to link individuals to the goals of an organization (Denison, 1984, p. 13). An additional finding of Khazanchi et al.'s research (2007, p. 881) illustrates that the more managers and employees share the same values about flexibility, the better the performance is. For increasing product innovation outcomes and ensuring a better fit between what is important to innovation and what is characteristic of companies, managers throughout Europe are recommended to ensure value alignment between the organization, teams, and even individuals.

Before expressing conclusions and making final suggestions, it is important to clarify the limitations of this study. To address reliability, a look into the measurement procedure of the empirical study is needed. In fact, it accords with measurement techniques sourced from a lot of other scientific empirical research. Without claiming that these techniques are the perfect measurement measures already, they are to the author's best knowledge the best available for such research and therefore, must be seen as reliable. Replication of these results is ensured and even welcome by making the results transparent in conferences and publications. Some points have to be discussed regarding validity, though. To ensure measurement validity, the researcher elaborated very distinctive explanations about the value themes under investigation. Still, the selectivity between commitment and engagement or between trust and openness comes as a challenge in such a research design. Clearly, the study at hand provides only qualitative insights and cannot be used to generalize the results in terms of external validity.

6. Conclusions and Suggestions

It was the purpose of this paper to contribute to a deeper understanding on the impact of organizational values on product innovation in manufacturing companies and to show an international perspective on the topic. As a conclusion it can be said that organizational values undoubtedly have some very important influence on innovation outcomes. Experts throughout Europe agree on that. However, it comes as astonishment that experts do not judge manufacturing companies in their countries to be managed accordingly. Having shown the immense amount of literature on the topic of values and innovation, one would expect managers to have worked on the topic for years already. Therefore, the following suggestions and recommendations can be derived.

To managers and practitioners in manufacturing companies throughout Europe, the author suggests to create more awareness for the topic of organizational values and their impact on product innovation and to acknowledge the fact that currently, companies lack a fit between what is important for innovation and what is characteristic of them according to experts. When companies want to become more innovative, their strategic value setup needs to be managed correspondingly.

For scientists, consistent definitions for organizational value themes come as a challenge for future research. Clearly, there should be more discussion about that. However, to achieve more comparable and replicable results, more consensus is needed here. Most of all, the qualitative results shown in this research need additional quantitative research drawn from manufacturing companies themselves. With that, one could also address different types of innovations by investigating process, marketing, or organizational innovations. Moreover, the impact of organizational values on innovations in other industry sectors, such as the service sector or the tourism branch, for example, should be researched. Further, the influence of national values on innovation outcomes was not accounted for in the study at hand, but clearly must be seen as an additional necessary direction for further research.

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Passengers' Satisfaction with Airport Service Quality: A Case Study of Pula Airport

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Abstract

It is impossible to analyze and develop international tourism without transportation. Pula airport is competitive international airport with year-round scheduled and charter traffic and the safest and most reliable "main gate" to the Istria (recognized Croatian, Mediterranean and European tourism region/destination. In order to become an active participant in the creation of sustainable development and economic prosperity, Pula Airport must provide high quality services for the handling of passengers, aircraft and cargo. Based on passengers' requirements, type of traffic and global standards, Pula Airport continuously improves existing services and develops new services. To gather passengers' attitudes about service quality and passengers' satisfaction, Airport Pula uses a survey system but the data gathered is only used as a descriptive indicator for management. The aim of this research is to explore the data collected and provide insight into the factors that drive passengers' satisfaction, and establish a methodology that provides management with a competent tool to reach the company's objectives. Based on 120 collected surveys, a research model is assessed using the PLS Structural Equation Modeling method. According to the results, recommendations for survey improvement are suggested. An importance-performance matrix analysis is conducted in order to explore the main factors driving passengers' satisfaction with the Pula Airport services. Implications for management are provided to prioritize managerial actions.

Keywords

Transportation, tourism development, service quality, customer satisfaction, importance-performance matrix analysis, partial least squares structural equation modeling

1. Introduction

Current motives in tourism are replaced by new and innovative quality services in the form of experience, sustainable practice (from reservation to realization), as well as an increased spatial and time dispersion. When future tourism development is in question, the need to personalize the approach to tourist products and services today increasingly imposes. It is therefore necessary to continually strengthen tourist service quality in all segments, with the aim to extend the tourist season.

In today's international competition, new destinations can hardly attract tourists; however, new market opportunities are opening up to them. The demand for international tourism and the choice of tourist destinations may be changed for a number of reasons, including destination image, variations in income, transportation costs, the relative geographical closeness of receptive markets, passengers' satisfaction (perception) of quality and other reasons like political, social or climate changes. Transportation costs, for example as a result of changes in oil prices and the emergence of low-cost airlines, have changed substantially in the last decade and influenced tourist behavior (World Tourism Organization, 2006; Gillen & Lall, 2004).

Passengers' satisfaction has been the central concept in Airport service quality studies, and an important objective of airport business activities. It is also one of the key points of customer relationship management practices. Customer satisfaction has always been considered an essential business goal because it was assumed that satisfied customers would buy more (Park & Se-Youn, 2011, from: Oliver, 1999). Angelova and Zekiri (2011) point out that customer satisfaction is the outcome felt by those that have experienced a company's performance that have fulfilled their expectations. Deng, Kuo & Chen (2008) state that improving customer satisfaction is a critical issue for business managers in today's competitive global marketplace. The airport industry is very diverse, with a high degree of differentiation of services and their quality, different forms of ownership and management structures, different combinations of characteristics of services and operations; airports are located in different areas and are influenced by different environmental factors (Pabedinskaitė & Akstinaitė, 2014, from: Oum, Yu & Fu, 2003).

Pula Airport set its mission to be the safest, most reliable "main gate" to the Istrian region and an active participant in the creation of sustainable development and prosperity of Istria. To be a competitive international airport with year-round scheduled and charter traffic, Pula Airport provides high quality services for the handling of passengers, aircraft and cargo with a professional approach to every job and the satisfaction of passengers and business partners. The quality of their service is based on proficiency, professionalism and courtesy of employees, which is achieved by continuous investment in training, development and advancement. Focused on teamwork and willingness to change, Pula Airport continuously improves existing services, develops and implements new services in accordance with the requirements of passengers, type of traffic, and global standards.

Subsequently, Pula Airport recognized the importance of ISO 9001:2008 quality standard, which was acquired during January 2013 after one year of preparation. The ISO 9001:2008 quality standard was the first step for establishment of Pula Airports' Quality management system for the business of providing services of the handling of passengers, aircraft and cargo. In order to obtain the certification, various internal procedures have been defined and implemented to increase the transparency of decision-making and operations within the airport, and raise the quality of work of all employees, and thus the quality of services provided to passengers and airlines. One of the procedure and method of monitoring customer satisfaction is the currently employed service quality survey system. In this study, data collected using Pula Airport's questionnaire is analyzed with the scope of providing insight into the factors that drive passengers' satisfaction, and to establish a methodology that provides management a competent tool to reach the company's objectives.

2. Literature Review and Theoretical Framework

World tourism manages to adapt and follow what modern “travelling people” request. Rapid improvements in travel comfort and technology have elevated passengers’ expectations in regards to the airport experience (Bogicevic, Yang, Bilgihan & Bujisic, 2013). Bogicevic et al. (2013, from: Rendeiro Martin-Cejas, 2006) point out that “tourism service quality begins at the airport”. Airport service development contributes to the quality of each destination and it is an important factor in maintenance and possible expansion of tourism demand. Also has a strong impact on tourist market stakeholders. Chien-Chang (2012) states that the quality of an airport’s overall service perceived by passengers may have a significant impact in promoting or discouraging future tourism and business activities.

Service quality models identify ways in which to achieve and sustain the following: (1) customer satisfaction; and (2) customer loyalty. In addition, geographical location is another important factor and the model has to be contextualized for the country in which it is located, as noted by Gupta, Arif & Williams (2013).

The relative geographical closeness of Croatia and the core demand generated by countries around Croatia (Germany, Austria, Slovenia, Italy etc.), are an important factor in maintenance and possible expansion of that demand. If all else remains equal, travelers will choose a destination that takes less time to reach there (Phakdisoth and Kim, 2007).

Kenan & Seda (2012, from: Gursoy et al., 2005; Ishaq, 2012) define service quality as a composite of various interactions between customers and airlines, with employees seeking to influence customers’ perceptions and the image of the carriers. Service quality is a measure of how well the delivered service matches customer expectations. Delivering quality service means conforming to customer expectations on a consistent basis (Kenan & Seda, 2012, from: Parasuraman et al., 1985). Customers experience consists of various level of satisfaction or dissatisfaction after each service experience according to the extent to which their expectations were met or exceeded (Park & Se-Youn, 2011).

Angelova & Zekiri (2011, from: Parasuraman et al., 1988) distinguish service quality and satisfaction: “perceived service quality is a global judgment, or attitude, relating to the superiority of the service, whereas satisfaction is related to a specific transaction”. Customer satisfaction is determined by the customers’ perceptions and expectations of the quality of the products and services. In many cases, customer perception is subjective, but it provides some useful insights for organizations to develop their marketing strategies (Angelova & Zekiri, 2011).

When assessing consumer satisfaction and dissatisfaction, the perception of quality is the result of the consumer’s comparison of expected service with their perception of actual service (Park & Jung, 2011). Tsai, Hsu & Chou (2011) state that customer perceptions are subjective assessments of actual service experiences; customer expectations are beliefs about service delivery that function as reference or ideal points against which performance is evaluated. Tsai et al. (2011) conclude that customers not only compare their perceptions of performance with these ideal points when evaluating service, but they also perceive services in terms of the quality of the service and how satisfied they are with their overall experiences. To attract customers, high quality of service is needed; it is also the most important driver of customers’ satisfaction. Therefore, customer perception and customer satisfaction are very closely linked together, because if the perceived service is close to customer’s expectations it leads to satisfaction (Angelova & Zekiri, 2011).

Bogicevic et al. (2013) indicate that only few studies examined key drivers of satisfaction with the airport service from passengers’ perspective. As Paternoster (2008) states, if airport management

takes a strategic and holistic approach to customer service and airport branding, customer satisfaction with the airport experience can be significantly improved and airport net revenues can be tracked to show a direct relationship with increased customer satisfaction.

3. Research Methodology

An econometric model is represented by a set of independent variables and one or more dependent variables, usually with causal relationships specified by an equation for dependent variables. When the model specifies causal links between variables, the econometric model is a 'structural equation model', where each variable represents a theoretical construct (Petrescu, 2013, from: Aaker & Bagozzi, 1979).

Angelova and Zekiri (2011) define the American Customer Satisfaction Index (ACSI) model as a cause-and-effect model with indices for drivers of satisfaction on the left side (customer expectations, perceived quality, and perceived value), satisfaction (ACSI) in the center, and outcomes of satisfaction on the right side (customer complaints and customer loyalty). The indexes are multivariable components measured by several questions that are weighted within the model.

The design of the questionnaire is based on multiple-item measurement scales. The measurement items are designed by Pula Airport for their analytical needs and the statements are measured on a 5-point Likert-type scale ranging from bad (1) to excellent (5). Four constructs are included in the hypotheses that are tested. They are: passengers' expectations, airport service quality, perceived value and passengers' satisfaction. Expectations refers to the degree of services meeting passenger's expectations (EXP1) and whether those services were received in the expected time (EXP2). Service quality measures how helpful and attentive was the airport staff (SERVQ1) and how quick was their response (SERVQ2). Perceived value is comprised of the reported technical support (VAL1) and the comparison against similar airports (VAL2). Passengers' satisfaction measures the overall satisfaction with the received services (SAT1) and the intention to use the airport services again (SAT2).

Although the intentions to re-use the airport services can be assigned to the Customer loyalty construct (Fornell, Johnson & Anderson, 1996), the indicator was conceptually assigned to Satisfaction. High item loadings and internal consistency and discriminant validity measures assured the adequacy of this approach (as shown in Table 2. and 3.). Another reason are the single-item recommendations made by Petrescu (2013), regarding especially the minimization of measurement error and reliability. The same approach was applied with Perceived Value. For this study a trade-off between high theoretical ground and practicality was established, as the survey design deployed by Pula Airport lacks specific construct dimensions established in theory and prior studies. Peterscu (2013) points out that multi-item measures of service quality and customer satisfaction used in marketing reduce the number of different constructs that can be investigated in the same survey, leading to a trade-off between information and reliability. Based on the ACSI model and relevant literature, to explore the relations between the identified constructs, the following hypotheses are proposed:

- H1a. Passengers' expectations positively affects passengers' satisfaction.
- H1b. Passengers' expectations positively affects perceived value.
- H1c. Passengers' expectations positively affects service quality.
- H2a. Service quality positively affects passengers' satisfaction.
- H2b. Service quality positively affects perceived value.
- H3. Perceived value positively affects passengers' satisfaction.

4. Data Analysis and Discussion

This study explores the data collected through survey at the Pula Airport in April, 2014. A total of 120 valid responses are gathered, from 15.936 passenger traffic report. Table 1 shows the descriptive statistics of the sample. The gender frequencies are fairly similar (51,67% male, 48,33% female), similarly to the age distribution. There's 60% EU passengers and 40% passengers not from EU. The respondents are mostly new guests (72,5%) with only 27,5% repeated guests.

Table 1: Descriptive statistics

Gender	Frequency	Percentage
Male	62	51,67
Female	58	48,33
Total	120	100,00
Age	Frequency	Percentage
18-25	13	10,83
26-32	32	26,67
33-40	21	17,50
41-50	31	25,83
50-above	23	19,17
Total	120	100,00
Destination	Frequency	Percentage
EU	72	60,00
Non-EU	48	40,00
Total	120	100,00
Guest	Frequency	Percentage
New guest	87	72,50
Repeated guest	33	27,50
Total	120	100,00

Source: Author's calculations

4.1. Model assessment

The collected data is analyzed using the partial least squares structural equation modeling method. A research model in accordance with the ACSI model is conceptualized and assessed using SmartPLS 2.0 software.

Hair, Sarstedt, Ringle & Mena (2011) point out that PLS-SEM maximizes the explained variance of the endogenous latent variables by estimating partial model relationships in an iterative sequence of ordinary least squares (OLS) regressions. An important characteristic of PLS-SEM is that it estimates latent variable scores as exact linear combinations of their associated manifest variables (Hair et al., 2011, from: Fornell and Bookstein, 1982) and treats them as perfect substitutes for the manifest variables. Hair et al. (2011) state that the assessment of reflective outer models involves determining indicator reliability (squared standardized outer loadings), internal consistency reliability (composite reliability), convergent validity (average variance extracted, AVE), and discriminant validity (Fornell-Larcker criterion, cross-loadings).

The factor structure matrix of item loadings and cross-loadings (Table 2.) confirms that the convergent validity of each construct is achieved as the item loadings for each construct are above the threshold of 0.708. Regarding the individual item reliability, the standardized loadings should be above 0.7 (Gudergan, Ringle, Wende & Will, 2008). Those requirements are met for this study and are shown in table 2.

Table 2: Factor structure matrix of loadings and cross-loadings

	EXP	SERVQ	VALUE	SAT
EXP1	0.868	0.457	0.334	0.598
EXP2	0.770	0.478	0.193	0.389
SERVQ1	0.454	0.836	0.287	0.631
SERVQ2	0.466	0.790	0.414	0.410
VAL1	0.329	0.377	0.885	0.341
VAL2	0.224	0.348	0.816	0.245
SAT1	0.565	0.541	0.310	0.886
SAT2	0.527	0.608	0.311	0.894

Source: Author's calculations

The composite reliabilities above the level of 0.7 for all latent variables (as shown in Table 3.). Convergent validity, measured by Average Variance Extracted (AVE), represents the common variance between the indicators and their construct and should be higher than 0.5 (Hair et al., 2014). In order to confirm the discriminant validity among constructs (Fornell-Lacker criterion) the AVE square root must be superior to the correlation between constructs. Table 3 indicates the Composite reliability coefficient, Average Variance Extracted (AVE) along with the square roots of the AVE (highlighted numbers in the diagonal) and the correlation between constructs. For this study, Cronbach's alpha coefficient was not used, as the Pula Airport questionnaire does not contain enough indicators. That resulted in very low Cronbach's alpha coefficients, and that can be interpreted as a limitation to this research. Thus, results are for explorative purposes and cannot be used without caution. Regardless, the composite reliability coefficient, AVE and the discriminant validity among constructs provided a satisfactory basis for the exploration of factors driving passengers' satisfaction with airport services.

Table 3: Average Variance Extracted, Composite Reliability and Discriminant validity of the constructs

	(1)	(2)	(3)	(4)
Average Variance Extracted (AVE)	0.6735	0.7920	0.6618	0.7245
Composite Reliability (CR)	0.8043	0.8839	0.7964	0.8400
EXPECTATIONS (1)	0.8206			
SATISFACTION (2)	0.6134	0.8899		
SERVICE QUALITY (3)	0.5645	0.6464	0.8135	
VALUE (4)	0.3301	0.3490	0.4264	0.8512

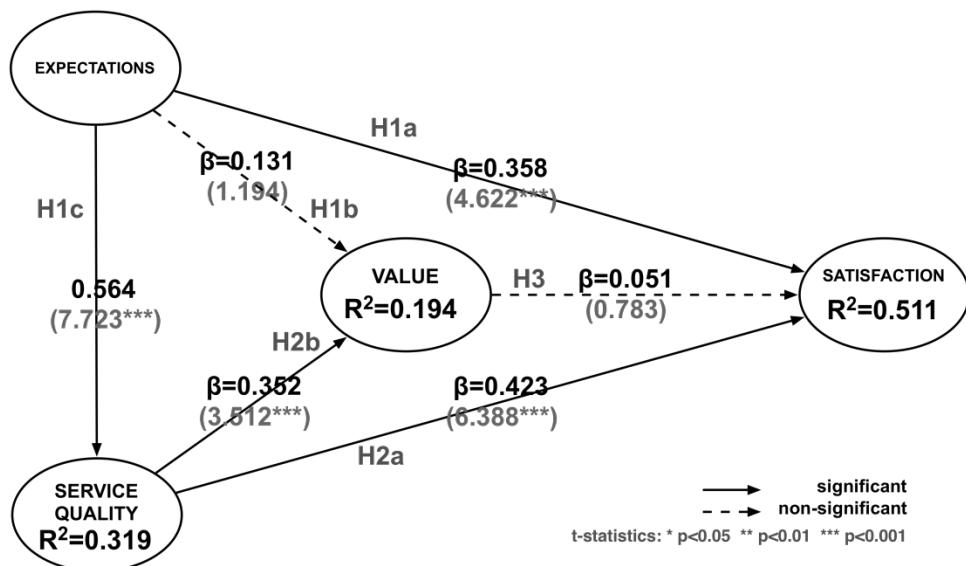
*square root of AVE on diagonal

Source: Author's calculations

After establishing the reliability for the items and the convergent and discriminant validity of the constructs, the structural model was assessed. The results of the PLS analysis for the hypotheses H1a to H3 are shown in Figure 1. The predictive capability of the model is satisfactory as all R-squares are above 0.1. Perceived Value ($R^2=0.194$) shows the lowest R-square, while Service quality ($R^2=0.319$) and passengers' satisfaction ($R^2=0.511$) can be interpreted as moderate.

All path coefficients are positive and significant (99,9% confidence level, $p<0,001$) except for the path coefficients between Expectations and Value, and Value and Satisfaction. Those paths are positive but not significant. Thus, hypotheses H1a, H1c, H2a and H2b are accepted, while hypotheses H1b and H3 are rejected.

Figure 1: Research model results



Source: Author's calculations

The structural model shows reasonable confirmation of the ACSI model. By analyzing the direct, indirect and total effects, it is evident that passengers' satisfaction is explained by passengers' expectations ($\beta=0.358$, $p<0.001$) and service quality ($\beta=0.423$, $p<0.001$). Expectations has no significant direct influence on perceived value; expectations are mediated through service quality. We argue that this relationship should be further investigated, as it can be a survey design flaw. Thus, it is recommended that Pula Airport improves their survey system with better indicators of Perceived Value. The same problem should be addressed with the relationship between perceived value and satisfaction.

4.2. Importance-performance matrix analysis

Deng, Kuo & Chen (2008) define Importance-performance analysis (IPA) as a simple and effective technique that can be applied to guide quality-based marketing strategies and can assist practitioners in prioritizing attributes when enhancing service quality and customer satisfaction. Practitioners apply IPA to analyze two dimensions of product/service attributes: performance level (satisfaction); and, importance to customers. Analyses of these dimension attributes are then integrated into a matrix that helps a firm identify primary drivers of customer satisfaction and, based on these findings, set improvement priorities, and identify areas of "possible overkill" and areas of "acceptable" disadvantage (Deng et al., 2008, from: Matzler et al., 2004). In other words, importance is seen as a reflection of the relative value of the various quality attributes to consumers. Lower importance ratings are likely to play a lesser role in affecting overall perceptions, while higher importance ratings are likely to play a more critical role in determining customer satisfaction.

Hair, Hult, Ringle & Sarstedt (2014) point that for a specific endogenous latent variable representing a key target construct in the analysis, the importance-performance matrix analysis (IPMA) contrasts the structural model total effects (importance) and the average values of the latent variable scores (performance) to highlight significant areas for the improvement of management activities.

After performing the PLS analysis, total effects and latent variable scores are obtained. The total effects results for the constructs indicating the importance are: Passengers' expectations = 0.61, Service quality = 0.44 and Perceived Value = 0.05. The latent variable scores for the constructs

indicating the performance are as follows: Passengers' expectations = 68.89, Service quality = 71.55 and Perceived Value = 58.38. Based on the results, an importance-performance matrix is visualized and shown in figure 2.

Figure 2: IPMA representation of passengers' satisfaction



Source: Author's calculations

As shown in figure 2., the IPMA of passengers' satisfaction shows that passengers' expectations (0.61) is the most important driver of passengers' satisfaction. Its performance (68.89) is between Service Quality and Perceived Value. Service Quality has relatively similar importance (0.44) but has a higher performance (71.55). However, Perceived Value has little relevance because it is of very low importance (0.05) even though it has moderately high performance (58.38). Management should concentrate on improving the service delivery time to meet passengers' expectations, and may also focus on the improvement of airport staff to be more helpful, attentive and achieve quicker response.

5. Conclusion

In this study, a PLS-SEM analysis of quantitative data has supported the hypotheses of the study. The empirical data, based on the perceptions and opinions of Pula Airport passengers, helped in the development of a model that explains the antecedents of Pula Airport passengers' satisfaction. This research used theoretical and empirical evidence to propose and validate a framework from the airport utility industry. The results have demonstrated that service quality and passenger's expectations significantly influence passenger's satisfaction with airport services.

Based on the importance-performance matrix analysis results, managers of Pula Airport can gain insight into the passengers' satisfaction drivers and take actions to improve the quality of airport service in the future. This also represents a practical guidance for the improvement of the service quality survey design. All of this can facilitate Pula Airport to reach their goal to provide high quality services to passengers, aircraft and cargo handling for the satisfaction of all their customers.

The listed suggestions need to be considered as a part of a wider discussion aiming to work out and develop a comprehensive model of destination image and development. Together with experts from various fields and with the participation of local communities Istrian region can become a tourist region with a year-round season and tourism activity in all numerous rural and costal places.

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10 Years of the EU Eastern Expansion: Farewell to Illusions

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Abstract

The aim of the paper is to assess some economic and social results of the EU enlargement in regard to the new member states, the Baltic States in particular. Research methodology is based upon economic theory, analysis of literature and official documents, comparison of statistical data and authors' own calculations.

On May 1st, 2014, EU observed the 10th anniversary of its most impressive enlargement in eastern direction: 10 new member states joined the EU in 2004. The new members cherished hopes for quick economic and social progress due to joining the united Europe. These hopes, however, proved essentially exaggerated.

The enlargement in 2004 (and afterwards in 2007) resulted in minor effect for the European Union in terms of the EU share in global output. Although with 10 new members territory of the EU expanded in 2004 by 23% and population grew by nearly 75 million (or almost 20%), GDP of the European Union increased by only 4.5%. Actually, average GDP per capita in the enlarged EU decreased by 13% after joining of the 10 new countries.

Enlargement of the EU occurred in the time when implementation of the Lisbon Strategy was being widely promulgated. This document set as the main goal to turn the European Union into the world's most competitive and dynamic knowledge-based economy capable of sustainable economic growth with more and better jobs and greater social cohesion, by 2010. It was obvious from the very beginning, however, that the proclaimed goal proved too ambitious. During the years that passed since 2000, Europe had become neither the most dynamic, nor the most competitive region of the world. Greater social cohesion also remained unattained. Instead, European countries together with the rest of the world were involved in severe global economic crisis. During the period of crisis, some of the EU new member states, including Latvia, Greece, Cyprus, found themselves on the verge of bankruptcy.

Successor of the Lisbon Strategy, the *Europe 2020*, in its turn, pointed out reducing of poverty as one of the flagship initiatives. And again, this looks rather a good intention than a really attainable objective. Problems of poverty and unemployment have become much more acute for the EU as a whole and for its new member states since 2004.

The opposition of "core" to "periphery" (or "centre" to "periphery"), as well as that of the "North" to the "South", are well known in literature dealing with the global economy. From a certain time, the

European Union has acquired its own „North” and „South”. In the expanding EU, the division into developed „core” and less developed “periphery” started shaping at least from the 1970s – 1980s (with admission of Ireland, Greece, Portugal, and Spain). This separation continued because of the following enlargements of the EU.

Globalization and integration in the European Union resulted, of course, in a certain degree of convergence in terms of development levels and living standards in the new member states with the rest of the EU. However, along with the enlargement of the EU in 2004, opinions were expressed by some experts that the new member countries would need 15, 30, 40 or even more years to reach at least the average EU level. Somewhat paradoxically, the task eased as the EU average had declined after including new member states. On the other hand, the EU itself in its widening borders became more and more heterogeneous. Each of the successive enlargements of the EU in 1973 – 2007 contributed to growing diversity within the Union. This was especially true in respect to the EU enlargements in 2004 and 2007. As concerns the EU new members, their lag from the advanced EU countries is likely to remain substantial in a foreseeable future, and equalization with the richest countries seems to be a long-term and rather uncertain perspective.

A special issue is that of negative balances in mutual trade of the EU new members with the “old” EU-15 countries, resulting, in their turn, in negative current account balances.

In general, globalization and economic integration objectively accelerate drain of resources from poor countries and regions to more developed ones. In particular, this concerns labour resources. Among the painful consequences of the welfare gap from the rich countries, increasing emigration from the EU new member states has emerged. This process in combination with low rates of natural increase of population has resulted in actual depopulation. At least 7 out of the 12 new EU members are consistently losing their population. Among them, by 2012, Bulgaria had lost almost 17% of the population it had in 1990; in Hungary the number of population had dropped from 10.7 million in 1980 to 9.96 million, returning to the level of 1960; population of Poland has decreased from 38.7 million in 2000 to 38.2 million; Romania since 1990 had lost about 1.8 million, or 8%, of population; population of Estonia was by nearly 15% less than in 1990, returning thus to the mid-1960s; population of Lithuania was by almost 11% less than in 1990 and had returned to the mid-1970s; in Latvia, officially stated number of population proved by almost 24% less than in 1990.

Integration within the EU was followed in the new member states rather by increasing inequality in income distribution than by strengthening social cohesion. Gini index in the East European countries does not show tendency to diminish. Moreover, income inequality tended to increase in most of these countries in last decades.

It has become a commonplace statement that in the modern world globalization and integration are objective and unavoidable. However, globalization and integration are two different processes which do not necessarily go hand in hand. Development of different countries, even under the conditions of integration, may go on asymmetrically.

In fact, the EU new member states had to discover that economic integration within market economy is not a charity arrangement, but a means of global competition for resources and markets. Few of the EU new members were sufficiently prepared for this.

Ultimately, what had the European Union actually acquired by its enlargement in eastern direction:

- a new promising area of future dynamic development,
- a backward periphery requiring immense investments in its development,
- a new stock of cheap labour and other resources,
- an additional market for products of the more advanced “old” EU members?

An unflattering answer in regard to the new member states seems becoming quite obvious.

All preceding history of the European Union demonstrates that the enlargement of the EU was pushed ahead more rapidly than convergence and cohesion of member states. Therefore, a contradiction emerged between the progress of integration “in breadth” (embracing new countries) and “in depth” (achieving cohesion). If the EU tries to remedy internal economic and social problems via territorial enlargement, it is not a proper way. The point is reached at which there is almost no space for further expansion. Just several last remainders of former Yugoslavia and Soviet Union have left in the east and south-east of Europe. Hasty attempts to draw them into orbit of the EU will inevitably create new problems. Recent riots in Bosnia and, especially, crisis in Ukraine clearly prove that further peaceful expansion of the EU is hardly possible. Striving for new areas may face resistance from both inside and outside. Claims for territories having nothing to do with Europe – such as Georgia, Armenia, or Azerbaijan – seem unreasonable as well.

Attempts of further political centralization would also tend to increase rather opposition than consensus within the EU. The “United States of Europe” does not look attractive in visible perspective.

Keywords

Economic integration, European Union, enlargements of the EU, new EU countries, Baltic States

Base Erosion and Profit Shifting (BEPS): Did the Introduction of Transfer Pricing Policy for Thin Capitalisation Make a Difference to the Capital Structures of UK Firms?

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Abstract

The use of intercompany debt financing has been used as a mechanism through which multinational corporations can minimize their corporation tax bill. This has prompted governments to implement preventative measures, known as thin capitalization rules, to limit the tax deductibility for debt interest and prevent corporations shifting taxable profits to other jurisdictions. In response to the lack of existing research as to the effectiveness of these preventative measures, particularly the transfer pricing form of legislation, this paper seeks to examine whether the United Kingdom's thin capitalization regulations have affected the capital structure decisions of multinational groups. This study utilizes a 2004 modification to the UK thin capitalization rules to conduct a quantitative longitudinal study of the debt-equity ratios of a sample of 434 UK companies of multinational groups over the 2001-2010 time period. The findings illustrated a reduction in the mean debt-equity ratio of the sample companies following the modifications to the thin capitalization rules. The companies who showed the greatest reductions were those which operated higher gearing levels prior to 2004, those with a Swiss parent and large sized companies. Additionally, the changes to the thin capitalization rules appear to have enabled 11.75% of the companies to increase their gearing levels above what were the previously accepted limits. Consequently it appears that thin capitalization rules are factored into capital structure decisions of multinational groups with UK subsidiaries.

The Role of the Subconscious in Business Decision-Making

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Abstract

In this paper, we examine the role of the subconscious in business decision-making. All decision-making, whether done by top executives or factory floor employees often fall prey to cognitive biases including confirmation bias and anchoring effect. Cognitive biases are flaws in our judgments that stem from deficiencies in our memories and perceptions. Other factors include decision paralysis, such as when faced with many different choices, people avoid making a decision and when the decision is made, it is suboptimal. Other consequences include lost opportunities, post-decision regret, and decision fatigue. The ubiquitous role of the subconscious and how our decisions are subjected to our cognitive biases and adopted learning styles is discussed. This highlights the importance of harnessing the power of motivation, both internal and external, to assist in overcoming cognitive biases and decision paralysis.

Keywords

Decision-making, cognitive biases, subconscious, learning styles, motivation

"Truth is in the eye of the beholder" is so common a saying that it is not attributed to any one individual. But it is every bit as true in today's rapidly evolving world as it was when it was first uttered. Each individual and each society has multiple truths depending upon the individual interpretations. Truth, while a simple word, is a complex concept that has a multitude of variants and even more identities. It is often stated that the truth is never alone because it is difficult to separate the truth from the perceptions of individuals. Yet in so much of the world, truth is seen as an absolute. For instance, in legal trials you have juries and judges accepting as truth what individuals say while they are under oath, despite the fact it is acknowledged that the worst witness is an individual due to the impact of perception (Weigend, 2011). The prevalence of gender or biological sex bias is also prevalent in trials (Belleau & Johnson, 2008). Companies publish annual reports of the truth of their operations, but often fail to mention legal, ethical, financial, or other difficulties. This conference focuses on the "truth", and within this paper presentation, we look to understanding the variance of truth by understanding the impact of the subconscious of business decision-makers. If the subconscious varies the truth, which truth is being utilized to make decisions?

The role of the subconscious in decision-making in business is often overlooked, particularly the role and influence of the subconscious in identifying cognitive biases, the role of intuition, and the influence of retention of information and facts due to variances of learning styles. To do this, we first look at the cognitive biases used either consciously or subconsciously in decision-making, including confirmation bias and anchoring effect. Part and parcel of these biases is choice overload and decision paralysis. We then look at the role of intuition in and the impact of learning styles upon decision-making. We summarize by examining how to identify these interrupters in our decision-making such that the decisions can be enhanced.

1. Cognitive Biases in Decision-making

1.1. Confirmation bias

While there is dispute as to the precision of the figures, on average, the human brain is comprised of up to 100 billion brain cells or neurons ("Brain facts and figures", n.d.). Neurons are estimated to fire about once every five milliseconds or 200 times per second ("Brain facts and figures", n.d.). Each neuron, on average, is connected to about 1000 other neurons resulting in 100 billion neurons multiplied by 200 firings per second multiplied by 1000 connections per firing equates to 20 million billion firings per second ("Brain facts and figures", n.d.). However, because the firing of the neurons is only one part of the brain's abilities, it is estimated that, depending on the task (Moscoso del Prado Martin, 2009), the human brain is capable of 1016 processes per second, making it far more powerful than any computer currently in existence (Moravec, 1998). Computers can do math with greater accuracy and consistency, but in comparison, it is noted that computers rely on hardware for memory, which has a limited life span similar to human memory. Both may fail. But importantly, while both computers and humans record facts, humans are subject to cognitive biases in this recording. These biases may be unrecognized beliefs held, causing us to make questionable decisions and reach erroneous conclusions. The workings of our brain are not immune to cognitive biases which affect us, often without our conscious knowledge, resulting in poor decision-making.

A cognitive bias may produce a genuine limitation in our thinking. Cognitive biases interact with our thinking, resulting in changes in our judgment and reasoning (Keil, 2007). These changes may result in an illogical conclusion or skewed pattern of thinking. Cognitive biases result from errors of memory, social attribution, and miscalculations (such as an incorrect interpretation of statistics or a false estimation of probability).

There are a number of cognitive biases. One of the most common is the *confirmation bias*. While this is common, it arises from unrecognized misconception when the interpretation of new information is molded or filtered to be compatible with our existing theories, beliefs, and convictions (Dobelli, 2013,

p. 19). Alternatively, information that cannot be molded, filtered, or contradicts our existing framework (disconfirming evidence) is ignored, forgotten, or disregarded. We tend to agree with people who agree with us, developing deterministic programs and institutions that reflect our hypothesis (Austerweil & Griffiths, 2011). This is the reason we only visit websites that express our own political opinions, and our associates are people who hold similar views and tastes. We are irritated by or disbelieve individuals, groups, news, and other sources that make us feel uncomfortable or insecure about our views. This reflects what behavioral psychologist B. F. Skinner called 'cognitive dissonance'. In ignoring or discrediting contradictory information, we assert confirmation bias (Dvorsky, 2013), whether it is acknowledged or not.

Numerous studies have demonstrated that people generally give an excessive value to confirmatory information, that is, to positive or supportive data. The "most likely reason for the excessive influence of confirmatory information is that it is easier to deal with cognitively" (Gilovich, 1993, p. 31). Many disciplines and professions do not readily accept new data, and often outright reject it because it throws into question what "established experts" have spent their lives researching and teaching, thereby threatening the status quo. Snyder and Cantor (1998) demonstrated cognitive bias in an experiment wherein students assigned qualities to a fictitious character according to job category. Other applications of confirmation bias are unnoticed in decisions, including the disregarding of expert but contradictory advice concerning subprime mortgages (Dooley, 2013), resulting in the global financial crisis.

Confirmation bias is similar to the frequency illusion wherein you see an artificially construed agreement by noticing the enacting of your thoughts elsewhere. The *frequency illusion* occurs when you buy a new car, and suddenly you see the same car everywhere, confirming for you that you made a good choice when in fact the frequency of confirmation is no more than was previously (Cooper, 2013).

There are also a number of independent biases that contribute to cognitive bias, including attentional bias. This bias arises with the attention or focus placed solely on only one or two of several possible outcomes. These desired outcomes may be the "first choice" of the individual who chooses to see positive outcomes, ignoring other risks (Lubin, 2013). Another independent but potential contributory bias is zero-risk bias, where the individual desires an outcome with little risk and therefore chooses alternatives that remove risk from the possible actions regardless of potential outcomes (Lubin, 2013).

1.2. Anchoring effect

Anchoring effect, also known as a relativity trap, is the tendency we have to compare and contrast only a limited set of items in relation to the overall concept. It is called the anchoring effect because we give disproportionate weight to one piece of information, which serves as the 'anchor' for future thoughts and actions. The weight given to the information is so significant it overshadows contradictory information, decreasing our ability to properly evaluate a situation (Kourdi, 2013) and biasing our judgment and actions.

We depend on anchoring every day to predict or to forecast. When we need to choose between various options or estimate values, we develop a basis for the choice. To examine the anchoring effect bias, Prelec and Ariely (2008) conducted an experiment at MIT in 2006 where they asked students to bid on items in an auction, using the last two digits of their social security number as the original bid. Students bid on items without realizing their subconscious was affected by the anchoring effect of their artificially construed bid. The results indicated those with high social security numbers paid up to 346 percent more than those with low numbers. People with numbers from 80 to 99 paid on average \$26 for the trackball, while those with 00 to 19 paid around \$9, confirming the findings of

Dobelli (2013). Similarly in salary negotiations, there is some evidence that when the initial anchor figure is set high, the final negotiated amount will usually be higher (Thorsteinson, 2011).

Anchors can make big numbers seem small, interfere with estimates and lead us into faulty decisions. As Kahneman and Tversky (1974) discussed, in many situations, people make estimates by starting from an initial value or starting point. This may be suggested by the formulation of the problem, inadequate comprehension, or fixed mindset biasing the initial values (Kahneman & Tversky, 1974).

Because anchoring occurs in so many situations, there is no single theory that is sufficiently comprehensive to explain all the implications and ramifications of the theory in practice. In decision-making, anchoring effect is viewed in conjunction with the human tendency to look for confirmation, complementing confirmation bias.

2. Choice Overload or Decision Paralysis

The majority of people in developed societies face an abundance of choice, averaging 70 decisions per day (Cutrone, 2013). It is a common assumption today that the more choices we have -- the better because the human ability to manage and the human desire for choice is infinite. From modern marketing practices that provide customers with entire aisles devoted to jams or detergents, to important life decisions in which people contemplate alternative career options or multiple investment opportunities, this belief pervades our institutions, norms, and customs. However, the relationship between choice and well-being is not as obvious as the conventional wisdom would suggest (Schwartz, 2004). Research in behavioral economics and consumer psychology reveals that it is possible to present people with too many choices, creating an inverse relationship between options and decision due to choice overload.

Choice overload manifests itself in one of two ways:

1. “Analysis paralysis” wherein the consumer is overwhelmed with options resulting in the simplest decision, no choice.
2. Dissatisfaction with the choice, if made, regardless of the objectivity of the decision (Schwartz, 2004).

Research findings of Iyengar and Lepper (2000) indicated that too many choices result in a delay even when it goes against an individual’s best self-interest and when the choice is made, the choice is sub-optimal. Lastly, people who have more choices are more likely to choose things that make them less satisfied, even when the choice results are objectively better (Iyengar & Lepper, 2000). This study has been replicated a number of times, verifying the results that too many options result in delayed choice, no choice, or dissatisfaction with the choice.

Several other unfavorable effects of choice overload were demonstrated by Vohs, *et al.* (2008). Their study found as the number of options increased, self-control, physical stamina, pain tolerance, persistence, and performance deteriorated. Vohs *et al.* (2008) inferred that choosing among many different options requires considerable effort, depleting cognitive resources. Similarly, Iyengar and Lepper (2002) completed a meta-survey to find whether a proliferation of alternatives promotes subjective feelings of regret and dissatisfaction with the outcomes of the choice. Further, the energy and effort required in making a choice costs “time, effort, risk, and regret associated with pursuing a particular end” (Wieczorkowska & Burnstein, 1999, p. 98). The larger the number of alternatives to be considered, the greater the effort required to identify and evaluate them creating indecision known as decision paralysis.

Understanding how we choose can guide employers, policy makers, marketers, and others concerning how to nudge to make better decisions. For example, the majority of people realize that it is reasonable and advisable to save in a 401(k). But studies have shown an increase in the number of funds resulted in a drop in participation with the highest participation rates among those employees automatically enrolled in their company's 401(k)'s (Tugend, 2010).

Decision fatigue affects everything from the careers of top executives to the prison sentences of felons appearing before exhausted judges. It influences everyone's behavior every day (Baumeister & Tierney, 2011). For example, the retailing technique relying on impulse buying by placing small items such as candy and magazines beside the cashier, relying on exhausted shoppers (Tierney, 2011).

According to Tierney (2011), decision fatigue depends upon the number of choices you make throughout the day, resulting in increasing difficulty for your brain, which eventually seeks shortcuts, usually in one of two ways. One shortcut is to become reckless: acting impulsively instead of examining the consequences. The other shortcut is the ultimate energy saver: do nothing. Instead of spending energy on considering all the possible options, avoid any choice at all which delays the need for the decision but satisfied the brain's need for rest.

In conclusion, we can say that with too few options, there is a risk that none will be satisfactory, whereas with too many, there is a risk of paralysis, confusion and dissatisfaction. Additionally, human willpower is like a muscle, which similar to the muscles in our body can be fatigued with overuse.

3. Intuition in Decision-making

There is an ongoing controversy over the mental processes that influence our decision-making abilities. The common wisdom is that decisions are better when made consciously, but there is an increasing evidence of the significant role of the subconscious in decision-making (Wimmer & Shohamy, 2012). The subconscious helps us to make better choices and decisions (Sherwood, 2008), particularly when combined with analytic reasoning (Cholle, 2011).

Unconscious Thought Theory (UTT) suggests that there are two modes of thought, conscious and unconscious (Dijksterhuis & Nordgren, 2006). Conscious thought consists of object-relevant or task-relevant cognitive processes that ensue while the object or task is the focus of one's conscious attention. Unconscious thought consists of an object-relevant or task-relevant cognitive processes that ensue while conscious attention is directed elsewhere (Nortgren, 2010). However, we define the terms "unconscious" and "subconscious" with "unconscious" meaning a no consciousness and "subconscious" representing thoughts that influence actions, feelings, and words but of which the individual is not consciously aware.

Kahnemann (2003) specifies that there are two ways of deciding: reasoning and intuition. "Reasoning is done deliberately and effort fully, but intuitive thoughts seem to come spontaneously to mind, without conscious search or computation, and without effort" (Kahneman, 2003, p. 1450). On the conscious level we are aware of what we think we want. This allows us to easily rationalize our actions. On the other hand, on the subconscious level any external factor can affect our thought processes without our realization. If the thought is appealing, the process of rationalization occurs. That is, we try to convince ourselves the decision was a result of a thoughtful and conscious process when in fact it was a product, at least in part, of our subconscious, in particular intuitive decision-making. Intuition is discussed as a quasi-conscious or subconscious information process that is based on personal feelings, processed information, or suppositions, but may have no basis in fact or reality (Epstein, 2010).

In this paper intuitive decisions are defined as quasi-conscious and subconscious information processing that leads to an action, and that utilizes aggregated experience and training, which is conducted by a specialized area of the human mind (Wiericki, 1998). Thus, while we express reasons for our actions and decisions, these are not always based solely on conscious cognitive processes (Ariely, 2013).

Studies into the integration of consciousness and subconsciousness in complex decision-making reveal that conscious thought follows rules and principles whereas subconscious thought better aggregates numerous decision attributes (Nordgren & Chou, 2013). Decision-making also enhanced the sequential integration of conscious and subconscious thought to resolve complex choices better than either conscious or subconscious thought alone. In unison, these processes allow people to first eliminate rule-breaking options followed by comparison and weighting of alternatives.

4. Learning Styles

Learning styles can best be described as the manner by which an individual naturally or habitually prefers to acquire information, synthesize, and implement it within his/her life (Blue James & Gardner, 1995). Learning styles therefore are varied and diverse as each individual gathers, processes, and analyzes information in accordance with his/her intelligence level (intellectual or IQ, emotional or EQ, and spiritual or SQ), his/her environment, and motivation.

David Kolb is one of the most well-known scholars in learning theories. His work has been adapted within the field of commerce, education, and development. Kolb looked to learning as experiential, that is learning by doing. The model developed by Kolb (1981), includes four components: concrete experience (CE), reflective observation (RO), abstract conceptualization (AC), and active experimentation (AE).

The four components of learning are seen as circular when in practice, encompassing four processes, including feeling, watching, thinking, and doing resulting in experiential learning (Kolb, 1981). This style of learning is viewed as a continuous process that juxtaposes the learner with the world to facilitate a holistic process of adaptation and learning within the environment resulting in transactions between the social and the personal knowledge (Kolb, 1981).

The process begins with the experience (or exposure to information or feelings). This experience allows an individual to observe (watch) and reflect on the experience to develop new information, enhance existing information, or ignore either or both. All of these processes involve the subconscious interacting with the conscious decision-making. If the information is ignored, there is no further learning or opportunity for learning. If the information is utilized to develop new information or enhance existing information, generalizations or formulations of abstract concepts will occur (thinking). These can either complement existing information or radically change perceptions into a new arena. This thinking is then tested either in existing or new situations to determine their veracity and applicability (doing). This testing then results in observation of a concrete experience (the testing), thus commencing the learning circle once again.

Knowing and understanding the dominant learning style facilitates understanding of ones' strengths and weaknesses, encouraging understanding, prediction, and improved educational and vocational selection (Kolb, Rubin, & McIntyre, 1974; Sternberg, 1997). Understanding the styles of learning also enables one to become more adept at uncovering and understanding the origins of the subconscious such that decision-making is based on facts, not feelings.

While learning styles do not influence biases (Barberis & Thaler, 2003), these can be influenced by extrinsic and intrinsic motivation (Ryan & Deci, 2000). Intrinsic motivation is the inclination to

internalize learning to achieve a personal desire or goal (Ryan & Deci, 2000). Extrinsic motivation, however, varies greatly but generally is directed to attain a goal (Ryan & Deci, 2000). While intrinsic motivation prevails in our early childhood, as humans develop and increase socialization, extrinsic motivation becomes dominant. However, extrinsic motivation can involve intrinsic values, such as the athlete who trains for a sport in order to please the coach (extrinsic) also gains personal satisfaction from the health benefits and social aspects of sports (intrinsic). All motivation occurs in varying levels afforded by the individual. High motivation to do well on GMATs, LSATs, and MCATs comes from the requirements of the school (extrinsic) but also comes from the individuals' desire to improve the world or living conditions for humans (intrinsic). These forms of motivation can be either or both conscious or subconscious.

5. Discussion and Conclusion

Harnessing the power of our subconscious to make decisions depends on the extrinsic and the intrinsic motivation. Intrinsic motivation is self-sufficient and provides the optimum results. However, if one is not intrinsically motivated, extrinsic motivation can initiate and enhance the internal motivation such that the internal motivation becomes central to the individual's actions and reactions.

This internal motivation optimally operates in a creatively oriented contextual environment that further enhances and improves decision-making. Within the context are found numerous aspects concerning the evolution of a decision, such as the complexity, the individual's expertise, the number of options, the relative comparability of options, among other aspects concerning how the choices are presented within the choice architecture. This is the foundation upon which the decisions or choices that are made (Thaler & Sunstein, 2008) and is knowingly or unknowingly structured by the decision-maker or the individual who presents the options.

Ideally, the presentation structuring of options is created in an environment that seeks to improve decision-making knowledge given existing research. But this architecture can sway the decision-making, denying or enhancing the presentation of a number of alternative solutions based on the presenter's "reality" or "truth". Because this presentation should include contradictory and oppositional options for optimal decision-making in order to ensure a consideration of all options and potential solutions, it is important to note that this may result in the decision-maker's choice changing, resulting in a reversal of direction or a new path.

Because intrinsic motivation lies within an individual (Kanfer, 1990) the exploration and understanding of motivation becomes complicated, particularly when the influence of the subconscious is considered. Therefore to enable change or action, a choice architect, may wish to use the power of extrinsic motivational tools to create an environment that will help individuals overcome their confirmation bias as well as anchoring effect in order to confront and reduce decision paralysis. While offering an individual a meaningful extrinsic reward may not be the best way to combat these biases, research is not conclusive. Kunz and Linder (2012) and Wiersma (1992) but suggests that choice architects should keep in mind the use of money as an extrinsic reward or motivator. However, extrinsic motivators are often not the best motivational tool for long term change either for the individual or the results of the action (Kanungo & Hartwick, 1987) and may work against the continuation of intrinsic motivation (Benabou & Tirole, 2003).

Specific tools employed to motivate people to overcome their biases depend predominantly on the domain in question. Understanding the circumstances prior to introducing any kind of extrinsic motivation is essential in building the necessary intrinsic motivation, which is considered more effective because it is self-sustaining. That is, intrinsic motivation does not need any external source, such as prospective reward or imminent punishment; it maintains itself once commenced.

Cognitive biases are like illusions, they change our perception and even though we educate ourselves beyond them, they remain with us and continue to trap us in moments when we are not actively conscious of them. Therefore, the development or creation of environments that assist the discovery and eradication of biases and other flaws in our thinking allows the individual to become aware of the bias and or flaw, examine it within an unbiased environment, and choose to retain, modify or eliminate it. This harnesses the power of extrinsic motivation (Ryan & Deci, 2000) and enables the individual to see past his/her individual biases. Harnessing the power of motivation is essential in today's increasingly competitive business environment wherein subconscious cognitive biases can paralyze the success of the individual and the firm.

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Are Environmental Management Systems Necessary to Create Environmentally Responsible Organisations?

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Abstract

Issues of business ethics and corporate social responsibility have come to a greater prominence throughout the current financial crisis. The governance structures of many businesses and organizations and the ways in which they manage their businesses have been called in to question. When looking at business' responsible practices one must consider the management systems in place that are supposed to prevent mismanagement and irresponsible practices from occurring.

One aspect of corporate social responsibility and management that has been the focus of a significant number of studies has been Environmental Management Systems (EMS). EMSs such as EMAS (Eco-Management and Audit Scheme) and The International Organization for Standardization's ISO 14001 have been in existence now for two decades and have been promoted by the UK Government and EU as a means to reduce business' environmental impacts and create more environmentally responsible organizations.

DEFRA in 2005 stated that "Environmental management systems can be used by organizations in both the private and public sectors to help them reduce their environmental impacts, comply with relevant legislation, and demonstrate that they are managing their environmental risks and liabilities responsibly".

Whilst, Burr and Hillary (2011) in a study of UK SMEs conducted for the Department for Environment, Food and Rural Affairs (DEFRA) found the main benefits of adopting a EMS was mainly financial benefits through cost savings and winning new contracts but also environmental benefits such as CO₂ reductions. The subsequent aim of DEFRA was "to use this evidence to increase SME uptake of accredited EMSs as a method of unlocking the latent environmental and financial savings that are believed to exist in the SME sector as a whole" (p.10).

However, the academic literature shows a more conflicting picture of the effectiveness of EMSs. Reflecting back on the current crisis and issues around business ethics, EMSs may provide an interesting insight into whether formal management systems are necessary or even the most effective method for creating more responsible businesses.

The European Commission states EMAS created in 1993 "is a management tool for companies and other organizations to evaluate, report and improve their environmental performance" (European Commission, 2014a). Similarly, The International Organization for Standardization (ISO) states ISO 14001 created in 1996 "provides practical tools for companies and organizations looking to identify and control their environmental impact and constantly improve their environmental performance" (ISO, 2013).

Whilst, the number of organizations certified to each EMS has significantly grown since their introductions - there were 4581 EMAS registered companies (8174 registered companies and sites) by March 2012 (European Commission, 2014b) and 98263 with ISO 14001 in Europe by 2010 (Eco-Innovation Observatory, 2013) – their effectiveness at actually improving businesses' environmental performance has been questioned.

Comoglio and Botta (2012) state that a significant issue with ISO 14001 is that it is only a framework and that apart from requiring compliance with environmental legislation, it does not actually require a minimum level of environmental performance. EMAS is seen by many as being more robust, in terms of requiring the business to publish an annual statement, including data on their environmental impacts, but again it does not require actual environmental performance improvements.

Research investigating this relationship between having an EMS and environmental performance has produced varying results. Potaski and Prakash (2005) using secondary data for a sample of over 3000 US manufacturing facilities found those with ISO 14001 had better environmental performances, in terms of reducing their pollution emissions faster, than those without the certified EMS. However, in their study they do describe ISO 14001 as a "weak sword" programme due to its enforcement mechanism being based on a third-party audit with no requirement to publicly disclose environmental performance data.

Russo (2009) studied the impact of ISO 14001 on emissions performance through interviews with a sample of 316 electronics facilities of varying size as well as analysis of data from 1996 to 2001. The study found that being one of the first businesses to adopt ISO 14001 was associated with lower emissions and the longer a facility operated under ISO 14001, the lower its emissions

Daddi, Magistrelli, Frey and Iraldo (2011) studying 64 Italian companies in 6 different industrial sectors which had EMAS for at least 3 years found that in general, the majority of companies in the sample reported a moderate level of environmental performance improvement since having EMAS, although there was a considerable variation in improvements between the different companies. However, Daddi et al. (2011) also found that for most companies EMAS was not a "turning point" and did not result in a radical change in the company's strategy but instead continued a trend (either positive or negative) that had begun before EMAS registration.

Comoglio and Botta (2012) studying 45 Italian automotive companies by questionnaire found evidence of EMS increasing companies' commitments to improving environmental performance and increasing the number of environmental aspects being acted upon and the amount of money invested in environmental initiatives. But quantifiable evidence of improvements was only available for a limited number of respondents.

In contrast, Hertin, Berkhout, Wagner and Tyteca (2008) studying a sample of 274 companies and 400 production sites in 6 manufacturing sectors and 6 countries (Austria, Belgium, Germany, Italy, Netherlands and UK) found no evidence that EMS have a consistent or significantly positive affect on environmental performance. Their research was based on the use of three independent statistical tests. Hertin et al. (2008) does however go on to state that from previous studies it would appear that an organization's performance is not dependent on having an EMS but rather the quality of the EMS and environmental management system.

In a similar way, Iraldo, Testa and Frey (2009) studying the effectiveness of EMAS in a sample of 101 companies as part of a study for the European Commission, found a positive relationship between having a well-designed and EMS and environmental performance.

Nawrocka and Parker (2009) undertook a meta-study analyzing 23 studies published between 1996 and 2008 in 15 different journals that had looked at this relationship between EMS and environmental performance. They found a great deal of disagreement on EMS effectiveness and research findings. This was seen to be due to a lack agreement amongst researchers on what environmental performance is and how to measure it and that there was no clarity or agreement about why environmental management systems are expected to aid performance. They also found that whilst many studies showed that organizations with an EMS had improved environmental performance they could not necessarily prove causality. Nawrocka and Parker found that the effects of EMS are not general but depend on other factors such as the organizational goals, management style, culture and stakeholders. The authors conclude that rather than studying whether EMS improves environmental performance, research needs to study how they affect performance.

This study will look at a sample of UK businesses investigating the relationship between EMSs and environmental performance and taking its lead from Nawrocka and Parker's conclusions it will be investigating the relationship of the different elements and practices of environmental management to study how they affect environmental performance and which are most effective.

The data being used is from Business in the Community's (BITC) 2011 Yorkshire and Humber Environment Index. Business in the Community is a UK charity that describes itself as "working to shape a new contract between business and society, in order to secure a fairer society and a more sustainable future" (BITC, 2014).

The Environment Index is an online self-completion questionnaire. It asks the participants to answer a wide range of questions on their organizations': corporate strategy; integration of strategy into operations; environmental management practices; environmental performance; assurance process and willingness to publicly disclose environmental performance data. Respondent are also required to provide evidence for any question they have responded positively to.

On submission of the survey all entries are checked and verified by BITC employees and any questions and issues are raised with the participant. Only when they are satisfied that all answers have been backed up with appropriate evidence is the entry assessed. Each entry is assessed against a weighting and are given a score for each section and an overall score. They receive an individual confidential feedback report and are featured within a performance band on a public results table. In 2011 93 organizations took part and completed the online survey.

The researcher undertaking this study, prior to their current academic role, was employed by Business in the Community and managed the Environment Index for two years and was responsible for collecting and verifying the entries for 2011. The charity has agreed to give access to this data for the purposes of this study.

In summary, there appears to be a clear need to identify whether environmental management systems are an effective way to create more environmental responsible businesses. Since past research studying the presence of an EMS have found varying and conflicting results, this study aims to identify which specific practices affect performance to the greatest degree and whether environmental management systems are necessarily the most effective means.

Keywords

Environmental management systems, sustainability, responsibility, ISO 14001, EMAS

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Sovereign Spreads and Financial Market Behavior Before and During the Crisis

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Abstract

This paper aims at shedding some light on the mechanisms of pricing the EMU countries' sovereign bonds in financial markets. Employing the Augmented Mean Group (AMG) estimator, we find that major changes have occurred in terms of variables underlying sovereign risk. Since 2009, macroeconomic and fiscal fundamentals have started to play a more important role, but only those that capture domestic demand evolution. In contrast, price competitiveness seems less important. The second conclusion lies in reversed attitude towards banking sector imbalances, as compares to earlier period. One of the problems addressed concerns the horizon of projected macroeconomic and fiscal variables taken into account. The paper presents some evidence that financial markets have become more myopic and started to rely on short-term forecasts, whilst they had tended to encompass longer-term forecast horizon before the crisis.

Direct and Indirect Impacts of Exports on Croatian Economy

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Abstract

Over the past decades, the role of exports in economic development has been the subject of a wide range of empirical researches. In recent economic literature there is usually argued that role of exports on domestic economy increased as a consequence of trade liberalization which enables developing countries to speed up process of economic growth. Most of the empirical researches for EU countries found a positive relationship between exports and economic growth. The most important arguments in favour of positive impacts of international trade on economic growth are spillover effects and price equalization.

The main aim of the paper is to estimate overall impact on domestic economy in terms of economic growth and employment. Besides direct impact on domestic economy comprised in additional external demand which positive influence economic activity and employment of domestic producers of exported goods, an indirect impact could also be significant. Direct exporters in their production use various domestic inputs and indirect impact could be also significant. In the situation of stagnation of domestic demand, net exports are recognised as the most important component which could contribute to future economic growth and employment.

Keywords

Exports, economic growth, input-output model, value added multiplier, Croatia

Introduction

In the strategy of the European Union (EU) openness and trade are identified as the most important factors enable to promote economic growth and job creation). Increasing the competitiveness of the EU and member states in global markets is considered to be of key importance to a trade policy that fits EU's 2020 strategy (European Commission 2010b). European economy is one of the largest in the world with significant role in the world trader. Exports of goods and services recorded share of about 13 % of European GDP. Although the volume of EU's external trade is sizeable, assessing its importance as percentage of GDP is ambiguous. Trade flows include flows of intermediate domestic and imported goods and services, whereas GDP explicitly excludes these. Intermediate goods and services account for as much as 61% to 63% of EU external imports over the years 2000 to 2007 and the impact of export growth on overall domestic value added is therefore below its share in gross value added (Bouwmeester, Osterhavena & Rueda-Cantucheb, 2012).

Croatia is small economy with limited domestic demand and international trade could significantly contribute to growth of economic activity and employment. Various indicator of international competitiveness point to the conclusion that Croatia is lagging behind in trade integration in EU market in comparison to new member states which joined EU in 2004. On the other hand, Croatia has comparative advantage in tourism sector which partially compensate lack of competitiveness in trade of goods.

Based on input-output table model, this paper estimates overall impact of export demand on Croatian economy. In the first part of the paper a short literature review on relationship between exports and economic growth is given. Next chapter comprises descriptive statistics on indicators of competitiveness of Croatian exports, economic growth and employment in the period 2004-2012. In the empirical research an input-output table for Croatian economy is used in assessment of both direct and indirect impacts of export on economic growth and employment. Besides overall impact a more in-depth insight on export-growth relationships is provided by assessment of direct and indirect impact of exports of various industries. Last chapter concludes.

1. Literature Review on the Role of International Trade in the Economic Growth

In the economic literature, four main ways through which export pushes economic growth have been identified:

- competition in international markets encourages the achievement of greater efficiency of production (see for example in 1989; Krueger , 1980).
- exports promote specialization and economies of scale, leading a greater benefit from them (Helpman & Krugman, 1985).
- enterprises engaged in exports tend to introduce technical progress, which has spillover effects for the rest of the economy (Grossman & Helpman, 1991).
- Finally, exports, by bringing foreign currency, help to overcome the external constraints on growth (Thirlwall, 1979).

Most of authors found arguments in favour of the causality flows from exports to economic growth. The most cited term in this field is so called the export-led growth (ELG) hypothesis (Balassa, 1978). Export expansion and openness to foreign markets is viewed as a key determinant of economic growth because of the positive externalities it provides: efficient resource allocation, greater capacity utilization, exploitation of economies of scale and increased technological innovation stimulated by foreign market competition. Export growth represents an additional demand for the goods produced in a region and contributes to the increase in real output. Besides impact through demand channel, export expansion promotes specialization in the production of exported goods which can positively influence regional productivity and reallocation of inputs in the more productive export sector.

In recent economic literature there is usually argued that trade liberalization enables developing countries to speed up process of convergence. Most studies examine the impact of trade on convergence while ignoring likelihood of two-way causality. In most cases theoretical models agree on conclusion that international trade increase income level and growth (Rodrik, 1996, Grossman & Helpman, 1990). First group of models shows that lower-income economies benefit more from international trade (supports convergence), while another group of models maintains that developing countries do not benefit from trade with rich countries.

The most important arguments in favour of convergence through international trade are spillover effects and price equalization. Large literature on knowledge spillovers from Foreign Direct Investment (FDI) has subsequently emerged, both theoretically (e.g. Romer, 1990; Grossman & Helpman, 1991) as well as empirically (Keller, 2004). Conceptual grounds on which these knowledge spillovers are based argument that international trade supports flow of technology and knowledge from developed countries to regions lagging behind. As implementation of already existing technologies is easier and less costly than invention, lower income countries benefit from the international liberalization which positively influences overall convergence process.

According to Hecher-Ohlin model, the equalization of commodity prices and factor prices could be expected as a result of trade liberalization. As a consequence, total income in less developed countries is expected to record higher growth rates.

On the other hand, an infant industry argument is the most important in the papers which identify international trade liberalization as negative for income convergence. Some authors pointed out that infant industry needs to be protected in less developed countries. According to that, free trade undermines industrial development because of low initial level of competitiveness in comparison to developed countries. Additionally, due to lack of capital and technology, there is a possibility that in the process of trade liberalization, less developed countries will be specialized in production of primary products which could limit their growth potential.

In line with theoretical literature, empirical studies are inconclusive on exact contribution of exports to the economic growth. While some empirical studies found evidence supporting argument of positive role of international trade on convergence, the other finds no significant or even negative relationship between trade and economic growth. In one of the seminal empirical papers on the role of trade in economic Sachs and Warner (1995) divided countries in two groups – “open” and “closed” and found that only in the group of open economies, less developed countries tend to record higher growth rates over the period from 1970 to 1989. On the basis of price equalization theorem Ben-David (1993) found that trade liberalization in the EU resulted in decreased dispersion of per capita income.

Melitz (2003) found that greater trade openness and especially export performance has impact on industry productivity primarily through the effects of production re-allocation effects. In his model trade will induce only the more productive firms to enter the export market and force the least productive firms to exit. Due to that process overall productivity of an economy should increase.

De Loecker (2007) used data on Slovenian manufacturing firms and in his analysis he concluded that export entrants become more productive in the period after they start exporting and that the productivity gap between exporters and companies oriented to domestic market increases over time.

Awokuse (2007) used a neoclassical growth modeling framework and multivariate cointegrated VAR methods to investigate the contribution of both exports and imports to economic growth in Bulgaria, Czech Republic, and Poland. In the case of Bulgaria, the results suggest that empirical evidence exists

for both export led growth and growth-led exports hypotheses. In the Czech Republic, Granger causality indicated that both exports and imports influence economic growth. In the Polish data he found imports as main driver of growth.

Although in most studies a positive relationship between international trade and convergence are found, there are papers arguing that the expansion of international trade is a cause of divergence in income per capita. Wood and Rodao-Cano (1999) elaborated a consequence of trade specialization; less developed economies are specializing in products that intensively use unskilled labor and rich countries to specialize in products that intensively use skilled labor. Widening a difference in human capital influences further divergence.

Besides positive impact of specialisation and integration, growth of exports pushes the expansion of the domestic market through demand channel. Exports presents direct additional demand for domestic producers, while growing exports simultaneously contribute to expand domestic demand. On the one hand, exports induce the increase of production, employment, wages and other income benefits. The value added related to export demand induce final demand of household and gross fixed capital formation in the extent of the proportion that is covered by domestic production. Additional domestic production of exporters indirectly induces increased demand for intermediate products of other domestic producers. As a result of increased production a higher level of employment, wages and other income benefits are expected

Recent literature is that field is more oriented on measuring net trade and quantify the value added content of trade (Belke and Wang 2006; Daudin et al. 2011)2. Johnson and Noguera (2012). The results are sensitive to the variation in sector composition of exports. In export of manufacturing industries because of higher vertical integration, share of domestic value added in exports are in principle lower, although high variations are recorded. This suggests that internal EU27 innovativeness and efficiency is probably much more important for the level and growth of the EU27 GDP than its external competitiveness.

The increase in exports requires more inputs, which is if produced by domestic producers, generating a multiplier effect. Therefore, output growth becomes a direct result of the exports growth and the expansion of the overall domestic market as an indirect result of exports through the demand for intermediate inputs used by exporters. As a consequence of higher production, productivity growth and higher price competitiveness are also expected. Through higher income of wage earners directly and indirectly induced by growth of export, overall economy can benefit by demand driven growth.

The relationship between exports and growth from the demand perspective is present in the concepts of foreign trade multiplier (Harrod, 1933) and super -multiplier (Hicks, 1950). In both concepts increments in exports allow the expansion of other components of the autonomous demand to the point in which the increase of imports equals the initial increment of exports. In empirical researches for other countries it has been often found that the value added content in exports represents lower share in terms of total value added of the economy then in terms of the exports coefficient with respect to gross production. In the research for Mexican economy (Fujii & Ascárraga, 2012) found explanation of the low domestic value added in manufacturing exports in the fact that indirect value added represents a low proportion of the value added content in exports, which is the result of the weak linkages of export activities with the rest of the national economy, especially with the same manufacturing activities.

2. Input-Output Tables as a Tool for Quantifying Direct and Indirect Impact of Economic Trends

An input-output analysis is based on a static presentation of structural relationship among economic sectors. It is mainly oriented to the estimation of the impact of final demand on domestic output,

value added and prices. Although some aspects of inter-sectoral relationship between economic units can be found in very old economic literature, Wassily Leontief is considered as the main developer of the input-output analysis. At the moment we may witness several international programs that aim at interconnecting national input-output (IO) tables (Steenge, 2010). For more on the process of input-output compilation and conversion of the supply and use tables to symmetric input-output tables see (Soklis, 2009).

Input-output tables are used as a quantitative model suitable for the national and regional level economic analysis. In global markets, characterised by international competition and more complex production processes, input-output analysis which enables the identification of supply chains on domestic and international level is even more important. Techniques and areas covered by input-output analyses are described in the following papers: Leontief *et al.* (1984), Miller and Blair (1985), Fleissner *et al.* (1993), Holuband Schnabl (1994), United Nations (1996), Kurz, Dietzenbacher and Lager (1998) and Ten Raa (2006).

2.1. Concept of multipliers

In the input-output framework, matrix A usually presents technical coefficient matrix (ratios of inputs of each industry in gross output of gross output), x is vector of gross output and y vector of final demand. We can derive the following set of equations:

$$Ax + y = x$$

$$x - Ax = y$$

$$(I - A)x = y$$

The solution of this linear equation system is:

$$x = (I - A)^{-1} * y$$

A = matrix of input coefficients for intermediates (technology matrix)

I = unit matrix

(I - A) = Leontief matrix

(I - A)⁻¹ = Leontief inverse

y = vector of final demand

x = vector of output.

Vector Ax reflects the requirements for intermediates, while vector y represents the exogenous aggregate final demand. The matrix (I-A) is usually called the Leontief matrix. On the diagonal of this matrix the net output is given for each sector with positive coefficients (revenues) while the rest of the matrix covers the input requirements with negative coefficients (costs). The Leontief inverse (I-A)⁻¹ reflects the direct and indirect requirements for intermediates. In estimation of multiplicative effects on the domestic economy it is crucial to identify proportion of domestic intermediates which are used in production process of an industry. The higher the share of domestic intermediate inputs, the more significant indirect effects is expected and vice versa. Input-Output (I/O) multipliers can also be used to assess the regional economic impacts from an activity (D'Hernoncourt, Cordier & Hadley, 2011).

The notion of multipliers rests upon the difference between the initial effect of an exogenous change in final demand (in our case change in foreign demand for textile industry products) and the total effects of that change. An output multiplier for textile sector is defined as the total value of production of all domestic sectors that is necessary to satisfy a value of final demand for textile sector. It is worth to have in mind that multiplier is effective in both directions. A drop in foreign demand besides direct decrease of revenues of textile industry also has negative impact on other domestic industries which are part of supply chain.

2.2. Output, value added and employment multipliers in Croatia

Based on recently published input-output table for Croatian economy, output, value added and employment multipliers for Croatian economy are calculated and presented in Table 1. Table combines the results for direct and total impacts of exogenous change in final demand for various sectors of Croatian economy. The term multiplier in the table is calculated as a ratio of Total impact/Direct impact values. In terms of output multipliers, indirect effects are higher in production of goods (agricultural and manufacturing products) and construction, in comparison to service sector. Supply chain in the production of goods is usually more complex and therefore the impact on other sectors is higher while multipliers for services are “shallow”.

The same conclusion stands for the value added and intermediate consumption multipliers. Interesting conclusion can be drawn from data on domestic and imported intermediate goods. In general, multipliers for imported intermediates are higher, implying that indirect effects are more significant in the case of imports.

For value added multipliers, the most significant values were recorded in construction (2,01), industry (1,89), and agriculture (1,71), while overall multiplier for national economy is 1,72. Overall multiplier is a little bit shallow in comparison to other economies reflecting *the service based nature* of Croatian economy. The structure of economy clearly demonstrates that in the case of scenario of continuing recession in the construction industry and the loss of competitive position of manufacturing would have a strong negative effect on the overall economy.

Table 1: Output, value added and employment multipliers in Croatian economy by sectors

NACE code	A, B	C, D, E	F	G, H	I, J, K	L, M, N, O, P	Average of all industries
	Agriculture, forestry and fishing	Industry, incl. electricity	Construction	Trade and hotels	Transport and business services	Public and personal services	Total economy
	Gross output						
Direct impact	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Total impact	1.776	1.749	1.871	1.616	1.575	1.485	1.652
Multiplier	1.776	1.749	1.871	1.616	1.575	1.485	1.652
	Value added						
Direct impact	0.512	0.368	0.359	0.525	0.532	0.592	0.443
Total impact	0.877	0.695	0.723	0.812	0.831	0.847	0.763
Multiplier	1.712	1.892	2.012	1.546	1.561	1.431	1.723
	Total intermediate consumption						
Direct impact	0.488	0.581	0.641	0.473	0.449	0.356	0.511
Total impact	0.899	0.995	1.149	0.803	0.745	0.600	0.871
Multiplier	1.843	1.713	1.793	1.697	1.659	1.685	1.704
	Employment						
Direct impact	3.6	2.3	2.7	5.0	1.9	7.5	2.9
Total impact	6.1	4.5	4.9	6.9	3.9	9.9	5.4
Multiplier	1.7	2.0	1.9	1.4	2.0	1.3	1.8

Source: CBS and authors' calculation.

*Multipliers by sectors are calculated as un-weighted average of sections included in specific sector.

Additionally to table 1, output multipliers for various Croatian industries are presented in appendix..

3. The Role of Exports in Croatian Economy

3.1. Contribution of export growth to GDP

Exports contribute to aggregate demand and output of the domestic economy in two ways. As a component of aggregate demand an increase in exports directly affects value added of exporters. Additionally, the increase in exports requires more inputs, which if produced domestically, increase the production of the sectors that produce and generate a multiplier effect resulting from its expansion.

The conventional way in which estimates the contribution of exports to growth from the perspective of global demand is known: $Y = C + G + I + X - M$

$$gy = gc(C/Y) + gg(G/Y) + gi(I/Y) + gx(X/Y) - gm(M/Y),$$

where:

gy: GDP growth rate

g: growth rate of i component of aggregate demand (c-consumption, g – government consumption, i – gross fixed capital formation), while $x(X/Y) - gm(M/Y)$ presents percentage points of output growth explained by net exports.

This relationship does not account for the multiplier effect of exports on the product and the fact that exports are not only intended to generate imports, but some of them go to consumption and investment, which underestimates the contribution of exports and overestimates the domestic demand growth in the economy (Kranendonk & Verbruggen, 2008; Akyüz, 2010).

Regarding the first point, Harrod (1933) developed the concept of foreign trade multiplier, which functionally relates the expansion of exports to output growth considering the effects of export growth on the other components of aggregate demand. Later, Hicks (1950) introduced the concept of super-multiplier effect by adding that exports have on the product through the foreign trade multiplier the fact that export growth positively contribute to the other components of autonomous demand. Hicks can be applied to express the idea of foreign trade multiplier in a dynamic context. Thus expressed, this view argues that the economic growth rate of an economy is essentially governed by the rate of export growth. The most important channel on the effects of exports on economic growth on the demand side is derived from the proportion of domestic value added content of exports.

3.2. Trends in exports and GDP

Following weak macroeconomic performance in last decade of 20th century, in the period 2000-2008, Croatia recorded period of economic growth and reduced the development gap in terms of EU average GDP measured by purchasing parity standard (Table 1). Although in less favorable conditions, macroeconomic convergence of Croatia was comparable to new EU member states (NMS 12). As can be seen from figure 1, exports of goods and services were positively contributed to the overall economic growth in the period before recession which started in 2009.

Figure 2: Trends in GDP and exports in Croatia in period 2000-2011

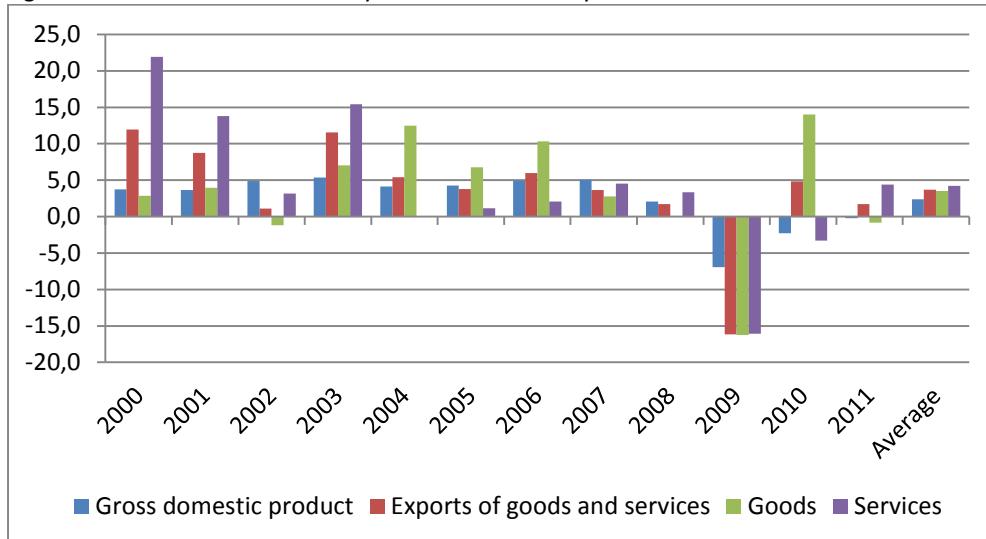


Table 2 presents comparison of contribution of exports of goods and services to the real GDP growth rate for EU countries from the accounting perspective. The contribution of exports to GDP is calculated in the way that share of exports in GDP in previous period is multiplied by real growth rate in current period. In that way, indirect impact on intermediate consumption and imports are neglected. However, this indicator can give first impression on the importance of the exports for analysed economies. It shows that in the period 2001 – 2012 average contribution of exports of goods and services to real GDP growth rate in EU-15 was lower in comparison to the new member states. In the group of NMS exports has been found as one of the most important factor for economic growth. In the case of Croatia average contribution of exports of goods and services amounted to 1.1 percentage points and only Cyprus with 0.6 percentage points is worse than Croatia. If Croatia is compared with Slovenia, it is obvious that the real growth of Slovenian exports contributes much more to the real GDP growth rate than in the Croatian case. The average contribution of exports to the economic growth in Croatia has been more than three times lower in comparison to other new member states.

Table 2: Contribution of exports of goods and services in GDP growth (in percentage points)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Average
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2001-2012
European Union (28 countries)	1,4	0,8	0,7	2,7	2,1	3,6	2,3	0,6	-4,8	4,1	2,7	1,0	1,4
New member states (average)	3,8	2,8	3,7	5,2	4,7	8,1	5,2	2,3	-7,6	7,6	6,3	3,2	3,8
Bulgaria	2,9	4,8	5,0	5,8	-9,1	20,5	3,7	1,8	-6,5	7,0	7,1	-0,3	3,6
Czech Republic	7,3	1,5	4,4	8,0	7,3	8,9	7,5	2,7	-7,0	9,1	6,3	3,3	4,9
Croatia	3,8	0,5	4,7	2,3	1,6	2,5	1,6	0,7	-6,8	1,8	0,8	0,2	1,1
Cyprus	3,4	-2,8	-0,2	2,6	2,4	1,7	3,0	-0,2	-4,9	1,6	1,8	-1,2	0,6
Latvia	3,2	2,3	2,1	4,0	8,9	3,1	5,2	1,0	-5,6	5,5	6,6	5,5	3,5
Lithuania	10,5	9,2	4,4	2,1	8,8	7,0	1,8	6,1	-7,5	9,4	9,5	9,1	5,9
Hungary	5,8	2,7	3,9	9,2	7,2	12,6	11,7	4,6	-8,3	8,8	7,1	1,6	5,6
Malta	-3,5	5,3	-2,3	1,9	0,5	11,1	3,3	1,9	-7,7	14,2	3,1	8,0	3,0
Poland	0,8	1,3	4,1	4,7	3,0	5,4	3,7	2,9	-2,7	4,8	3,2	1,8	2,7
Romania	3,9	5,7	3,3	4,9	2,7	3,4	2,5	2,4	-1,9	4,0	3,6	-1,2	2,8
Slovenia	3,5	3,8	1,7	6,7	6,1	7,8	9,1	2,8	-10,9	6,1	4,7	0,4	3,5
Slovakia	5,0	3,8	11,3	5,6	7,5	16,0	12,1	2,7	-13,6	11,3	9,8	8,9	6,7
Estonia	3,2	-2,2	5,5	10,0	13,6	4,7	2,7	0,7	-15,1	15,1	18,5	5,1	5,2
EU-15	1,3	0,7	0,5	2,5	2,0	3,3	2,0	0,4	-4,7	3,8	2,4	0,9	1,3
Belgium	0,9	1,9	0,4	4,5	2,9	4,2	4,2	1,2	-7,9	6,0	5,1	1,5	2,1
Denmark	1,5	1,9	-0,5	1,3	3,7	4,4	1,5	1,7	-5,2	1,4	3,5	0,2	1,3
Germany	2,2	1,5	0,9	3,8	3,0	5,4	3,6	1,3	-6,3	6,5	3,8	1,6	2,3
Ireland	8,5	4,9	0,7	6,3	3,7	4,1	6,7	-0,9	-3,2	5,8	5,4	1,6	3,6
Greece	0,0	-2,0	0,6	3,5	0,6	1,0	1,6	0,4	-4,7	1,0	0,1	-0,6	0,1
Spain	1,2	0,6	1,0	1,1	0,6	1,7	1,8	-0,3	-2,7	2,8	2,1	0,6	0,9
France	0,7	0,5	-0,4	1,2	0,8	1,4	0,6	-0,1	-3,3	2,2	1,4	0,6	0,5
Italy	0,8	-0,8	-0,3	1,5	0,9	2,2	1,7	-0,8	-5,0	2,7	1,6	0,6	0,4
Luxembourg	6,6	3,1	9,6	15,2	6,7	20,1	15,3	7,7	-23,5	11,7	9,2	-3,4	6,5
Netherlands	1,3	0,6	1,0	5,0	4,0	5,1	4,7	1,5	-5,9	8,0	3,2	2,7	2,6
Austria	3,0	1,9	0,7	4,9	3,8	4,1	5,0	0,8	-9,3	4,7	3,6	0,7	2,0
Portugal	0,5	0,8	1,0	1,1	0,1	3,2	2,3	0,0	-3,5	2,9	2,2	1,1	1,0
Finland	0,7	1,4	-0,8	3,2	2,8	5,1	3,7	2,7	-10,0	2,9	1,1	-0,1	1,1
Sweden	0,3	0,6	1,9	4,7	3,0	4,4	2,9	0,9	-7,4	5,5	3,0	0,3	1,7
United Kingdom	0,6	0,5	0,7	1,2	2,3	3,2	-0,6	0,3	-2,6	1,9	1,4	0,4	0,8

Data source: staviti link naeurostat

3.3. Estimation of direct and indirect impact of export on Croatian economy based on input-output tables for 2004

In this chapter, the total impact of exports on Croatian economy is estimated based on input-output table for 2004. As stated before total impact on gross output is estimated by the solution of this linear equation system:

$$x = (I - A)^{-1} * y$$

Matrix algebra is further used in multiplying matrix of unit inputs (domestic and intermediate consumption, employment and value added) with total of domestic gross output induced by foreign demand:

$$V = v * (I - A)^{-1} * y$$

V is value of inputs (vector of value added, intermediate consumption and employment).

Vector of exports in the officially published data incorporates both exports of goods and services. We used figures for expenses on domestic component. In the first column of table 3 export of specified product group is presented. Direct and indirect domestic output is the total value of output produced by exporters but also includes gross output of other domestic producers which is indirectly induced by export demand. The last column in the table presents ratio of total domestic production which is directly or indirectly induced by foreign demand and direct exports of certain product group. High ratios in product groups mining and quarrying and electricity are consequence of the fact that those products are not directly exported in significant amount but domestic producers use those products

as important inputs in production of exported goods. On the level of overall economy, total gross output induced by one unit of direct exports is 1.7.

Table 3: Exports according to product groups (in mil of Kunas)

		Export ^a	Direct and indirect domestic output	Direct and indirect output per 1 unit of export
TOTAL	Total - all CPA groups	76.370,4	130.138,1	1,7
A, B	Agriculture, forestry and fishing	1.751,7	5.636,6	3,2
C	Mining and quarrying	380,8	3.259,2	8,6
DA	Prod. of food products, beverages and tobacco	5.934,3	8.522,8	1,4
DB	Textile products	2.586,8	3.136,8	1,2
DC	Leather products	799,3	1.001,9	1,3
D.D., DE	Prod. of wood, paper and publishing	1.810,2	4.315,4	2,4
DF, DG	Chemical products including petroleum	7.057,6	10.159,5	1,4
DI, DJ	Other non-metalic and metal products	2.321,6	5.516,6	2,4
DK, DL, DM	Machinery and equipment	7.569,7	9.095,7	1,2
DN	Manufacturing n.e.c.	793,1	984,9	1,2
E	Electricity, gas and water supply	283,9	4.666,4	16,4
F, G	Construction, trade	12.858,1	20.395,8	1,6
H	Hotels and restaurants	11.154,6	11.601,7	1,0
I, J, K	Transport, financial and business services	17.136,5	35.475,5	2,1
L, M, N, O	Public administration , education, health, other services	3.932,5	6.369,4	1,6

^aTotal exports in basic prices recorded in input-output tables were approximately 105 billion of Kunas in 2004, while domestic component amounted 76 billion of Kunas. Difference is attributed to taxes on products and direct re-export of imported products

Source: authors own calculations based on input-output tables.

Table 4 presents impact of exports on domestic and imported intermediate goods, value added and employment. To produce export products of 76.4 billions of Kunas, Croatian exporters use approximately 31.5 billion of Kunas domestic inputs and 10 billion imported intermediates and directly engage 260 thousands of employees. Consequently direct share of export in GVA was 16,4% while share in employment was 18.9% of total employment. Exports is especially important for hotels and restaurants, and producers of textile and leather products. According to expectations gross output in service industries (except hotels and in some degree transport) and mining and electricity is primarily oriented to domestic market.

Table 4: Direct impact of exports to intermediate consumption, value added and employment

		Direct impact of exports (in mil of Kunas)				Direct impact of exports as share in:	
		Supply of domestic intermediates	Imported intermediates	Value added	Employment	Value added	Employment
TOTAL	Total - all NACE activities	31.479,2	10.126,6	34.295,4	259.575	16,4	18,9
A, B	Agriculture, forestry and fishing	799,5	108,5	875,4	5.034	8,7	11,7
C	Mining and quarrying	191,4	58,5	131,3	424	5,1	5,1
DA	Prod. of food products, beverages and tobacco	3.077,5	684,6	2.152,4	11.665	22,0	20,3
DB	Textile products	762,2	480,8	1.338,7	18.251	43,6	45,7
DC	Leather products	265,5	256,8	274,9	3.738	44,2	44,2
D.D., DE	Prod. of wood, paper and publishing	838,9	252,6	717,9	5.791	12,9	15,4
DF, DG	Chemical products includig petroleum pr	2.667,0	2.291,8	2.055,4	6.158	30,7	24,2
DI, DJ	other non-metalic and metal products	1.082,0	422,9	815,9	7.131	13,5	13,6
DK, DL,	Machinery and equipment	3.563,2	1.616,0	2.368,8	19.312	32,6	35,2
DM							
DN	Manufacturing n.e.c.	346,0	127,9	319,6	4.295	23,4	26,8
E	Electricity, gas and water supply	138,3	55,1	77,2	275	1,3	1,0
F, G	Construction, trade	5.265,8	1.445,3	6.112,4	59.103	14,7	16,5
H	Hotels and restaurants	3.947,6	854,5	6.247,3	60.726	74,2	74,2
I, J, K	Transport, finacial and business services	6.857,9	1.137,3	8.902,0	41.270	14,2	19,0
L, M, N, O	Public administration , education, health, other services	1.676,3	333,8	1.906,1	16.400	5,1	4,7

Source: authors own calculations based on input-output tables.

Table 5 covers both direct and indirect impact of exports on domestic producers. Foreign demand directly and indirectly contributes to 27.9 percentage points of Croatian value added while importance in terms of employment is even higher and almost 400 thousands of employees are directly or indirectly engaged in export activities. More than half of domestic economic activity in textile and leather industry is induced by exports, while the importance of foreign demand is the most evident in hotel and restaurant sector. According to expectations export demand is least important for public services.

Input-output table for Croatia is available only for 2004. As technical coefficient and structural features of the economy are changing over time, input-output technique with data for only one year has limitations and is not able to fully explain impact of changing demand on domestic economy for longer period. For that reason data presented in table 6 are only illustrative and one have to bear in mind before mentioned limitations. In order to approximate impact of foreign demand for period 2004-2012 national accounts data are used. Direct and indirect impact of exports is estimated by applying assumption that ratios of GVA and employment to unit of exports are the same as in 2004.

Export growth positively contributed to GVA growth and employment in period prior to recession. Approximately 20-30 percentage of GVA growth could be attributed to foreign demand, while impact on employment has been even higher. Global recession in 2009 significantly reduced volume of international trade and in Croatian case approximately 70% of decrease of GVA can be explained by falling foreign demand. In period 2010-2012 export positively influenced Croatian economic activity and weak domestic demand is main factor behind continuation of recession.

Table 5: Direct and indirect impact of exports to intermediate consumption, value added and employment

		Direct and indirect impact of exports (in mil of Kunas)				Total impact as share in:	
		Domestic intermediates	Imported intermediates	Value added	Employment	Value added	Employment
TOTAL	Total - all NACE activities	53.767,6	17.166,8	58.381,8	398.204,4	27,9	28,3
A, B	Agriculture, forestry and fishing	2.587,1	369,8	2.766,8	12.682,1	27,4	29,4
C	Mining and quarrying	1.566,8	694,9	997,0	3.166,9	38,6	38,4
DA	Prod. of food products, beverages and tobacco	4.450,9	995,4	3.071,0	17.301,0	31,4	30,2
DB	Textile products	928,8	612,0	1.589,4	20.685,9	51,8	51,8
DC	Leather products	332,8	321,9	344,6	4.685,2	55,3	55,3
D.D., DE	Prod. of wood, paper and publishing	1.948,0	656,8	1.706,8	12.718,3	30,7	33,7
DF, DG	Chemical products includig petroleum pr	3.833,1	3.279,7	2.985,7	10.071,0	44,6	39,5
DI, DJ	other non-metalic and metal products	2.557,9	989,7	1.967,7	17.789,3	32,6	33,9
DK, DL,	Machinery and equipment	4.253,5	1.945,2	2.872,7	23.731,3	39,5	43,2
DM	Manufacturing n.e.c.	452,2	137,8	395,3	4.799,1	29,0	30,0
DN	Electricity, gas and water supply	2.250,7	853,5	1.358,7	5.647,7	22,2	20,8
F, G	Construction, trade	8.463,7	2.384,9	9.478,7	82.697,4	22,8	23,1
H	Hotels and restaurants	4.105,9	888,8	6.497,6	63.159,3	77,2	77,2
I, J, K	Transport, finacial and business services	13.476,1	2.485,8	19.160,8	92.219,6	30,5	42,5
L, M, N, O	Public administration , education, health, other services	2.560,1	550,6	3.189,0	26.850,5	8,6	7,7

Source: authors own calculations based on input-output tables.

Table 6: Estimated impact of exports on Croatian GVA and employment

Export from expenditure side of GDP	Direct export in basic prices	GVA	Employment, in 000	Total VA induced by export	Total Employment induced by export, in 000	Total impact of exports as share of GVA	Total impact of exports in term of employment	Percentage of GVA growth explained by changes in exports	Percentage of employment growth explained by changes in exports
		In mil. of Kunas, constant prices 2004				In percentage poins			
2004	106.226	72.637	209.092	1409	58.382	398	27,9	28,3	
2005	110.234	75.377	218.217	1420	60.584	413	27,8	29,1	24,13
2006	116.816	79.878	228.862	1468	64.202	438	28,1	29,8	33,98
2007	121.100	82.807	240.133	1517	66.557	454	27,7	29,9	20,89
2008	123.152	84.210	245.923	1555	67.684	462	27,5	29,7	19,47
2009	103.240	70.595	230.396	1499	56.740	387	24,6	25,8	70,48
2010	108.240	74.013	224.505	1432	59.488	406	26,5	28,3	-46,65
2011	110.087	75.276	223.835	1411	60.503	413	27,0	29,2	-151,39
2012	111.023	75.917	217.924	1395	61.018	416	28,0	29,8	-8,71
									-21,94

4. Conclusion

Openness and trade are identified as the most important factors enable to promote economic growth and job creation not only in economic literature but also in strategic documents on national and supranational level. Increasing the competitiveness of the EU and member states in global markets is considered to be of key importance that fits EU's 2020 strategy

Most of authors found positive relationship between exports and economic growth. The most cited term in this field is so called the export-led growth (ELG) hypothesis in which export expansion is viewed as a key determinant of economic growth. It provides positive externalities in terms of efficient resource allocation, greater capacity utilization, exploitation of economies of scale and increased technological innovation stimulated by foreign market competition. Besides technological aspects export growth can be viewed as additional demand which contributes to the increase in real domestic output.

In this paper, the total role of exports including both direct and indirect impact on Croatian economy is estimated based on input-output table for 2004. Direct share of export in GVA in 2004 was 16.4% but when indirect impact on the other industries is accounted for a total impact of foreign demand is estimated to 27.9 percentage points of Croatian value added. Importance of foreign demand in terms of employment is even higher and almost 400 thousands of employees are directly or indirectly engaged in export activities. Exports is especially important for hotels and restaurants and producers of textile and leather products. In those sectors foreign demand determines more than half of total domestic production.

Export growth positively contributed to GVA growth and employment in period of economic growth 2000-2008 and approximately 20-30 percentage of GVA growth could be attributed to foreign demand. The main factor behind significant drop in economic activity in 2009 is strong drop in foreign demand which explain 70% of decrease of GVA in that year. Although export positively influenced Croatian economic activity in last two years recession is continuing due to weak domestic demand.

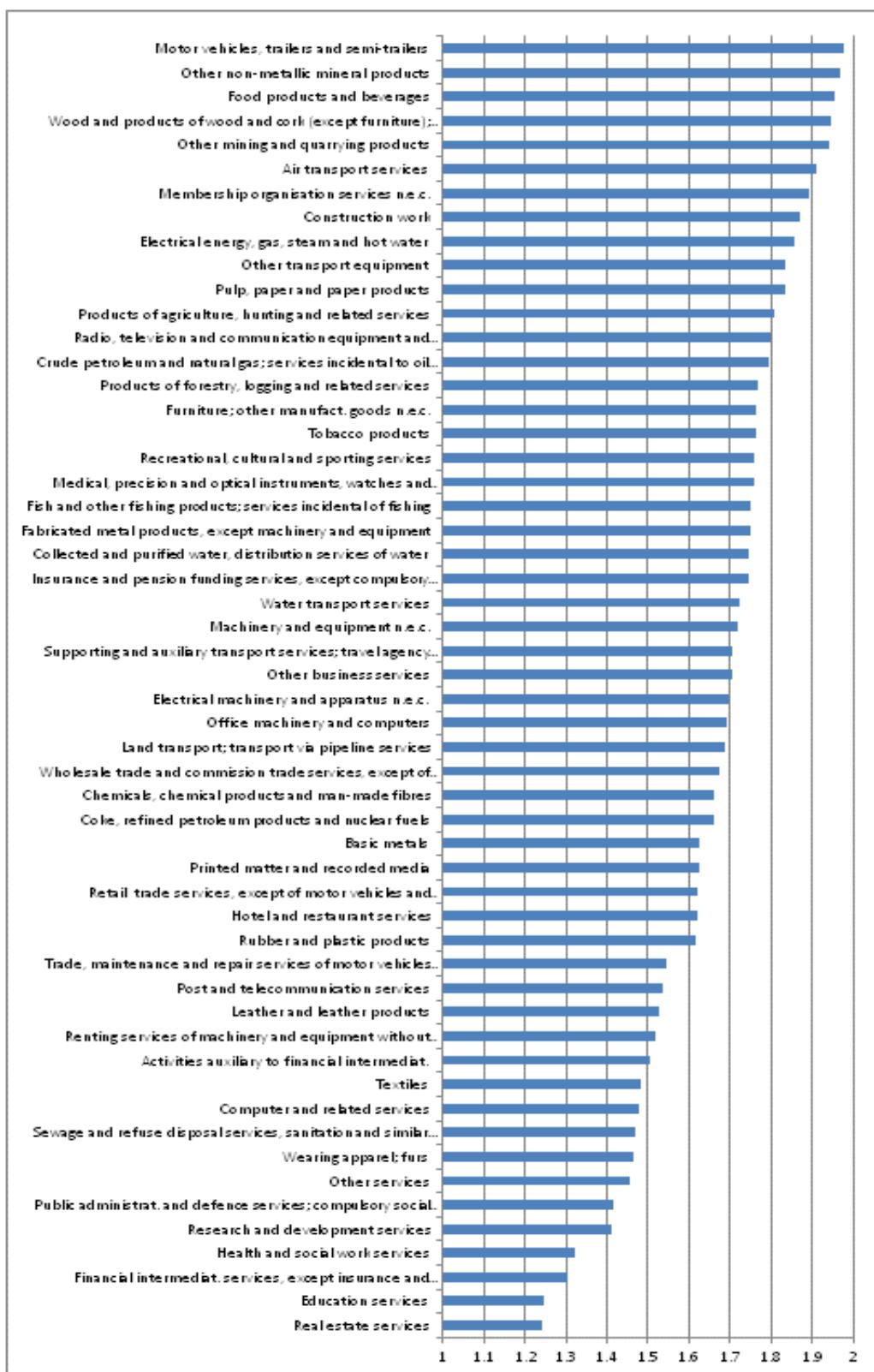
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Appendix 1: Output multipliers for various industries in Croatia, based on input-output table for 2004



International Standards Certification and Exports from Developing Countries: Firm Level Evidence

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Abstract

The paper tests if ISC certification has an extra signaling role to buyers in foreign markets and stimulates exports by firms in developing countries. The empirical testing controls for heterogeneity in productivity and skill intensity of the firm. The estimation results which are based on a sample of manufacturing firms from over 89 countries indicate that ISC certified firms are more likely to export and export at a larger scale.

Keywords

Certification, export performance, institutional development, transaction costs

Further Investigation of Narcissism, Leadership, and Task Performance in University Students Studying Business vs. Other Majors

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Abstract

The authors will present the results of a cross-sectional research study designed to further investigate the relationships between narcissism and leadership and between narcissism and task performance in university students studying business vs. other majors. The study is the first generated from a longitudinal research design to explore the previously reported research finding that narcissism increases in business students more than it does in students in other majors (Manley 2012). The research requires collecting data from students yearly, and we began with first-year business and communications majors taking the first-semester introductory course in their major in fall 2013. The authors will report results derived from analysis of this first round of data.

This study affords the opportunity to address several issues already noted in research literature related to narcissism in an organizational context. First, it will generate additional empirical evidence regarding the factor structure and psychometric properties of the Narcissistic Personality Inventory (NPI) (Raskin & Terry, 1988) as a measure of narcissism and the Multifactor Leadership Questionnaire (MLQ) (Bass & Avolio, 1997) as a measure of leadership. Second, it will allow further investigation of the previously reported findings that business students enter college displaying greater narcissism than students in other majors (Sautter et al., 2008) and that business students display higher levels of narcissism than other students (Robak, Chiffreller & Zappone, 2007; Westerman et al., 2011). Finally, it will also allow us to explore whether relationships previously reported in other organizational contexts between narcissism and leadership (e.g., Campbell & Campbell, 2009; Brunell et al., 2008) and between narcissism and task performance (e.g., Wallace & Baumeister 2002; Judge, LePine & Rich, 2006) generalize to students at college. Thus, this study will allow us to revisit and reconfirm old “truths” about narcissism.

In addition, this study offers two new contributions to the literature. First, it will investigate how individual dimensions of narcissism, as opposed to only an aggregate measure, are related to leadership and task performance. We predict that certain dimensions of narcissism will be more significantly related to leadership than others, some positively and some negatively. Second, it includes “gap” measures of leadership and task performance, which indicate the differences between a student’s perception of his/her own leadership and those of his/her peers’ and between the student’s anticipated grade and the actual grade earned, respectively. These measures are designed to reflect the relative “grandiosity” of students’ perceptions of their own performance, relative to some other standard. We predict that narcissism will be more highly correlated to these gap measures than to straight self-report measures. Thus, this study will also allow us to discover new “truths” about narcissism.

Keywords

Narcissism, leadership, higher education

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Internationalisation, De-Internationalisation and Re-Internationalisation of E-Commerce Enterprises and the Market Mobility Barriers

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Abstract

The aim of this paper is to identify mobility barriers specific to e-commerce market as a factor determining the phenomena of the fast internationalisation, de-internationalisation and the possible re-internationalisation of e-commerce enterprises. On the basis of an in-depth study of relevant literature and an exploratory empirical research based on a single case study, it is assumed that low entry and exit barriers related to a foreign e-commerce market may stimulate fast changes in the firm's international involvement. Low entry barriers to a foreign e-commerce market accelerate the process of internationalisation of e-commerce enterprise, while low exit barriers may encourage the de-internationalisation process. Moreover, if the entry barriers remain low, the future likelihood of re-internationalisation of e-commerce enterprise may be also high.

Keywords

Fast internationalisation, de-internationalisation, re-internationalisation, mobility barriers, e-commerce

Introduction

The internationalisation of enterprises is most frequently defined as a process involving a continuous, gradual intensification of international commitment. In comparison, de-internationalisation, which is a much less frequent subject of analysis, consists of partial or complete withdrawal of an enterprise from foreign markets and its subsequent internationalisation, referred to as re-internationalisation. Many authors relate those phenomena to *born global* firms, and further – with the phenomenon of accelerated internationalisation currently observed in many sectors (Oviatt & McDougall, 1995; Wickramasekera & Bamberry, 2003; Zahra, 2005).

The foreign market entry barriers are a relatively well-recognized issue, both in regard to traditional enterprises and e-commerce companies (Heung, 2003; MacGregor, 2003; Bethon, Pitt, Cyr & Campbell, 2008; Henari & Mahboob, 2008; Hwang, Jung & Salvendy, 2008; Abbad, Abbad & Saleh, 2011), whereas the foreign market exit barriers have not been thoroughly examined (as cited in: Schnell, 2004), especially in relation to e-commerce enterprises.

The aim of this article is to identify the mobility barriers specific to e-commerce market as a factor determining the phenomena of the fast internationalisation, de-internationalisation and re-internationalisation of e-commerce enterprises. The considerations presented below are a result of an in-depth study of relevant publications and exploratory empirical research based on case study, and may constitute a basis for further research.

1. Internationalisation, De-Internationalisation and Re-Internationalisation of Enterprises – Basic Approaches and Concepts

The dominating approach in research of internationalisation processes is based on the Uppsala model which assumes that the internationalisation of an enterprise is a continuous, gradual and cumulative process (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977). Among other things, it analyses the factors which influence the course of the process, including its tempo, vectors and forms of expansion. Few authors discuss the issue of discontinuity in regard to the opposite process, which is re-internationalisation. The concept of de-internationalisation was described by Welch and Luostarinen (1988) as a process of internationalisation that cannot be continued. According to Calof and Beamish (1995), the aforementioned process can be considered a deliberate reduction of the degree of internationalisation of a company. Benito and Welch (1997) complement this definition by discussing the issue whether the activities leading to the reduction of international commitment of an enterprise are voluntary or forced. Meanwhile, the concept of re-internationalisation was discussed in 1979 by Luostarinen, who has observed that companies demonstrate a distinctive behavior of withdrawing from a foreign market only to subsequently re-enter it after some time. The phenomenon was termed 're-internationalisation' and refers to a partial or complete withdrawal of a company from a foreign market, either in case of internal or external internationalisation, and re-entry into that market after an undefined period of time. (Luostarinen, 1979; Freeman, 2007).

Despite the fact that the phenomenon of de-internationalisation has not been a special subject of analysis in terms of research on *born global* enterprises, many authors relate both this phenomenon, and the phenomenon of re-internationalisation with rapidly internationalizing companies. Oviatt and McDougall (1995), Wickramasekera and Bamberry (2003), and Zahra (2005), among others, have proved that rapid internationalisation leads to difficulties in case of inexperienced, new enterprises which have limited resources and access to international networks. Those difficulties force the enterprises to withdraw from certain markets, i.e., to undergo de-internationalisation.

The issue of discontinuity of the internationalisation process has also been examined as a part of the analysis of actions performed by enterprises operating in the international network. Such enterprises are often referred to as *born-again globals* – companies with a well-established position in their home market which do not show any will of internationalisation, but suddenly, due to a single event or a series of events, become global (Bell, McNaughton and Young, 2001). Similar enterprises, referred to as *late starters*, undergo internationalisation exclusively in relation to already internationalized business partners, either domestic or foreign, because of great opportunities for expansion in their domestic market, the lack of knowledge regarding opportunities on foreign markets, or the existence of market barriers (Chetty & Blankenburg Holm, 2000). The process of rapid and accelerated internationalisation of those firms is connected with their involvement in the network, which also makes them subject to phenomena of de-internationalisation or re-internationalisation resulting from changes in the networks they belong to.

The phenomena of de-internationalisation and re-internationalisation are currently reviewed in further attempts to conceptualize and systematize the issue through exploration of researched cases. The questions regarding the prerequisites and intentionality of those processes, especially de-internationalisation, remain unanswered. Turcan (2003) based the conceptualization process of de-internationalisation of small firms on three aspects: entrepreneur commitment (influenced by plans, as well as psychological, social and formal factors), changes in networks (justified by significant events and actions of partners - actors) and time (namely, the past and the future referred to by entrepreneurs).

C. L. Welch and L. S. Welch (2006) created a platform illustrating the process re-internationalisation in relation to the *international heritage* of the enterprise. Such heritage is expressed through experience, knowledge, skills and attitude of personnel, as well as partners (actors) in the network, acquired by the company before exiting the foreign market(s). The changes in that heritage, resulting from new internal and external factors, lead to the decision to re-enter a foreign market.

2. Mobility Barriers as Factors Influencing the Process of Internationalisation

Internationalisation of e-commerce enterprises is usually characterized by acceleration of the process (Daekwan, 2003; Foscht, Swoboda & Morschett, 2006; Forsgren & Hagström, 2007; Grochal-Brejdak & Szymura-Tyc, 2013) and occurrence of phenomena of de-internationalisation and re-internationalisation. It seems that the progress of internationalisation processes concerning e-commerce business activity may result from a specific system of entry and exit barriers in foreign markets.

2.1. Entry barriers for e-commerce enterprises into foreign markets

The development of e-commerce enterprises within the context of their internationalisation encounters a number of barriers, both on international and local level, which influence the final decisions made by the enterprises in regard to the foreign market entry strategy. Market entry barriers for e-commerce firms can be divided into technological, non-technological, macro- and microeconomic (Grochal-Brejdak & Szymura-Tyc, 2013).

The basic limitation of internationalisation of e-commerce enterprises are technological barriers, mainly the low technological level of certain countries which hinders any activities based on advanced technologies (Moen, Gavlen & Endresen, 2004), as well as the lack of uniform security solutions, including electronic trade payment systems (Turban, King, Viehland & Lee, 2006; Henari & Mahboob, 2008).

Non-technological barriers, along with linguistic and cultural differences, also include low level of trust among customers, dependent on the culture of origin (Flavian, Guinaliu & Guerra 2005), particularly linked to the relation between the degree of avoidance of uncertainty and the willingness to execute transactions on the Internet (Henari & Mahboob, 2008).

On the macroeconomic level, the most frequently mentioned elements are the low level of readiness of a country to use the advanced technologies, demonstrated by low value of the e-readiness indicator (Berthon, Pitt, Cyr & Campbell, 2008), and also institutional and legal limitations connected with censorship, privacy policy and the intellectual property protection law (Palumbo & Herbig, 1998).

Internationalisation barriers for e-commerce enterprises may also be microeconomic, linked with the specificity of the product and operations of the company in the global network (digital products available 24/7) (Palumbo & Herbig, 1998; Heung, 2003; MacGregor, 2003; Turban, King, Viehland & Lee, 2006).

2.2. Exit barriers for e-commerce enterprises from foreign markets

The literature describes not only entry barriers for a foreign market, but also barriers to exit it. Nevertheless, exit barriers from the foreign market that determine the decision about de-internationalisation are difficult to identify. Due to the fact that e-commerce companies have never been an important subject of research on de-internationalisation, formulation of theoretical framework of foreign markets exit barriers for e-commerce companies must be based on results of research conducted on enterprises from sectors other than e-commerce. Hence, relying on already conducted research on market exit barriers for industrial and service companies, and also taking into account the specific factors which influence internationalisation of e-commerce firms (Grochal-Brejdak, 2013), it is assumed that in case of e-commerce enterprises, the following market exit barriers can occur:

- strategic – linked with the change of long-term strategy of a company, as well as with changes in ownership (Bojnec & Xavier, 2007) and network relations (Turcan, 2003);
- economic – linked with, employment costs, engagement of significant funds in investment (Caves & Porter, 1977), the cost of maintaining additional servers (Grochal-Brejdak & Szymura-Tyc, 2013);
- international attitude of a manager – aims and ambitions of manager / management board of a company related with the degree of internationalisation of a company (Caves & Porter, 1977; Turcan, 2003; Bojnec & Xavier, 2007; Grochal-Brejdak & Szymura-Tyc, 2013);
- market-related – linked with the change of competitive position and changes in the size of demand on offered goods (Schnell, 2004).

The existence of all above mentioned foreign market exit barriers should be examined, and their influence on the decision regarding de-internationalisation should be measured in quantitative research, the subject of which would be e-commerce companies. The results of such research, as well as the results of research concerning foreign market exit barriers and the strength of their influence on the decision on foreign expansion of e-commerce companies may allow the definition of mobility barriers of those enterprises in foreign markets.

3. De-Internationalisation of E-Commerce Firms – Allegro Group Case Study

Allegro.pl online auction site is the biggest virtual trade platform in Poland which allow to offer a product for sale by companies or individuals. Allegro.pl has been operating in the Polish market since 1999 as a limited liability company that is a member of the Allegro Group (http://allegro.pl/country_pages/1/0/marketing/about.php). After many takeovers, since 2009, the

direct control over the Group is held by the Dutch company MIH Allegro B.V., owned by South African group Naspers Ltd. (OCCP, 2012). Allegro itself employs over 1000 people in Poland, including over 500 IT specialists (Tomkiewicz, 2013). Simultaneously, Allegro is the only e-commerce firm originating from Poland which is recognizable worldwide; in March 2014 earned 198th place in the Alexa Top 500 Global Sites ranking (<http://www.alexa.com/topsites/global;7>).

Initially, the operations of Allegro.pl focused exclusively on the Polish market. The process of internationalisation started six years after the establishment of Allegro thanks to the former owner, QXL.com PLC (presently Allegro Group) (<http://naspers.com/company-history.php>). The first foreign market chosen for expansion was Czech Republic, followed by Slovakia, Bulgaria, Romania, Ukraine, Hungary, Russia and Estonia. In 2009, after the acquisition of Tradus (former owner of QXL.com PLC) by the Naspers company, auction platforms were introduced on the Kazakh and Belarusian markets (Małek, 2009). Currently, the Allegro Group manages 75 websites in 17 countries, on three continents (<http://kariera.allegro.pl/FAQ>).

The originally launched foreign auction sites were mostly clones of Allegro.pl and operated under the name Allegro or Aukro. The name Aukro remains present on Ukraine (<http://aukro.ua>), in Russia and Czech Republic. Slovakian Aukro has been merged with the Czech platform and functions under the Czech domain Aukro.cz (<http://info.aukro.cz/microsites/aukrosk/>). In the remaining countries, Allegro websites have been renamed as OLX (in Belarus, Kazakhstan and Romania) (<http://olx.by>, <http://olx.kz>, <http://olx.ro>). In Hungary, the Allegro Group has acquired the auction platform TeszVesz.hu. In Bulgaria, after previous attempts to introduce Aukro.bg, the name of another previously acquired auction platform, Emag.bg was finally used. Also other Bulgarian auction platforms have become members of the Allegro Group: Prodavalnik.com (transformed into OLX.bg) and Pazaruvaj.com (<http://allegrogroup.bg/portfolio>). The operation of the auction platform has been completely suspended only in Serbia – the users of Aukro.rs are redirected to Allegro.pl website.

Theoretically, it can be assumed that the reasons for re-branding and acquisition of companies on foreign markets could be influenced by the following factors suggested in the literature: culture distance (Benito, 2003), the attitude of the management board toward internationalisation (Benito & Welch, 1994), and changes in the network (Turcan, 2003). The explanation behind the de-internationalization on the Serbian market can be the opportunity to re-enter the market in more favorable circumstances (Akhter & Choudry, 1993), unreadiness of foreign consumers for the product offered by the company (Matthyssens & Pauwels, 2000) and lack of economical barriers to exit the market (Caves & Porter, 1977). In this case, it is unknown whether political pressure could also be considered (Caves & Porter, 1977).

According to Allegro case study described in another article, the foreign expansion of the company which owns the auction platform focuses on markets with relatively low psychic distance and similar or lower level of development in relation to the domestic market (Grochal-Brejdak & Szymura-Tyc, 2013). The countries of expansion consist of Central-East and Eastern European markets, which are promising characterized by lower sales dynamics than Poland (Meller, 2006). Therefore, entry barriers on those markets are not so high, but the exit barriers for foreign markets which were withdrawn from by the company remain a cognitive gap.

4. Conclusion and Future Research

The virtual foreign markets exit barriers which determine the decision on de-internationalisation are difficult to identify and; therefore, as it was mentioned above, their definition has to be based on the research conducted on the companies from sectors other than electronic commerce. This issue

requires exploratory research because up until now, it was not included in the scope of research concerning e-commerce companies.

On the basis of conducted case study, it can be concluded that foreign market entry and exit barriers for e-commerce firms are low; both the internationalisation and de-internationalisation processes are accelerated (market entry and market exit took place in five years). The adaptation of product and brand to expectations of customers from particular markets is facilitated by the use of takeovers. Furthermore, considering the aspect of the so-called heritage (Welch & Welch, 2006), it can be assumed that in case of e-commerce enterprises, also re-internationalisation occurs exceptionally often and is accelerated in nature.

It is assumed that the decisive factors which influence the decision on de-internationalization of e-commerce companies are the mode of entry in a foreign market and the form of ownership. Considering that e-commerce enterprises mostly limit themselves to export, the proportion of foreign market sales to general sales can be important – the higher it is, the lower the likelihood of withdrawal from the market (Bojneč & Xavier, 2007). The majority of those companies is owned by private owners which, as it has been proven by research, increases the likelihood of exiting a market (Bojneč & Xavier, 2007). However, the influence of those factors on the decision on withdrawal from a foreign market by an e-commerce company, and the proposed theoretical framework for mobility barriers of e-commerce enterprises on foreign markets have to be thoroughly examined and measured in both qualitative and quantitative research.

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Electronic Word Of Mouth through Virtual Social Networks – Potential and Limitations in Republic Of Serbia

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Abstract

The modern-day corporate milieu, characterized by extreme dynamism, turbulent technological progress and complexity where consumers are becoming more demanding, the communication becomes the essence of existence. Among marketing researchers and sociologists, there is a rising credence that the dynamics of social development will be determined by logic of networks / networking. Virtual social networks confirm this thinking - as direct marketing channel, they intensify the process of communication not only between companies and markets, but more importantly, between the consumers themselves. In the virtual cyberspace, consumers enter into a network of relations and intensively developed interpersonal communication, which exceed all spatial, temporal and cultural boundaries. Virtual social networks and communities, with their nature and operation make significant changes in the collective consciousness of all humanity. Diverse business environment is strongly affecting the methods of achieving main purpose of the company - meeting the needs and desires of consumers. The effectiveness of traditional marketing activity declines rapidly, at the same time competition intensifies to the highest level, globally. Many marketing theorists and practitioners consider cyber space as the solutions of those problems i.e. the use of virtual social networks and communities, within which it occurs continuously intensive word of mouth communication between consumers. For these reasons, internet must be seen as an opportunity for companies to connect with their customers who have been using it to share their impressions, experiences and recommendations with other consumers online, which may or may not be personally acquainted. The capacity for marketing usage of electronic word of mouth communication in virtual social networks is undoubtedly enormous, but marketing practice has not yet determined to what extent is possible the real usage of it i.e. to what extent are the consumers willing to act and behave in manner how the company expects them to behave in cyberspace.

This paper aims to determine are the consumers in the Republic of Serbia, and to what extent, ready and willing to actively generate and spread electronic word of mouth communication through virtual social networks, and to modify their own behavior towards it.

Keywords

Word of mouth, consumers, internet, virtual social networks

Introduction

The modern-day achievements of technological processes, information technologies in the first place, are dismantling all barriers in terms of space and time existing in an economic and social system. As regards the traditional marketing environment, the greatest changes, generating the current marketing setting of an enterprise are particularly related to the technological dimension, i.e. electronic environment, and result in a new role of the consumer on the market and in society. The emergence of the Internet, as a key and revolutionary change in the marketing and technological environment, has undoubtedly changed relations on the market in terms of both their manifestation and the strength of the bargaining position, simultaneously diminishing the domination of businesses and other organizations and increasing the domination of consumers. The objective of the new technology in business operation is, basically, connecting the technological possibilities with what consumers want. Although the new technology provides businesses with much more in-depth insight into consumer behavior, it must be stressed that consumers use the same technology for controlling their interactions with businesses and other institutions on the market, which also entails new challenges set before marketing theories and practices. Analysis of the large body of academic and professional literature leads to a conclusion that the Internet has gradually developed from a primarily communication medium into a sales and/or distribution channel, and eventually into a platform for managing relations with consumers and virtual social communities. Interactiveness as the crucial feature of the Internet has enabled a new dimension of contacts and relations between all market participants, with a special accent on interconnecting and establishing relations between consumers themselves.

Such altered business conditions also affect the change in the manner of achieving the central objective of a company's existence – meeting the consumers' needs and wishes. The effectiveness of traditional marketing activities is rapidly declining, whereas competition is increasing at a similar rate on a global scale. Many marketing theoreticians and practitioners see the solution in the cyberspace, i.e. use of virtual social networks and communities, as the space of incessant of intensive electronic word of mouth communication between consumers. The potential of marketing-oriented exploitation of this type of electronic communication is extremely high, but the business practices are not so successful in its actual utilization.

The basic research question to which this article aims to provide an answer is whether and to what extent consumers in Serbia are willing to accept and distribute further the electronic word of mouth and adjust their purchasing behavior in accordance with it.

Electronic Word Of Mouth

Interactions between consumers on the market and everyday life, mostly in the form of dialog, influence their ideas, thinking patterns, feelings and behaviors, and this phenomenon is referred to as personal influence in the sociological and marketing-related academic and professional literature: any change, whether intentional or completely inadvertent, in an individual's belief, attitude or behavior, emerging as the consequence of word-of-mouth communication.

Hanna & Wozniak (2009, p. 457) define word-of-mouth communication as "personal communication between individuals, where one of them plays the role of message recipient, whereas the other acts as the source, i.e. sender of a message that is regarded as non-commercial and relates to products, services or brands". Although it refers to businesses' products, services or brands, word-of-mouth communication is generated completely independently of the business; it is transmitted spontaneously and autonomously between consumers. Michael Solomon (2011, p. 332) defines word-of-mouth communication as "communicating information on products and services from one individual to another". He also points to the still present high degree of significance of formal

information sources, which he primarily equates with corporate advertising, especially in the case of developing brand awareness among consumers, but remarks that word-of-mouth communication gains predominance in the later phases of evaluation and acceptance of the product on the market. Word of mouth communication is defined as "messages and information on a business, its credibility, trust in it, the business' manner of operation, offer and quality of its products and services, exchanged in individual communication" (Grönroos, 2004, p. 269). George Silverman defines word-of-mouth communication as "communication about a business' products and services occurring between individuals, assuming that they are independent of the businesses offering those products and services, and that this communication is conducted through media also independent of the business whose products are referred to" (2005, p. 25). Interpersonal word of mouth communication can flow through different types of media such as telephone, mail, the Internet etc.

Consumers in the current marketing environment insist that the internet marketing activities be defined on the so-called permission approach (Gauzente, 2004), that is, the need for their consent to interact with a business, such as, for instance, receiving direct electronic mail. Apart from the new role of controller of interaction with businesses, consumers also become value creators in the electronic environment. All of this results in the emergence of interactions where the consumer has the role of supplier, and other consumers, businesses and governmental institutions take on the role of user – interactions C2C, C2B and C2G. The new role of consumers on the market and in society was especially influenced by the adoption of new information intermediaries on the Internet. One of the most significant information intermediaries are internet search engines, the use of which is implicit in the online activities any consumer using the Internet. In addition to search engines, a significant group of specific information intermediaries in internet marketing are social networks such as Facebook, blogs, forums, wiki pages such as Wikipedia, image and video sharing sites such as Flickr and YouTube, etc. Social media are based on mutual interactions between users and exchange of digital contents; that is, they enable each user to be both content sender and recipient. Prior to the emergence of the Internet, marketing predominantly took on the form of a company's monologue, in the sense that they invested their resources, time and creativity to create and broadcast marketing messages aimed at each individual phase of purchase decision making. The Internet has completely changed such understanding and application of marketing. Marketing has become a dialog between business and consumers, where relevance is more important than the number of repetitions of a message, and where consumers are the ones that seek precise and certain information.

The Internet has strongly enabled and encouraged mutual interaction and consumer-to-consumer word of mouth communication. This global phenomenon of consumer-to-consumer information dissemination and exchange includes both positive and negative information on businesses and their offer. As a consequence of this global phenomenon of information exchange, business have the problem of controlling and responding to this consumer information, and particularly, the problem of conducting marketing activities on local markets.

De Bruyn and Lilien (2008) opine that businesses have realized the potential offered by the Internet to consumers, with viral marketing as the most interesting and challenging. The authors state that the objective of viral marketing is to use C2C communication, i.e. word of mouth between consumers to distribute information on the businesses and their products and services on the marketing, and thus enable sales and market share in the fastest and most cost effective way. This information dissemination among consumers can be unintentional – when consumers have undeletable providers' information in each e-mail they send, or intentional – which is the most common form of viral marketing, when consumers willingly spread information on business and products and services to their friends by way of e-mails. Consumers may but need not be rewarded and stimulated by businesses to do it. Businesses use viral marketing to transform electronic communication networks into social influence networks aimed at encouraging positive purchase decision. However, although

the Internet is a perfect medium for viral marketing, the success of its application must be based on a high degree of trust – firstly between sellers and buyers, i.e. consumers, and then between the consumers themselves. The same authors warn that the role of viral marketing will keep playing an increasingly significant role in shaping consumer behavior, but also that the proliferation and uncontrollable quality of spam and bulk mailing has resulted in virus complications, in the sense that the consumers are increasingly unreceptive to electronic messages from unknown senders. This significantly hinders businesses in the effective use of viral marketing. The authors point out two essential differences between online and offline interpersonal communication (p. 152):

- Online interpersonal communication is electronic by nature, i.e. does not entail face-to-face contact, unlike offline interpersonal communication;
- Electronic interpersonal communication is basically unsolicited, i.e. recommendations and advice in the form of electronic messages reach recipients who did not request them previously, which results in a high degree of ignoring such messages by the consumers they are addressed to.

Meiners, Schwarting and Seeberger (2010) state that the emergence of the Internet has significantly changes the patters of exchanging positive and negative consumer opinions on all aspects of their existence, primarily in the sense of increasing ease and speed. Unlike traditional offline interpersonal communication which implies a statement made in direct face-to-face contact between individuals, electronic online interpersonal communication is the transmission of opinions, statements and attitudes through electronic written word. The basic advantage of electronic written word in comparison with the uttered word is that it can be distributed from a single position, for instance home, without expenditure of time, effort or other resources. Electronic written word is more formal is more formal, unchangeable, and often considered as more sincere.

Phelps, Lewis, Mobilio, Perry and Raman (2004, p. 341) state in their study that 48.8% of received e-mails accounts for humorous messages, 17.7% to chain mails to be forwarded as soon as possible, 4.8% are religious messages, 4.4% contains general information, 3.5% various warnings, 1.2% comments on companies, only 0.3% are messages from businesses to consumers, and 0.2% are messages of political character. Viral marketing is most frequently in the form of textual messages (74.7%), images (19.1%), animations (6.1%) and video recordings (0.6%). It is interesting to emphasize that 70% of all e-mail attachments is in .jpg and .gif format. Also, the study shows that the most active individuals in viral marketing are those with more spare time, many friends and acquaintances, politically active, those that have experienced certain traumas in life, those who want to be educated and socialize, altruists, and the superstitious. Positive consumer emotions as response to received electronic viral messages include joy, good mood, excitement, attachment, reward, inspiration, feeling special, curiosity, relief and interest. Negative consumer emotions resulting from received viral messages include irritation, anger, disappointment, skepticism, strain, disinterest, frustration, anger, disgust, commitment. In addition, the study has revealed that the highest percentage of forwarded emails was about: human activities (100%), nudity (60%), jokes (56%) warnings and crime (54.5%), games (53.8%), allegedly lucky chain mails (52.6%), mood-improving pictures (50%), missing children (50%), information and help (45.5%), warnings of computer viruses (38.7%), entertainment (25%), businesses' messages (25%), positive information on businesses (20%). The study indicates that there is a strong potential of viral marketing for businesses, but the consumers are not so willing to participate in it, as the percentage of forwarded e-mails related to businesses themselves, i.e. their marketing messages and publicity is relatively low.

Dobele, Lindgreen, Beverland, Vanhamme and Van Wijk (2007) point to two key success factors of viral marketing – in addition to emotion, each viral marketing message must evoke and encourage the consumers' imagination, and only then will this message be forwarded to other consumers; and, each message must be appropriately targeted at the right target segments of opinion leaders and

other consumers. The authors highlight six principles of successful viral marketing that businesses should consider (p. 301):

- Viral marketing companies exploiting pleasure are the most effective for products and services used for fun, entertainment, products and services undergoing the reposition process, or encouraging demand and interest on mature markets and products at the peak of their life cycle;
- Viral marketing campaigns exploiting sorrow are the most effective when urgent consumer response is required, i.e. when time is the critical factor, e.g. in situations of natural and humanitarian disasters, with the reservation that sorrow does not arouse the feeling of guilt, but empathy and willingness to offer maximum help to others;
- Viral marketing campaigns exploiting anger are most effective when instantaneous consumer response to certain forms of injustice is required, i.e. protection of the environment, animal species, minorities, etc.
- Viral marketing campaigns exploiting fear must be conducted very cautiously in situations when one wants to make a significant impact and change consumers' behaviors, like, for instance, combating smoking, binge drinking, speeding, voting, HIV prevention, etc.
- Viral marketing campaigns exploiting disgust are the most effective for younger, rebellious consumers, i.e. for products and services predominantly aimed at those market segments;
- To be successful, viral marketing campaigns must pay a lot of attention on the impact of culture to behavior, consumer perceptions, attitudes and opinions, i.e. they require detailed cross-cultural analysis before conducting any kind of marketing activity.

Modern-day business conditions impose it on businesses to accept the fact that viral marketing is an effective marketing tool only if its messages encourage consumers to certain behavior patterns and actions, where this action involves positive purchase decisions and forwarding business messages to other consumers by interpersonal means.

Virtual Social Networks

There are numerous controversies among researchers as regards the indication of the consequences of the emergence of the Internet, in the sense that many scientists and practitioners point to negative effects of the Internet on the mental health and social life of its users, whereas others refute this claim, highlighting the positive changes that this phenomenon has brought about, viewed in the direction of creating a new dimension of communication processes – intensifying communication through creating and strengthening quite new forms of social connections, i.e. virtual social networks.

One of the most significant current activities in the Internet environment is active involvement in virtual communities – communities of individuals communicating primarily through the Internet using specialized web pages for communication. The basis of mutual interaction, communication and linking comprises common interests such as profession, hobby, entertainment etc. community members exchange digital contents (texts, images, audio and video files), publish articles (blogs), rate and comment on others' digital contents, build databases and develop professional networks. The concept of virtual communities is very similar to the concept of social networks, but it is broader and encompasses all forms of virtual networking, i.e. by means of all types of social media (blogs, pages for exchanging digital contents etc.). Virtual communities cannot be fully controlled, i.e. the members can, and often do, criticize the company with their activities. Due to their specific features, managing virtual communities is regarded as a particular type of internet marketing activity (Deighton & Kornfeld, 2009).

Consumer behavior on virtual social networks (Bodroža, Jovanović & Popov, 2008. p. 29.) is manifested multidimensionally:

- Socialization – the dimension of socialization through virtual social networks refers to the perception thereof as a new and efficient tool for making new acquaintances and friendships, which are easily translated into the real world and environment. The attraction of this type of consumer interaction is the possibility to select and choose acquaintances according to shared interests;
- Addiction – as a dimension of consumer behavior on virtual social networks indicates a whole range of dysfunctional patterns of using internet services, such as abnormally high number of hours spent in online communication and internet use, inability to control such behavior, sleep deprivation, escape from the feelings of problem and loneliness etc, which all feature as criteria of diagnosing Internet addiction;
- Compensatory use – is the consumer behavior dimension on virtual social networks manifested through manipulating information in interpersonal communication and introduction to other members of the online network. Online interpersonal communication deprives the participants in the communication process of the feeling of responsibility and consequences of real-life communication. It is the main reason for the attractiveness of online interpersonal communication among all those consumers who, for any reason, for instance, unappealing physical and personal characteristics, fear rejection in direct offline interpersonal face-to-face communication;
- Virtual self vs. personal self – represents a dimension of consumer behavior in virtual communities related to the phenomenon of perceiving one's virtual profile as an integral part of the personality concept, i.e. the consumer's personal self. Online interpersonal communication enables users to easily create a virtual identity which is easily and clearly presented to others network members as one's own. Virtual personal identity is an enhanced real identity which shows the consumer in the desired light, and in which he starts believing himself.
- Negative attitude – relates to the dimension of consumer behavior on virtual social communities manifested by individual consumers who, despite being users and active participants of online interpersonal communication, have a negative attitude to it. This attitude can be authentic ad genuine, but also a consequence of previous Internet addiction, or others' testimonies of addiction.

Virtual social networks can also be viewed today as an integral part of direct marketing, i.e. one of the basic tools for creating partnerships between business on the one and consumers and clients on the other side. These networks enable setting up interactive communication between businesses and consumers, and are used for developing and enhancing relations between them. It is especially important to emphasize the active participation of consumers in this interactive communication process, in terms of involvement, awareness and influence on it. Social virtual networks enable the transfer of information to recipients in the fastest, most comprehensible and most efficient way, whereby the communication itself is identified and deepened, with the growth in trust and loyalty.

What makes virtual social networks so attractive and efficient are their basic characteristics (Bulović, Čavić & Matović, 2013):

- interactivity,
- individualization,
- participation,
- transparency,
- community focus,
- high usability,
- conversation,
- global connection.

Virtual social networks represent one of the most significant informational and social phenomena of the 21st century, and, with blogs and chat systems, comprise the trinity of cyber communities (Gregurec, Tomaš & Čorić, 2011). The significance of virtual social networks is growing on a daily basis, and several hundred such networks are currently active. Virtual social networks enable their users and members to become a part of international and global community within which they can freely express their attitudes and opinions, and exchange information with other network members, presenting themselves in the light that suits them most, to articulate their social needs, and establish contacts and relations with other network members. The basic motive of joining virtual social networks is the possibility of social influence on others, and a desire to belong to a certain group. According to the data from the official sites of these social networks, Facebook has 1.19 billion of monthly active users, and this figure is growing by 18% a year. Twitter has a billion users, whereas the LinkedIn business network has 259 million members. The popularity of virtual social networks is fascinating, and there is data testifying that only in the US every other Internet user regularly visits virtual networks, with millions of members (Trusov, Bucklin & Pauwels, 2009, p. 92.). A typical virtual social network enables its users and members to build, maintain and advance their own network of contacts for social and professional interaction and relationships. Member profiles consist of user images, i.e. avatars, which present them in the desired light. The specific feature of social networks on the Internet lies in the fact that its existence is based on the content created and exchanged by members rather than the network itself. The attractiveness and relevance of a virtual social network depends on their size, i.e. number of members, generating a more intensive interpersonal communication. On the other hand, the sociological phenomenon of dependence on the Internet and virtual social networks basically implies electronic interpersonal communication as the only way of communication regarded as desirable and satisfactory.

Consumer virtual social communities are, essentially, interpersonal online communication networks used for exchanging experiences and opinions of products, services and business, shaping consumer behavior and their purchase decision. These networks also have a broader social significance, providing their members with social support, acceptance and approval, and as such become a supplement of social behavior of individuals in the environment.

Factors determining the influence of virtual social communities on an individual's purchase decision are (Brown, Broderick & Lee, 2007, p. 4.):

- the strength of the bond between virtual community members refers to the strength of the dyadic interpersonal relation between two network members:
 - closeness,
 - intimacy,
 - support,
 - association;
- homophilia affects the strength of the bond between members, and the support and feeling of belonging, explaining the group composition in terms of similarity of network members by the following indicators:
 - age,
 - gender,
 - education,
 - lifestyle etc.
- credibility of interpersonal communication sources plays a significant role, but is hard to establish in the case of virtual social communities, so that it represents a limiting factor of spreading and accepting interpersonal communication.

The development of communication and information technology and the overall digitalization of society have resulted in the fact that any individual with access to the Internet can experience his own importance and contribution to society, even in terms of influencing and changing certain

events. Personal ego and personal emotions become public in the sense that we channel them to the public in accordance with our personal affinities.

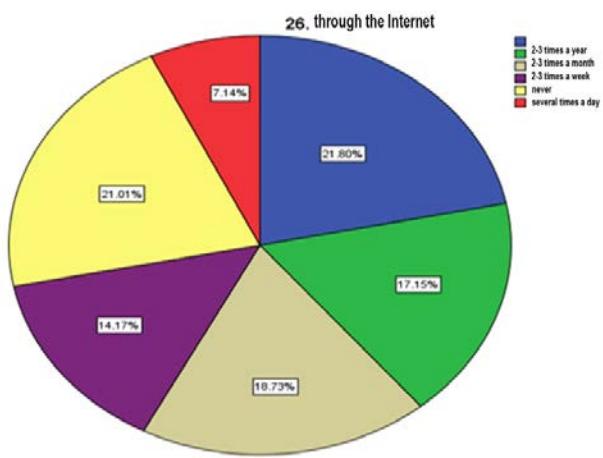
Research

Virtual networks, communities and media are increasingly becoming the focus of interest of science and practice in Serbia. It is important to note that the phenomenon of digitalization of society and the role of virtual social network is dealt with by not only sociologists, psychologists or IT experts, but also, increasingly, marketing profile experts.

As a part of a broader project of analyzing the effect of consumers' word of mouth communication on their purchase decision, the research aimed to identify which social networks are the most popular among consumers in Serbia, and then establish whether consumers use them to generate, disseminate and seek word of mouth communication for their needs in the decision making process. A questionnaire with a 5-degree Likert scale was used for collecting data.

In the sample of 1009 respondents in Serbia, the majority of them respondent that they do not use the Internet for disseminating information on products and services to other consumers – as many as 21%, whereas the highest percentage of respondents using the Internet to that end do it 2-3 times a month (18.7%), then 2-3 times a year, then 2-3 times a week, while only 7.1% of respondents disseminate interpersonal messages by way of the Internet several times during the day. It is indicative that one out of five respondents did not reply to this question, which indicates that a large number of respondents are not Internet users, or use it predominantly for entertainment and socialization.

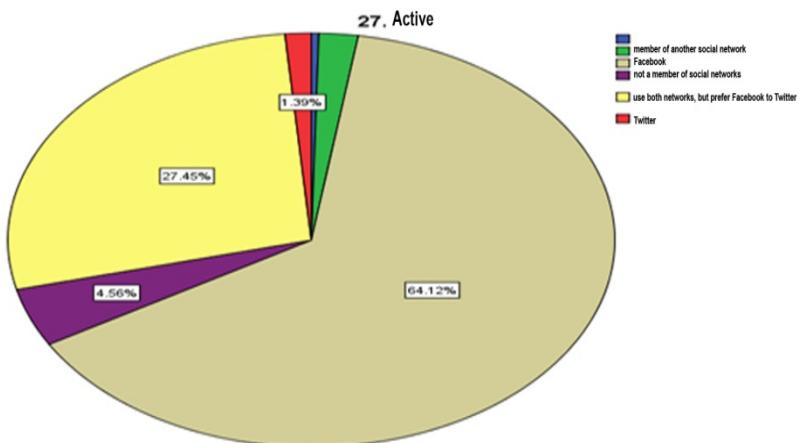
Figure 1: Frequency of disseminating interpersonal recommendations and information by way of the Internet



The study also aimed to establish which social networks the respondents in the sample tend to use most often, and it is interesting to note that 4.6% respondents claim not to be members of social networks, and that a negligible number of respondents did not respond to this question – only 0.4%. The overwhelmingly most popular social network in Serbia in the sample is Facebook, where as many as 64.1% respondents stated this network as the only one they use. The domination of Facebook is even more if one looks that as many as 27.5% respondents stated that they use both Facebook and Twitter, but prefer Facebook, which collectively gives 91.6% respondents in the sample who are users of this most popular virtual social network in the world. For comparison, the percentage of respondents using only Twitter is 1.4%, whereas 2.1% respondents stated that they are members of some other social networks LinkedIn, Google + etc. This points that companies can conduct their word of mouth activities predominantly through Facebook, but other social networks contain

significant potential if they achieve wider popularity. A larger number of users also mean higher interpersonal communication.

Figure 2: Popularity of virtual social networks in Serbia



Marketing-related academic and professional literature still does not take a unified position regarding the exploitability of virtual social networks for marketing activities. Although Internet marketing is currently fully affirmed both as scientific discipline and practical marketing activity, the effect of it are still taken with a certain amount of reservation, in the sense that consumers are extremely sensitive and unwelcoming to electronic messages of commercial character, which they perceive as electronic junk or spam. Undoubtedly, internet as a communication medium and web 2.0 technologies enable the sender of the information to send the message to a fantastic number of potential recipients in a short time and with minimum effort, but the fact is often pointed out that potential recipients are not always willing to receive it. The information sector launches large numbers of software packages daily, whose purpose is to protect consumers from unwanted Internet communication. In this sense, the research study contained several questions on the activities of consumers in terms of interpersonal communication on the Internet.

Statement: *In most cases I look at and pay attention to all Internet advertising my friends point to.*

Table 1: Structure of responses

	Frequency	%
Partly disagree	6	.6
Partly agree	252	25.0
Neutral	373	37.0
Fully disagree	179	17.7
Fully agree	102	10.1
Total	97	9.6
	1009	100.0

The respondents' answers show that cumulatively 46.6% of them look at and pay attention to all the messages recommended and pointed out but full agreement with this statement is expressed by only 9.6% of consumers. A very similar and slightly higher percentage is found in respondents who fully disagree with this statement (10.1%), whereas a total of 35.1% do not look at the advertisement and messages their friends point to, and a significant percentage (17.7%) have a neutral attitude. Such a polarized structure of responses can be partly interpreted by the saturation of consumers with the enormous number of marketing messages they are exposed to on a daily basis, so that they are not inclined to pay attention even to messages their friends recommend.

Statement: I actively forward email advertisements, reviews and recommendations I consider important and interesting

Table 2: Structure of responses

	Frequency	%
Partly disagree	181	17.9
Partly agree	128	12.7
Neutral	185	18.3
Fully disagree	459	45.5
Fully agree	56	5.6
Total	1009	100.0
	181	17.9

Any research into interpersonal communication, especially electronic, also includes research not only into how much consumer initiate, i.e. seek interpersonal recommendation and advice, but also how much they are willing to forward these recommendations and advice, i.e. to generate and disseminate interpersonal communication. The structure of responses in this sense is not too encouraging, as only 5.6% respondents expressed full agreement with the statement that they actively forward Internet advertisements and marketing information they find important and interesting. Actually, the question only referred only to those commercial messages that the consumer personally finds interesting, and for this reason the low percentage of respondents who do it absolutely is worrying. Furthermore, a very low percentage of respondents in the sample stated that they do it in most cases – only 12.7%, which cumulatively accounts for 18.3% consumers who forward marketing messages of interpersonal characters. This question is also characterized by an extremely high percentage, amounting to 45%, who absolutely disagree with the above statement, i.e. do not forward online recommendations and reviews, where such a percentage did not occur in any other question in the questionnaire. When one adds 17.9% respondents who mostly do not forward received interpersonal reviews, recommendations and advertisements, this adds up to a high 62.9% consumers who do not use the Internet for forwarding interpersonal communication.

Statement: I do not open mails from unknown senders

Table 3: Structure of responses

	Frequency	%
Partly disagree	152	15.1
Partly agree	219	21.7
Neutral	114	11.3
Fully disagree	54	5.4
Fully agree	470	46.6
Total	1009	100.0
	152	15.1

Consumer resistance to unwanted messages of marketing or other nature is best viewed through the question whether they open electronic messages from unknown senders. The structure of responses confirms the belief that unknown messages from unknown senders are not opened in most cases – as many as 46.65% respondents absolutely do not open such mails, which, together with another 21.75% of those who mostly do not open them, adds up to overwhelming 68.3% respondents

practically unaffected by any marketing activities conducted by businesses or individuals. The percentage of respondents who did not have a defined attitude amounts to 11.3%, which means that only 5.4% respondents in the sample belong in the group of consumers who always open and follow all messages that they receive through the Internet.

Modern information technologies evidently have a rising influence on individuals' daily lives and activities. According to many surveys, more developed markets and consumers on these markets are increasingly open to socialization by way of the Internet and virtual social networks, but the latter are also increasingly used as a very effective medium for exchanging marketing messages and contents, both from businesses to consumers and between consumers. Studies in Serbia still point to a relatively limited current influence of social networks to, not so much initiation, as dissemination of interpersonal communication, and thus, influence on the purchase decision.

Conclusions

The phenomenon of virtual social networks and communities, as it were, is becoming an increasingly dominant consumer behavior pattern, and a sort of obsession of the current information social setting, arousing equally their elation and worry.

To an extent, the virtual world reflects the real world, comprising various forms of consumer behaviors, as well as various manifestation forms and patterns – communication, interaction and establishing various forms of relations, building one's own identity, problems, fears, joys etc. The appeal of virtual social communities for individual consumers stems from its anonymity, minimum external control, i.e. maximum control from the aspect of the individual, unregulated behavior patterns and norms, whereby it becomes free of consequences and very practical for individual experimenting with one's own identity. Thus, virtual social networks become extremely attractive to businesses, which see them as a new medium of targeting selected market segments and generating positive interpersonal communication. However, businesses must do something more towards stimulating consumers to get more involved so that the potential and possibilities of virtual social networks can be used in a more significant measures. Instead of marketing messages showing their offer, business must create such communication where the content of the message and implicit emotions will influence consumers' marketing active behavior. Integration of offline and online word of mouth communication is the only way to this end. The great Peter Drucker pointed out that the essential and only purpose of a business is to create and retain consumers; in the modern-day marketing environment, the same thought could be rephrased that the purpose of the business is to make consumers themselves create new consumers for the business.

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Challenges of Knowledge Transfer in the International Business of SMEs

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Abstract

In this paper, we will investigate the challenges of knowledge transfer in the context of Finnish SMEs. The aim of the study is to increase understanding about the main problems in knowledge transfer in the international operations of SMEs and on their effects on the international collaboration and business in general. Our findings are analyzed in the theoretical framework, where we categorize the challenges as follows: organizational structures and processes, communication and organizational practices in collaboration and relative to the nature of knowledge. We argue that SME's should update their practices along with the internationalisation and the effects of internationalisation for all the actors and in all areas of business should be taken into consideration to make the knowledge transfer and sharing effective.

Keywords

Knowledge transfer, international business, SME's

1. Introduction

Internationalisation is a big challenge especially for SMEs as they have less resource than large organizations to develop their international operations. Internationalisation is, however, an important way for SMEs to grow and find new possibilities for business. Internationalisation has been mainly studied for multinational corporations and less for small and medium sized organizations that are claimed to be neglected in internationalisation research. Small firms often lack the resources to enter foreign markets. Compared to the larger ones they may be less competitive and may have shortages of finance and limited administrative capacity (Jansson & Sandberg 2008). However, SMEs have a significant role in the economy, they are large source of employment and they enhance specialization and innovativeness (see e.g. Elo, 2005). Therefore we argue that the challenges of their internationalisation deserve more attention.

Ability for effective knowledge transfer is argued to be one of the most important competitive advantages in international business. However, geographical and cultural distance usually increases the challenges related to knowledge transfer. In this paper, we will investigate the challenges of knowledge transfer in the context of Finnish SMEs. The aim of the study is to increase understanding about the main problems in knowledge transfer in the international operations of SMEs and on their effects on the international collaboration and business in general.

2. Challenges of Knowledge Transfer in International Business

The definition of knowledge in organisation is typically broad: many phenomena, including routines, practices and technologies can be seen as knowledge (Rerup & Szulanski, 2004). Knowledge transfer, on the other hand, refers at its simplest to transferring source knowledge successfully to a recipient (Cummings & Teng, 2003). In organisations, knowledge transfer is the process through which one organizational unit passes its experience to others by exchanging knowledge between or among individuals, teams, groups or organisations (Argote & Ingram, 2000; Duan et al., 2010).

Challenges of knowledge transfer have been investigated in numerous studies. Some of the most notified knowledge transfer challenges in previous studies include absorptive capacity, the nature of knowledge, organizational culture and organizational structure (see e.g. Cohen & Levinthal, 1990; Easterby-Smith et al., 2008; Tsai 2002). Knowledge transfer has also been studied in the context of international business and effective transfer of knowledge is argued to be one of the main competitive advantages of multinational corporations (Minbaeva et al., 2003). Furthermore, knowledge transfer is suggested to be one of the most important motives for (international) mergers and acquisitions. Consequently, numerous management tools and best practices have been developed to integrate, standardize and homogenize the operations and cultures of the merging organisations and thus to support the international knowledge transfer (Vaara et al., 2003). It is, however, obvious that problems related to the knowledge transfer increase with geographical and cultural distance.

Recent research has identified factors that hinder or stimulate knowledge transfer especially in the international context. Based on the previous research, we divided the challenges of knowledge transfer in the international business in four categories. These categories and their contents will be discussed next and they will also form the theoretical framework for the purposes of our case study.

2.1. Challenges in organisational structures and processes

Challenges related to organisational structure can occur due to high formalization, which refers to the formal rules, guidelines and procedures, and regulations of an organization (Kim & Lee, 2006). Formal systems are argued to be less effective than informal systems in facilitating the sharing of

information and knowledge. In contrast to formal systems, lateral and informal coordination, such as teamwork and personal networks not defined by hierarchy and regulation, can result in more intense and effective information sharing via cooperative processes between departments (Tsai, 2002; Willem & Buelens, 2007).

Researchers also assert the importance of incentive systems in motivating organizational members to share information with others in different groups or departments (Willem & Buelens, 2007). Various incentives can thus enhance knowledge transfer in organisations.

Organizational members' attitudes and collective actions regarding sharing information are influenced by organizational values. If the value of information sharing is not part of an organization's culture, information sharing efforts can clash with its culture (Zhang et al., 2005). It has been suggested that when an organisational culture emphasises values such as fairness, solidarity, mutual interest, affiliation and innovation, the culture can positively influence employees' willingness to share information (Järvenpää & Staples, 2001; Bock et al., 2005).

2.2. Challenges in communication and organisational practices

Challenges in communication can occur due to the lack of experience of the recipient or the amount of his base knowledge (Simonin, 1999). At the individual level, also the motivation to acquire knowledge and the capacity to absorb incoming knowledge are crucial factors when aiming to effective knowledge transfer. Absorptive capacity is defined as the "ability to recognize the value of knowledge, assimilate it and apply it to commercial ends" (Cohen & Levinthal 1990, p. 128). It is also discussed in organisational level, meaning that different organisations may have different level of absorptive capacity. It varies depending on the prior related knowledge and on the individuals' similarity on certain attributes such as beliefs, values or education (Gupta & Govindarajan, 2000). It should thus be made sure that knowledge to be transferred is in line with the recipient's former knowledge

Besides, people from different units or organisations may not be committed to effective knowledge transfer (Empson, 2001). There might also be resistance to share knowledge, since knowledge is often equated with power and knowledge and know-how can thus be protected (Simonin, 1999).

It has also been argued that effective and frequent communication facilitates interaction and is likely to be associated with high level of reciprocal knowledge transfer. This indicates that all kinds of communication should be encouraged in organisations, not just those where the goal is to transfer certain knowledge. Effective communication facilitates interaction between individuals and supports the creation of supportive environment for knowledge transfer (Bresman et al., 1999).

Furthermore, the variety and richness of transmission channels is important in successful knowledge transfer as it typically increases communication and can also help in making sure that the information reaches the recipient. These transmission channels can be both formal and informal to increase formal integration as well as informal socialisation (Gupta & Govindarajan, 2000).

2.3. Challenges in collaboration

Challenges in collaboration may occur due to various reasons. Cultural or organisational distance is maybe the most obvious explanation for the problems in knowledge transfer. Cultural distance is argued to hinder understanding others, most obviously when there is language barrier between partners. Inadequate understanding of foreign markets and the context of various cultures might also make knowledge transfer more difficult. Organisational distance is also likely to affect the efficiency

of knowledge sharing due to the differences in organisational culture and business practices (Simonin, 1999; Choi & Lee, 1997).

Also the social community has a significant meaning in knowledge transfer as it has been argued that individuals will participate willingly in knowledge exchange only when they share a sense of belonging with their colleagues. Visits and meetings have social components and they thus enhance collaboration and knowledge transfer even though they are task-related. They also facilitate the capacity of the firm to support learning (Bresman et al., 1999)

2.4. Challenges related to the nature of knowledge

The nature of knowledge to be transferred may also pose challenges for the transfer process. Articulate and explicit knowledge is considered to be easier to transfer than knowledge that is tacit in nature (Minbaeva et al., 2003; Bresman et al., 1999). Also specificity and complexity of knowledge makes it more difficult to transfer (Simonin, 1999). Furthermore, the size, amount, and perceived worth of requested information can influence organizational members' attitudes and intentions to share information (Kolekofski & Heminger, 2003).

3. Case Description

Our case company is a 20 year old company with around 100 employees. It manufactures different equipment, systems and provides services for the construction industry. The company's competitive advantage is its technical expertise, investment in product development and overall solutions. The company has grown by building an extensive sales network in its home market area. In addition the company has developed its exports for over 15 years also in the Scandinavian market. The internationalization has been realized mainly by establishing in-country sales offices.

The subsidiary in south Sweden has a long tradition in selling products and services to contractors and designers. Earlier, the aforesaid subsidiary sold competitive manufacturer's products. This company still continues to sell the products of other manufacturers and a substantial part of the activities and staff takes part in after sales services. Recently the head office and subsidiary jointly hired a new sales person with the mission to only sell the head office's products. At the time of acquisition the objective for co-operation was agreed, but in practice the mode of operation has not been evaluated nor developed. The head office has collaborated with the sales office for decades, and this has been based on mutual trust between companies' key persons. Sales office has its own customer base and operational mode, which then differs from the corresponding mode of the subsidiary.

Table 1: Case companies

	Products and services	Location	Employees
Head office	Design and manufacturing Products and Services	Finland	around 100
Subsidiary	Head office's products Competing products for contractors and engineering companies Regional after sales services	South Sweden	around 10
Sales office	Head office's products for large engineering/consulting companies	Stockholm, Sweden	3

In this paper our aim is to investigate the challenges of knowledge transfer between the head office in Finland (later head office) and sales organisations in Sweden; a subsidiary (later subsidiary) and sales office (later sales office), which operates quite independently (Table 1).

Even though Finnish and Swedish cultures are typically considered to be quite close to each other, there are certain differences that should be taken into account in an organisational context. One of the most commonly recognised differences lies in the management style, which is in Finland quite straightforward and emphasises the independence of a single decision maker. In Sweden, on the other hand, the focus is on discussion with all the parties involved. The possible cultural differences should be acknowledged as “the illusion of similarity” is noticed to be the main challenge in mergers between Finland and Sweden (Tienari & Vaara, 2004).

4. Research Strategy and Data Collection

In the study presented in this paper we adopt a case-study based research approach (see e.g. Yin, 2008; Eisenhardt, 1989). In general, case studies are the preferred strategy when “how” and “why” questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context.

In this case study we interviewed five people in the case company’s headquarter; the CEO, the logistics manager, two export sales people and one former export sales person, who has just recently moved in new position in R&D. In addition, three people in company’s subsidiary in Sweden were interviewed. Two of them are co-owners of the company and responsible for everyday operations, including sales, in the company and one of them is working as a sales person in Southern Sweden. In the company’s sales office in Sweden we interviewed all the three persons working there, who are jointly responsible for sales in Stockholm area.

The interview topics regarded the organization, customer and sales of each company and the collaboration of the companies in Finland and in Sweden. The interviewees were also asked to give proposals for how to improve the collaboration in the future. In the analysis of data, we used traditional qualitative methodologies to sum up and categorize our central findings. The material was analyzed based on the developed theoretical framework, but the analysis also included inductive elements (Koskinen et. al, 2005; see also Becker, 1998).

5. The Challenges of Knowledge Transfer in a Finnish SME

In this section we will discuss how the challenges of knowledge transfer recognised in the previous literature appear in the international operations of our case company. The challenges will be evaluated based on the four categories we created in our literature review.

5.1. Challenges in organisational structures and processes

In the case companies, different locations have their own structures and processes that are not clearly integrated to function together. Head office, as well as sales office and subsidiary have low organizational structures. Also, key personnel have extensive job descriptions and responsibilities. On the other hand, low structures encourage people to create informal relationships and coordination and on the other hand it increases the work load and misunderstandings. This is why the information flow particularly between office and subsidiary is slow.

Sales have designated country-specific contact persons, but in practice these people are over-loaded and they do not use the time to take care of the relationship and cooperation maintenance. Head office and subsidiary work with a very different business strategy and cater to a different clientele. Lateral and informal coordination work and support internal information separately in each office, but between them knowledge transfer is inefficient. Organizational culture is also supported by informal and personal relationships, but joint culture has not emerged after the acquisition.

Moreover, informal structures do not support nor encourage the exchange of information and cooperation.

The biggest challenges are causes to the order-delivery process, which should work well in a predictable and transparent manner. Informal and lateral coordination adds flexibility to the operation, but the operational actions cannot be built on it. The information flow between the different actors breaks and is interrupted. At worst, this leads to the loss of deals or even losing confidence in the company's operations. This also applies to after-sales activities.

5.2. Challenges in communication and organisational practices

The company's export organization is narrow and the communication channel within the head office is flexible. Practically communication is done by walking directly to the adjacent room. The designated sales personnel take care of their sales network actively, independently and by creating personal relationships with different players. The practices are informal and largely this is seen as a good way of managing things.

The communication between subsidiary and head office is reactive, i.e. it is mainly taking place when facing problems. In these situations finding responsible people is slow and the resolution eventually requires quick interference by the head office. Mutual understanding of problem is not always reached and this causes friction. The proactive communication is missing which, in turn, has disabled the creation of systematic practices that support knowledge transfer. In practice, there has been misunderstanding in each other's activities and information that has not been adjusted together.

Channels of communication between the head office and Swedish actors are limited and inadequate. Formal channels like www or intranet pages are not updated and do not include the right information about products and services. This information cannot be trusted and often the sales office and subsidiary operate on incomplete information. Only the head office possess the correct information about the products. This complicates and slows down the quotes made. The communication with e-mails and phone calls is reactive and often frustrating and contains misunderstandings. Face to face meetings are not organised regularly between head office, sales office and subsidiary.

5.3. Challenges in collaboration

In the case company, cultural distance is clearly affecting on the effectiveness of knowledge sharing. The most obvious challenge is the language barrier as the people at the subsidiary prefer communication in Swedish but the people in the head office cannot speak Swedish. The people at the subsidiary are missing a former export sales person, who speaks fluent Swedish but just recently moved into new position and is no longer collaborating with them. Besides, there is no sales material available in Swedish. The lacking knowledge of language is making the collaboration and knowledge sharing difficult.

At the head office there is also an inadequate understanding of the market situation in southern Sweden. Moreover, the business logic and practices of the subsidiary are not all clear at the head office. The competition in Swedish market is heavy and the Finnish brand is not well known in Sweden. These are posing challenges in sales. There is not, however, enough information about the current situation of Swedish market in Finland and the head office thus has unrealistic expectations about the sales volume in southern Sweden.

In the collaboration between head office and sales office the language does not form a barrier as the communication is done mainly in English. The lack of Swedish sales material and web pages are,

however, affecting on the sales process also at the sales office. The documentation of the products is also considered insufficient at the sales office and this has also been communicated to the people at the head office. There have not, however, been any improvements in the situation. The sales office is thus unhappy about the responses they get from the head office and consider the knowledge transfer between the units too slow.

There is a strong social bond between the CEO and the leader of the sales office. They are friends and knowledge exchange between them seems to work very well. Attention should, however, be paid into the relationship between the head office and the other two employees at the sales office, who are currently recognising problems in the knowledge transfer unlike the leader of the sales office. Sales office people have been visited the head office yearly and they consider this visit very important. This visit seems to enhance collaboration and sense of fellowship also among the two employees.

Between the subsidiary and the head office, visits and face-to-face meetings should obviously be increased as there is no sense of belonging between the people at the subsidiary and the people at the head office. There have been plans to organise a visit in the near future, which could help in understanding each other's situation and the need of information. In the future, visits and meetings could be organised in a regular basis to increase sense of belonging to the same company.

5.4. Challenges related to the nature of knowledge

The knowledge that needs to be transferred between the head office, subsidiary and sales office is mostly related on products to support sales. The nature of this knowledge is mainly explicit in nature but it is partly very complex and specific. The head office is aiming to concentrate on systems selling both in Finland and in Sweden, which requires adaptation of more complex knowledge than pure product selling. The lack of documentation as well as Swedish sales material and web pages are obviously posing major challenges on transferring this complex knowledge, but also other previously discussed challenges in knowledge transfer should be carefully evaluated. As the knowledge to be shared is complex, all problems in communication and collaboration can be outstandingly harmful for the efficiency of knowledge transfer.

6. Conclusions

Based on our findings we argue that following challenges in knowledge transfer are the most remarkable in the international business of Finnish SME's:

- Especially Order-Delivery-After sales processes require effective *organisational structures and processes* between different units. There should be formal structures as well as lateral and informal coordination that enables flexibility between international organisational departments that support intense and effective information sharing.
- *Organisational and communicational* practices between countries should be given special attention. Procedures and practices must be developed together and proactively to enable collaboration and fast response in quickly changing situations.
- Language barrier and inadequate understanding of local markets hinder efficient *collaboration* and knowledge transfer. Visits and face-to-face meetings should be organised on regular basis in order to increase sense of belonging between the people.
- *The nature and accuracy of knowledge* should be addressed in order to overcome the problems in communication and collaboration.

These challenges seem to reflect the general challenges in the internationalisation of SME's, such as the lack of resources and experience. We argue that SME's should update their practices along with the internationalisation. The good practices in communication and knowledge transfer utilised in

domestic business do not necessarily work in foreign operations. The effects of internationalisation for all the actors and in all areas of business should be taken into consideration to make the knowledge transfer and sharing effective.

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US LIBOR Reaction to US Monetary Surprises

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Abstract

The Federal Open Market Committee announcement of the federal funds target rate is one of the most important policy news items in the world. Additionally, the role of the US London Interbank Offered Rate (LIBOR) and LIBOR-federal fund rate spreads are important for financial markets. This relationship is well-documented. Here, I examine the relationship between varying maturities of the US LIBOR to unexpected changes in federal funds target rate. I also look at the spread between the federal funds rate and the US LIBOR as it relates to these US monetary shocks. I use an event study analysis. I find that the US LIBORs react negatively to US monetary shocks, as do LIBOR-federal fund rate spreads.

Keywords

Monetary policy, business cycle, credit channel, LIBOR

Public Sector Salaries, Community Size and Heterogeneity

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Introduction

The 2008-2009 financial crisis aggravated the already challenged state and local government budgets in the U.S. and around the world. Salaries and underfunded pension benefits of public sector workers came under increased scrutiny. The problem seems most acute in larger and more heterogeneous communities.

This paper presents a model of public sector wage determination based on the economic analysis of political activity first presented by Stigler (1971) and Peltzman (1976) in the analysis of government regulation. Empirical implications of this model are then developed which predict that, with other relevant factors held constant, public sector salaries will be higher in larger and more heterogeneous communities.

An empirical analysis using public school teacher salaries for the state of Illinois then tests these empirical implications. Multiple regression analysis indicates that public school teacher salaries are higher in larger school districts, when holding constant factors such as income and education. The standard deviation of property values, education, and income are used to measure school district diversity. Further empirical results then show that public school teacher salaries vary as predicted by the model with respect to the heterogeneity of the school district.

Labor in the Public Sector

Studies which examine the appropriate model within which to view public sector wage determination include Ehrenberg (1973a) and Ashenfelter and Ehrenberg (1975) which derive their results from a utility-maximizing model in which utility is a function of publicly and privately produced goods and services. Niskinen (1971) develops a theory of the output and pricing decisions of a government bureau providing a public service within a representative government. Courant, Gramlich, and Rubinfeld (1979) review the literature which argues that the public sector will grow due to the influence of public employees in the political process and provide a model of public employment and wage determination, including both the political and economic power of government employees and the limitations on that power from private sector mobility. Anable (1974) proposes a model of wage determination in public employment based on a range theory of wage negotiations. Barr and Davis (1966) propose a theory of local government expenditures incorporating political considerations following Downs' (1957) ideas which presumes that candidates who propose a platform of expenditures equal to that level desired by the median voter will be elected.

A positive economic analysis of the political process involved in government regulation, first suggested by Stigler (1971) and extended by Peltzman (1976) built on the previous work of Downs (1957) and Olson (1965). These discussions center on the notion of interest groups seeking favorable

treatment from a regulatory agency. This paper applies the economic theory of political behavior to the public sector labor market. It will be argued that the political support maximization model of political behavior is a useful framework within which to view the determination of public employees' wages. The theoretical model asserts that some government agency, such as a school board, responsible for the provision of a public service has the power to tax constituents within its jurisdiction and to set wages for its employees. Members of the government agency attempt to maximize their political support. Support from citizens depends on the taxes imposed to finance a given level of service and the uninterrupted provision of the service. Employees offer support in return for higher wages and may attempt to influence support from citizens by threatening disruption of the service. The agency sets wages and taxes so as to maximize its political support from constituents and employees. The model suggests that the relative success of employees or constituents in this political process depends on the characteristics of the community.

A Model of Public Sector Wage Determination

These propositions about the political support offered by employees and citizens can be formalized in a model of political support maximization by the governmental agency presented in Heiney (2011). It is argued previously that employees' support will increase in response to higher wages offered by the agency. Then agency's perception of the probability that an employee will support it, p_1 , can be described by a function,

$$p_1 = p_1(w), \text{ with } \frac{\partial p_1}{\partial w} > 0 \text{ and } \frac{\partial^2 p_1}{\partial w^2} < 0. \quad (1)$$

The agency is more uncertain of citizens' positions, that is, uncertain about the amount of support expected from citizens in response to any proposed tax increase to finance higher wages. This uncertainty can be described by a function showing the agency's perception of the probability, p_2 , that a citizen will vote favorably at various levels of taxes with other factors which influence citizens' support, such as uninterrupted provision of the service, held constant. If P is the base of the tax on each citizen and t is the tax rate,

$$p_2 = p_2(tP), \text{ with } \frac{\partial p_2}{\partial (tP)} < 0 \text{ and } \frac{\partial^2 p_2}{\partial (tP)^2} < 0. \quad (2)$$

Support from citizens depends not only on the level of taxes but also on the uninterrupted provision of the service. Disruption of the service will reduce support from citizens, other factors held constant. Thus, employees can influence political support by threatening to disrupt service if a wage increase is not granted. Service can be disrupted in various ways and to various degrees. For simplicity, consider disruption in the form of a strike. The probability that employees will strike is lower, the higher the wage the agency offers. Let p_d indicate the probability of disruption, where

$$p_d = p_d(w), \text{ with } \frac{\partial p_d}{\partial w} < 0 \text{ and } \frac{\partial^2 p_d}{\partial w^2} > 0. \quad (3)$$

The amount of disruption expected to result at different wage levels depends not only on the probability that disruption will occur but also on the percentage of the population utilizing the service, that is, the percentage for which a strike will be disruptive, times the inconvenience to each. Let n_d indicate the number of citizens using the service; n_2 , the total population; and d , the inconvenience to each person using the service if service is interrupted. Then, expected disruption per capita is given by

$$E(D) = p_d(n_d/n_2) d. \quad (4)$$

Offering a higher wage pays political rewards in terms of lower expected disruption, but the effect of a higher wage offer depends not only on how much the probability of disruption falls but also on n_d/n_2 and d , that is,

$$\partial E(D) / \partial w = (n_d/n_2) d (\partial p_d / \partial w). \quad (5)$$

The payoff from a given increase in w will be smaller if n_d/n_2 or d is smaller, given $\partial p_d / \partial w$.

So, the probability that a citizen will support the agency is a function of the level of taxes imposed by the agency and the expected disruption which will result from the agency's actions.

$$p_2 = p_2(tP, E(D)), \text{ with } \partial p_2 / \partial (tP) < 0 \text{ and } \partial^2 p_2 / \partial (tP)^2 < 0 \text{ and } \partial p_2 / \partial E(D) < 0 \text{ and } \partial^2 p_2 / \partial E(D)^2 < 0 \quad (6)$$

The agency's objective is to set the wage paid to employees and the tax rate imposed on citizens so as to maximize political support. For simplicity, assume as usual that different forms of support can be transformed into the one dimensional measure votes, V . If the number of employees is n_1 and the number of citizens is n_2 , then expected votes from employees, V_1 , is $n_1 p_1$; and expected votes from citizens, V_2 , is $n_2 p_2$.

The agency seeks to maximize the function,

$$V = V_1 + V_2 = n_1 p_1(w) + n_2 p_2(tP, E(D)). \quad (7)$$

In doing so the agency operates under a budget constraint that expenditures must equal receipts,

$$n_2 tP + O = w n_1 + p_x X, \quad (8)$$

where O is revenue from sources other than taxes on citizens, p_x is the price of non-labor inputs, and X is the quantity of non-labor inputs.

From the first order condition for a maximum with respect to w ,

$$n_1 \partial p_1 / \partial w + n_d \partial p_2 / \partial E(D) d \partial p_d / \partial w = \lambda n_1 \quad (9)$$

The left-hand side of (9) is the marginal vote product of an increase in w . The first term indicates the number of additional votes from employees which results from a one dollar increase in w . The second term is the number of additional votes from citizens forthcoming from the fact that a one dollar increase in w reduces expected disruption. The right-hand side of (9) is the marginal vote cost of an increase in w . A one dollar increase in w will cost n_1 dollars, and λ is the marginal vote opportunity cost of public expenditures. Expression (9), therefore, indicates that the wage paid to employees will be set so that the marginal vote product equals the marginal vote cost, that is, the agency will increase wages until the additional votes generated by the last dollar increase in w are equal to the additional votes lost by spending the last dollar on an increase in w instead of putting it to some other vote generating use, such as reducing taxes.

From the first order condition with respect to t ,

$$- n_2 \partial p_2 / \partial (tP) P = \lambda n_2 P. \quad (10)$$

Here the left-hand side is the marginal vote product of a decrease in t , that is, the increase in the number of citizens' votes which results from a one unit decrease in t . The right-hand side is the marginal vote cost of a decrease in t , that is, the decrease in votes which results from a one unit

decrease in t , since a one unit decrease in t will reduce tax revenue by $n_2 P$ dollars and λ is the vote opportunity cost of one dollar. Thus, the agency will set t so that the number of votes gained from the last unit decrease in t is equal to the number of votes lost by not putting the forgone tax revenue to some other vote generating use, such as increasing wages.

Expressions (9) and (10) can be combined, giving

$$\frac{-n_1 \partial p_1 / \partial w + n_d \partial p_2 / \partial E(D)}{n_2 \partial p_2 / \partial (tP) P} = \frac{n_1}{n_2 P}. \quad (11)$$

This is the familiar form of the maximizing condition, that is, the ratio of the marginal vote products should equal the ratio of the marginal vote costs.

This is an explicit model of the political process of public employee wage determination which suggests specifically the ways employees and citizens can influence wages and taxes and has implications for the circumstances under which each group will be relatively more successful.

Empirical Implications for the Variation of Wages by Size of Political Jurisdiction

This section presents the empirical implications of the model for the variation of wages by size of political jurisdiction first developed in Heiney (2012). In the model the size of the political jurisdiction would be measured by n_2 .

Consider an increase in n_2 with n_d held constant. From the denominator of the left-hand side of (11), an increase in n_2 results in a larger number of votes in opposition to an increase in t , resulting in a lower equilibrium w and t . From the denominator of the right-hand side of (11), an increase in n_2 has a positive substitution effect and a positive vote output effect on w .

The effects of a change in n_2 are, therefore, given by

$$\frac{dw}{dn_2} = \frac{1}{\Delta(tP)^2} \left\{ n_1 n_2 P^2 \frac{\partial p_2}{\partial tP} + \lambda n_1 n_2 P^2 - n_1 n_2 tP^3 \frac{\partial^2 p_2}{\partial tP^2} \right\} \quad (12)$$

The first term in (12) shows the negative effect on w of an increase in n_2 because there are now more citizen votes in opposition to an increase in t . The second term is the positive substitution effect, and the third term is the positive vote output effect of an increase in n_2 .

The first and second terms can be written as

$$n_1 P (n_2 P \frac{\partial p_2}{\partial (tP)} + \lambda n_2 P)$$

which equals zero by the first order condition with respect to t . The third term is positive, so that dw/dn_2 is unambiguously positive.

The Effect of Political Consolidation on Public Sector Salaries

Therefore a clear empirical implication of this theory of public sector wage determination is that wages will be higher in larger communities ceteris paribus.

Table one presents the results of an empirical analysis of teachers' salaries for public school districts in Illinois. Salaries are measured by the minimum salary for teachers with the bachelor's degree so as not to be affected by years of experience. To control for teacher quality the variable DEGREE is the

degree required to earn the highest scheduled salary in the district. The variable, AGREE, indicates that the teachers in the district are unionized and salaries are negotiated in a collective bargaining agreement. The variable n_1 in the model is reflected by NTEACH, the number of teachers in the district. In Illinois school districts are of one of three types: elementary, high school, or unit. The dummy variables DU and DHS indicate that the district is a unit district or a high school district, with elementary districts are the reference group.

Since public education in the U.S. is funded primarily through property taxes, the variable VAL is property value, measuring the variable P in the model. The model suggests that the proportion of the population with children in public school, n_d/n_2 , will be positively related to salaries. The variable P65 is the percentage of the population over age 65, presumably without school age children, reflects this variable inversely. The variable OO is the percent of the population living in owner occupied housing. It is this is the group which directly bears the property tax and might be expected to oppose higher property tax rates.

The dependent variable reflecting community size is VPOP, the voting age population in the district, reflecting the variable n_2 in the model. In regression 1, holding all the other factors constant, the regression coefficient on VPOP is positive and statistically significant as predicted by the model.

It might be thought that the positive effect of VPOP simply reflects the greater demand for education in a larger community. To control for this, regression 2 includes the variable PSPOP measuring the public school age population, and the coefficient of VPOP remains positive and statistically significant.

Since persons over 65 are not the only members of the voting age population without children in public school, to further capture the effect of the variable n_d/n_2 regression 3 includes PHHNC, the percent of households with no children. The regression coefficient is negative, as expected, and statistically significant.

The variable d in the model reflects the amount of disruption incurred if public school teachers strike. Presumably, a family with more children experiences more disruption if teachers strike. Regression 4 includes AFSIZE, average family size. It has the expected positive regression coefficient which is statistically significant. The demand for education certainly depends on income, so regression 5 adds the variable INC measuring income in the school district. It has the expected positive and statistically significant effect on salaries.

Regression 6 includes the average number of years of schooling completed for persons twenty-five years old and older, SCH. The model presented above would suggest that, with quality held constant, the level of citizens' education could be positively related to BMIN to the extent that citizens view disruption of their children's education with more distress but negatively related to the extent that citizens are more likely, therefore, to take actions to counteract disruption and clearly express their preferences to the school board. Interestingly, regression indicates that SCH is negatively and significantly related to BMIN.

The nature of the negative relationship between BMIN and SCH is seen more clearly in regression 7, in which the square of the average level of schooling, SCHSQR, is added. When SCHSQR is included, the coefficient of SCH is positive and significant while the coefficient of SCHSQR is negative and significant. This indicates a nonlinear relationship between BMIN and SCH. The coefficients of SCH and SCHSQR imply that increases in schooling have a positive effect on BMIN up to 9.6 years of schooling and a negative effect for increases in schooling above that level. The average level of schooling for all districts is 10.5 years, so that the level of education of most citizens falls in the range

for which schooling is negatively related to BMIN, accounting for the negative effect in regression in which SCH alone is included.

It is interesting to note the difference in the effects of SCH and INC on BMIN. Income and schooling are positively correlated but have opposite effects on BMIN. This is consistent with the observation that education has a much larger positive effect than income on voter participation. In all of the regressions, holding various other factors from the model constant, the effect of VPOP is consistently positive and statistically significant, confirming that public sector salaries are higher in larger communities, *ceteris paribus*.

Empirical Implications for the Effect of Community Heterogeneity on Wages

An economic model of the political process which views public sector wages as determined by an agency maximizing political support from employees and constituents, in which each group has an unambiguous incentive to favor higher or lower wages, would predict that a group will be more successful the more homogeneous the group because costs of organizing the group in support of or in opposition to wage increases will be lower. The homogeneity of the group can be measured by the standard deviation of the group's characteristics. Borjas (1980) finds that wages paid in the federal sector are negatively related to the standard deviations of employee characteristics, such as age, education, and experience.

In the model considered here, one might expect that higher wages would be paid in districts which are more heterogeneous, as measured by the standard deviations of citizens' characteristics. However, in this model citizens are not uniformly opposed to higher taxes to finance higher wages. Therefore, one cannot expect that, when the standard deviation of a particular characteristic is larger, wages will be higher. It may be that citizens at the extremes of the distribution of a characteristic have strong incentives to oppose higher wages, so that, in a district with a large standard deviation for that characteristic, those persons in the tail of the distribution have more influence in holding wages down. For example, if it were argued that the standard deviation of the age distribution, SDAGE, reflects greater heterogeneity of the population, and therefore greater costs of organizing, it would be expected that BMIN and SDAGE would be positively related. However, this ignores the fact that those citizens at the upper end of the age distribution are more likely to oppose higher wages because they have no children in public school. When SDAGE is larger, this group is likely to be larger; and BMIN is likely to be lower. A regression including SDAGE indicates that SDAGE is not statistically significant when P65 is included. If P65 is omitted, the coefficient of SDAGE, which is negative and significant, implies that SDAGE is probably reflecting the strength of opposition by citizens in the upper tail of the age distribution. In cases in which citizens' incentives differ at the extremes of the distribution, the standard deviation of the distribution cannot be predicted to result in higher public sector wages.

For other citizens' characteristics, the effect of the standard deviation of the characteristic will depend on whether it is positively or negatively related to BMIN. If a characteristic is positively related to BMIN, the standard deviation of that characteristic should be negatively related to BMIN. When citizens are more diverse with respect to a characteristic which is positively related to BMIN, the positive effect of that characteristic will be reduced. Income has been shown to be positively related to BMIN, and, in regression 1 in table 2, the standard deviation of the income distribution within a district, SDINC, is negatively and significantly related to BMIN.

If a characteristic is negatively related to BMIN, the standard deviation of that characteristic should be positively related to BMIN. When citizens are more diverse with respect to a characteristic which is negatively related to BMIN, the negative effect of that characteristic will be weaker. The average

level of citizens' education is negatively related to BMIN, and in regression 3 the standard deviation of the level of education within a district, SDSCH, is positively and significantly related to BMIN.

The personal property tax base of a district, VAL, is positively related to BMIN; and, reasoning in the same manner, it would be expected that the standard deviation of the distribution of property values within a district, SDVAL, would be negatively related to BMIN. In regression 2 SDVAL is negatively and significantly related to BMIN.

Regression 4 includes all three standard deviations, SDINC, SDVAL, and SDSCH, and the results indicate the expected signs.

Conclusion

This paper provides a model of public sector wage determination with the empirical implication that public sector wages will be higher in larger political jurisdictions and vary with the heterogeneity of the characteristics of the population, *ceteris paribus*. Regression analysis of public school teachers' salaries in Illinois confirms this empirical implication. These results are consistent with the fact that public sector salaries and underfunded pension benefits constitute more acute problems in larger, more heterogeneous communities.

Table 1: Regression Coefficients with the Absolute Values of Their t Ratios in Parentheses

	1	2	3	4	5	6	7
Constant	6624.95	6669.98	6955.209	6307.415	6604.238	7086.13	3585.865
VAL	.00834 (10.615)	.018294 (10.579)	.0181592 (10.6026)	.01833 (10.6704)	.00485667 (1.74757)	.0089 (2.89)	.0128 (4.07)
DGREE	2.8337 (4.682)	2.83203 (4.6779)	2.781181 (4.63573)	2.803544 (4.65789)	2.565636 (4.3202)	2.46 (4.15)	2.394 (4.10)
VPOP	.00815 (4.563)	.007839 (4.2707)	.0092367 (5.15694)	.00906 (5.04133)	.00924464 (5.26098)	.0091 (5.19)	.0086 (4.99)
P65	-17.462 (6.298)	18.2276 (6.1581)	-9.428837 (2.76857)	-11.789 (3.60264)	-13.83499 (4.98157)	-14.61 (5.26)	-11.272 (4.11)
AGREE	97.355 (4.340)	95.6998 (4.2411)	100.6336 (4.52372)	101.131 (4.52769)	101.2480 (4.61053)	98.696 (4.51)	95.411 (4.42)
NTEACH	-.45869 (2.927)	.441608 (2.7871)	-.5142580 (3.29803)	-.50140 (3.20503)	-.5147226 (3.35037)	-.4934 (3.22)	-.4451 (2.94)
DU	106.15 (2.423)	109.407 (4.2284)	106.2881 (4.20726)	106.3196 (4.1944)	109.0414 (4.369439)	128.145 (4.99)	118.308 (4.66)
DHS	85.458 (2.423)	89.3648 (2.5050)	78.05900 (2.23002)	79.3054 (2.258)	83.33918 (2.41454)	92.74 (2.70)	92.8412 (2.73)
OO	-2.352 (2.223)	-2.284 (2.1501)	-4.226532 (3.678845)	-3.7009 (3.26757)	-4.451633 (4.08044)	-5.016 (4.55)	-4.34 (3.96)
PSPOP		-1.7215 (.74094)					
PHHNC			-5.65575 (3.9924)				
AFSIZE				118.868 (3.218)			
INC					.04576 (6.1122)	.0446 (6.61)	.0453 (6.81)
SCH						-51.083 (2.98)	593.736 (4.55)
SCHSQR							-30.712 (4.98)
R ²	.48683	.48717	.49663	.49324	.50922	.5145	

Table 2: Effects of Citizen Heterogeneity

	1	2	3	4
Constant	6064.9610	6181.7940	5639.6630	5715.9000
VAL	.0114 (3.96)	.0781 (3.07)	.0258 (3.33)	.0145 (3.94)
INC	.1307 (9.37)		.0996 (5.92)	.1415 (9.83)
INCSQR	-.000003 (6.24)		-.000002 (3.04)	-.000004 (6.57)
SDINC	-.0362 (3.38)			-.0356 (3.16)
VALSQR		-.000001 (7.20)	-.000004 (2.52)	
SDVAL		-.0411 (5.60)		-.0139 (2.06)
SDSCH			93.7780 (2.49)	121.0487 (2.76)
R ²	.5403	.5193	.5411	.5479

Note: These regressions hold constant the other variables in regression 1 in table 1. The absolute values of t ratios are in parentheses.

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Marketing – Significance and Potential in Turnaround

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Abstract

Most companies face performance declines at some point during their lifetime. This can potentially lead to a corporate crisis, which is reflected by a shortfall in different accepted target levels. Attempts to cope with such a crisis are referred to as turnaround management which includes the development and implementation of a sound turnaround strategy to save the business.

For years, many business managers have been facing the challenge of turning around a struggling company. Particularly, given the current economic and financial climate, the threat of organizational decline, often accompanied with the necessity of company turnaround, most likely remains highly relevant for managers around the globe. However, managers who are used to more "healthy" business conditions are likely to lack the essential understanding of procedures and activities required to successfully turn around a struggling company.

Additionally, despite nearly 40 years of turnaround research, theoretical understanding of the phenomenon turnaround is yet incomplete. The frequent incidence of corporate turnaround and the fact that the majority of turnaround attempts of pre-insolvency companies fail and end in liquidation implies that there is still need for further investigation.

So far, literature indicates that retrenchment has a positive impact on company performance in turnaround situations; however, it suggests that retrenchment by itself is not enough. Although the potential contribution of marketing-related activities to overall company performance and sustained business success is beyond doubt, there is still limited attention on marketing in terms of corporate crisis and turnaround management in research.

In practice, related regulations such as the IDW (institute of German auditors) S6 guidelines, dealing with requirements concerning the development of restructuring concepts, increasingly require - besides classical finance- and performance-related factors - a holistic market(ing) - and sales-related perspective on sustained competitiveness and profitability.

In this context, the arising question is what role marketing plays in turnaround concepts of companies in crisis situations at present and how important marketing-specific measures can be for turnaround success (as a complement to the commonly applied finance- and performance related measures). Another related question is which marketing-specific measures can be applied during which type of corporate crisis to contribute to turnaround success.

Accordingly, the overall research question is the following:
What role does and can marketing play in company turnaround?

In the course of answering the research question, the following issues are addressed:

- i) significance of marketing-related aspects regarding corporate success of healthy companies
- ii) significance of marketing-related aspects regarding turnaround success of companies in crisis situations
- iii) significance of marketing-related aspects in turnaround concepts of companies in crisis situations
- iv) discrepancies between i), ii) and iii)
- v) potential of marketing-related aspects regarding turnaround success during different types of crisis
- vi) implications for an amended turnaround approach through 'turnaround marketing'

Accordingly, this research is an attempt to contribute to scientific research on turnaround marketing as a part of turnaround management. More precisely, it strives to add to the theoretical understanding of the significance of marketing-specific measures in turnaround situations of small and medium businesses in crisis situations. It aims to provide an empirically founded insight into the potential of aforementioned measures as complement of a comprehensive turnaround concept with regard to turnaround success. The purpose is to not only determine the overall potential, thus how marketing can be used to additionally contribute to company turnaround success, but to show when (with regard to the different phases of a crisis) the contribution of certain marketing-specific measures to turnaround success is the most significant. Moreover, the objective of this research is to provide findings about additional future applications of marketing in turnaround situations. Finally, this paper strives to stimulate debate and encourage further research on turnaround marketing as part of a holistic turnaround concept.

There is a certain degree of novelty of the issue being discussed; consequently data collection in form of semi-structured interviews was regarded the most appropriate approach. Accordingly, to answer the research question, semi-structured interviews with experts from financial institutions operating in the corporate customer segment (financing business) in Austria were conducted to gain insights on the object under study. More precisely, 20 experts in leading positions such as head of corporate customer division or head of credit risk management and head of restructuring were interviewed. Those experts were chosen because they are dealing with both healthy and struggling companies in their daily business and have experience with numerous turnaround attempts- both successful and failing ones. The unit of analysis is small and medium enterprises (SME) in Austria defined as employing 249 persons at maximum.

Those experts were asked to rate the importance of measures in marketing-related areas with regard to corporate success on a scale from 1 (does not play any role at all) to 6 (plays a very important role). They rated the same areas with regard to turnaround-success and the role they play in turnaround-concepts of companies in crisis situations. In doing so, the experts differentiated between companies with focus on production and those with focus on service.

The following marketing-related areas were part of the survey:

- **Positioning / Strategy**
(including inter alia brand positioning, image, perceived competitive position)
- **Product**
(including inter alia benefits, name, functionality, design, quality, packaging, services and warranties)
- **Price**
(including inter alia list prices, discounts, incentives, payment and credit terms, price discrimination)

- **Place**
(including inter alia channels, intermediaries, locations, inventory, transport)
- **Promotion**
(including inter alia advertising, public relations, product placement, sponsorship, events, personal selling, social media communication)
- **After-Sales Service**
(including inter alia complaint management, customer service, warranty, customer retention management)

The results of this research show that for corporate success, experts assign the highest importance (on a scale from 1 to 6) to activities in the area of:

- positioning/ strategy (average importance of 4,9)
- product (4,7) and
- after sales (4,6).

For turnaround success, activities in the area of

- communication is most important and rated with an average importance of 4,9 followed by
- distribution with 4,7 and
- positioning with 4,4.

In practice however, the focus in turnaround concepts is mainly on activities within the area price (4,5) and distribution (4,1). Two of the most important marketing-related areas for turnaround success are amongst the three areas which are least often included in turnaround concepts: positioning/strategy (average importance in turnaround concepts of 3,0) and communication (2,9). Only distribution is of equal rank for turnaround success and in turnaround concepts. The gaps in importance described indicate that there is potential for improvement of turnaround concepts with regards to marketing-related activities.

This research also shows that despite the subordinate role of marketing in turnaround research and the limited appearance of marketing in this context in literature, in practice, marketing rates high in turnaround. More precisely, it turned out that according to experts, marketing activities are to a certain degree part of turnaround concepts in practice and hold a considerable potential to contribute to turnaround success. In contrast, in the context of turnaround, those activities are usually not explicitly subsumed under the term marketing; rather they are seen as implicit part of standard solutions of business management. Moreover, it became apparent that turnaround marketing has no measure which means that the value of the contribution of marketing activities to turnaround success cannot be quantified. Basically, all activities are reflected in figures of the annual financial statement, but those can only be used to some extent for measurement. One aspect for further research could be to investigate which of those figures are suitable in the context of turnaround marketing.

Currently, a large-scale questionnaire inquiry of experts from financial institutions in Germany is conducted to gain further insights on the object under study and to compare the results of Austria and Germany.

Keywords

Corporate crisis, turnaround management, turnaround concept, marketing, "turnaround marketing"

Employee Retention: Relationship among Housekeeper's Job Satisfaction, Organizational Workforce, And Racial-Ethnicity within the Global Hospitality Industry

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Abstract

The quality and productivity rendered by a housekeeper influence customer satisfaction and the inclination to return. Retaining a highly skilled housekeeper remains a primary concern for the hospitality industry today (Hausknecht, Rodda & Howard, 2008). The hospitality management should analyze its organizational workforces in the context of housekeeper's job satisfaction and its relationship with the job performance and cultural diversity since cultural diversity in the hospitality industry abounds in a housekeeping department (Casado, 2012; Jones, 2008).

This research identifies a framework to generate a theoretically derived set of factors that would serve as a foundation to determine the housekeeper's perceptions of labor mobility and job satisfaction. It also addresses what aspects of a work environment motivate the employee to stay in the organization.

A content model of 12 attributes is developed in the context of previous studies and distributed to housekeeping department employees in the hospitality industry (Lee & Lee, 2012; Chan & Kuok, 2011; Bharwani & Butt, 2009; Hausknecht et al., 2008). Respondents are asked on the survey to indicate the overall rating on 12 attributes. Ratings are made on a 5-point Likert Scale. A factor analysis is used to determine the subsets of reasons for staying in conjunction with employee job satisfaction, job performance, and position level.

Multivariate Analysis of Variance (MANOVA) is performed to determine the difference between job satisfaction factors, rewards, organizational workforces, position level, and racial-ethnicity. A simple regression analysis is used to investigate a relationship between job satisfaction and workforces. Based on the analysis of housekeeper's responses, the relative importance of reasons to stay is found in conjunction with the job satisfaction. Job performance, and racial-ethnicity exclusively. The findings will also highlight the importance of the organizational workforce and reasons to stay.

This research and its findings will also provide empirical evidence that organizational workforce improves job satisfaction and play an important role in quality and productivity to the racial-ethnicity work environment. In addition, the hospitality management should consider how effective retention management strategies and workforces will influence the racial and cultural diversity demographics who play very important role in the service oriented industry and their attitudes and behavior may not be in parallel with the traditional organizational culture.

Keywords

Job mobility, job satisfaction, retention, organizational workforce, cultural diversity

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Questioning Positive Accounting Theory: The Political Cost Hypothesis

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Abstract

Much of accounting theory follows a *normative* paradigm; that is, it is prescriptive and proposes 'what should be done?' Under a normative perspective an accountant's task might include, among other things, developing ever more precise methods of measuring income. However, in the 1970s an alternative approach to accounting theory was proposed - a form of *positivism* was put forward (Watts & Zimmerman, 1978). Positivism has its roots in a philosophical movement widely associated with Auguste Comte. Early in the twentieth century, Positivism became a prominent paradigm in a number of disciplines including: sociology, economics, and the behavioral sciences. Positivism was seen as *value neutral* in contrast to other earlier forms of 'scientific' activity that may have been influenced by religious dogma. Compared to these earlier forms of 'science', Positivism, with its emphasis on empiricism and observation, was considered 'objective'. The methodology of Positivism relies on observations (of behavior for instance) from which hypotheses may be developed through a process of inductive reasoning. Hypotheses developed in this way can then be tested (verified) empirically.

When Positivism and Accounting are combined, the result is referred to as *Positive Accounting Theory* (PAT). PAT views the firm as a nexus of contracts and it focuses on the actions of a particular group – managers. PAT asserts that the business of accounting includes observing the choices made by managers from an array of accounting treatments available under generally accepted accounting principles (GAAP). From these observations, accountants can frame hypotheses that are capable of explaining these managerial choices and able to predict management's reactions in a variety of similar circumstances. One such hypothesis that forms part of PAT is the *Political Cost Hypothesis*.

The Political Cost Hypothesis focuses on firms that are subject to comparatively greater levels of political visibility and scrutiny. In certain respects these firms can be considered vulnerable. For example, these firms may incur higher costs (or suffer lower revenues) as a consequence of politically-motivated-decisions taken by governments or regulators. In order to forestall or discourage such decisions, managers of these firms, may choose to *adjust* their reported earnings *downwards* by selective use of accounting manipulations available to them under GAAP. The lower reported earnings would be expected to reduce the political pressure felt by regulators and/or policy makers to act against the firms' interests. The term "political cost" encompasses government-imposed taxes and regulations, as well as the lobbying costs arising from attempts to avoid these. In accordance with the Political Cost Hypothesis, periods of high political costs (or incentives to influence regulatory actions) will be associated with greater *understatements* of earnings, this will hold even in circumstances where the company's internal profits are increasing. (Wilson & Shailer, 2007, p. 265)

Among the kinds of firms that experience high political visibility and scrutiny, are utility companies. Since the introduction of PAT, a number of utility companies have been studied and were shown to have manipulated their earnings in ways that were predicted by the Political Cost Hypothesis. So there is a literature which supports the Political Cost Hypothesis.

However, this paper argues that in some cases the predictions of the Political Cost Hypothesis will not hold; even for high visibility utility companies. We consider the case of Nova Scotia Power Inc. (NSPI), an electricity utility company operating in eastern Canada. NSPI is a private company established in 1992 to replace the former Nova Scotia Power Commission – a government owned utility. The case concludes that rather than resorting to manipulation of earnings, companies like NSPI can effectively manage political pressure by other means.

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Strategies of Century-Old Businesses: The Secrets to Success May Not Be What You Were Taught in Business School

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Abstract

Research in Japan over the last decade has identified several common behaviors exhibited by companies that have survived for over one hundred years. Many of these factors emphasize relationships, including those with customers, employees, suppliers, and local communities. To test the relevance of the relationship factors as well as other behaviors identified in the Japanese longevity model, the authors administered a survey to old and young companies in Japan and the United States. The results indicate that, not only do old companies in both countries employ similar approaches to conducting business, these behaviors are also significantly different from those engaged in by younger firms. These results bring into question many widely-held beliefs about organizational policies and practices that will sustain a firm for the long run.

Keywords

Corporate longevity, corporate strategy

Variation-Creation as the Primus Motor of Dogma Shifts: The Case of the Swedish Sporting Goods Retailers

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Extended Abstract

Evolutionary theory in general and the Darwinian sub-branch in particular argue that a full explanation must incorporate both explaining the variation-creation process and the process of selective retention (see, e.g., Breslin, 2011; Hodgson & Knudsen, 2010). To complete Darwinian explanations the unit of evolution must be further specified for the system under investigation. To answer the question of “what is the unit of evolution?” researchers often suggests routines, dogmas, and other kinds of preserved codes that unconsciously instructs actions of an organization (Stoelhorst, 2008).

In conceptual literature, the Darwinian framework is logical and seemingly explanatory potent (Johansson and Kask, 2013), but this essay aims instead to more firmly exploring with help from empirics under what conditions its explanatory power offer warranted rigor for an ample account of a longitudinal data set. Specifically, I ask how evolutionary records of retailing dynamics can be explained and understood given Darwinian-evolutionary thinking.

This essay addresses a data set of the evolution of the business network for sporting goods distribution in Sweden. The data set covers seven decades during which sporting goods retailing saw some dramatic variation-creation in its set of dogmas; for instance, the advent of a few dominating retailing chains that tightened the control of distribution and decreased suppliers’ power; the increased cross-fertilization and competition between sport and fashion retailers; the introduction of e-commerce and ‘pure click companies’; and the more recent globalization resulting in the in-break of international big-box concepts and category killers that shake the established players’ relationships with suppliers and customers.

The empirical figures and narratives comprise both primary data (19 semi-structured interviews with industry veterans, and CEOs, past and present; as well as 105 web-based respondents) and secondary data (annual reports, media archive, 23 volumes of the industry’s magazine, and museum records, *et cetera*).

The analysis of this case sets out to examine the parallel processes of variation-creation and selective preservation, having the memory components of firm-level routines and industry-level dogmas central. By pointing at particular milestones in the evolution of the distribution chain that meant infuses of new variation to the pool of existent dogmas and routines for “how to do business”; in other words, episodes of change that challenged the existent business truths. Moreover, the analysis finds episodes where selective pressure and economies of scale cuts the variation in the preserved pool of dogmas and routines.

What is more, the data uncovers a long-term trend of accumulation of complexity and customization of the retailing formats, from more generalist retail formats towards more specialist formats. As a product of adaptive fit over time, increased specialization in terms of concepts, sales channels and product range makes the various retail formats profiting on fitness advantages and avoiding direct competition. In other words, creating variation in the pool of retailing formats is a way to break free of direct competition and capitalize on lesser competition in a more unique eco-system niche. Over the past seven decades, accumulation of format design specialization have step-wise evolved from general generalists (e.g. department store), to general sport-generalists (all sports), to specific sport-generalists (running) to specific sport niche-specialists (barefoot running). Small independent store scan seldom compete with the chains if they do the same as these, but, as history shows, 'indies' can be very successful if they are able to conquer a niche market not previously explored. When a brand new retailing format occurs, it is an outcome of variation in the pool of routines and prevailing dogmas that instruct action and structures in the industry. In the data set, it is clear that major changes in retailing formats are exceptions; that there are substantially more common that new stores inherit existing formats, and, hence, with high fidelity pass on the established 'truths'.

The essay contributes to the ongoing discussion of the fruitfulness of Darwinian thinking in the field of business system evolution. By examining the historical trajectories and development paths of dogmas, "truths" and dominating beliefs, the paper comes to the conclusion that a full-fledge Darwinian explanation is needed (not just selection) and that this theory must be based on systems thinking. Only if we take the full step is the framework potent in explaining evolution. Honoring not just the selection sub-theories, but, even more, the variation-creation counterpart that we believe is the primus motor of the dogma shifts that makes evolution not coming to a halt. The conclusions are consistent with the pledges of some more recent conceptual papers.

Moreover, the essay shows the problems of applying the full Darwinian framework in empirical research, and gives implications for future research, as well as discusses possible ways to avoid these methodological barriers.

Case overview

*Figure 1: Yearly turnover in mSEK for the four largest retailers in Sweden's sporting goods industry
(Data from Sportfack and annual reports)*

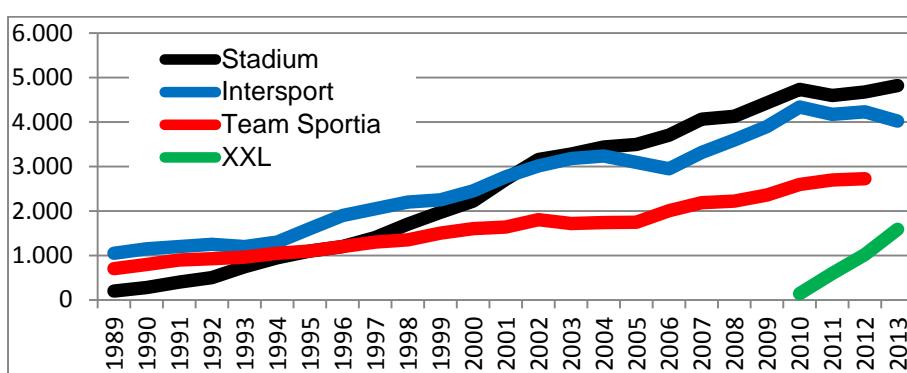


Figure 1 shows the turnover of the leading sporting goods retailers. Sweden in the 1960's had approximately ca. 20,000 retailers of sporting goods (bike shops included). Today Sweden has roughly 1,300 retailers in the business, where about 400 have sporting goods as their main income. The four leading groups had in 2012 together roughly 60% of the market.

Milestones in the history of Swedish sporting goods retailing:

- 1940s Ex-Olympian Arthur Hägglund and, predominantly, other former athletes founded the first generation of sporting goods retailers; where repairing, servicing and assembling its own custom goods often were as important as the sale of manufactured products. In the early days, selling was demand-driven, and the dominant store design gave limited admittance for impulse-driven shopping.
- 1950s The market was national or regional. In cases of foreign products, the supply chain could involve importers, multi-brand distributors, and generalist wholesalers and / or local agents before the products ended up in the store-shelves. As the stores were often small and unorganized, reps of popular brands had strong bargaining power to decide conditions for the stores that were privileged to buy the items.
- 1960s By 1960some sporting goods retailers had found out that they couldn't edge the generalist and department stores one by one, but maybe if they cooperate – so they created local purchasing groups. In 1962 they merged into a nation-wide purchasing group, *Sportsam*, to edge further purchasing power. In turn 1968, Sportsam came together with equivalents in nine other European countries to establish *Intersport* and started to conceptualize a chain with a common logo.
- 1973 An independent store, *Mats Sport* in Gothenburg, became the first known example of a successful niche specialist; focusing skiing (winter) and outdoor/camping (summer). At the peak of Stenmark-mania (winter of 1978-1979), they sold approximately 4,000 pair of downhill skis, most in Europe for a single store.
- 1974 Ulf Eklöf, a young entrepreneur, established *Spiralen Sport*, an independent sporting goods retailer that soon after revolutionized store design, product range and pricing strategies. Inspired by grocery stores, he focused on volumes rather than margins.
- 1975 To compete with Intersport, *Fri-Team* became an alternative purchasing group.
- 1980s Mats Sport and Spiralen Sport began to cooperate, and involved later more stores (some bought by the Eklöf brothers) into common purchases, most noticeable the introduction of their store brands produced in East Asia.
- 1987 The Eklöf brothers launched their first store in Stockholm, named *The Stadium*, to take their concept to a new level. In the following decades, The Stadium acquired Mats Sports and other retailers, and ultimately overtook Intersport as the leading chain (Figure 1).
- 1988 Fri-Team merged with the sporting goods stores of hardware retailer *Järnia* and founded *Team Sportia*, a retailing chain with a franchisee-owned concept.
- 1990s Low-price outlets popped up: e.g., *Sportshopen*, a chain founded in 1992 based on outletstores located close to the Norwegian border, later evolved from 40 mSEK turnovers in 2000 to 566 mSEK in 2012.
- 1990s Specialists who occurred in the 1990s,e.g.,*Naturkompaniet* (outdoor), *Löplabbet*(running), and *Dormy* (golf), have then managed to conceptualize the specialist idea to multi-store chains.

- 2000s The first wave of successful ‘pure click companies’ was primarily specialists such as *Junkyard* (action sports) and *AddNature* (outdoor). These were able to offer deeper product ranges than their physical counterparts, but still be able to have competitive prices. In the second wave occurred price-aggressive online generalists that offer a wide range of sporting goods, with the aim to be cost leaders. A prime example is *Sportamore*. This firm directs most of its marketing budget on Google, trying to be the top search every time a potential customer google a product.
- 2010s In 2010 Norwegian *XXL* entered the scene backed by large amount of venture capital. In five years, *XXL* has established 17 big-box stores. In 2011, the French global marketing leader *Decathlon*, followed. While *XXL* focuses external brands, 90% of what *Decathlon* offers is store brands. Another in-break comes from firms previously successful in other industries: e.g. *H&M*, the clothing company with 100% private labels, and *CDON*, a pure click company originally focused on film, music, and video games, *etcetera*.

Keywords

Generalized Darwinism, Retailing Formats, Evolution, Dogma Shifts, Sweden

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Social Network-Based Knowledge Service toward the Enhanced Group Intelligence and Problem Solving

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Abstract

Promoted by the huger volume of information and the higher level of education, Users' desire to know something for themselves has been being increased ever before. Unceasing progress of information technologies, including the Internet, enables today's users to utilize various and specialized information at anytime and anywhere, which stimulates human's instinct toward learning. Social networks, the connections between related actors or organizations, can underpin the very base to support users with adequate solutions or know-how, because, in many cases, users tend to solve problems or obtain solutions through the help of colleagues or friends included in their social networks. A social network can be regarded as a live knowledge base responding user's request in a real time basis. By applying adequate technologies for knowledge acquisition and distribution, a social network can be evolved into a platform for the knowledge service, the information technology-based fully automated service of knowledge acquisition and distribution at anytime and anywhere. This paper introduces how a social network can be applied to generate the fully-automated knowledge service. In this paper, methodologies and prototypes for the automated knowledge acquisition are introduced, especially focused on the processing of verbal knowledge included in dialogues between related actors. Also, sample modules for the automated knowledge transmission and archival using each actor's cloud storage-based repository and the automated knowledge extraction by searching access-permitted repository are proposed. The proposed concepts and prototypes can enhance the level of group intelligence within social networks, and hence be applied to enrich human life to be more creative.

Taboo Diseases - A Challenge to the Health Communication in the Prevention

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Prevention is the key element to ensure the financial sustainability of health systems in Western Europe. Prevention campaigns are to be made a means of education about taboo diseases. Ribbon makes it a means of public acceptance. Pink ribbon for breast cancer and red ribbon for HIV / AIDS are the most successful symbols. Events play an important role in the public debate and fundraising for further research and support for sufferers. The Light Blue Ribbon symbolizes prostate Cancer. The Light Blue Ribbon plays no role in the public perception in Austria.

Multiple campaigns were tried in health men's healthcare massively reduce taboo and to reach the target audience well. The present study consists the results of several final studies work and this is the basis of a study designs to target groups more equitable communication strategies of prevention of prostate disease taboo.

Events as part of a marketing communication at taboo diseases

In this study, breast cancer, HIV / AIDS and prostate cancer are used as examples of taboo diseases. These diseases are common that action is taken deep into the sexual behaviour of those affected with the disease. The case of illness with timely prevention / therapy has largely chances of recovery. (Media) Ethical considerations must also form part of the discourse as the question of communication with the boys target group, the screening between 18 - 20 years.

The Life Ball - a model?

In the healthcare marketing known and proven marketing methods and techniques are applied in the healthcare market. In keeping with the interdisciplinary nature operates this fledgling marketing discipline at the interface of marketing, health psychology and health economics. Be based on health psychological findings and theories specifically focused on health-related services and products marketing activities and set appropriate marketing measures.

The Ribbon movements are a specialty in the health marketing and fundraising. For years, the issue of the disease is brought on breast cancer to a broad public and the taboo surrounding the disease slowly broken down by the pink ribbon in a wide range of activities.

The Red Ribbon symbol stands for hope for a cure, participation in suffering, sorrow, sickness and solidarity / anti-discrimination diseased people.

In Vienna in 1992, the first time a spectacular event, The Life Ball took place. Aligned to the reduction of prejudice towards HIV sufferers, especially against homosexuals and for donations to support for the fight against HIV and to help treat those affected. The former Vienna Mayor Helmut Zilk has opened the Vienna City Hall for this first Life Ball and from the outset was high fashion, style and celebrities formative event.

After 20 years, the Life Ball has become a pompous charity event with side events and live TV

broadcast at prime time. With the donations of different organizations and foundations are funded nationally and internationally. This raises the question whether such an event can improve the social acceptance of HIV / AIDS and the information about disease prevention and better accepted. It can cause such an event to an improvement in public perception.

Norbert Vetter, head of the second internal lung Department of the Otto Wagner Hospital in Vienna with the medical focus on AIDS, sees the Life Ball critically as a tool in HIV prevention. He criticized that the Life Ball has not moderated the message in the media that today everybody can determine with a "quick test" at home his HIV status. In addition to a wider public is not aware that after sexual risk behaviour with immediate therapy prevents infection likely prevented. Vetter insists that modern therapies can bring the epidemic to a halt and allow in the future a largely HIV-free society in core Europe. But Vetter refers to the Christian-conservative-dominated society in Austria, in the latent sexuality is still taboo.

The example of the Life Ball work out clearly that events in health marketing only requires a suitable measure to be placed prevention information to the public. It is undisputed that such events reach a high media attention and in this reorientation of society to this taboo disease would be possible.

Pink Ribbon - a successful model?

Pink Ribbon is one of the USA's most successful campaigns on the creation of health awareness and the taboos of the disease of breast cancer. Every year in October worldwide the Pink Ribbon Day will take place.

Many companies and organizations use the notoriety of Pink Ribbon for their own purposes. Thus, a strong commercialization of pink is given loop. No doubt that there are merits of the pink ribbon in healthcare.

But are unmistakably critical reviews and findings. Perverse cooperation and lack of transparency of the use of the donations show the economic problem. The message "If you try really hard, you can beat it" stoking hopes of a specific target group, the person concerned performs in doubt in even deeper despair fields. Because from a particular disease there is no cure and the more concerned receives also the guilt factor not to have been tough enough.

Ethically, it is extremely worrying that companies use a serious illness to lift sales figures and company's image improvement. Pink Ribbon is not just for research and intervention, but also strong for optimism, hope, happiness and femininity.

Issues such as the tedious search for a suitable place in a hospice, or accompanied by children of a dying mother find only very minor attention. If the difficult discourse how far awareness about a disease taboo to create and collect donations can be implemented ethically sensitive in Ribbon campaigns.

In May 2013, the acceptance of the screening of breast cancer received an unexpected boost: Angelina Jolie communicated their mastectomies for a unique genetic test. Also in Austria, the counseling was crowded and created a positive climate for mammography screening, which is performed throughout Austria from 2014.

Light Blue Ribbon - no alternative

In Austria annually affects approximately 23% of men from prostate cancer, in Germany about 20%. Both in Austria and in Germany affected more men with prostate cancer than of colon or lung cancer. Colon and lung cancer are the other most common cancers in these countries. Worldwide, prostate cancer is the sixth most common cancer.

Prostate cancer has a very high chance of cure with early detection. That's why regular screening is of eminent high importance. But there is not enough communication in the necessary and desired degree of men as well. Prostate cancer and prostate disease are little communicated in Austrian society. The problem that men cancer screening tests offered are complete is insufficiently addressed in the public debate. The Light Blue Ribbon initiative could not position in Austria.

2011 starts on the initiative of the Federation of Austrian urologist (BVU), the Austrian Society of Urology and Andrology, the Austrian Medical Association supported by various companies, among others GlaxoSmithKline and Bayer HealthCare Campaign *women looking at their men*. The aim was to bring men 40 + information to the importance of screening.

The campaign was rated urologist doctors and communication experts and analysed. The work shows that the need for research on male-specific topics, in particular to the taboo areas, such as the prostate and bowel cancer is large.

The interviewed doctors are clear that the urological (prevention) requires examination and an image change. The activity field of urology is not sufficiently known. Similarly, the occupational image of urologists is a negative connotation as Old-man doctors.

In the current study, the policy recommendations are developed as a basis for the development of a campaign for the promotion of a positive image of men's health with special emphasis on urological check-ups. In this case, other experts will be invited for questioning and participation in a second round. The discussions and examinations start end of July. Fresh and unpublished result can be presented at the conference.

Keywords

Prostate cancer, health campaign in Austria, ribbons movement

Innovation processes. Empirical study: What differentiates radical innovators from incremental?

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Abstract

Innovation is about expanding creative thinking, stretching the imagination, challenging traditional ways of seeing, understanding, and doing things as well as pushing the limits of technology. Development and launch of successful new products is one of the most challenging tasks of management. Present highly turbulent environment requires new methods and techniques to bring successful new products to the marketplace. To survive and prosper, the organization needs to embed the processes and mechanisms that enable the company to discover major trends that shape the future and respond to them through new growth areas and new products in a consistent manner. Generally accepted theories that see innovation as a scientific research, followed by protection of intellectual property by patents and competitive struggle to achieve dominance are now complemented by a holistic view of innovation, according to which the innovation activities also incorporate suppliers, competitors, producers of substitute products and services.

Based on systematic theoretical analysis author in the study discusses approaches to innovation and innovation processes to support new product introductions. The aim of the paper is to specify the company behavior that leads to innovative outputs with high level of novelty in country specific context of Slovakia. We conducted survey on innovation activities to identify structural relationships among innovation processes, strategies, external and internal innovation sources and innovation outputs within companies in Slovakia. The research design based on primary survey data increased exploratory nature of the study. The research involved 287 companies, of which 45.3 % were small enterprises with number of employees 1 to 49, 27.18 % were medium-sized enterprises with number of employees from 50 to 249 and 27.53 % of the total sample consisted of large enterprises with more than 250 employees. Of all enterprises 63.07 % were owned by Slovak capital, 24.74 % by foreign capital and in 12.2 % of cases the ownership was mixed. We analyzed new product introductions on the Slovak market in the period of five years from 2009 to 2013.

Based on conducted analysis, new product introduction with high level of novelty shows positive and significant relationship with foreign ownership on the level of new to the world products ($p=0.0000$), new to the market products ($p=0.0109$) and new to the firm products ($p=0.0056$). From the results of the survey, it is evident that the practices and know-how of foreign companies active in Slovakia positively influence new products introductions with high level of novelty.

Our findings indicate that open innovation holds great potential for improving companies' innovation processes to introduce products with highest level of novelty. The relationship between new to the world products was found to be significant with open innovation as (a) internal openness of the company, that is internal collaboration and knowledge sharing by means of internal innovation network ($p=0.0042$) and (b) external openness of the company that is external collaboration by means of external innovation network ($p=0.0000$).

Not all innovation processes starting from formalized level with room for improvement were found to be positively and significantly related with new products introduction with high level of novelty. Only (b) highly developed and efficient systems for new product development including technology and market trends evaluation ($p=0.0288$), and (c) alternative and parallel process for radical innovation that is not in line with common procedures ($p=0.0000$) had significant positive relationship with new to the world products. No support was found for (a) using formalized innovation processes with place for improvement with relation to new to the world products.

The results of the study presented in this paper bring two main conclusions. First, there are five key factors that influence successful innovation strategies, and drive the ability of the firm to create new products with high level of novelty: highly developed innovation processes and parallel mechanisms for radical innovation, IPR protection and passive use of IPR, internal and external open innovation network, drawing corporate strategic orientation of the company and ability to use projects that do not fit strategic orientation in spin-offs, licensing or selling. IPR protection by patents is much more frequent in companies with new to the world introductions than in others but high number of companies introducing new to the world products does not use IPR protection by patents which is typical for firms more holistic externally open innovation processes. Second, introduction of specific and parallel innovation process to grasp radical innovation opportunities is key promoter for organization ability to manage complex innovation processes and create innovation as core competence across the organization.

This study makes unique contribution to the understanding of underlying processes of innovation management, their evolution and significance. It should attract managerial attention in recognizing the importance of innovation management factors for building firm's innovation competency.

The paper is output of research project KEGA number 017EU-4/2013 „Youth education in secondary vocational schools on innovation and creating new business opportunities”

Keywords

Innovation management, innovation processes, product innovation, knowledge management

The Twin Problems of Financial and Social Exclusion: The Voice of the Affected In Ghana

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Abstract

This study seeks to integrate the “voice” of the financially excluded in designing a system of solutions that will address the needs of the unbanked. The paper proposes programs that are intended to improve conditions for the unbanked in Ghana, West Africa, and develops a set of propositions based on a focus group study of the financially excluded in Ghana, West Africa where according the World bank, over 70% of the population is without a bank account (The World Bank, 2004).

Financial exclusion and marginalization of the poor are world-wide problems that seem to be getting worse despite efforts of governments and non-governmental organizations to improve conditions for the poor (Boyce, 2000; Drakeford & Sachdev, 2001; Solo, 2008). Financial exclusion has been defined by Leyshon and Thrift (1995) as “those processes that serve to prevent certain social groups and individuals from gaining access to the financial system.” Because this definition does not explicitly link financial exclusion to social exclusion even though social exclusion is a significant part of financial exclusion, Gloukoviezoff (2007) proposes an expanded definition for financial exclusion that holds that it is a “process whereby people encounter such access and/or use difficulties in their financial practices that they can no longer lead a normal social life in the society in which they belong” (Gloukoviezoff, 2007, p. 220).

Some researchers of financial exclusion have argued that it is caused by twin forces of global liberalization of the financial markets and its associated competition for improved profits among financial institutions (Devlin & Wright, 1995; Dymski & Li, 2003; Devlin, 2005). The push by financial institutions to make bigger profits for their shareholders has led to bifurcation of markets in which focus is directed towards the upscale segment at the expense of the poor or the non-profitable segments who are left behind (Dymski, 2005; Carbo et al., 2007; Joassart-Marcelli & Stephens, 2009). However, because the local effects of financial exclusion vary from one region to the next (Solo, 2008) there is no “one-size-fits-all” solution. Ironically, most of the solutions implemented to curtail the effects of financial exclusion have been designed through the “top down” approach with little or no input from the “financially excluded” themselves. An argument could be made that excluding the unbanked from the process to design a solution also invariably left the solution designers with incomplete understanding of the nature of the problem. It is not surprising therefore after almost two decades of the “war of poverty” the gap between the poor and rich is only getting bigger.

Unlike previous “solutions”, this study takes the “bottom up” approach in which the opinions of the “financially excluded” have been solicited as part of the process to put together a system that integrates them into what Leyshon and Thrift (1995) referred to as “financial citizenship”.

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Marketing the Services of Attorneys in the United States during an Economic Downturn: The Case of Emotional Labor and Attorney Burnout

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Abstract

This paper investigate the correlation between lawyers being burned out (experiencing emotional exhaustion) from handling highly charged emotional cases such as bankruptcy and divorces during the period of economic downturn. It hypothesizes that like salesmen, nurses, and front-line employees in the hospitality industry lawyers suffer from burn out as result of having to "tax" themselves heavily with emotional labor (Hochschild, 1979, 1983; Henning-Thurau et al., 2006; Kim, 2008; Chapman, 2011) when handling these emotionally charged cases. Thus, the more of such cases they handle, the more likely it is that they themselves might go through some emotional or personality problems.

Public jokes about lawyers go as far back as the days of Shakespeare. Lawyers have also been ranked lowly on trustworthiness scales. For example, the 2012 Gallup poll of Honesty/Ethics in professions ranked lawyers 16th amongst 22 professions. They scored 19% while car salespersons who were ranked 22nd out of 22 scored 8% (Galluppolls.com, 2013), yet the usefulness of legal services is not in question, particularly where there are complex issues in litigation. For instance, those who are involved in acrimonious divorce with a sizeable property and money at stake will find the services of a good family lawyer highly desirable. Similarly, those who are facing the Internal Revenue Service with a complex tax issue will find the services of a tax attorney useful.

Lawyers have also been the subject of many studies in marketing (MacDonald & Raymond, 1991; Schimmel & Davis, 1995; Curtler & Schimmel, 1998; Hurld, 2004; Koku, 2007) however none of these studies, to the best of our knowledge, has examined emotional labor (a form of emotional regulation) involved in lawyering. Lawyers are required to take a course in ethics as part of their legal education, and pass an examination on ethics before being admitted to practice law because they will encounter many situations in course of their practice that will require them to use sound ethical judgment. Nevertheless, nothing in legal education prepares lawyers on how to handle emotional labor, even though their practice particularly in the areas in which people lose their possession could require a lot of emotions.

The recent economic conditions in the United States have made the services of attorneys involved in personal bankruptcies and home foreclosure defenses highly sought after. Most of these lawyers have had to listen to gut-wrenching stories about how people who have worked hard for the most part of their lives and played by the rules were about to lose their homes or other personal possessions because they had lost their jobs and fell behind on their bills, car notes and or mortgages. The emotional labor that these attorneys, with no training on how to handle personal emotional conflicts, have had to experience on regular basis will spill over into their personal lives.

This study is based on the analysis of the records of 24 attorneys in a Southern State in the United States who were subject to a disciplinary hearing within a 12 month period (in 2009) because of an infraction of one more of their professional codes of practice. The results show that a disproportionately large number of the attorneys practice bankruptcy and foreclosure law. This study not only lends support to our hypothesis, but also strongly suggests that legal education include training on emotional labor is needed.

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Human Brand Image Impact on Brand Equity

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Abstract

Our research analyzes an increasingly popular concept of human brand and the way it manages its brand equity. The paper starts by defining the concept of human brand and way it creates its brand equity, various models through which it can be seen and numerous ethical views on the concept. After that we focus on the analysis of image of human brand and the way people perceive it, concept of brand icons, methods of analysis of human brand image (like conceptual maps and Mark-Pearson paradigm), and immortality of the human brand image. Empirical research was taken among Croatian citizens about their perception of image of brand Ivica Kostelic as the best skier of the world for 2011 year. Results show that soft attributes of image increase brand equity and that Croatian citizen have positive attitudes towards human brands with recognizable and unique image and that Ivica Kostelic has the image of the "hero". It can be concluded that human brand is very important, but not highly used concept in business practice and that there are huge opportunities to develop human brand of Ivica Kostelic.

Keywords

Human brand, human brand equity, model 3C (Clarity, Consistency, Constancy), hard and soft image attributes, brand icon, Mark-Pearson paradigm

International Trade and Entrepreneurship – Germany is Overwhelming among EU-27-countries?

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Abstract

The dilemma in most EU-countries is that they apply Porter's (1990) cluster model without critics although the cluster concept is far too trivial to be used in EU-countries that have a long history as a nation compared with the U.S. Germany is an exception. Germany and the German speaking Europe has their own management doctrine initiated by Friedrich List and modified by Joseph Schumpeter. List argued that economic policy had to be adapted to the needs of specific nations to create the National System of Innovation for Germany. Schumpeter gave micro level advices of economic incentives for entrepreneurs. The third economic miracle (*Wirtschaftswunder*) in Germany since 1990s is a combination of List's and Schumpeter's thinking. Germany's global success recipe could be useful for most of EU-countries. Germany the regional agglomeration in terms of the New Economic Geography (Krugman, 1991) is the central topics. They are not industrial forests in terms on Porter (1990).

Keywords

Entrepreneurship, multinational corporations (MNCs), Innovation, international trade, hidden champions (HDs)

1. Introduction

The key concept propagating openness in international trade is comparative advantage (Ricardo, 1817), which can be found in the accumulation of the factors, where the nation has the most favourable comparative costs. Since the mid 1990s, when the WTO was established, the industrialized countries oriented towards absolute advantage (Smith, 1776). An indicator of that is the rapid adoption of Porter's (1990) cluster concept in most of the EU countries. Porter's cluster concept is relevant to the U.S. in which most companies are domestic-market-oriented. Transnationality Index (share of foreign operations in sales, personnel and assets) is low for famous U.S. companies: e.g. General Electric 52% and General Motors 48%. Only some of the US SMEs are internationalized, e.g. Gibson Guitars and Harley Davidson (Schuman & Himmelreich, 2011). Canadian companies are integrated with the U.S. and, the home-market-based clustering is not valid (Rugman, 1991). In Germany MNCs and even earlier state-owned companies, e.g. Deutsche Post, are internationally oriented. There are about 340.000 internationalized SMEs (Mittelstand) and about 100.000 of them have FDI-operations (Venohr & Meyer, 2007).

During past decade the global markets have been highly turbulent. Substituting labor with capital and technology, along with shifting production to lower-cost regions has resulted in waves of firm downsizing throughout the EU and the US. The impact of relocation of industrial activities out of the home-base is called Wintelism (Hart & Kim, 2002). The critical skills of industrial districts (Marshall, 1920) become commodities, and MNCs relocate their production units globally, thereby, cutting down clusters. Germany is an exception among the EU countries. Germany's national system of innovation is a major competitive advantage. The geographical proximity seems to matter in 16 regional states (Laender). The Chinese "Dragon" and the Indian "Tiger" are crossing EU clusters except German ones.

Table 1: Germany's exports and imports in 2012 (billion euros) and trade balance.

Country	Exports	Imports	Trade Balance
1. France	104	86	+18
2. U.S.	86	50	+36
3. UK	72	48	+24
4. Holland	70	77	-7
5. China	66	64	+2
6. Austria	57	42	+15
7. Italy	55	43	+12
8. Switzerland	48	38	+10
9. Belgium	44	37	+7
10. Poland	42	33	+9
11. Russia	38	37	+1
12. Czech republic	31	33	-2
13. Spain	31	26	+5
14. Sweden	21	21	0
15. Turkey	20	12	+8
16. Japan	17	22	-5
17. Hungary	16	18	-2
18. Denmark	15	12	+3
19. Korea	11	9	+2
20. Brazil	11	10	+1
German total	1.097	909	188

Source: https://www.destatis.de/EN/FactsFigures/NationalEconomyEnvironment/ForeignTrade/TradingPartners/Tables/OrderRankGermanyTradingPartners.pdf?__blob=publicationFile

Germany's trade balance is negative with oil and gas importers. Holland is the petroleum center of Europe. The former East Europe is important for Germany in subcontracting e.g. in the auto industry. Germany had 188 billion euros export surplus with 20 biggest trade partners in 2012 (Table 1). Germany has succeeded to win its competitors. Germany is the most diversified economy in the world. Germany is competing with top product quality and process efficiency, e.g. the high energy efficiency of industrial firms and traffic infrastructure. In relation to high efficiency German labor costs are low although German competitiveness cannot be identified in low wages. Germany is highly dependent on the EU economy. The growing performance gap between Germany and other big EU-countries, such as France and Italy e.g. in the car industry might have political consequences and even jeopardize the future of the European integration (Sinn, 2012).

In WTO Doha trade negotiations Germany is actively working for eliminations of non-tariff barriers that mean 5-10% extra costs (relation to the trade value) for partners of international trade¹. Germany is not yet a fully open global player. Germany has still its "protected islands" in the banking and finance sector. Germany promotes sustainable development, healthcare and consumer protection. Germany's competitive edges are openness, predictability, and fare legislation. Over 5,000 foreign companies operate in Germany employing over 3 million persons. In 2007-2011 there were 3.535 FDI-projects by 3,000 foreign companies in Germany. Most of FDI operations established service units, only few production units, in 39 various sectors in Germany².

2. The German success recipe I – National System of Innovation

Friedrich List (1841) was a member of the German historical school of economics. His main concept was National System (of Innovations). During his carrier, List advised Germany and the U.S. to develop education, railways and technology. Contrary to Smith (1776), List argued that (1) private economic interests must be subordinated to the strengthening of the nation, and that (2) a nation's true wealth is its productive power, rather than its current exchange values. List's ideas have been the basis for three economic miracles (Wirtschaftswunder) in Germany: (1) Zollverein 1834–1919, (2) West German from the 1950s to the 1960s and (3) globalization of Germany since 1990.

Joseph Schumpeter modernized List's doctrine. He proposed that (1) an entrepreneur, as innovator, creates profit opportunities and that (2) innovations are the major source of evolution in a whole society. A strong evidence of Germany's technology excellence is Fraunhofer-Gesellschaft that is the second among science communities after the U.S. University of California (3,555 PCT-patents) in 1878-2011³. Schumpeter's dynamic view of List's doctrine is based on a good balance between MNCs and innovative companies:

1. Creative destruction is associated with radical or drastic innovations of entrepreneurs entering unexplored market where there are low entry barriers for new entrants utilizing the common pool of knowledge stock. Creative destruction is a microeconomic process by its nature but has macroeconomic implication for economic growth (Agiorn & Hovitt, 1998).
2. Creative accumulation is associated with institutionalized innovation by MNCs that carry out innovation along established technological trajectories. MNCs dominate R&D investments and commodity markets worldwide, and they impact on industry life cycles and market structures (Scherer, 1999). German MNCs are highly differentiated and innovative. Among 50

¹<http://www.bmwi.de/DE/Themen/Aussenwirtschaft/handelspolitik-eu-wto.html>

²http://www.gtai.de/GTAI/Content/EN/Invest/_SharedDocs/Downloads/GTAI/Brochures/Germany/economic-overview-germany-market-productivity-innovation.pdf/

³The Patent Cooperation Treaty PTC) signed in 1970, provides a unified procedure for filing patent applications to protect inventions in each of its contracting states.

http://www.wipo.int/export/sites/www/freepublications/en/patents/901/wipo_pub_901_2012.pdf

biggest PCT-applicants⁴ in 1978-2011 Siemens (19,719 PCT-patents) and Bosch (17,197 PCT-patents) are at the top with Philips (24, 966).

Germany consists of 16 region states (Laender) that are independent states. Three of states are "free" (Freistaat): Bayern (since 1919), Sachsen (1990) and Thüringen (1994). Two are city-based states (Stadtstaat) and "free" (Freie und Hansestadt): Hamburg (1806) and Bremen (1806). Laender have their own legislation, constitution, parliament and government. At the federation level Laender use their constitutional power in parliament (Bundesrat) in which the voting power is related to the number of people. History matters! Differences between regional states are major. Germany's successful reunification has reduced differences. Germany has still its core states, e.g. Bayern, and its periphery, the earlier East Germany. Germany's economic geography is based on urbanization economies that Porter (1990) excluded of cluster model. Inside and between regional states there are urban networks of small cities/ towns that constitute unique metropolises. In Germany there are only 14 cities with over 500,000 inhabitants, and only one mega-sized metropolis (over 10 million inhabitants): Rein-Ruhr metropolis-region (biggest cities Köln, Düsseldorf, Essen and Dortmund), 9 medium-sized metropolis-regions, and 4 million-cities: Berlin, Hamburg, München and Köln (Table 2). These diversified metropolis-regions are the economic engine of Germany's third economic miracle (Wirtschaftswunder).

Table 2: German cities and their economic regions (Agglomeration) and metropolis-regions

City	City Aggl. Metrop.		
	2010	2012	
(1) Köln	1,02	1,90	11,69
(1) Düsseldorf	0,59	1,22	11,69
(1) Dortmund	0,58	4,70	11,69
(1) Essen	0,57	4,70	11,69
(2) Berlin	3,51	4,30	5,95
(3) Frankfurt am Main	0,70	1,93	5,52
(4) Stuttgart	0,60	1,80	5,29
(5) München	1,38	2,00	5,20
(6) Hamburg	1,80	2,60	4,27
(7) Hannover	0,53	1,13	3,88
(8) Nürnberg	0,51	1,20	3,50
(9) Bremen	0,55	0,85	2,73
(10) Leipzig	0,53	1,21	2,40
(10) Dresden	0,53	0,75	2,40

Source: <http://de.wikipedia.org/wiki/Deutschland>

Economic activities are concentrated geographically. Most people in core countries, and a growing number in periphery countries, live in large, densely populated metropolitans. Kenichi Ohmae (1995, 1996) predicted that the collapse of nation states is to be expected. Region states with sound socio-cultural structure provide regional agglomeration economies for innovative firms and research centers. Ohmae refers to his home country, Japan, where the Tokyo metropolitan, a region state, dominates global business Region states constitute fertile ground for (1) stimulating innovations and competitiveness of firms, (2) encouraging entrepreneurship and (3) attracting foreign inward investments. Metropolis-regions in Germany are exiting or emergent winners as region states.

⁴http://www.wipo.int/export/sites/www/freepublications/en/patents/901/wipo_pub_901_2012.pdf

In Germany there are 140 universities of which 11 have been named Elite-Universitäten⁵. German universities have a glorious history of genius scientists. 34 Nobel-prize winners are related to Ludwig-Maximilians-Universität, München: e.g. Wilhelm Röntgen (physics, 1901), Max Planck (physics, 1918), Werner Heisenberg (physics, 1932), and Otto Hahn (chemistry, 1944); and 29 to Humboldt-Universität, Berlin: e.g. Albert Einstein (physics, 1921) and Max Planck (physics, 1918). Germany has 2.4 million students (42% universities)⁶. Germany has a well-organized exchange of students: 115,000 German are studying abroad and 264,000 foreign students in Germany. 31% of German students have as their area of specialization mathematics, computer science, engineering, etc.⁷ In 2012 R&D-investments were 1,469 billion dollar worldwide⁸. Germany dominates R&D-investments in the EU with 91 billion dollar (26% of EU). Research-intensive industries accounted for 12.4% of gross value added in Germany (high-tech 9.5%; cutting-edge technology 2.9%). Germany is the number one worldwide⁹. Germany focuses 15 top clusters (Spitzencluster)¹⁰ and 12 core technologies (Schlüsseltechnologien)¹¹:

1. Biotechnologies
2. Service business
3. Automotive and traffic
4. ICT
5. Aviation technologies
6. Maritime technologies
7. Microsystem technics
8. Nanotechnologies
9. Photonics/ Optics
10. Production technologies
11. Space technologies
12. Material technologies

3. The German Success Recipe II – Globalization and Product Differentiation

Thanks to Schumpeter and his followers, Germany is one step ahead other big EU countries in competition policies. In his life's work, Schumpeter not only recognized the need for a theory of economic development, but also came to understand that such a theory would have to deal with the impacts of transition from individual to collective entrepreneurship in the process of technological change (Lazonick, 1991). Although economists would agree with the judgment that an entrepreneur as an innovator is a central figure in economics, Schumpeter's writings were, at least temporarily, ignored by many brilliant Nobel prize-winners, economists like John Maynard Keynes, Wassily Leontief, Milton Friedman and Paul Samuelson that represent the British-American Economic School. The ignorance for Schumpeter's writings is the major reason why the British-American Economic School, the dominant doctrine of neoclassical economics, is separate with the German Historical School.

Schumpeter was the most famous economist at Harvard for two decades before the World War II. Edward Chamberlin took Schumpeter's position as the Harvard visionary professor in 1946-1966.

⁵HU Berlin, University of Bremen, University of Cologne, TU Dresden, University of Tübingen, RWTH Aachen, FU Berlin, Heidelberg University, University of Konstanz, LMU Munich ja Technical University of Munich.

⁶<http://www.guardian.co.uk/world/interactive/2012/may/31/european-students-statistics-interactive>

⁷<https://www.destatis.de/DE/ZahlenFakten/GesellschaftStaat/BildungForschungKultur/Bildungsstand/Aktuell.html>

⁸Battelle, R&D Magazine

http://www.rdmag.com/sites/rdmag.com/files/GFF2013Final2013_reduced.pdf

⁹http://www.gtai.de/GTAI/Content/EN/Invest/_SharedDocs/Downloads/GTAA/Brochures/Germany/economic-overview-germany-market-productivity-innovation.pdf/ High Innovation Rate

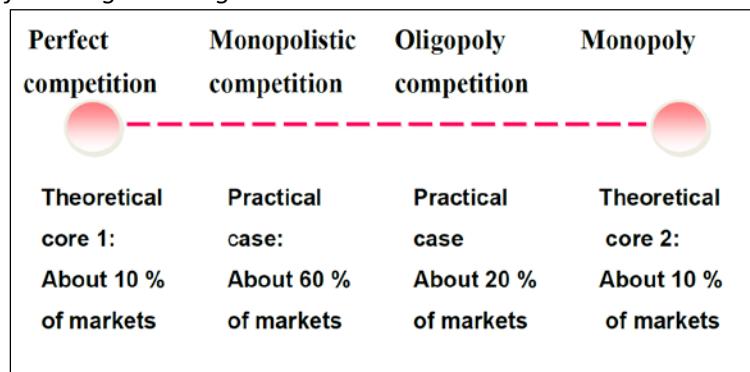
¹⁰<http://www.bmbf.de/press/3239.php>

¹¹<http://www.hightech-strategie.de/de/92.php>

Both opposed the neoclassical Walras-Marshall-Samuelson price theory that solely relied on two theoretical models of competition (perfect competition and monopoly) and excluded the imperfect, monopolistic competition. Chamberlin (1933) contributed the concept of product differentiation that is a parallel concept to Schumpeter's concept of innovation. Chamberlin's work was revolutionary, in the sense that he conceptualizes a market structure characterized by both competitive and monopoly elements, and that is the point that makes his work so important to the modern microeconomic theory in the interpretation of turbulent and highly dynamic global markets of goods and services.

Differentiation through innovativeness (economies of scope) is an entrepreneur's best strategy in competition against the market power of MNCs (economies of scale). In order to provide consumers more options a firm under the monopolistic competition maintains spare capacities of production, marketing and R&D. This is risk taking for the quality of consumption since a monopolistic firm takes the prices charged by its rivals as given and to ignore the impact of its own prices on the prices of other firms (Krugman, & Obstfeld, 2008). In comparison, an oligopoly firm can impact on the market prices by using its market power. The theory of monopolistic competition contributes to a marketing planning in which product differentiation and market segmentation are critical elements. In the global markets, most of firms tend to differentiate their products and even 60% of firms follow mainly the principles of monopolistic competition (Goodwin, Nelson, Ackerman and Weisskopf, 2009, 317). A modern interpretation of Chamberlin's (1951) analysis of competitive models can be summarized in figure 1.

Figure 1: Monopolistic competition and modern marketing theories as the main code of conduct for firms in globalizing markets



German Hidden Champions (HCs) apply their own models of market leadership, product differentiation (Chamberlin, 1951) and innovativeness (Andersen, 2009). The term hidden champion was coined by Professor Hermann Simon who was the first to use it as a title of publication in a scientific German management journal (Simon, 1990, 876). The first English book was Simon (1996). These highly successful firms are often concealed behind a curtain of invisibility, and business secracies. Often, but not always, they are family owned. Their values are often conservative: hard work, strict selection, high performance, and high employee loyalty. Leadership style is highly authoritarian on strategic issues but participative on operational issues. The main element is a strong leadership with ambitious goals belongs to the top three in its global market or is number one on a HC's own home continent. According to Simon (2009, 15), the market strategy HCs behind leadership consist of

- (1) A narrow market
- (2) Closeness to customer
- (3) Clear competitive advantages
- (4) All that with a global orientation.

Simon (2009, 15) elaborates the resource strategy or inner strengths of HCs

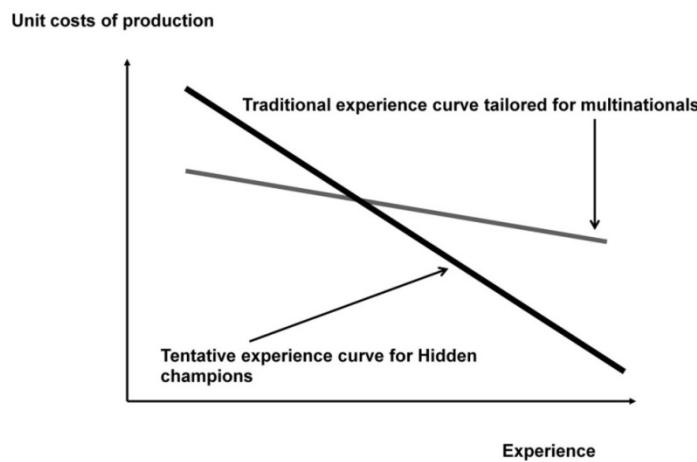
1. Depth
2. High performance employees
3. Continuous innovations¹²

A summary of key points is given by Simon (2009) and Venohr and Meyerr (2009):

1. They strive for market leadership worldwide in their narrow market segments.
2. Their market definition is narrow – called niche.
3. They serve the target markets mainly through their own subsidiaries and do not delegate the customer relationship to third parties.
4. They are close to their customers. They are customer value - not price - oriented. Competitive advantages are product quality and services.
5. They are innovative in both products and processes. Innovation activities are globally oriented and continuous.
6. The overall orientation is technology and market driven.
7. They are close to their top competitors and defend their market position actively.
8. They rely on their own strengths and mistrust strategic alliances and outsourcing. They see the foundation of their competitive superiority in things which only they can do.
9. They have strong corporate cultures associated with excellent employee identification, selection and motivation.
10. Their leaders are strong and stay at the helm for decades.

The market leadership doctrine has been known by any businessman worldwide since the 1970s when the Boston Consulting Group's (BCG) (1970) Experience Curve (Figure 2¹³) was published. But successful applications are few.

Figure 2: A visualization of the BCG model



The BCG's original claim for the experience curve is that for each cumulative doubling of experience, total costs would decline roughly 10% to 15% because of economies of scale and learning-by-doing¹⁴, and that experience-based cost reduction can continue indefinitely. The practical contribution by the BCG has been important. For the first time there was a simple, parsimonious account of what

¹² <http://meta.org.au/wp-content/uploads/2013/11/SimonKucherandPartners.pdf>, p. 62.

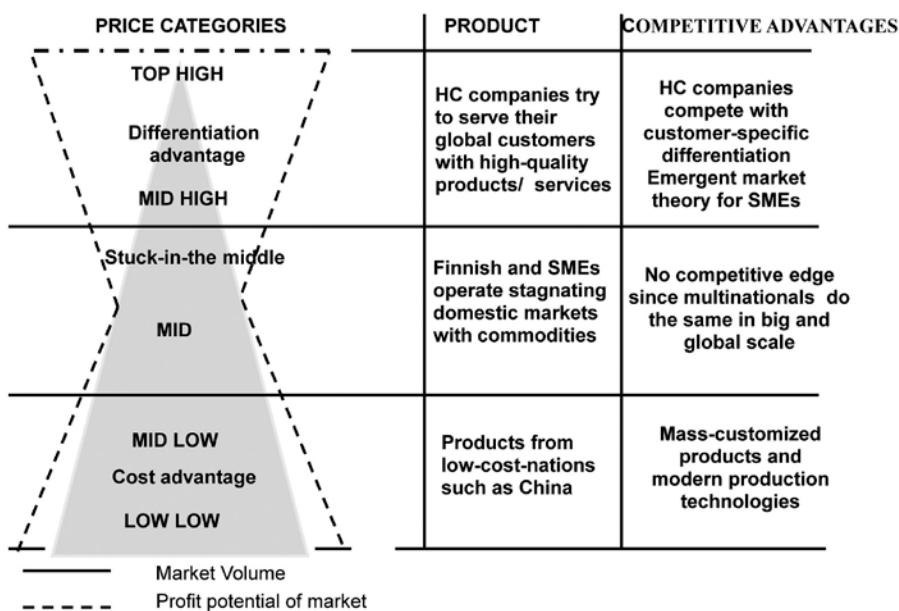
¹³In Figure 11 there is a log-linear 'traditional' curve and tentative log-linear curve more applicable to HCs that are knowledge-technology-intensive.

¹⁴ Frederick Taylor (1911) was the first who noticed that labor hours per unit are declining on repetitive tasks following a learning-by-doing pattern.

competitive advantage is like, and how it is gained in the long run. The major difference between the BCG's experience curve and HCs' global leadership recipe concerns pricing. HCs are not winning market shares by price wars (Simon & Jonason, 2013). Their pricing strategy relies on product differentiation. This means a long run commitment to serve customers and to invent in better products and services for them. HCs prefer to internalize their marketing channels to keep customer secrets in a strict control. A paradox is that German HCs have made a better version of the U.S. industrial method that helped the U.S succeed for about hundred years until the 1980s. Alfred Sloan (1963), the famous CEO of GM, was the first in the 1930s who utilized Chamberlin's (1933, 1951) product differentiation in positioning.

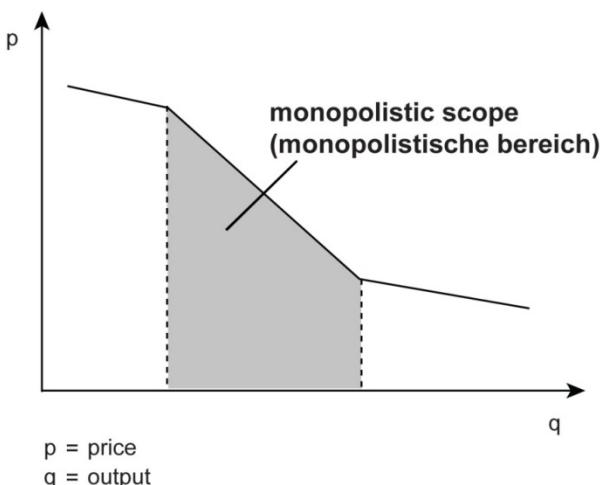
The U.S. management method is based on oligopoly models. The U.S. oligopoly theories are accountable to the mutual dependences between gigantic multinationals that are positioned in the mass-customized products and services and try to dominate core market segments by internalizing them. The majority of MNCs follow the U.S. oligopoly method, elaborated by Mikael Porter. German HCs have top positions (figure 3). They are applying monopolistic competition theories by Chamberlin and Gutenberg. What is important to notice is that HCs are champions of monopolistic competition in B2B industries. The forefather of the German doctrine was Erich Gutenberg (1897-1984) who was a highly influential German economist. He acted as a professor at the Friedrich Schiller University of Jena, the Johann Wolfgang Goethe University of Frankfurt, and the University of Cologne.

Figure 3: The Nordic niche-strategies



Gutenberg's contributed to microtheory. In reality, monopolistic markets are the most common in international trade. Because of product differentiation, each provider firm has a monopolistic scope (monopolistische bereich). In this scope, the monopolistic profit maximization rule is: marginal revenue = marginal cost. When a firm leaves the monopolistic scope, the rules of polypoly competition are in force: The price is dictated by the market (Pindyck & Rubinfeld, 2009). In Gutenberg's solution, it is assumed that the individual price-sales function (Preis-Absatz-Funktion) is doubly kinked. In a monopolistic scope (monopolistische bereich) of the price-sales-function a firm can plan its marketing parameters (marketing mix), without having to fear reactions of competitors (Figure 4).

Figure 4: Gutenberg's price theory



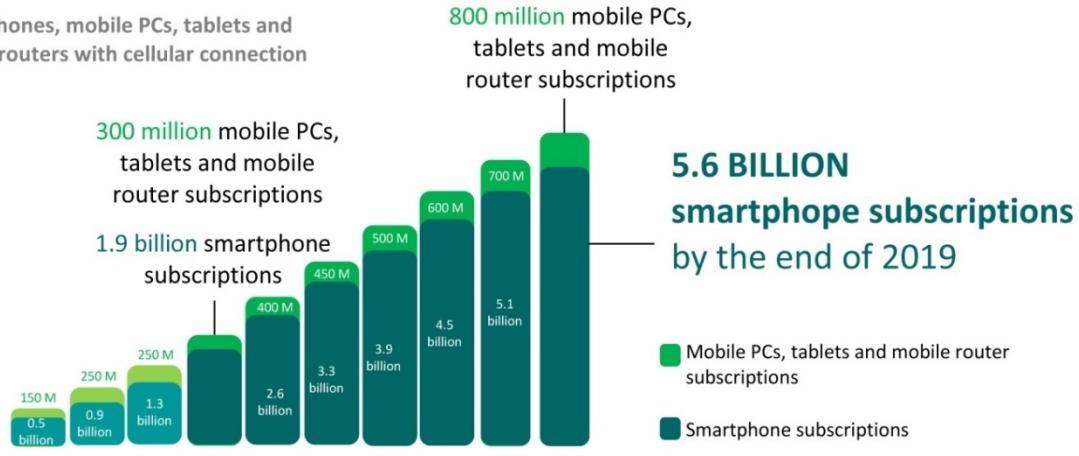
The monopolistic scope (monopolistische bereich) concept is genius and visual for SMEs. This is a reason why the German "Mittelstand" SMEs have been so successful in international trade. The existence of economies of scale provides for various kinds of firms incentives to invest in international specialization and trade. This incentive may complement the explanatory power of differences in factor proportions, and may even give rise to trade in the absence of such differences. In the global markets, the offerings of firms are heterogeneous and differentiated as Paul Krugman (1979) has intelligently demonstrated in his writings about trade theories. The admission of economies of scale calls for an analysis based on a market structure that allows prices above marginal cost and, thus the two imperfectly competitive models (monopolistic competition and oligopoly competition) should be at the core of analysis in globalizing markets.

Nokia is example of the Finnish company that could not take advantage of the fact that even 60% of firms follow mainly the principles of monopolistic competition. Looking at the list of leading brands, most of them are owned by big multinationals (Table 2). Apple is on top for the first time (brand value 98,316 \$m). Apple has been a mazing success story. The big loser is Nokia from Finland. Nokia was the 5th best in 2009 (brand value 34,864 \$m) and in 2013 the 57th best (brand value 7,444 \$m). Nokia's brand value has crossed 468% in four years. In 2009 Apple was 85th best (brand value of 3,563 \$m). Apple's brand value has shot up 27,593% in four years. What has happened in mobile-phone markets worldwide? Over one half all new cell phone subscriptions globally are smartphones (Figure 5)¹⁵. As mentioned earlier in the global markets, most of firms tend to differentiate their products and even 60% of firms follow mainly the principles of monopolistic competition and modern marketing theories (Goodwin, Nelson, Ackerman, Weisskopf, 2009, p. 317).

¹⁵<http://www.ericsson.com/news/1741771>

Figure 5: Smartphones subscriptions globally

Smartphones, mobile PCs, tablets and mobile routers with cellular connection



Source: <http://www.ericsson.com/news/1741771>

5.6 BILLION smartphone subscriptions by the end of 2019

- Mobile PCs, tablets and mobile router subscriptions
- Smartphone subscriptions

4. Conclusion: The EU's SME Policy Is Misleading

He has a large data-base of SMEs in technology Industries. The EU Commission (2003/361/EY) defines SMEs so that the main factors determining whether a company is an SME are: number of employees and either turnover or balance sheet total. According to this definition, there are about 23 million SMEs in the EU area and they employ about 100 million persons¹⁶. In Germany Mittelstand is a broad category of companies including about 99% of 3.7 million companies in Germany, and about 95% Mittelstand-companies are controlled by families¹⁷.

Table 5: The EU Commission (2003/361/EY)SMEs definition

Company category	Employees	Turnover or	Balance sheet total
Medium-sized	< 250	≤ € 50 m	≤ € 43 m
Small	< 50	≤ € 10 m	≤ € 10 m
Micro	< 10	≤ € 2 m	≤ € 2 m

Source: <http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/>

Punakivi¹⁸ adapts the German broad definition of Mittelstand so that he has six categories of SMEs (number of persons):

1. Early-stage growth companies (10-19 persons)
2. Mature growth companies (20-49 persons)
3. Small medium-sized companies (50-99 persons)
4. Big medium-sized companies (100–249 persons)
5. Internationalizing medium-sized companies (250–499 persons)
6. Globalizing medium-sized companies (500–999 persons).

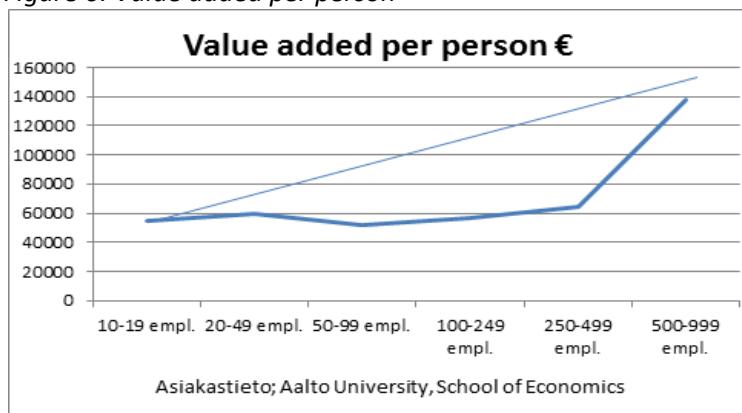
This kind of definition of SMEs is useful (Figure 5). The six size categories comprise a pattern of growth for SMEs. In the figure there is one indicator of the pattern (Value added per person). As shown in the figure, companies in five categories are about the same level in value added per person. Some of these SMEs are already investing intensively in internationalization. Only one category (Global medium-sized companies, 500–999 persons) had a high return on investment in internationalization as Hidden Champions in Germany.

¹⁶http://circa.europa.eu/irc/opoce/fact_sheets/info/data/policies/smenterprises/article_7312_fi.htm

¹⁷German Mittelstand: Engine of the German economy, pages 3-5.

¹⁸Olavi Punakivi is finishing his dissertation about the theme “Investment and profitability of SMEs in Finnish technology Industries”.

Figure 6: Value added per person

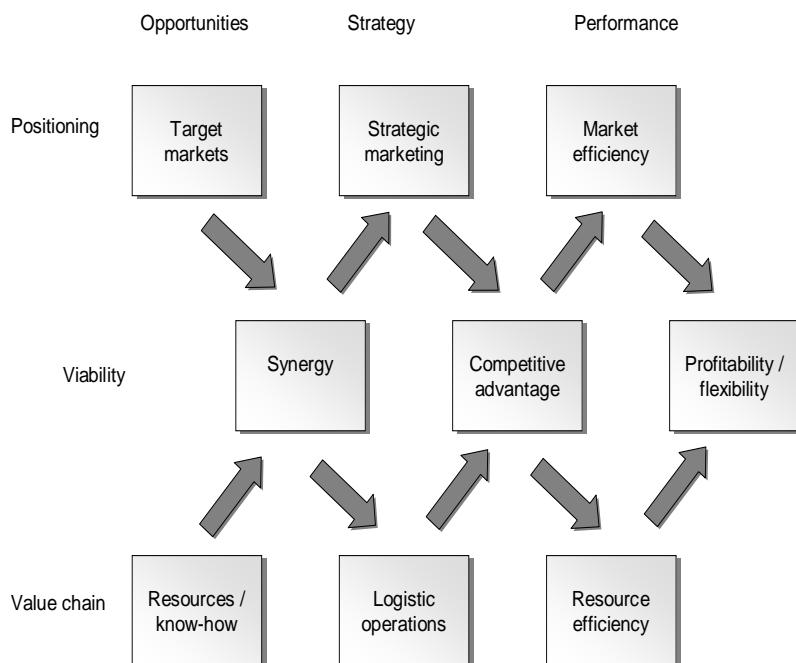


Source: Olavi Punakivi

The EU's SME concept is misleading. It is built on the implicit assumption that small and medium-sized companies are isolated from the global competition. This is not the truth. The German SME concept is not a static one relying solely on company size. Germany SMEs or Mittelstand is globally oriented. They are aware of the fact that when markets are open their only success recipe is to grow quicker than NMCs. During two past decades they have succeeded to do that.

The Harvard-Chicago-IO-doctrine (e.g. Porter, 1990) solely relies on top-down-approach. The European and German bottom-up approach is important to take into account (McGee and Thomas, 1986). This approach is verified in Finland by 4 dissertations: Lahti (1983), Salimäki (2003), Killström (2005), and Luukkainen (2012). Lahti's model of strategy and performance are used as the main framework model (figure 6). Lahti's model links the 'Realized and Intended strategy making' to the 'Firm performance' in the within-industry approach. The learning aspect is essential to innovative growth firms with idiosyncratic resources and continuous performance variations according to the life cycles of innovations (Lawless, Bergh, and Wilsted, 1989). A balance between innovativeness and process efficiency or market efficiency (differentiation) is needed.

Figure 7: Lahti's model: Strategy-Performance model



This model has been widely used in many research projects¹⁹. The model is Schumpeterian in its nature. The starting point of temporary monopoly profits is the ‘Opportunities’. The ‘Strategy’ is Schumpeterian in its nature, since strategy making is targeted to find new business prospect. Temporary monopoly profit, the ‘Performance’, is the result from the fit with opportunities and strategy. Edith Penrose’s (1959) hypothesized the firm’s ability to grow depends on the management’s learning capacity. Therefore, the “within sector studies” are needed to find out the “Substantive measures of performance”, as Pitt and Thomas convince through table 6. Lahti (1983) is one of the first dynamic studies of strategic groups in a whole industry composed of firms with different size (small, medium sized and big) and performance models (high performers/ innovator and low performers/ conservative) (Pitt, and Thomas, 1994, 93). The “across sector studies” have had the major emphasis since they are useful to identify the current and potential clusters according to Porters’ (1990) contribution. Although clusters are useful to know, SMEs cannot base their strategy making on cluster concept. They need more robust concepts and methods (Lahti, 2010, 2012).

Table 6: Studies Testing the Robustness of Groupings

Prior classification was via:				
	"Substantive" measures of		"Perceptual" measures of	
	Structure / conduct	Performance	Group structures	Patterns of conduct
Within sector studies	Hunt (1972)	Lahti (1983) Johnson and Thomas (1987)	Dess and Davis (1984)	Dess and Davis (1984)
Across-sector studies	Harrigan (1980) Tushman and Anderson (1986)	Porter (1979) Newman (1973) Rumelt (1973) Tushman and Anderson (1986)	Snow and Hrebiniak (1980)	Snow and Hrebiniak (1980)

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Relationship Quality, Service Value, Satisfaction, and Word of Mouth

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Abstract

The current study commenced with a primary purpose of investigating the structural nature of the relationship quality construct and its causal link to service value, customer satisfaction, and word of mouth behavior. The study results indicate several important implications. First, confirmatory factor analysis results identified relationship quality construct as a second-order model, which consists of six first-order latent factors; trust, commitment, relationship satisfaction, intimacy, mutuality, and communication. Second, structural equation analysis results indicated that relationship quality has a significant positive effect on customers' word of mouth behavior directly and indirectly via satisfaction. Meanwhile, service value significantly effects satisfaction, whereas satisfaction has a significant positive influence on word of mouth behavior. Additional research results indicated that relationship quality and service value shares a co-effect.

Keywords

Relationship marketing, relationship quality, service value, satisfaction, word of mouth behavior

A Research Framework for Studying the Evolution of Business Models in Banking

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Introduction and research question

Over the last decade or so, the business environment in commercial banking has seen some dramatic changes in its regulatory, economic, and technological set up. In particular, the introduction of internet technology at the end of the 90's led to the expectation that physical presence would be eliminated in one or more points in the value chain. Almost in parallel, regulatory changes in the financial sector were expected to boost cross border competition due to the elimination of exchange risk. However, a sequence of failures infused skepticism regarding the potential of internet as an alternative channel.

The key question that initially drove our rationale was whether and to what extent commercial banking has captured and capitalized on the business opportunities presented by the technological evolution introduced by the internet during the web 1.0 phase and today with web 2.0. Was it likely that commercial banks opted out from exploiting the opportunities regarding the provision of higher value products and services, and instead focused on their business-as-usual approach in conducting business?

As our research matured the question rose: How can we identify evolution in business models and business level strategy of commercial banks? This is the key theme of the proposed paper.

The basic building blocks of the research framework

Our main purpose in the proposed paper is to build a research framework with which we can study the evolution of business models of commercial banks. In order to achieve this, we will review the aforementioned building blocks of business models, business level strategy, tools and frameworks for studying business models and strategy implementation.

In the Banking literature, (and especially the part that refers to commercial banks), the evolution of banking operations has often been examined through a series of events like crisis, rescues, mergers and regulation. Evolution has been observed in relation to economic growth through capital mobilization and credit creation. The proposed paper looks at the evolution in banking from a different perspective: that of business level strategy and business model. Of particular interest is the application of these concepts to the evolution of commercial banks.

The business model construct is the subset of business level strategy that focuses on the value the firm delivers using its resources. It is of core importance as it is the system that implements strategy. This system has been named "Business System" (De Wit &, Meyer, 2010, p. 168) or "Business Model" (Johnson, Christensen & Kagermann, 2008).

A more transaction oriented definition of the business model is the following: "The business model can be defined as 'the structure, content, and governance of transactions' between the focal firm and its exchange partners" (Amit & Zott, 2001, p. 511). Alternatively, a value-oriented definition business model definition (Osterwalder & Pigneur, 2010) "A business model describes the rationale of how an organization creates, delivers and captures value". Internet technology facilitated multiplication of options regarding resources, partners, customer segments, value propositions, therefore the significance of the business model construct increased to the point of it being considered as an autonomous concept.

The value proposition must be formed using the available resources to address the needs of selected customer segments, in order for a firm to meet its objectives in the strategically selected business environment. Strategy is a broad term therefore we need to specify that in the context of the proposed paper, using it will denote the process of selecting the environment to position the company in, as well as the process of selecting its long term goals and the way to achieve them within this environment. In particular we will refer to the content of strategy at the business level (De Wit & Meyer, 2010).

Strategy frameworks (at least the dominant ones like M. Porter's Competitive Advantage or the Resource Based View of the firm) are conceptually useful when used to define the competitive positioning of an organization but difficult to be applied in the process of identifying (not to mention studying the evolution of) the strategy of an organization which in most cases becomes an intuitive exercise. In most cases, strategy and business models of organizations are not explicitly documented beyond a mission statement. Of course there are a number of reasons that justify the lack of a complete strategy statement. Evolution of business as a series of reactions to environmental changes gives the impression of a preconceived strategy (Andrews, 1987).

Even if we are able to understand the strategy and the business model of an organization overtime we have to be able to identify its evolution. The Delta Model (Hax & Wilde, 2001) provides a framework that allows an organization to position its business level strategy on a hypothetical triangle according to where it puts its priorities: on products, customers or complementors. The Delta model provides a way to map the strategic positioning on the triangle and identify its evolution over time, if there is any. Moreover, it supports through metrics the concept of relating the business level strategy, to its realization at the level of the business model.

Beyond metrics, even if strategy is not clearly articulated it can still be deducted from the "behavior" of the organization, by "behavior" meaning the initiatives stemming from the business plan, the processes, the enterprise architecture and the performance metrics used to plan and realize its business model.

One of the approaches that we will evaluate is the use of business architecture frameworks like TOGAF from Open Group. Such frameworks will allow us to map the abstract concept of strategy to tangible snapshots of strategy execution in order to be able to compare them and identify changes in strategy.

Let's define the terms:

According to Systems and Software Engineering – Architecture Description standard ISO/IEC 42010 "Architecture" is defined as: "*fundamental concepts or properties of a system in its environment embodied in its elements, relationships, and in the principles of its design and evolution*".

According to The Open Group TOGAF®, is defined as: "*an Open Group Standard, a proven enterprise architecture methodology and framework used by the world's leading organizations to improve*

business efficiency. It is the most prominent and reliable enterprise architecture standard, ensuring consistent standards, methods, and communication among enterprise architecture professionals. Enterprise architecture professionals fluent in TOGAF standards enjoy greater industry credibility, job effectiveness, and career opportunities. TOGAF helps practitioners avoid being locked into proprietary methods, utilize resources more efficiently and effectively, and realize a greater return on investment”

An analogous approach holds for the Business Models. Methods like STOF (Bouwman, et al., 2008) can be utilized to indicate the evolution of the business model. This method describes the interdependencies between the four core domains: **Service**, **Technology**, **Organization**, **Finance**. As before, we will map the elements of the business model to the domains of the STOF model in order to get specific snapshots of the business model and subsequently evaluate if there is evolution or not.

Seeking to construct a research framework for the study of business model evolution, the proposed paper will review the aforementioned concepts, identify strengths and weaknesses and finally compose a research framework that will guide the study of the evolution of business models and business level strategy in the banking industry.

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Product Classification and Word-of-Mouth Recommendation

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Abstract

Most scholars have examined word-of-mouth (WOM) recommendations as part of consumer post-purchase behavior (e.g., Anderson 1998; Cheema & Kaikati 2010; Whang et al. 2004). Less attention has been paid to exploring WOM recommendations in a purchase situation, which might provide contrasting insights because such recommendations occur before purchase and consumption. Furthermore, studies have only developed questions to measure the likelihood of consumers engaging in WOM recommendations, which limits the ability to obtain richer information to better understand WOM recommendations. These research gaps raise two important questions: (1) Do consumers persuade others to collectively engage in a behavior before purchase? and (2) To what extent do consumers engage in WOM recommendation? To address these research questions, we conduct an investigation that is premised on both product classification as a theoretical lens and the need for a new measure to evaluate the degree of WOM recommendation.

Consumer purchase decisions across various product categories have been extensively investigated (e.g., Bart et al. 2014; Pickett-Baker & Ozaki 2008), but their relationship to WOM recommendation remains unexplored. Product classification refers to the process of determining what products belong together (Zentall et al. 2002). According to the literature, two common product categories are utilitarian (for functional use) and hedonic (for pleasure) products (Dhar & Wertenbroch 2000). Prior studies have shown that utilitarian products are often consumed individually (Ahmad 2012), and consumers who are satisfied with the performance of a consumed product tend to engage in positive WOM by recommending it to others (Finn et al. 2009). This suggests that consumer recommendations of utilitarian products are more likely to occur after a purchase is made and consumed. In contrast, other studies have demonstrated that hedonic products are often consumed with a group of people (Miao et al. 2013); furthermore, enjoyment is enhanced when these products are experienced or shared in the company of others (Raghunathan & Corfman 2006). This suggests that consumer recommendations of hedonic products can occur before purchase. Given these

findings, this study postulates that consumers will passively recommend utilitarian products and actively recommend hedonic products to others (i.e., H1 and H2, respectively).

We conducted an experiment using a modified between-groups Solomon design to test the proposed hypotheses. The experimental approach is particularly relevant in this study because it enables us to predict, given the stimulus (utilitarian/hedonic product), what reaction (degree of WOM recommendation) will take place. The Solomon design offers the advantage of testing for pretest sensitization effects (addressing threats to internal validity) and the reliability of the stimulus across two experimental trials (addressing threats to external validity). The original design requires participants to be randomly assigned to four groups: two experimental groups (Groups 1 and 3), which undergo the prescribe treatment (X), and two control groups (Groups 2 and 4), which receive no treatment at all and serve as the benchmark for comparison (Braver & Braver 1988). We modified the design by expanding the experimental groups vertically; thus, Groups 1 and 3 have two subgroups, one for each treatment (i.e., utilitarian [X_1] and hedonic [X_2] product). We controlled for common factors, such as price and message framing, in the experiment (i.e., similar across treatments), thus leaving product classification as the explanation for differences in O . The questionnaire (pretest and posttest) included two questions to measure the degree of WOM recommendation: the number and type of people participants recommend and the extent to which they recommend them when faced with a utilitarian/hedonic product. Participants who were invited to take part in the study were students enrolled in undergraduate business units at an Australian university operating in Malaysia, in which 416 usable cases were obtained. Building on the analysis procedure that Braver and Braver (1988) outline for a Solomon design, we conducted a 2×2 between-groups analysis of variance (ANOVA) on posttest scores to assess X_1 and X_2 and main effects tests on experimental versus control effects using one-way ANOVA.

The interaction ($P \times T$) scores for X_1 and X_2 were not significant for the number and type of (extent to which) people participants recommend. This suggests that pretest sensitization is absent in the experiment, and thus internal validity can be established. Furthermore, the treatment effects were consistent across two trials for both X_1 and X_2 , thus displaying external validity in the experiment. When participants confronted a purchase situation (i.e., with call-for-purchase advertisements [utilitarian/hedonic product]), the main effects test indicated a significant difference in posttest scores between experimental and control groups; that is, participants actively engaged in WOM recommendations regardless of product classification. More important, the results show that participants were more likely to recommend utilitarian products ($\bar{x} \approx 3.85$) than hedonic products ($\bar{x} \approx 3.45$) to others. Moreover, when faced with utilitarian products, participants were more likely to recommend to a larger circle (i.e., the extent of distant friends [$\bar{x} \approx 4.45$]) than when faced with hedonic products (i.e., the extent of close friends [$\bar{x} \approx 3.74$]). Given these findings, the experimental results provide support for H2 but not for H1.

To advance the study findings, further research might consider examining WOM recommendations of other product categories, such as low- and high-involvement products or simply goods and services. In addition, incentives might be a useful way to persuade consumers to engage in referral behavior. That is, research might investigate the effects of incentives, perhaps at multiple levels (e.g., no, small, and large discounts), on motivating WOM recommendations in purchase situations. More important, to cultivate new knowledge to advance understanding of WOM recommendations, we believe that “learning for fun” is an excellent way to continuously add spice to the passion, creativity, and innovativeness in consumer behavior scholars. Indeed, we initially learned experimental research for “fun”. This exposure helped us to answer the current research questions, more so in a way with high rigor through the use of a modified Solomon experimental design.

Keywords

Product classification, word-of-mouth recommendation, utilitarian, hedonic, Solomon experiment

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Relational Benefits as Predictors of Customer Satisfaction in the South African Short-Term Insurance Industry

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Abstract

South African short-term insurers are finding it difficult to grow and maintain market share amidst unpredictable and erratic economic conditions (Snyders, 2014, p. 25). In addition, the industry is faced with a growing number of insurers entering the market, as well as a significant decline in customer retention rates (PwC, 2012, p. 14).

According to Bolton and Christopher (2014, p. 23), customers can be retained by establishing and maintaining long-term and satisfactory relationships with them. The benefits associated with having a good relationship with customers (i.e. from a business perspective) are numerous, but for the relationship to last, such relationships should also benefit the customer (Gwinner, Grempler & Bitner, 1998). Subsequently, Gwinner *et al.* (1998) and Hennig-Thurau, Gwinner and Grempler (2002) instigated relational benefits research from a customer perspective, establishing that relational benefits impact on customers' perceptions about the service they receive as well as about the service provider.

In essence, relational benefits refer to the additional benefits customers receive above and beyond the core service offering, and include (1) confidence benefits – which refer to customers' feelings of security and comfort with the service provider, in knowing what to expect in the service encounter, (2) social benefits –which entail personal recognition, customers' sense of belonging, and feelings of friendship and familiarity towards the service provider, and (3) special treatment benefits – received in the form of economic and customization benefits, such as discounts, faster service, preferential treatment, extra attention and individualized additional services (Hennig-Thurau *et al.*, 2002, p. 234). It was furthermore found that providing desirable relational benefits to customers could positively impact customer satisfaction, which in turn could result in customer loyalty, repeat business, reduced (customer) price sensitivity, reduced marketing expenses, and positive word-of-mouth communications (Chen & Hu, 2013, p. 1091; Lee, Choi, Kim & Hyun, 2014, p. 244).

Existing research on customer relational benefits is limited in the South African services industry, especially with in the South African short-term insurance industry. This paper therefore aims to gain insights into the perceived relational benefits customers receive from being in a relationship with short-term insurers, as well as to determine the extent to which the three identified relational benefits predict customer satisfaction in the South African short-term insurance industry amongst short-term insurance policy holders.

A quantitative, descriptive research design was followed and convenience sampling was used to select respondents who were all short-term insurance policy holders. Data was collected by means of self-administered surveys from 907 short-term insurance policy holders residing in the Gauteng Province of South Africa. However, due to a number of response errors, a final sample size of 891 was realized from which 766 responses were finally included for analysis since outliers were removed on a case wise basis.

The items included in the scales measuring relational benefits and customer satisfaction were measured on a ten-point unlabelled Likert-type scale where 1 presents 'strongly disagree' and 10 presents 'strongly agree'. Demographic and patronage habits sections were also included in the questionnaire to present the sample profile of respondents, and to acquire insight into respondents' short-term insurance patronage habits. The items included in the measurement scales measuring the constructs of interest were either adopted or adapted from existing measurement scales (De Wulf, Odekerken-Schröder & Iacobucci, 2001; Evans, Kleine, Landry & Crosby, 2000; Gwinner et al., 1998; Mano & Oliver, 1993). The measurement scales used in this study were furthermore found valid, through the confirmation of their underlying factor structures. Internal consistency reliability of the measurement scales were assessed through the calculation of Cronbach's alpha values for the measurement scales involved.

With regard to the perceived relational benefits that short-term insurance respondents receive, confidence benefits realized the highest overall mean score (mean = 6.89) followed by social benefits (mean = 5.16) and special treatment benefits (mean = 5.15) respectively. With respect to individual items measuring the dimensions of relational benefits, the descriptive results indicate that with respect to the confidence benefits dimension, respondents agreed most with 'I have confidence that my insurer will deliver the required services correctly' (mean = 7.05) and 'My insurer has clear and reasonable service offerings' (mean = 7.05), and least with 'I receive my insurer's highest level of service' (mean = 6.39). With regard to the social benefits dimension, respondents agreed most with 'I am familiar with the employees who perform the service' (mean = 5.28) and least with 'I have developed a friendship with the related employee' (mean = 5.04). With regard to the special treatment dimension, respondents agreed most with 'My insurer offers me special services' (mean = 5.35) and least with 'My insurer offers me better prices than for other customers' (mean = 4.94).

In order to determine the extent to which relational benefits predict customer satisfaction in this particular industry and context, a simple multiple regression analysis was conducted. The results indicate that the three relational benefits (independent variables) explain 72.7% of the variance in customer satisfaction (dependent variable) and the ANOVA table indicates that the model is significant ($p < 0.0005$). All three relational benefits (confidence, social and special treatment benefits) significantly predict ($p < 0.0005$, $p = 0.001$ and $p = 0.003$ respectively) customer satisfaction of short-term insurance policy holders with their short-term insurers, although to varying extents.

Confidence benefits were found to be the best predictor of customer satisfaction ($\beta = 0.750$), which correlates with the findings of Yen *et al.* (2014, p. 13). This finding supports the premise that respondents' confidence in their short-term insurer, is crucial to a lasting business-customer relationship. South African short-term insurers therefore need to specifically focus on confidence benefits in their business-customer relationships and communications. This would entail that short-term insurers instil feelings of security, trust and comfort in the customer, by particularly focusing on continuously delivering high levels of service to policy holders.

Social benefits and special treatment benefits, although significant predictors, predict customer satisfaction to a much lesser extent ($\beta = 0.098$ and $\beta = 0.081$ respectively). In addition, these two relational benefits were also identified as being less positively perceived by respondents. With regard to social benefits, short-term insurers should consider the emotional component of the relationship,

and encourage a friendship-based relationship between employees and customers. With regard to special treatment benefits, short-term insurers should capitalize on customers' desires for preferential treatment, whether these treatments are individualized or financial in nature.

In summary, it can be said that it is evident from the literature and empirical investigation that short-term insurers can benefit significantly from providing additional relational benefits to their customers. Of the three relational benefits, confidence benefits were found to be the most significant predictor of short-term insurance customers' level of satisfaction, whereas special treatment benefits (i.e. customization and economic benefits) were less important to these customers. South African short-term insurers, therefore, ought to instill confidence in their customers with regard to their customer-business relationship, since the value of satisfied customers include amongst others the establishment of a competitive advantage, increased customer retention rates, increased profitability, and maintaining a long-term loyal customer base.

Keywords

Customer satisfaction, relational benefits, short-term insurance, South Africa

Spanish Tax Amnesty in 2012: An Analysis of the Juridical and Economical Problems

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Abstract

This paper will try to analyze on the legal and economic consequences of the Tax Amnesty that occurred in Spain in 2012. The Spanish Finance Minister announced in March 2012 a tax amnesty for undeclared assets and rights. This new legislation allows tax payers to disclose voluntarily any assets or rights that do not derive from income reported for personal income tax, corporate income tax and nonresident income tax purposes.

In this paper we will not discuss the potential ethic problems of this measure but we will discuss the legal and tax issues that will develop in the coming years in Spain, how tax inspectors and judges must face to it, and the relation with tax evasion and money laundering.

Keywords

Tax amnesty, income tax, corporate tax, tax payers, Spain

1. Introduction

The Spanish Finance Minister announced in March 2012 a tax amnesty for undeclared assets and rights. Then, the Royal Decree-Law 12/2012, March 30, 2012, introduced various tax and administrative measures aimed at reducing the budget deficit. (Calvo Vérgez, 2012; Badás Cerezo, 2012; Gil Soriano 2012).

This new legislation allows tax payers to disclose voluntarily any assets or rights that do not derive from income reported for personal income tax, corporate income tax and nonresident income tax purposes ('t does not apply to IHT, gift tax, wealth tax or VAT) by filling a "special tax declaration". The Royal Decree-Law 12/2012 introduces various tax and administrative measures aimed at reducing the public deficit. Between these measures there is a "special declaration" "to voluntarily bring their tax obligations up-to date by regularizing past situations". This special declaration will be carried out by paying 10% of the amount or acquisition cost of the assets or rights being disclosed without any tax or criminal penalties, interest or surcharges for late declaration of these assets or rights.

The particular way in which this measure has been created makes it an attractive option to consider for tax payers but the intention of this paper it is not to clarify the tax planning options of the tax payers or the ethics of the tax amnesty but the economical and juridical problems of the tax amnesty.

2. Tax Amnesty

Being this the state of the art, the first question that needs to be answered is what is tax amnesty and why governments apply this measure instead of others less aggressive with the principle of equal treatment of all taxpayers.

Tax amnesty is a measure with which a State tries to collect money (Lawrence Summers, 1987). This is not the first time that the Spanish government has adopted this measure. In the Spanish legislation we can mention two cases called regularization or tax amnesties that were carried out with the tax reform of 1977 and 1991 income tax reform. Both measures were more than tax regularization, were tax amnesties to bring out all the money hidden. In the 1991 tax income reform this money flowering was achieved with *títulos-valores opacos* (treasury notes and equity) and with the Additional Provisions 13th and 14th of the income tax (Nieto Montero 2000 and 2012).

We can highlight 2 previous important tax amnesties in Spain, the first one in 1977 and the second one in 2009 with the personal income tax reform of 1991. So, in times of economic crisis like the one we are currently experiencing, governments try to raise money by any method and a tax amnesty is a fast and easy method for this purpose. However, these tax amnesties never usually have the effect desired by governments, and finally, those who use tax amnesties are criminals who want to paid taxes for legalize their money and assets that come from their crimes and be able to move their with impunity. The legal money that is kept hidden in a box or in a tax haven, not usually return to the legal movement through these amnesties.

So, what has offered the tax amnesty of 2012 in Spain? As we have said this tax amnesty in Spain offering people with undeclared taxable assets, which should have been subject to corporate income tax, personal income tax and/or nonresident income tax, the opportunity to pay a flat 10% levy, without facing criminal or administrative penalties. The tax payers should fill a "Special tax declaration" ("measure to encourage declaration of income derived from hidden assets or rights") to the government's tax authority (Ministry of Economy and Finance, (Ministerio de Economía y Hacienda), and pay a flat 10% levy.

Before we explain the juridical consequences of this tax amnesty we would like to sum up the key points of the tax amnesty:

- **Applicable period for applying for the amnesty.** The tax payers can make use of the tax amnesty in the period between 1st April 2012 and 30th November 2012. After this period they will not be able to use the *Special tax declaration* to regularize their tax situation. If some of the capital was earned after those dates, then the 10% tax should instead be assessed on the amount of the capital.
- **Applicable assets or rights.** This special tax declaration can only be used for assets or rights that have held on before 2010. If they are later from this date, they cannot be included in the special tax declaration of the tax amnesty.
- **Tax rate.** As we have said, the tax amnesty offers a special tax rate of 10% that will be calculated on the value of the undeclared assets or undeclared rights.
- **Documentation:** In the “special tax declaration” the tax payers must give all the important information to identify such assets and rights.
- **Penalties.** One of the most important points of this tax amnesty that makes it so attractive for the tax payers it is that there are no penalties applicable (no tax and criminal penalties, no interests and no surcharges), that is, exemption from any criminal liability. But the amnesty is not available to those that were under a tax investigation before this tax amnesty started.
- **Tax covered .**The tax amnesty is applied to the personal income tax, non residents tax and corporation income tax. Other taxes such as Inheritance tax, gifts tax, VAT and Wealth tax are not covered.
- **Repatriation of profits.** Other point of the tax amnesty that makes it so attractive is that the assets or rights do not have to be repatriated to Spain. So, the tax payers can regularize their tax situation and maintain their right or assets in the offshore territory or in the country that they have been keeping in the past what makes this tax amnesty very attractive for tax planning.
- **Articles 180 and 221 General Tax Law are modified:** Various modifications were made in the General Tax Law to guarantee the effects of the voluntary regularization of the income derived from hidden assets or rights in relation with article 305 of the Penal Code (Calvo Vérgez, 2013). So, with these modifications, the tax inspector is not obligated to inform about tax evasion crime to the Public Prosecutor’s Office because with the tax amnesty there is no penal liability. This modification tries to solve the problem derived from the different tax and penal statutory periods (4 and 5 years, respectively) but causes other ones, for instance, they do not resolve the problem of the connection of tax evasion crime with money laundering crime.

3. Tax Evasion and Tax Amnesty

In this paper we will not discuss the potential ethic problems of this measure but we will discuss the legal and tax issues that will develop in the coming years in Spain and how tax inspectors and judges must face to it. So, the principal juridical problem of this tax amnesty is that there are a lot of tax payers worried with the fact that once they has made this special declaration they will continue to be hounded by the authorities, as happened in the Italian amnesty. So, the tax amnesty specifies that once a declaration has been made the authority retains the right to investigate further and further and can discovered other infractions or crimes. Indeed, the Spanish government has warned that once the tax amnesty was over it will adopt new anti-avoidance measures and will increase the penalties for tax fraud after the amnesty has completed.

In Spain there is tax evasion crime if the tax not paid in a year exceeds 120,000 € then it is automatically a criminal offence in Spain but with this tax amnesty, the regularization carried out will exonerate the taxpayer from penal liability, even if the infraction committed in the past could constitute a crime against the Public Treasury (Herrera Molina, 2012). So, initially, with this

regularization, in these tax payers are not committing tax evasion crime, but, we need to analyze other types of tax amnesty (i.e. Italian amnesty) in which the tax administration used the information that they obtain from this special situation to investigate further. Moreover, the Spanish government said that they will adopt new anti-avoidance measures and will increase the penalties for tax fraud after the amnesty has completed. So, taking part of this amnesty can have other tax consequences for the tax payers, because once the assets and rights have been reported, Tax Administration can initiate a tax audit with the new information that has received-

Other important point is that, as we have remarked, this tax amnesty is only applied in specific taxes (Personal income tax, non residents tax and corporation income tax) but with this "special declaration" tax payer can give information about other taxes and once the assets and income earned on them have been reported, they will have to continue to be reported going forward, so tax payers needs to do an exhaustive tax planning before applied for this "special declaration".

And finally, one point that is not mentioned in the tax amnesty is the fact that thanks to the agreements and the international cooperation, Spain has a good exchange of information with other Tax Administrations, so the information that they received with this tax amnesty can be used by other Tax Administrations to regularized the tax situation of the tax payers in other countries.

4. Tax Amnesty and Money Laundering

Economic development and globalization of international markets have created a favorable atmosphere for the emergence of new forms of crime such as money laundering, which may contribute to destabilized and damage economic systems. In particular, money laundering has acquired great importance in the last two decades what has caused on the one hand, the establishment and development of preventive measures of money laundering and, on the other hand, a progressive hardening of penal measures.

Money laundering is a phenomenon that was born relatively recently, closely related to drug trafficking. In Spain, as from the appearance of the 1995 Penal Code, money laundering was associated with several serious crime that are to be punished by more than three years of prison, but due to the last reform of the Penal Code, money laundering can be associated with any type of crime. Thus, one of the methods most used for money laundering are tax havens, where they can easily avoid the hefty taxes that some people, both natural and legal, have in their places of origin. Therefore, in recent years, the tax information exchange among States has acquired dimensions unthinkable a few decades ago, it all in the interest of stability of the global economy. Money laundering and tax evasion, despite being totally different procedures, use the same methods to them purposes, therefore, although a priori they may seem diametrically opposed between them, we will study both in this work, reviewing their differences and the similarities, all in the aim with a view to discerning the different types of money laundering and the ways to prevent them. To summarize, the purpose of money laundering is that the funds obtained through illegal activities appear as the result of legitimate activities and circulate apparently legal in the financial system.

Can be tax evasion the previous crime of money laundering? As we can see above, nowadays, the European countries has modified their Penal Codes to this purpose:

- **Spain** (article 301 Penal Code).
- **Germany**: (§ 261 Penal Code) only in a few cases.
- **France** (article 324.1 Penal Code).
- **Italy** (article 648 bis and ter Penal Code).

This analysis of the crime in some countries let us to extract the following conclusions:

1. On all of them tax evasion can be the previous crime of money laundering.

2. While in some countries every tax criminal offense can be the previous crime of money laundering, in other countries (as Germany) only a few tax criminal offenses can be the previous crime.
3. The perpetrator of the tax evasion can be punished for money laundering in some countries (France), while in other countries are expressly excluded (Germany).
4. The mere possession in tax evasion is not punishable in some countries (Belgium) while in others it is possible (Germany).



There are criminal and administrative measures to prevent and fight against money laundering. In Spain, these measures are turn into real with the Law 10/2010 of 28 April, to enforce Directive 2005/60/EC and the article 301 Penal Code. We can summarized the evolution of the money laundering crime in the next key points:

- “Every crime from the Spanish Penal Code can be the previous crime of money laundering”. So, tax evasion can be the previous crime of money laundering.
- Inclusion of new statutory offense: owning and using. Now, only with the possession of the money/assets you are committing money laundering.
- *Criminal activity*
- Introduction to the criminal liability of legal entities

Moreover, in Spain, there is a special independent FIU (Fiscal international unit) to prevent money laundering, that it is the SEPBLAC.

Focalizing on the problem analyzed in this paper, as we have highlighted, with this tax amnesty there are no penalties, consequently there is no tax evasion crime neither. The point is that, in Spain, to prosecute money laundering it is not necessary a final judgment of the previous crime. Money laundering is a “separate offense” from the previous crime, so, although with this tax amnesty there is no tax evasion crime, the prosecutor may considerate that there is a money laundering crime because, although there are no tax evasion crime, the previous criminal activity does exists. In consequence, although the Royal Decree-Law 12/2012, March 30, 2012, exonerates the taxpayer from penal liability it doesn’t solve the problem of the connection with money laundering. The judges must solve this problem in the coming years.

5. Conclusions

What we have analyzed in this paper let us extract the following conclusions:

- First of all the totally failure of the tax amnesty. The Spanish government expected to collect with this regularization 2500 million Euros, but, finally, they have not collected even half expected.
- Ethic and legality of tax amnesty. The legality of the tax amnesty is totally obvious since the point of view of the tax law (in spite of the juridical consequences of this tax amnesty, in particular), but we must question if the government should look for other methods to fight against public deficit (i.e. more taxes, fighting against tax fraud...), because a tax amnesty may break the equality principle of tax payers. So, Article 31 Spanish Constitution exposes: "Spanish must contribute to sustain public expenditure according to their economic capacity, through a fair tax system based on the principles of equality and progressiveness that in no case shall be confiscatory scope".
- Therefore, this tax amnesty can favor tax payers who have not complied with their tax obligations against those who have done in time.
- And finally, we would like to sum up the more important legal problems of this tax amnesty:
 - First of all, there is no tax evasion crime for the period of tax amnesty, but the Spanish government has advertised that they will adopt new anti-avoidance measures and will increase the penalties for tax fraud after the amnesty has completed, so although there is no tax evasion crime now, there can be in the future.
 - Secondly, the problem with money laundering; the Royal Decree-Law 12/2012, March 30, 2012, exonerates the taxpayer from penal liability but it doesn't solve the problem of the connection with money laundering. The judges must face this problem in the upcoming years.
 - And, finally, exchange of information between Tax Administrations. Spain has a good exchange of information with other Tax Administrations, so the information that they have received with this tax amnesty can be used by other Tax Administrations to regularized the tax situation of the tax payers in other countries.

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Circular Model of Innovation Process in Services

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Abstract

Accelerated technological progress, diffusion of technological innovations into various activities and challenges of market competition have brought a lot of novelties in the area of services. Changes are constantly happening on the level of services in general, as well as on the level of individual service and production organizations which are working on enhancing services by implementation of new technologies. As a result, organizations in various areas of activities have been paying more attention to intensifying research and development and innovation activities in services.

The increasing innovativeness of the service sector today is very closely related to information and communication technologies (ICT). From the aspect of economic development, services enabled by ICT are one of the fastest growing areas of global economy. Modern ICT enables more efficient and effective approaches in providing existing services and also in the emergence of entirely new services. Service innovation is viewed as a process that begins with the idea to innovate service by introduction of modern ICT, and which, through various stages brings a new service to the end user. As such, this process requires a specific research approach.

Development of services in the modern economy requires a wide range of technological expertise that is very often above the expertise level of service providers. Therefore, the innovation processes in services increasingly imply connections, linkages and cooperation of several organizations in different stages of the new service development (NSD) process.

Connecting major service providers and companies specialized in ICT development involves intensive collaboration in all stages of the innovation process, from initial ideas to commercialization. Services are increasingly dependent on a wide technological knowledge base, and service life cycles are getting shorter. Cooperative development processes have become a way of linking complementary knowledge and skills in order to ensure quick and high quality response to existing and anticipated future market needs.

Due to the lack of empirical data and related studies of cooperative innovation processes in Serbia, this work is based on real world case study analysis of four original innovation projects in services conducted in Serbia. The results are presented regarding all innovation process stages, from the first

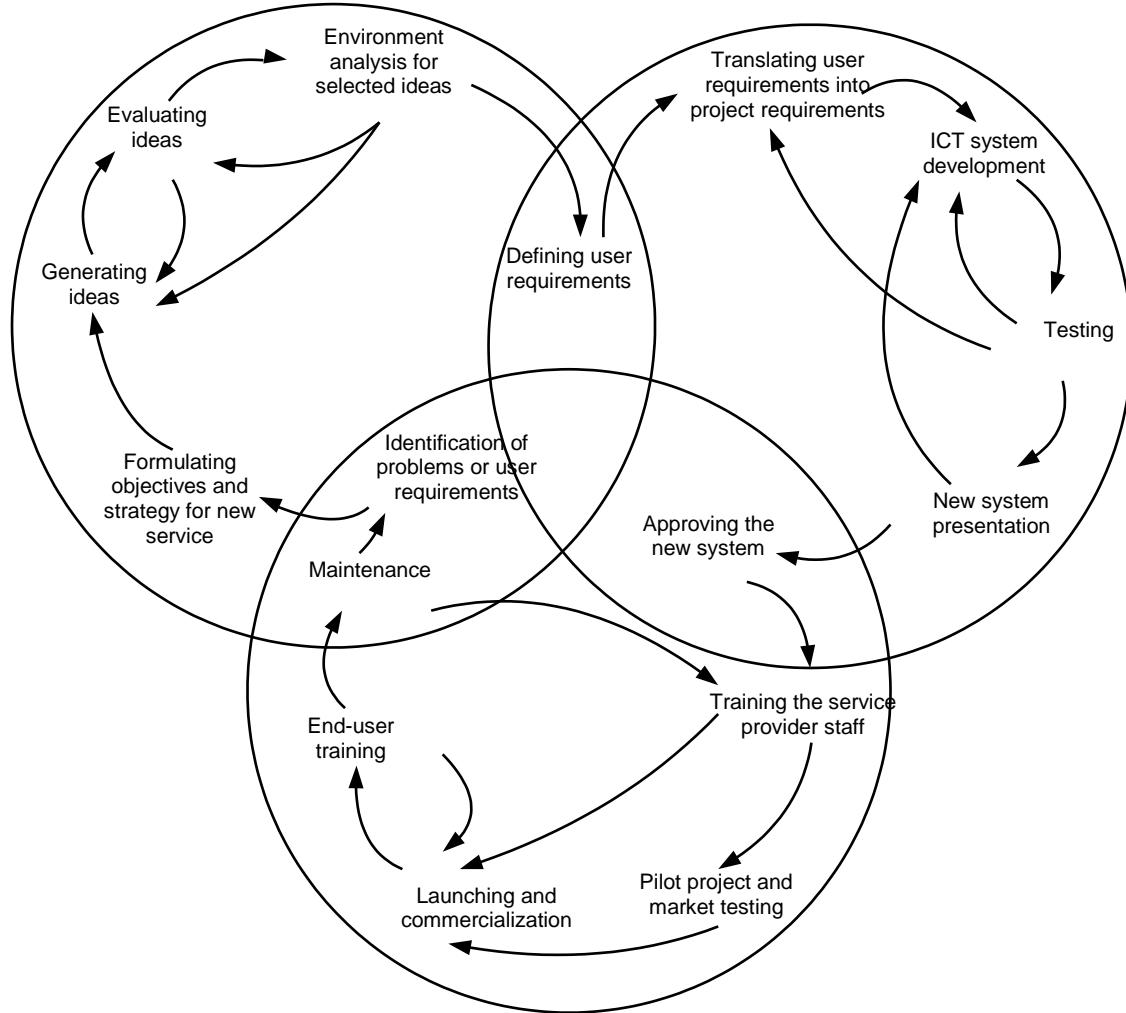
idea generation stage to commercialization. Based on empirical findings from the case studies in Serbia, some good practices can be recognized and defined as recommendations for innovation management:

- Initial stages of innovation process require effective linking of complementary knowledge and competences of participating organizations in order to get a visionary approach to service development. In addition to existing and obvious needs and requirements, it is of high importance to recognize or predict customer needs in the future, as this can provide expansion into new markets. The specific objectives of cooperating organizations can be opposed, and it is necessary to provide accurate written contracts at the beginning of a project. These contracts should define intellectual property rights, obligations of participants involved and possibilities to further distribute the new system or its parts and concepts.
- Generating and evaluating ideas for new service has to integrate knowledge and experience of service provider and expertise of ICT firms. As a part of environmental analysis, management should forecast potential resistance to new services on the market. Resistance could occur in service provider as well as the staff could resist to new ways of doing their job. Management should consider the impact of resistance on innovation overall success and take this into account when selecting the ideas. In addition to expertise and all information about the environment, management should have a certain degree of intuition and vision to support the selection of ideas that have a greater chance to succeed.
- Special attention should be paid to two main stages: defining user requirements and their translation into project requirements. These two stages affect the project time, later feedback relations and therefore the costs and the results. Requirements must be precisely and correctly defined, which requires adequate knowledge and competence of participants. Misunderstanding between individuals who define requirements and those who implement them, can threaten the success of the entire innovation process. There is a need for extensive consultations of experts from business service providers and ICT experts in order to ensure understanding of the requirements and future operations for all participants. The result of this stage should be a document with specification requirements to show the features the new system should provide, not how to achieve this.
- There must be at least two iterations to coordinate user requirements and ensure their proper translation to project requirements, before proceeding to the next stage. Any work based on assumptions requires subsequent return to the previous stages for corrective actions. It is necessary to precisely define all the terms and concepts in the specifications, especially the closely-expert, so that development teams perfectly understand what should be done.
- When it comes to the testing stage, standard approaches are difficult and sometimes impossible, due to the specific nature of services. Anyhow, some internal testing, simulations and role playing can be done. Training the employees at service providing organization can be very simple task in a form of oral or written instructions, or one-day training. Sometimes, it can be demanding, when it is necessary to organize weeks of courses, to provide resources for training, to organize travelling, visiting trainees etc. When there is a need to train many people, it is preferable to conduct training in several stages and include employees who have successfully completed the training into the training process.
- Marketing of new services requires specific approach, due to intangible nature of services. It is important to have adequate internal marketing at service providing organization and to ensure the acceptance of new service. When ICT development for a new service is performed by outside ICT firm, it is necessary to provide adequate maintenance contracts. These contracts are binding software engineers to respond to unforeseen situations and to eliminate problems. Sometimes it is adequate to have long-term agreements on cooperation in order to continue the process of developing ICT and to respond to new needs and requirements.

Based on the findings in practice, theoretical knowledge and attitudes offered by literature, a new model of innovation processes is presented. The model is related to service innovations based on the

development and application of ICT. The model identifies three groups of activities: 1. designing new services, 2. development of new services based on the ICT application and 3. introduction and commercialization of new services.

Figure 1: Circular model of innovation process in services (Source: Author)



The application of this model is seen primarily in identifying, monitoring and management of innovation process phases, in service innovations based on introduction of modern ICT. In comparison with other models, the new model:

- Provides detailed insight into the stages that are carried out in service innovation process;
- Provides a visual overview of the phases and feedbacks, thus creating conditions for better management;
- Presents the basis for innovation management model, which indicates the key capabilities that need to be developed in each stage;
- Provides a systematic approach to managing innovation process, aimed to the best use of the resources;
- Indicates connections that exist between the phases of designing new services, development of new ICT-based services (which may be the subject of outsourcing) and introduction and commercialization of innovations.

Keywords

Innovation management, services, model

Measuring Visitors' Satisfaction of Gastro Festival - An Application of Importance Performance Analysis

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Abstract

Visiting Gastro festivals became popular tourist activity and also growing area of interest among tourism researchers. The purpose of this paper is to measure a gap between satisfaction and importance of gastro festival attributes by using Importance-Performance (satisfaction) analysis. A research of satisfaction of gastro-festival visitors was conducted at the regional gastro festival in Varaždin and the results of this study proved that level of overall satisfaction of gastro festival visitors is lower than importance of measured attributes. In particular, research proved that festival visitors are most satisfied with opportunity to try authentic food and purchase of local products and least satisfied with festival contents that provide self-development and inspiration. The results will serve to the organizers of the gastro festival as a direction of their efforts to improve the service quality of the festival that will result in increasing of festival visitors' satisfaction in the future.

Keywords

Visitors satisfaction, IP analysis, gastro festival

1. Introduction

In recent years, gastro festivals are growing in number and variety as well as in popularity (Baker, 2013). Gastro festivals as popular tourist product play an important role in promotion of culture, habits and traditional cuisine of the area. As stated in Mohi (2013) and according to Cohen and Avieli (2004) "food festivals play a key role in promoting a destination and attracting visitors". According to Smith and Costello (2009), gastro festivals can contribute to the "creating the atmosphere essential to memorable travel experience" which characterizes modern tourist demand. Sanchez and Guzman (2011) imply that food presents key factor in deciding for a destination and "adds extra value to the image of the destination", therefore gastro festivals are not only independent tourist product but can attract large number of visitors to the destination. Gastro festivals can provide opportunity to escape from the everyday routine and stress, but also an opportunity to try new tastes, to gain new cooking skills and to meet local culture. In the era of globalization, traditional gastronomy as a part of national culture and identity present "strategic "spices" seasoning tourism development" as implied by Gacnik (2012). For all of the reasons mentioned, gastro festivals have irreplaceable role as a tourist product. In order for gastro festival to be successful and competitive, it is important to define important attributes that motivate visitors to come to the festival and to perform festival services that satisfy visitors' expectations. This aim of this paper is to measure importance and performance (satisfaction) and gap between them by using Importance Performance analysis. By measuring satisfaction of festival visitors, festival organizers can improve festival performance in the future by directing their efforts and resources more efficiently by focusing on festival attributes that are assessed as important and to those with low satisfaction score. The paper is composed of four sections, Literature review in which concepts of gastro festivals and satisfaction and Importance-Performance analysis have been studied, Methodology that describes methods used for collecting primary data, Research results describing socio demographic profile of respondents and scores of importance performance grid and the last section Conclusion providing main conclusions and suggestions for future studies.

2. Literature Review

2.1. Gastro festivals

Gastro festivals are a new trend in selective tourism that support sustainable development and strengthening the relationship between host and guest (Gagić, 2013). As stated in Bujadoso and Szucs (2012) and according to Wolf (2006) "gastronomic tourism is the pursuit of travel in the quest for the enjoyment of prepared food, drinks and other related food activities". Gastro festivals are associated not only with food products, but also with experience of food, wine, heritage and landscape, habits and culture of a certain area. Gagić (2013) posited that "food festivals are not an individual food tasting or eating experience but an overall tourism experience". Masson and Nassivera (2013) suggest that since most gastro festival exhibitors are small producers, festivals provide a great opportunity to promote and sell their products and develop personalized relationships with customers. As stated by Iso and Ahola (1982) in Baker (2013), there are two main tourist motivators: seeking and escaping. Visiting Gastro festival can fulfill both of them. As stated in Sanchez and Guzman (2012), Quan and Wang (2004) imply that it is not yet agreed if gastronomy is "a peak touristic experience (experiences becoming major motivations for tourism) or a supporting consumer experience (experiences to satisfy basic needs of the visit)". In any case, gastronomy has strong social, economic and cultural influence on tourism. Ozdemir and Culha (2009) propose that "Festivals can be regarded as contemporary service businesses that involve a great amount of promotion to attract visitors willing to allocate certain time and money for such an event".

2.2. Visitors satisfaction

Kim, Suh and Eves (2010) suggest that "satisfaction is based on the feeling of fulfillment that a visitor receives from a festival or event". Perceived service quality and satisfaction are similar but still distinct concepts, the relationship between these two concepts was intensively studied by Spreng and Mckoy (1996). While there is no consensus achieved among authors weather satisfaction is cognitive or emotional construct, Mason and Paggiaro (2012) suggest that "in the case of events satisfaction is both an emotional and evaluative answer". Yoon et al. (2010,) define festival satisfaction as "overall festival value evaluated by the composite of quality dimensions". Anil (2012) states that "visitor's satisfaction should increase his/her desire to re-participate in the festival next year". According to Lewis (1997) food festivals is defined as "popular festivals that purport to center on and revolve around, food are a social phenomenon encountered in virtually all human cultures, from the ritual banquets of ancient Rome to the chili cook-offs of Texas today". Lee at al. (2008) assumes that "customer satisfaction is pivotal to establishing longer-term client relationships and winning repeat business". Cole and Chancellor (2009) support this statement by proposing that "increased repeat visitation and voluntary promotion efforts by satisfied festival goers can be considered nonmaterial benefits that lead to material benefits".

2.3. IP Analysis

An importance-performance analysis (IPA) as a very popular instrument is used in the paper to measure satisfaction level of gastro festival visitors and a gap between satisfaction and importance of the measured attributes. Azzopardi and Nash (2013) defines that "IPA technique is a basic diagnostic decision tool that facilitates the identification of improvement prioritization". As proposed by Oh (2001), there is no clear definition of importance and practically is operationalized as "the level of salience of an attribute that is likely to be determinant of an imminent purchase decision". Furthermore, as stated in Oh (2001) Martilla and James (1977) propose that "the disparity between importance and performance be an indicator of customer dissatisfaction". IP analysis is well known for its simplicity and is for many years used in different services. It was first proposed by Martilla and James in (1977) to analyze performance in automobile industry and since then is used in many other services. Essentially, "IPA combines measures of attribute importance and performance into a two-dimensional grid in an effort to ease data interpretation and derive practical suggestions" (Oh, 2001). As stated in the paper of Obonyo (2013), IP analysis is very popular tool in service quality measurement in tourism and is used by many authors: travel and tourism (Evans & Chon, 1989; Duke and Persia 1996, Go & Zhang, 1997, Pike and Ryan 2003), leisure and recreation (Guadagnolo, 1985; Hollenhorst, Olson & Fortney, 1992), restaurants (Hu et al., 2009). As suggested by Barbieri (2010) IP grid provides information on direction and level of the future activities conducted and in that way contribute to management decision processes and creating of marketing strategies.

3. Methodology

A research was conducted at the one day regional gastro festival in Varaždin that has been organized every May for the last 7 years. The festival gathers over 100 traditional producers of authentic food and local products. This year the festival changed the location which negatively affected satisfaction of many visitors. In the first phase of this research there was a relevant literature studied and interview conducted with the organizers of the Varaždin Gastro festival. Following the first phase there was a questionnaire created based on the information gained. A questionnaire was created based on the work of Baker (2013) and adopted to the needs of the regional gastro festival in Varaždin. It consists of 2 sets of 20 statements measuring the importance and performance (satisfaction) level of the festival visitors. A 5 point Likert scale is used (1 indicates Not at all important/satisfied and 5 indicates extremely important/satisfied). 78 respondents approached the survey and answered the questionnaire. 75 out of 78 questionnaires were included in the analysis as

there was missing data in 3 of the questionnaires. The respondents firstly responded to the questions regarding importance attributes and afterwards to the questions regarding actual performance (satisfaction with the certain attribute of the festival). The analysis of the collected data is performed by using Importance-Performance (Satisfaction) instrument where mean score was measured for each of the attributes and gap between satisfaction and importance for each attribute. Collected primary data was analyzed by using descriptive statistical analysis.

4. Research Results

Table 1 below shows the descriptive statistics for the demographics of the sample.

Table 1: Demographic profile of the respondents

Item	Percentage	Item	Percentage
<i>Gender</i>		<i>Age</i>	
Male	44%	<20	4,00%
Female	56%	20-29	20,00%
		30-39	24,00%
		40-49	30,67%
<i>Level of education</i>			
Primary school	1,33%	50-59	16%
Secondary school	92%	60+	1,33%
College and University	5,33%		
MSc or PhD	1,33%	<i>Marital status</i>	
		Unmarried	13,33%
<i>Country of residence</i>		Married	78,67%
Croatia	100%	In a relationship	8,00%
<i>Number of previous visits to the town</i>		<i>Number of previous visits to the festival</i>	
First time	5,33%	First time	60%
2-5 times	46,67%	2-5 times	40%
More than 5 times	48,00%	More than 5 times	0,00%

Source: Authors

According to the analysis of demographic characteristics of the visitors of the Varaždin Gastro festival there were 56% female visitors. All of the survey respondents were Croatian nationality. More than half of the respondents (54,67%) were from 30 to 49 years old and 59% of the respondents were married. 43 respondent stated that the main motives of their visit to the festival was escaping from everyday stress and opportunity to try authentic traditional Croatian food. The majority of the respondents (92%) have finished secondary school. Even 94,67% of the respondents have visited city of Varaždin for more than once, but 60% of the visitors visited this festival for the first time. The results of descriptive statistics (mean, standard deviation and variance) for importance and performance (satisfaction) and a gap between them for each of 20 attributes are presented in the Table 2.

Table 2: A gap between Importance and Performance (satisfaction) for festival attributes

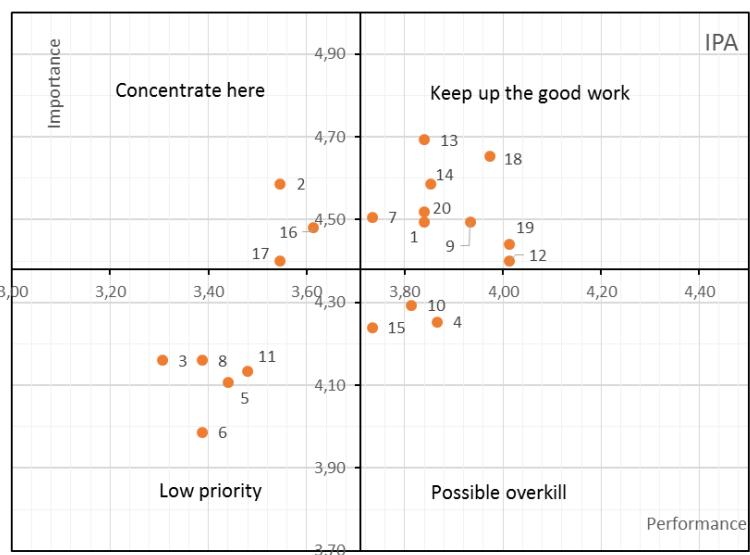
Attribute	Importance		Satisfaction		S-I gap
	Mean	St. deviation	Mean	St. deviation	
1. An authentic Croatian experience	4,49	0,76004	3,84	0,93056	-0,65
2. Opportunity to experience Croatian culture	4,59	0,75504	3,55	0,96273	-1,04
3. An opportunity to feel enlightened	4,16	1,05318	3,31	0,99964	-0,85
4. Meeting and talking to members of the Croatian community	4,25	0,88674	3,87	0,90544	-0,39
5. Opportunity for me to escape from the routine of daily life	4,11	0,92376	3,44	0,77529	-0,67
6. An opportunity to feel inspired	3,99	1,07167	3,39	0,91376	-0,60
7. Indulgent experiences	4,51	0,70468	3,73	0,97722	-0,77
8. An experience that allows me to develop as a person	4,16	1,10331	3,39	0,83655	-0,77
9. The festival takes place in an attractive setting	4,49	0,7236	3,93	0,97722	-0,56
10. A chance to learn about a country's people through cultural events	4,29	0,78454	3,81	0,67169	-0,48
11. An opportunity to learn new skills	4,13	1,08221	3,48	1,04442	-0,65
12. Opportunity to purchase rare Croatian products not readily available	4,40	0,7711	4,01	0,83007	-0,39
13. Opportunity to purchase Croatian food and products at a reasonable price	4,69	0,51918	3,84	0,80606	-0,85
14. Regional products unique to Croatia	4,59	0,73693	3,85	0,95427	-0,73
15. A unique festival experience	4,24	0,86743	3,73	0,77692	-0,51
16. A festival experience that is new to me	4,48	0,89079	3,61	1,08918	-0,87
17. An opportunity for me to escape from the stress of daily life	4,40	0,90045	3,55	1,00396	-0,85
18. An opportunity to try authentic Croatian food	4,65	0,6876	3,97	1,02632	-0,68
19. An opportunity to try authentic Croatian wine	4,44	0,85803	4,01	0,97943	-0,43
20. An opportunity to experience authentic Croatian music	4,52	0,87549	3,84	1,05318	-0,68

Source: Authors

The mean score for Importance of attributes ranged from 4,11 to 4,69 which leads to a conclusion that service attributes are very important from the visitors' perspective. Satisfaction mean score ranged from 3,31 to 4,01 and all of the satisfaction scores are lower than the importance scores. Table 1 presents that the most important attribute is "*Opportunity to purchase Croatian food and products at a reasonable price*" ($M=4,69$, $SD=0,52$) which is stated as a main visitors' motive as well. The other important attributes are "*Opportunity to try authentic Croatian food*" ($M=4,65$, $SD=0,69$), "*Opportunity to experience Croatian culture*" ($M=4,59$, $SD=0,76$) and "*Regional products unique to Croatia*". The least important festival attribute is "*An opportunity to feel inspired*" ($M=3,99$, $SD=1,07$). On the other hand, festival visitors are most satisfied with "*Opportunity to purchase rare Croatian products not readily available*" ($M=4,01$, $SD=0,83$) and "*Opportunity to try authentic Croatian wine*" ($M=4,01$, $SD=0,98$). The festival visitors are at least satisfied with the following attributes: "*An opportunity to feel enlightened*" ($M=3,31$, $SD=0,99$), "*An opportunity to feel inspired*" ($M=3,39$, $SD=0,91$), "*An experience that allows me to develop as a person*" ($M=3,39$, $SD=0,83$). From the Table 1. it is visible that satisfaction level is in general lower than Importance for all of the attributes from

the questionnaire. The major gap between Satisfaction and Importance is regarding the attribute "*Opportunity to experience Croatian culture*" where the gap between Satisfaction and importance is 1,04. The lowest gap between satisfaction and importance attributes is 0,39 and refers to the attributes "*Meeting and talking to members of the Croatian community*" and "*Opportunity to purchase rare Croatian products not readily available*". An analysis of reliability was made by using Cronbach's alpha test. The values obtained for both sets of attributes (Satisfaction: 0,879, Importance: 0,849) prove internal reliability of each of the attributes set from the questionnaire. The IPA analysis gained popularity based on its easy presentation and interpretation of the gap between Performance (satisfaction) and importance level. The following figures display the importance-performance grid results for the 20 festival attributes measured in this research.

Picture 1: Importance-Performance Analysis grid of festival attributes



Source: Authors

The mean scores for Performance (Satisfaction) are presented on the x-axis, and mean scores for Importance are presented on y-axis. The overall mean values for importance and performance are used to divide matrix into four quadrants (Smith, 2004). The Quadrant "Keep up the good work" includes variables of high importance and high satisfaction. Quadrant 2 "Concentrate here" indicates variables of high Importance but low satisfaction. The Quadrant "Possible overkill" includes variables of high satisfaction, but low importance. The Quadrant Low priority indicates variables of both low importance and low satisfaction.

As shown in Picture 1, there are nine attributes in the quadrant Keep up the good work: *An authentic Croatian experience* (attribute 1), *Indulgent experiences* (attribute 7), *The festival takes place in an attractive setting* (attribute 9), *Opportunity to purchase rare Croatian products not readily available* (attribute 12), *Opportunity to purchase Croatian food and products at a reasonable price* (attribute 13), *Regional products unique to Croatia* (attribute 14), *An opportunity to try authentic Croatian food* (attribute 18), *An opportunity to try authentic Croatian wine* (attribute 19) and *An opportunity to experience authentic Croatian music* (attribute 20). These attributes scored high importance values and also high values of visitors' satisfaction. In general, these attributes are connected with traditional products and culture and refers to a good work of festival organizers in terms of focusing on certain attributes as well as service quality that results in high satisfaction of festival visitors. The organizers of the festival should keep the same approach and strategy towards these attributes.

In the Quadrant "Concentrate here", there are three attributes: *Opportunity to experience Croatian culture* (attribute 2), *A festival experience that is new to me* (attribute 16), *An opportunity for me to*

escape from the stress of daily life (attribute 17). The attributes in this quadrant are perceived as of high importance, but low satisfaction according to the festival visitors' scores. These attributes are very significant for festival organizers and managers as it presents improvement area for the future festivals. Festival organizers should focus on these attributes as they are recognized to be important, but should improve performed service quality that can result in increased satisfaction level of festival visitors.

Quadrant "Possible overkill" includes three attributes: *Meeting and talking to members of the Croatian community* (attribute 4), *A chance to learn about a country's people through cultural events* (attribute 10) and *A unique festival experience* (attribute 15). According to the festival visitors' scores these attributes are defined as of low importance but high satisfaction level. Festival visitors think that these attributes are not very important and are satisfied with the performance of these attributes. Therefore, festival organizers should decrease efforts and resources on these attributes and concentrate more on other festival aspects.

Quadrant Low priority contains five attributes: *An opportunity to feel enlightened* (attribute 3), *Opportunity for me to escape from the routine of daily life* (attribute 5), *An opportunity to feel inspired* (attribute 6), *An experience that allows me to develop as a person* (attribute 8) and *An opportunity to learn new skills* (attribute 11). These attributes are scored with low importance and low satisfaction scores. Even though, these attributes are of low importance to the festival visitors, the organizers should consider investing in improvement of visitors' satisfaction.

5. Conclusion

Visiting gastro festivals is very popular tourist activity, but still performance of the festival activities is not satisfactory. Overall satisfaction is lower than overall importance of the festival attributes. As shown in IP analysis the lowest satisfaction score concerns attributes An opportunity to feel enlightened, An experience that allows me to develop as a person, An opportunity to feel inspired which leads to a conclusion that festival organizers should consider introducing new festival activities such as workshops and culinary classes that would provide more personal experience and self-development of festival visitors. Festival visitors are in general most satisfied with opportunities to try and buy traditional products and food but miss more interactive contents that would present a certain upgrade to the solely supply of traditional products. According to Rust (2001) as stated in Kuo et al. (2010) "customer satisfaction could be improved through the addition of new programs or strategies aimed at specific weaknesses". The largest gap between performance (satisfaction) and importance score is regarding the attribute Opportunity to experience Croatian culture (-1,04). This Attribute is assessed as very important for festival visitors but, its performance is not satisfactory. This gap implies that festival planners and managers should be aware that festival visitors need more than just food trying and purchasing of local products, they need to experience Croatian culture at the festival. Festival organizers should focus on attributes rated with low satisfaction in order to raise visitors' satisfaction level of the future festivals. Since gastro festivals stress out not only food, but also presentation and promotion of the culture, tradition, local lifestyle, it is necessary for the festival planners and managers to use integrated approach where all of the relevant stakeholders would be actively included. Varaždin gastro festival is mainly visited by domestic tourists which is significant to the festival planners to focus more on the promotion of the festival in other countries and other tourist markets. Another reason for foreign visitors not visiting this gastro festival could be found in the fact that festival lacks of additional activities and contents that would make it different and unique comparing with other festivals. In the future researches, it is advised to perform longitudinal studies (preferably year after year) in order to be able to compare results and to monitor improvement efficiency. In this way festival planner would be able to follow if satisfaction level is increasing, especially in the attributes characterized by a large gap value.

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Regional Government Support for SMEs: One Example on Innovation from Northern Ireland

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Abstract

Regional Government support for SMEs to enhance their innovation has been widely debated within the EU. This paper will question the “Truth” of the utility of such support through an empirical study of the Innovation Voucher Program (IVP) in Northern Ireland. The IVP was launched as a one year pilot program in May 2008. Following the one year pilot program, an internal review of the Program was undertaken. This was followed by an independent economic appraisal and Ministerial approval for £2.7million to launch a new Innovation Program in Northern Ireland covering the period 26 October 2009 to 31 March 2012.

The key objectives of the Program were to:

- a) encourage small enterprises in Northern Ireland to engage with public sector Knowledge Providers to access knowledge and expertise to develop innovative solutions to business issues;
- b) increase the level of innovation activity in Northern Ireland’s small enterprise sector;
- c) stimulate innovation and encourage research and development in small enterprises; and
- d) increase productivity in Northern Ireland’s small enterprises.

The aim of the Program was to help enterprises registered in Northern Ireland to establish links with the 41 public sector Knowledge Providers (all Universities, Regional Colleges, Research Centers and Institutes of Technology) across the island of Ireland and to access knowledge and expertise to develop innovative solutions to business. It did this via a voucher valued at up to a maximum of £4,000 which a company can redeem against the cost of practical advice and expertise on specific operational projects.

The benefits arising from research collaboration are clear, and have long been recognized by both those working in the public (academic) and private sectors. The benefits of bringing together groups of researchers and end-users are several and include: “the achievement of critical mass; overcoming fragmentation caused by distance and a smaller resource base; bringing together different perspectives, experience, skills and knowledge; breaking down specialist silos and restrictive organizational boundaries and fostering cross-disciplinary interactions; encouraging skills and knowledge transfer; promoting mutual understandings; and managing risks” (O’Kane, 2008). Although collaboration is intuitively more expected between firms or other entities that are not competitors, Cosh et al. (2005) find that “collaboration with customers, suppliers, higher education institutions, even competitors, allows firms to expand their range of expertise, develop specialist products, and achieve various other corporate objectives. Collaboration with competitors and customers provides a firm with greater access to domestic or international markets. This may lead to greater commercial success of the new products, and enhances the productivity of innovation through economies of scale. Collaboration with suppliers may lead to lower costs and better quality of the new products. All this may result in higher productivity of the innovation activities. Hence,

collaboration will be positively associated with firms' innovative efficiency". This rationale provides a clear incentive for government support for the promotion of collaboration.

Keywords

SME, Northern Ireland

Moderation Effects of Environmental Sustainable Information on the Social Media Use-Technology-Based Product Purchase Intent Relationship

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Abstract

This study explores the relationships among the perceptions formed by customers of new technology-based products that are influenced by environmentally sustainable, publicly available information including organizations' marketing communications, the use of social media to obtain new technology-based product purchase information, the use of social media for communicating with friends, and customers' intentions to purchase new technology-based products. The major research questions that this research addresses are does customers' perceptions of environmentally sustainable information moderate the relationship between the use of social media to obtain new product purchase information and customers' intentions to purchase new technology-based products, and the relationship between the use of social media for communicating with friends and customers' intentions to purchase new technology-based products? This research contributes to innovation theory and practice by suggesting how environmental sustainability based information impacts potential customers' purchase intentions of new technology-based products that often are associated with a significant degree of product and process innovation. This study's sample consists of two groups of university students from a public state university in the United States. The first group of students includes undergraduate students. The second group of students includes Master of Business Administration (MBA) program graduate students. This study found that social media used to obtain product purchase information has a positive influence on customers' intentions to purchase technology-based products whereas social media used for communicating with friends does not. Additionally, the perception of public information, including environmental sustainability information and marketing communications observed by customers of technology-based products moderates the relationship between the use of social media to obtain product purchase information and customers' intentions to purchase new technology-based products. Whereas the perception of public information, including environmental sustainability information and marketing communications observed by customers of technology-based products does not moderate the use of social media for communicating with friends and customers' intentions to purchase technology-based products. Research recommendations for marketing and new product development management are provided.

Keywords

Environmental sustainability, use of social media, new product development, new product purchase intention

The Effect of Oil Prices on Stock Prices: A Structural Time Series Approach

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Abstract

A structural time series model is estimated to examine the effect of oil prices on stock prices in three oil importing countries and four oil exporting countries. The results show that some missing variables affect the secular behavior of, and that oil prices can explain cyclical variation in, stock prices. In all cases the effect of oil prices on stock prices turns out to be significantly positive. This finding is explained in terms of the positive effect running from economic activity to both oil prices and stock prices.

* I am grateful to Kelly Burns for providing the data and excellent research assistance.

Enterprise Risk Management – Finding Indicators – Case Study

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Abstract

The article focuses on the enterprise risk management. The article defined the basic tasks of risk management and has been focused on finding the indicators of risk in company. The introduction gives an overview of the existing knowledge and case studies of risk management and the importance of implementing the enterprise risk management. There is used the correlation coefficient between two time series, basic characteristic of times series and Days of Sales in Receivable as the indicators of the risk. The methods are presented in selected company. The outcome is a mapping of activities that needs to be done for successful risk management. The benefit of the article lies in the fact that it provides a complete overview of methods. It is necessary to implement the enterprise risk management into strategic management of company regardless of the sector in which company is situated.

Keywords

ERM, risk identification, Days of Sales in Receivable, correlation coefficient

1. Introduction

Currently these fast-moving times are characterized by the full of changes in the company's environment, there is very important for the company to monitor its risks. The risk can be everywhere, events that take place in either the company itself or during its operation in the context of relations with suppliers or customers could be the source of the risk, or investors or other institutions with which the company has come into daily contact too.

Risk management is the process by which the subject tries to prevent the action of the management of existing and future factors and proposes solutions to help eliminate the effect of adverse effects, and vice versa allow using the occasion of the action of positive influences. There is a risk in business constantly, so it is important to be aware of this risk and try to analyse it and to manage. The first most important step during the risk analysis is identification of possible risks. This part of risk analysis is the most constructive and informative part of the whole process. (Vose, 2008)

Risk can be defined as the likelihood that the outcome from a process will not meet expectations (Knechel, 2002). ERM (Enterprise risk management) is management process that requires a firm's management to identify assets to collective risks that affect firm value and apply an enterprise wide strategy to manage those risks in order to establish an effective risk management strategy (Meulbroek, 2002).

According to Nocco and Stulz (2006), ERM is a process that identifies, assesses and manages individual risks (e.g., currency risk, interest rate risk, reputational risk, legal risk, etc.) within a coordinated and strategic framework. Many corporate executives believe that a comprehensive program for managing business risks provides an essential foundation for sustaining competitive advantage (Economist Intelligence Unit, 2001). A general argument gaining momentum in the literature is that the implementation of an ERM system will improve firm performance (e.g., see Barton & et al., 2002; Lam, 2003; Stulz, 1996, 2003; Hoyt & Liebenberg, 2009)

2. Risk Management

Risk management is the process by which the subject tries to prevent the action of the management of existing and future factors and proposes solutions to help eliminate the effect of adverse effects, and vice versa allow using the occasion of the action of positive influences. There is a risk in business constantly, so it is important to be aware of this risk and try to analyse it and manage. Risk management is a structured approach for the identification, assessment, and prioritization of risks followed by planning of resources to minimize, monitor, and control the probability and impact of undesirable events. (Smith & Merritt, 2002)

Each risk can be measured either by selected indicators of business performance or other variables. If there is no specific option of risk measurement, it is still possible to compare the risks of using qualitative methods, in which the risk is described by means of threats and scenarios. In order to further compare the risks are assessed impacts of threats and likely scenarios according to predefined scales. This assessment divides risks into categories according to the degree of significance (risk value) for the selected company. Risks can be divided, for example, the risk of common, serious and critical according to pre-selected limit values of significance.

Based on the results generated from the selected indicators, or using qualitative methods matched risks, it is important to focus on the most critical risk group for further work - to make a countermeasure, to determine the size of the impact as he himself risks and the countermeasures. The relationship between the financial impact of the risks and financial costs of countermeasures is

very important for the company which should not ensure the risks associated with higher costs than the impact if they occur.

The objective of risk management is not usually eliminating risks, but to minimize the losses incurred when they occur. Risk management is used to achieve the objectives of the strategy and planning. It is therefore a systematic approach to reduce the impact of risks. (Hilson & Simon, 2007) General procedure for the risk analysis is usually the following:

1. Identification of risk;
2. Risk assessment (evaluation);
3. Responses to risk.

The tasks of the risk management system are as follows:

- eliminate disruptions and minimize the likelihood of their occurrence and minimize the impact on operations;
- optimize the long-term costs of prevention and cover losses;
- actively manage (influence) risk portfolio;
- identify and assess risks, to make preparation and selection of the most appropriate preventive countermeasures;
- establish, implement and maintain measures to avoid, reduce and manage risks and to evaluate their effectiveness;
- integrate appropriate policies and procedures for risk management to all management, supervisory and executive structures of society;
- have procedures for early detection of increased risk (risk conditions) and emerging crisis situations;
- have clearly defined procedures for dealing with emergencies;
- have secured funding to offset the effects of damage in the long term least cost to ensure risk management, risk coverage (financial and material) insurance and risk transfer .

Finally, it is necessary that risk management should be in line with the strategic objective of the company as a whole and accordingly it is also necessary to manage these risks.

2.1. Risk identification methods

When identifying risks the company should concentrate on the whole of its environment. Risks are both inherent in the company itself and generated by its operation. Internal processes are source of internal risks which may be influenced by the company. This makes the category of governable risks. Internal risk identification methods include for example the 7S, describing 7 mutually interconnected areas influencing each other within the company. After completion of an internal environment analysis the company surroundings within the field of specialization may be analysed. Surroundings within the field of specialization of the company are the environment in which the company interacts with its suppliers and clients and other market players. Risk identification may be based on the Porter model. Thus identified risks are also governable by the company conduct. External environment of the company is typical by the non-controllability of the risks identified with the help of the SLEPT method. The company must include these risks in its risk analysis and try to count on them in its activities and mitigate their impact. All these methods (7S, Porter model, SLEPT) are summarized in the SWOT analysis, which may also be used by the company for risk identification.

Other method is analysis of assumptions and restriction. It is very important to think about the assumptions, because these assumptions are changing in time and sometimes are really unreal. It is important to write down the assumptions, it shows the risk, when the assumption is changed.

At the end of the risk identification is useful to make Ishikawa diagram (fishbone diagram). It helps to think through causes of a problem thoroughly. Their major benefit is that they push you to consider all possible causes of the problem, rather than just the ones that are most obvious. The box and line can be thought of as the head and spine of the fish.

When the Ishikawa diagram is made, it is useful to do influence diagram. The identified risks are arranged on the paper and then are depicted the influences between all of the risks. The most critical is the risk, which has the most of lines coming out the risk, because the risk influences the other risks. If a relation between two quantities is analysed the correlation coefficient showing the level of linear dependence between these variables $(x_1, y_1), (x_2, y_2), \dots (x_n, y_n)$. If the values of this coefficient are far from zero then the phenomenon may be defined as correlation (dependence) between the two quantities. (Cipra, 2008) The value of this coefficient ranges between -1 and 1, with values close to -1 expressing indirect linear correlation, zero (0) meaning non-correlation of the quantities, and values close to 1 expressing direct linear correlation. The Pearson correlation coefficient may be expressed by the following equation (1):

$$r = \frac{\sum_{t=1}^T (x_t - \bar{x})(y_t - \bar{y})}{\sqrt{\sum_{t=1}^T (x_t - \bar{x})^2 \sum_{t=1}^T (y_t - \bar{y})^2}} \quad (1)$$

Calculation of days of sales in receivable is following equation (2):

$$DSR = \frac{AR}{R/360} \quad (2)$$

Where DSR is Days of Sales in Receivable, AR – Accounts Receivable and R – Revenues. (Kislingerová & et al., 2010)

2.2. Risk quantification methods - Scoring Method with Risk Map

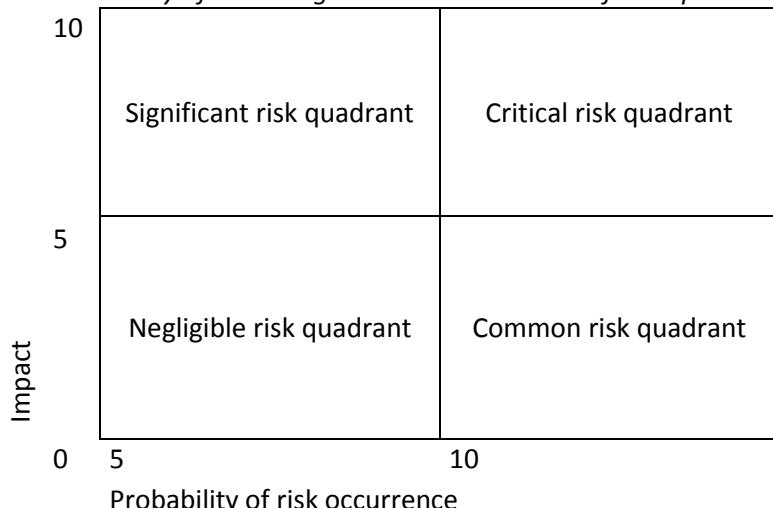
When you apply the scoring method you ascribe the probability of the risk occurrence to each of the identified risks together with the risk impact on the given project. The probability and the impact are specified in the framework of predefined scales which depend on the subject performing the analysis and the level of detail of the risk distinction. If probability of a risk occurrence is marked "P" and potential impact as "D" then significance (score) of the risk may be expressed as:

$$R = P \cdot D. \quad (3)$$

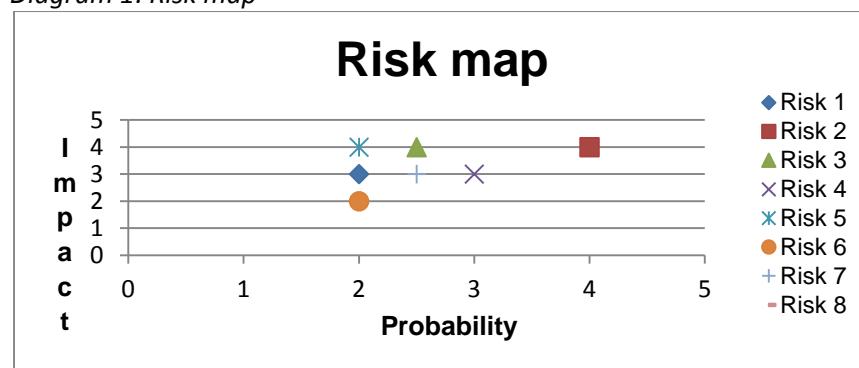
Risk assessment is represented by the product of the probability score and the impact score. Therefore the evaluation ranges within 1 – 100.

After allocation of values to all risks the risks may be shown graphically in a risk map. The risk map is defined by two axes, the P probability axis and the D impact axis. By plotting all points you get the risk map showing where each risk is situated relatively to the other risks and what the significance of the individual risks is. The map is recommended to be divided into several sections to define on the basis of significance values whether each of the risks is negligible, common or critical to be able to define which risks need increased attention.

The method recommends preparation of proposals for risk reduction both for the critical risk quadrant and for the significant risk quadrant.

Table 1: Survey of risk categorisation on the basis of their probability and impact

Source: Project Management according to IPMA ((Doležal, Mácha, Lacko, & et al., 2012)

Diagram 1: Risk map

Source: Own compilation.

2.3. Suggested methods for the choice of countermeasures

How to choose the correct countermeasure is on the specific situation, but there are recommended methods, which are based on the scoring method and these are classified according to probability with which the risk will occur and the impact that would be at risk of its occurrence. Countermeasures should lead either to reduce the probability or impact of risks to society, or both. Then you can use as a guide the following Table No. 2 with recommended strategies for selecting countermeasures.

Table 2: Methods used to decrease the risk

	Significant probability	Low probability
Significant impact	Avoiding of risk and reduction	Insurance
Low impact	Reduction and retention	Retention

Source: (Smejkal & Rais, 2009)

3. Analysis of Selected Company

Risk management in selected company is performed by the operational interventions when the risk occurs. This situation is already unbearable for the company and it is necessary therefore to

incorporate the risk management into the daily operation of the company to try to determine the most important risks that threaten the company.

On the basis of the requirement of a company that does not wish to be mentioned here I performed a risk analysis for its subject of business activity, which is manufacture, trade and services not listed in annexes 1 to 3 of the Trades Act. The analysed company is a limited liability company supplying parts needed for pipeline laying and other civil engineering activities.

There is SWOT analysis of the company:

Strengths	Weakness
<ul style="list-style-type: none"> - goodwill associated with high levels of technical knowledge - ensuring quality (certified) flanges, T-joints and - reduction at reasonable prices through group - comprehensive and updated information on the situation in the global and European market from - parent company - short lead times for supply of special components - stable customer base and deepening cooperation with them - technical advice in the phase of demand 	<ul style="list-style-type: none"> - unstable purchases of pipe bends using a combination of suppliers - evolution of stocks copied annual and seasonal demand - in the season proves to be insufficient, out of season stocks held in excess funds - short validity offers from suppliers - for customers who are less sensitive to the quality, - relatively expensive prices - lack of promotion
Opportunities	Threats
<ul style="list-style-type: none"> - abolishment of customs and administrative barriers - accelerates and facilitates international trade - delivery on large orders reconstruction of pipelines in the Czech Republic and Slovakia due to the possibilities of supply special materials and dimensions - growth in demand for flat flanges, which are In Stock - increasing number of requests for items of European origin 	<ul style="list-style-type: none"> - decline in demand due to the economic crisis - appreciation of the Koruna deteriorating export situation - unstable situation on the market of raw materials - late payments from customers - step increases in raw material and energy - push to remove the fittings dumping measures against Asian countries, especially China - increasing number of competing firms in the Czech market, low quality but inexpensive products

The risks were identified on the basis of the abovementioned methods. The risks were described with the help of Threats and Scenarios arising from the threats. The following Table 3 shows risks selected for further analysis on the basis of a discussion with the executive director of the company.

Table 3: Threats and scenarios

No.	Threat	Scenario
1.	Failure in contract awards (market competition, weather effects on construction works)	Excessive stock, impossibility to cover fixed costs
2.	Incompliance with contract conditions by clients (delayed payments)	Inability to comply with liabilities, necessity to draw a loan
3.	Payments past maturity.	Loss of suppliers, penalties -> increased costs, negative effect on long-term relationships with suppliers.
4.	Bad weather (too rainy, long periods of frost → impossibility to build)	Postponed client orders, fluctuations in earnings
5.	Untrustworthy staff	Loss of customers, delay in processing orders
6.	Increasing prices of energy	Increasing costs and sales prices
7.	Delayed orders	Loss of customers, bad references

Source: Own compilation

All risks may be assessed to see the most critical ones for the company. For these reasons probability scales (P) were defined for the individual threats with their impact on the company (I) with the assistance of the company management, as shown in the following Table 4.

Table 4: Scales

Probability (P)	Impact (I)	Risk value
1 – improbable,	1 – negligible,	<0,7> – common risk,
2 – low probability,	2 – low,	(7,15> – serious risk,
3 – probable	3 – medium,	(15,25> - critical risk.
4 – very likely,	4 – appreciable,	
5 – nearly certain.	5 – strong.	

Source: Own compilation

With regard to the probability scales and impact this risk value ranges between (0 and 25). It is also necessary to define the limit risk values the company is still able to accept and understand as a common risk controllable with operative interference. Another limit value separates serious risks which need to be addressed with more significant interference, and the top category is represented by critical risks which should not occur in the company and if they do then the company should fully concentrate on them. The company assessed the identified risks as shown in the following Table 5.

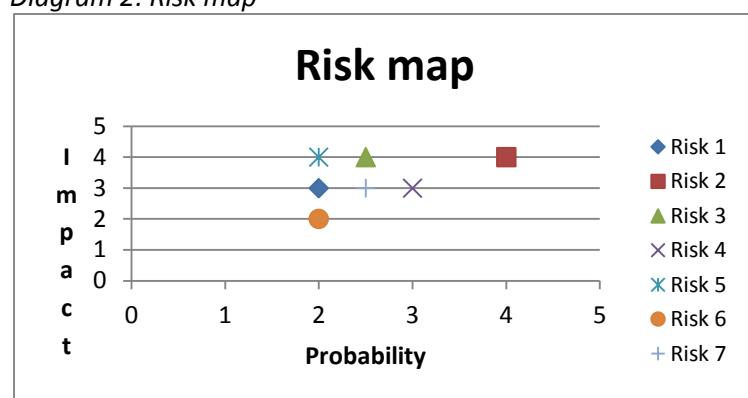
Table 5: Risk quantification

No.	Probability	Impact	Value of risk	Risk category
1.	2	3	6	Common
2.	4	4	16	Critical
3.	2,5	4	10	Serious
4.	3	3	9	Serious
5.	2	4	8	Serious
6.	2	2	4	Common
7.	2,5	3	7,5	Serious

Source: Own compilation

The risk map is illustrated below as a Diagram 2.

Diagram 2: Risk map



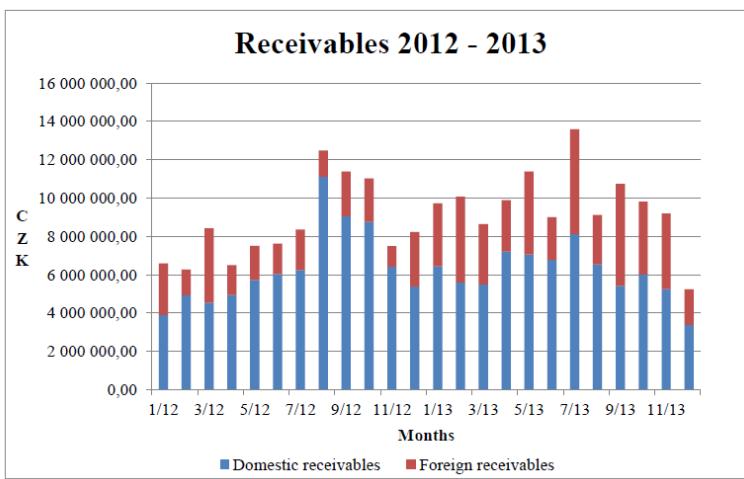
Source: Own compilation

3.1. Incompliance with contract conditions by clients (delayed payments)

The most critical risk according to the risk quantification appears to be the risk of incompliance of the clients with the contract conditions, related with delayed client payments. Receivables of the company are classified for foreign and domestic market and their amounts per month are shown in

the Figure 1. Payment deadlines of the individual invoices range around 30 days for domestic and foreign clients. There are depicted the receivables during the years 2012 – 2013 in months and CZK.

Figure 1: Receivables 2012 - 2013

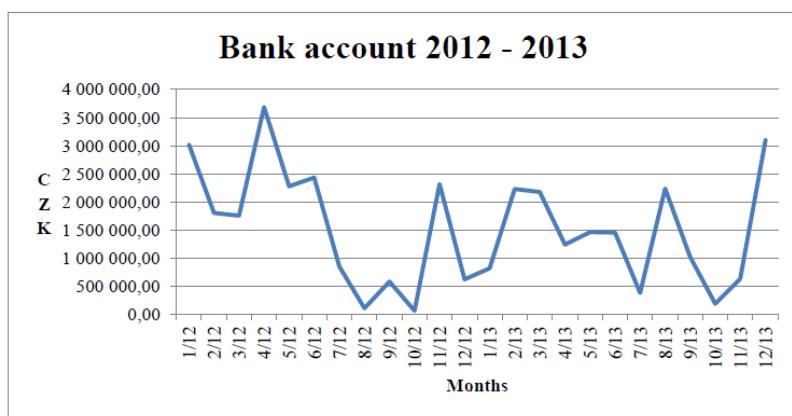


Source: Own Compilation

An option how in time identify the risk of late payments from customers is monitoring days of sales in receivable. During the year 2012 was calculated, that the DSR equals to 60 days. in 2013 were 64 days, which shows that consumers are not paying their obligations in time. The risk of these late payments leads to the fact that the company is unable to pay its liabilities and thus exposes also the risk No. 3 The company purchases the selected goods, which sold on, by foreign entities after receiving orders from customers and is therefore dependent on timely payments.

If we focus on the development of funds of the company and its cash flow is evident from Figure 2 that society at a time when most constructions are realized, i.e. from June to October, the bank account gets to the lowest levels in the entire period although it is the growth of receivables until August when the receivables are highest and then gradually decline.

Figure 2: Bank account 2012 - 2013



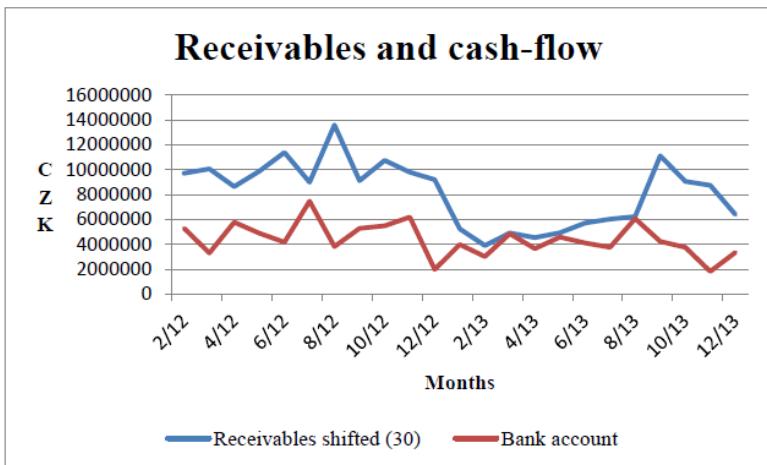
Source: Own compilation

During the monitoring the trend of bank account (cash-flow) and receivables shifted of 30 days (maturity), it shows that in the first five months of the year 2013 avoid payment delays. The coefficient of correlation for first five months in 2013 equals 0,93, which is very strong positive correlation, the DSR equals to 34 day. In the next four months is already a correlation coefficient

equal to -0.22, which shows a modest, but a negative relationship. These are the months from June to September. In the following months, again the correlation coefficient approaches the value 1.

Year 2012 was different, there was found strong correlation 0,72 during the first 6 month, but it has to be shifted for 60 days (equals to DSR during this year). It shows, that customers did not pay in time, but in 60 days delay.

Figure 3: Relationship between receivables and cash-flow

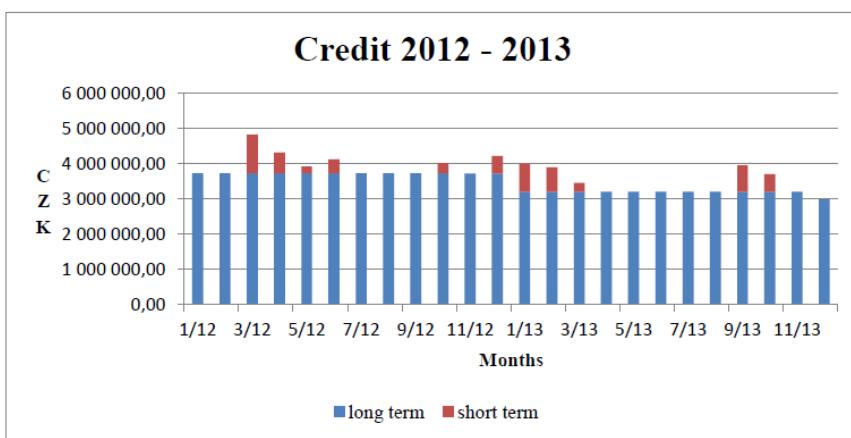


Source: Own compilation

There is also important to look at the Credit during these years. The company has short term and long term credit.

The company had to even at maturity of the highest receivables in 2012 and 2013 draw the short-term credit, it illustrates the Figure 4. It is thus evident that customers really do not get their liabilities to the company and it's a big risk for company to go through this risk. Long-term credit at the end of the reporting period was successfully partially repaid in the hundreds of thousands.

Figure 4: Credit 2012 – 2013



Source: Own compilation

As a possible risk indicator of late payments is next to the pointer days of sales in receivable also used the correlation coefficient of the shifted time series of receivables and bank account that detects dependence between the series.

3.2. Countermeasure suggestions

The mere identification of risks that threaten the company is not enough. It is important to further work with risk by using the suggestion of countermeasures. Countermeasures have an important characteristic of the efficiency of its impact and also the costs that must be incurred for its introduction and implementation. There are two ways how to manage this risk:

1. Prevention;
2. Collection.

At the Risks 2 is necessary to follow the maturity of invoices and days of sales in receivable for individual customers, because the company cannot afford to risk drawing on bank loans at a time of the most sales. If the time exceeds the days of sales in receivable significantly maturity, the company should focus its attention on whether it is a permanent and large customers, or the customers who buy for the first time or in small volumes.

Monitoring indicator of days of sales in receivable leads to a reduction in the probability of occurrence in the future , since it is possible to refuse an order from unreliable customer, or to lay down different conditions , for example in the form of advance payments of invoices , or contractual penalties that society enforced . Such penalties may partially mitigate the impact, but the size of the penalties is not so high that, for example, cover the financial costs to cover short-term loan, which must be in this case drawn. The cost of implementation of countermeasures are at risk No. 2 equal to the wage of the chief accountant (or the increase in the reward) which will be responsible for monitoring these indicators , or legal advice , which is necessary for the proper determination of the maximum possible amount of enforceable penalties and fines relation to the laws in the EU . If it is necessary the enforcement of penalties by using specialized agencies, it is also important to count with these extra costs for their services. There is also one more possibility how to support the customer for in time payment – cash discount. But it is represented for the company by smaller sales.

3.3. Other risks - identifiers and countermeasures

Other risks fall into the category already common and serious risks. As part of the risk analysis is necessary to suggest a countermeasure against these risks.

- Risk 1

Common risk No.1 is company able to solve by operational interventions and monitoring warehouse stock, so as to avoid unnecessary delays in loading and unloading of goods. At present, the company has an information system that was within countermeasures modified on monitoring and reporting the size of stocks of individual goods. The storekeeper has to monitor this indicator in cooperation with business representatives who have an overview of when and how many goods is needed to buy or be unloaded so as to avoid even the lengthening delivery times to customers. This will reduce the probability of this risk.

- Risk 3

It is a serious risk that could cost the company its reputation in relation to suppliers, with which it seeks to maintain good relations. The company is trying to prevent this risk by in time payment for the goods and services at the cost of drawing new credit. It tries to reduce the probability of the risk at the cost of funds for the cost of borrowing, whether short-term or long-term credit. Responsibility for the implementation has the chief accountant within their workload, which includes information and guidance on the maturity of such important bills and planning their payment.

- Risk 4

As regards the risk due to bad weather, so it is a serious risk that falls into the category of uncontrollable risks and the company may only be prepared to master by creation of sufficient reserves so that it is able to cover its fixed costs during the time when it will be exposed to this influence. The costs of such countermeasures are costs for the creation of reserves, or for the

amount of the reserve, in the worst case drawdown when the reserve is not sufficient. Creating reserves is in the job description of the company's management in cooperation with the accounting.

- Risk 5

Untrustworthy staff is serious risk. During the last years had the company a big problem, when there was a untrustworthy store man. An option how avoid this risk is really a thorough selection of new staff, verification of references that are listed in a CV. Responsibility for ensuring such of risk has company executive director, because employee chooses himself. The costs of such countermeasures are dependent on the thoroughness of verification, but the presumption that could not be quantified. This is a work in work time of executive director.

- Risk 6

Increasing prices of energy. If it is possibility of increasing the prices, there is one countermeasure how to decrease the impact of the risk. The company should create the reserves. Other possibility is to have long term contracts with suppliers, the it should decrease the probability of occurrence. The responsible person is the executive director with cooperation with company lawyer. The costs are the amount of reserves or the payment to the lawyer.

- Risk 7

Delayed orders. The countermeasure should be time monitoring of realization of orders by each business representatives. It is advisable to monitor the stored goods which are offered and timely writing the changes to the system so that all representatives are able to work with actual information and avoid delays due to failure to register in the system. It is also possible to motivate employee by using bonuses that will be paid under the premium for those who will have the best results and not delayed orders. The costs of such countermeasures are the premiums to be paid to representatives. Person responsible for ensuring is the company executive again.

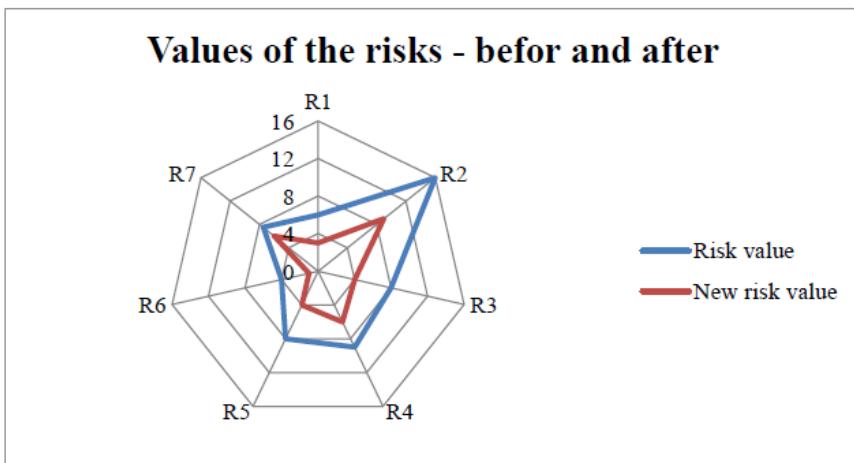
3.4. Evaluation of the analysis

Within the analysis evaluation and after the implementation of countermeasures is appropriate to express what efficiency we expect from each countermeasure and how it changes the risk map of these measures. Another option is a graphical representation of the spider graph, which is used to compare the values of individual risks before and after suggesting the countermeasures, see Table 6 and Figure 5.

Table 6: Efficiency of countermeasures

No. of risk	Probability	Impact	Value/category	New probability	New impact	New value /category
1.	2	3	6/common	1	3	3/common
2.	4	4	16/critical	3	3	9/serious
3.	2,5	4	10/serious	1	4	4/common
4.	3	3	9/serious	3	2	6/common
5.	2	4	8/serious	1	4	4/common
6.	2	2	4/common	1	1	1/common
7.	2,5	3	7,5/serious	2	3	6/common

Source: Own compilation

Figure 7: Values of the risks – before and after

Source: Own compilation

4. Conclusion

In the first part of this paper were described the methods used for creating the risk analysis in the company. The methods were divided into groups – methods for identification, quantification and suggested methods for decreasing the value of risk.

In the second part was introduced the company a by using the described methods starts the analysis. Aim of this article is to describe the main risks affecting the company in its everyday operation. At the request of the company the risk analysis was carried out. The risks were first identified by using the structured interviews in company, and then evaluate these interviews with the executive director. He has determined the currently risks from the perspective of executive director and owner of the company and with those risks were also working on. Thus selected risks were evaluated according to predefined scales and divided into categories of risk is common, serious and critical.

The article focuses primarily on the risk of default on receivables from customers that the company can significantly compromise. Based on the analyses there was set days of sales in receivable of 60 days in 2012 and 64 days in 2013, which exceeds from 30 to 34 days maturity of receivables, which is set in the company.

When comparing the amount of receivables shifted plus 30 days and the development of cash- flow, which manifests itself only in the bank account to which receivables are paid, it is clear that in the first five months of the receivables are paid at maturity in 2013. Calculation of the correlation coefficient (0,98) indicate a very high positive dependence between these two time series . In the next month the correlation coefficient equals -0,22 , which means that payments from customers are not paid on time. It is therefore possible to use the correlation coefficient as the indicator of this risk of default on receivables.

In 2012 was not paid in time during the whole year. First six month is characteristic by delay of 60 days with correlation coefficient 0,72.

There are also suggested countermeasures for all risks that lead to a reduction in the probability of the risk, or to mitigate the effect, if the risk developed or both together. There are presented the persons responsible for the implementation of countermeasures within the corporate structure and also the cost of countermeasures.

It is necessary to implement the enterprise risk management into strategic management of company regardless of the sector in which company is situated. The risk management leads to better position for the company within its area.

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A LIBOR-Market Model Approach to Stochastic Mortality

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Abstract

The aim of this research is to present a method for the market-consistent valuation of mortality-linked derivatives. Since the international solvency requirements challenge insurance companies for a market-consistent valuation of liabilities and the slowly rising market for mortality-linked securities like catastrophe bonds this topic has gained attention. The main aim of this paper is to take on the so-called SCOR-model for stochastic mortality based on the already known LIBOR-market model and to apply a flexible lattice algorithm for pricing derivatives in the risk-neutral framework.

1. Introduction

Modern solvency specifications claim a market consistent pricing of mortality-based insurance products. These requirements represent a challenge for risk management departments in insurance companies. While there have been invented many models for quantifying interest rate dynamics (Vasicek, 1977; Heath-Jarrow-Morton, 1992; Brace, 1997), models for the evolution of mortality have not been widely explored. Since insurance companies face mortality as one of the primary risk sources next to interest rate risk, modern valuation methods for insurance products are needed. One contemporary area of pricing so-called "death" (Blake, 2006) pays attention to the already well known framework of interest rate models for pricing derivatives with interest rates as underlying. Blake et. al. (Blake, 2006, 2008) motivate the modeling of stochastic mortality models in the same framework of No-Arbitrage Theory. Since the evolution of mortality is a positive process and exhibits a certain term structure Blake (2006) introduces mortality-linked quantities which can be modelled like interest rates.

2. The Risk-neutral Pricing Framework

2.1. Basic Framework

The theoretical framework for stochastic mortality models is based on the mortality intensity $\mu(t,x)$ which is related to a reference population with age x at time t . The basic instrument for stochastic mortality models is the Survivor Index (Blake, 2006) which is based on the dynamics of the continuous mortality intensity in the form of

$$S(t,x) = e^{-\int_0^t \mu(u,y+u)du}.$$

This random variable indicates the value of a bond under the risk-neutral measure Q (Blake, 2006) which is the basic mortality-linked derivative

$$B(t,T,x) = E^Q[S(T,x)|M_t].$$

The future mortality rate is therefore given under the risk-neutral measure Q as the ratio

$$p^Q(t,T,S,x) = \frac{B(t,S,x)}{B(t,T,x)}.$$

Let $P(t,T)$ be the price of a Zero-Coupon Bond at time $t \leq T$. Under the assumption of non-correlated interest- and mortality rate dynamics an interest- and mortality-linked bond can be defined as the following product of a Zero-Coupon Bond and the mortality-linked bond

$$\tilde{B}(t, T, x) = P(t, T)B(t, T, x).$$

2.2. SCOR-Model

The Market Models (also LIBOR-market model or BGM-Model, invented by Brace et. al., 1997) represent an important category of interest rate models since they model observable market rates and allow an explicit derivation of Black's formula for caplets and floorlets (Black, 1976). Let $F_k(t) = F(t, T_{k-1}, T_k)$ be the forward market rate for the future time interval $[T_{k-1}, T_k]$. The Bond $P(t, T_k)$ induces a T-forward measure Q^{T_k} (Brigo, 2004) with $F_k(t)$ a martingale under Q^{T_k} since it is a multiple of the difference of two bonds

$$F(t, T_{k-1}, T_k) = \frac{P(t, T_{k-1}) - P(t, T_k)}{(T_k - T_{k-1})P(t, T_k)}.$$

Blake (2006) introduced the mortality based Survivor Credit Offered Rate (SCOR) which is given as a multiple of two mortality-linked bonds

$$S(t, T_{k-1}, T_k, x) = \frac{\tilde{B}(t, T_{k-1}, x) - \tilde{B}(t, T_k, x)}{(T_k - T) \tilde{B}(t, T_k, x)} = \frac{P(t, T_{k-1}) - P(t, T_k) p^Q(t, T_{k-1}, T_k, x)}{(T_k - T_{k-1}) P(t, T_k) p^Q(t, T_{k-1}, T_k, x)}$$

and therefore a martingale under the T-forward measure Q^{T_k} . The SCOR depends on the two stochastic processes of interest rate dynamics and mortality evolution.

3. An efficient algorithm for the SCOR-market model

In the following let the SCOR depend on a constant interest rate r and stochastic mortality dynamics. The mortality forward rates are given as $p^Q(t, T_{k-1}, T_k, x)$. For constant interest rate the SCOR is given as

$$S(t, T_{k-1}, T_k, x) = \frac{e^{r(T_k-t)} - p^Q(t, T_{k-1}, T_k, x)}{(T_k - T_{k-1}) p^Q(t, T_{k-1}, T_k, x)} = \frac{e^{r(T_k-t)} B(t, T_{k-1}, x) - B(t, T_k, x)}{(T_k - T_{k-1}) B(t, T_k, x)}$$

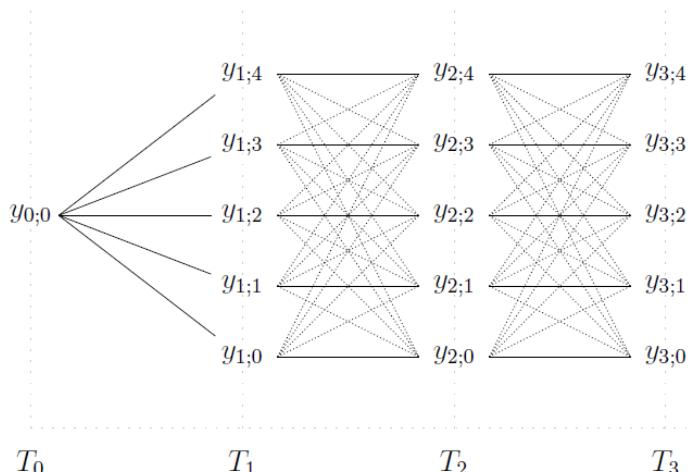
which can be used for numerical implementation of the lattice algorithm (Xiao, 2011). The dynamics of the SCOR can be explicitly derived as

$$dS_k(t) = \sigma_k(t) S_k(t) \sum_{j=k+1}^N \frac{\tau_j S_j(t)}{1 + \tau_j S_j(t)} \sigma_j(t) \rho_{kj} dt + \sigma_k(t) S_k(t) dW_t^{Q^{TN}}.$$

By assuming constant volatilities σ_k for the intervals $[T_{k-1}, T_k]$ the explicit representation of the SCOR follows as

$$S_k(t) = S_k(0) \exp \left\{ \sum_{j=k+1}^N \frac{\tau_j S_j(t)}{1 + \tau_j S_j(t)} \sigma_j \sigma_k t - \frac{\sigma_k^2}{2} t + \sigma_k W_t \right\}.$$

Xiao (2011) proposed the discretization of the underlying Brownian motion into a lattice with constant number of nodes a fixed standard deviation phi like in Fig.1 as well as different numerical methods for approximating the drift.

Figure 1: Discretization of Brownian Motion

In the following the efficient lattice algorithm of Xiao (2011) will be applied to the presented SCOR model with constant interest rate.

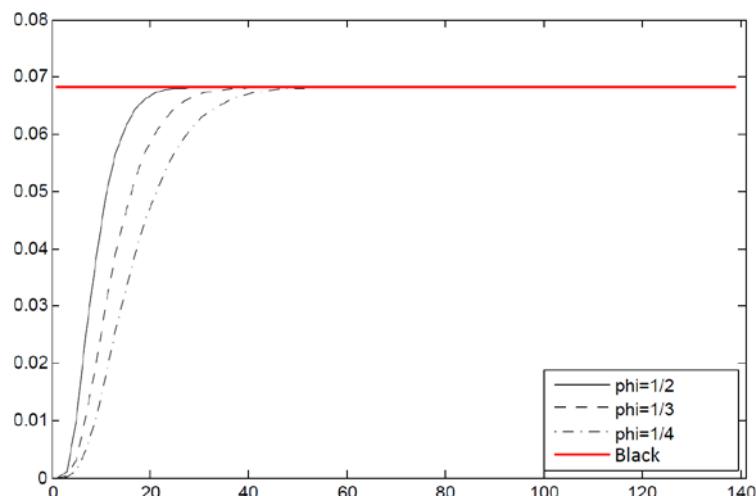
3. Empirical results for Austrian mortality data

The Austrian annuity table AVÖ 2005R Unisex provides annualized mortality rates for the Austrian population. Assuming a constant interest rate of $r=0.01$ the SCOR can be evaluated. The lattice algorithm of Xiao (2011) will be applied to the SCOR-model by approximating the drift by the Frozen Drift method (Xiao, 2011). The volatility is assumed to be monotone increasing over the time like in Table 1. The given data and the resulting SCOR are also summarized in Table 1.

For pricing a theoretical Survivor Cap (Blake, 2006) a strike price of 0.001 is fixed as well as the time horizon given in in Table 1. The exact caplet values can be derived by the Black-Formula (Black, 1976). Fig. 4.1 shows the convergence of the lattice approach for different choices of phi to the exact price evaluated by Black (1976).

Table 1: Mortality data and SCOR results

Term	$p^0(t, T, S, x)$	σ	$S_i(0)$
1	0.9682	20%	0.0432
2	0.9635	21%	0.0483
3	0.9581	22%	0.0542
4	0.9518	23%	0.0612
5	0.9447	24%	0.0692
6	0.9366	25%	0.0785
7	0.9273	26%	0.0891
8	0.9168	27%	0.1017
9	0.9050	28%	0.1160
10	0.8920	29%	0.1324

Figure 2: Pricing mortality caplets

The algorithm of Xiao (2011) can be extended to more complex mortality-linked securities.

4. Conclusions

Since there has not yet been formed a market for mortality-linked products the market-consistent valuation of mortality-linked derivatives is quite difficult. Simulations have to be performed to price path-depended derivatives. The risk-neutral modeling of stochastic dynamics opens a door to a big class of already explored interest rate models. The SCOR model relies on the already known LIBOR-market model for market forward rates and is therefore a well-known solution for models of stochastic mortality dynamics. In the framework of interest rate models the advantages of already known models can be used by applying them to mortality-linked quantities. For the valuation of complex mortality-linked derivatives already known numerical methods like the lattice algorithm of Xiao (2011) can be modified and implemented as flexible risk management tool.

Keywords

SCOR Model, stochastic mortality, mortality-linked derivatives, Solvency II, lattice algorithm

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Current Fundamental Issues of Corporate Financial Reporting Past Lessons in Favor of the Future

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Abstract

The advanced idea of introducing a new holistic approach towards corporate reporting is briefly discussed in the present paper. Furthermore the study provides views and arguments on intense discussions prompted by the International Accounting Standards Board (IASB) decision to revise the Conceptual Framework (CF) and remove (in September 2010) the principle of "prudence" in favor of "neutrality" revealing some critical reasoning from an academic and research perspective. The author's aim is to contribute to the current debate on a highly controversial issue (not to discuss the role of the CF or its objectives) that has also been raised in the Discussion Paper (July 2013)¹ followed (in January 2014) by the Exposure Draft containing proposals for a revised Conceptual Framework (ED). In this analysis a few key issues raised in the IASB CF project which underlie the essentials of financial reporting – the definitions of "asset" and "liability", the distinction between "equity" and "liabilities", the nature of "the acquired goodwill" arising from a business combination, the conceptual underpinning of "other comprehensive income" – are highlighted and briefly dealt with.

Keywords

Financial reporting, environmental accounting, prudence, hidden reserves, transparency

"Despite the appearances, accounting is a highly political matter because it reflects the view of an enterprise and hence society. With the decision to assign the rights of developing its normative requirements to a private organization under an American influence, the European Union has made a clear choice: to side with the shareholders, which speaks volumes about the "social model" which it intends to introduce."²

Jacques Richard (Le Monde diplomatique, Bulgares édition)

"Malgré les apparences, la comptabilité est une affaire éminemment politique car elle reflète la vision que l'on a d'une entreprise et, au-delà, de la société. Or l'Union européenne a, de fait, sous-traité les nouvelles normes, qui s'appliquent à toutes les sociétés cotées, à une organisation internationale privée sous influence américaine. L'objectif est de donner plus de marges de manœuvre aux actionnaires."³

Jacques Richard (Le Monde diplomatique, Édition française)

¹IASB IFRS Foundation (July 2013). Dis. Paper (DP/2013/1) 'A Review of the Conceptual Framework for Financial Reporting'.

²Richard, J. (2005). L'Union Européenne mise aux normes Américaines: Une comptabilité sur mesure pour les actionnaires. *Le Monde diplomatique, Bulgares édition, Novembre, №1*, 24-25.

See also Richard, J. (2005). L'Union Européenne mise aux normes Américaines: Une comptabilité sur mesure pour les actionnaires, at http://www.prolegomenes.com/Union_europeenne_mise_aux_normes_americaines.html

³Richard, J. (2005). L'Union européenne mise aux normes américaines: Une comptabilité sur mesure pour les actionnaires. *Le Monde Diplomatique, №620*, pp. 28-29.

See also Jacques Richard: "Des normes comptables au profit des actionnaires".(2010). *Interview by Bernard Poulet, 21 December, 2010, L'Express*, at http://lexpansion.lexpress.fr/entreprises/jacques-richard-des-normes-comptables-au-profit-des-actionnaires_1366266.html

Over the past decade changes have occurred in financial reporting in Europe and elsewhere which Hans Hoogervorst described as a “revolution (Hoogervorst , 2012)”, while the decision on the IAS⁴ adoption by the EU Member States from January 1st, 2005 the IASB Chairman determined as “a leap into the unknown (Hoogervorst, 2013)”. Appreciating the beginning of the process, Hoogervorst said that “Europe kick-started the move towards global accounting standards...” (<http://www.icaew.com>). “The rest of the world looked on with interest”, he remarked a bit later in London, and went on pointing out that a year after adoption, an EC-sponsored study (<http://www.icaew.com>) found that “adoption of IFRS had been challenging but ultimately successful. The study concluded that ‘there was widespread agreement that IFRS has made financial statements easier to compare across countries, across competitors within the same industry sector and across industry sectors’ (Hoogervorst, 2013).”

Long before that, and until now, prominent scientists in Europe and overseas have remained indifferent to the enthusiasm of that change even skeptical about its benefits. Back in November 2005, prior to the beginning of the financial crisis, a disputed issue, Professor Jacques Richard was sharply critical:“The announcement of a new era due to the set stage appearance of ‘accounting standards’ resembles manipulation. ...All of us saw how under the pretext of a true picture practices having nothing to do with the “science” of accounting thrived, just aiming at simply falsifying the results. Thus, some normally amortizable assets were removed from the net capital to avoid accounting of losses. ...Giving shareholders and management more leeway to maneuver using the so-called accounting based on “principles” ... bodes no good.” (Richard, 2005).

Insusceptible to the apologetics of others Professor Richard accused EU regulatory bodies of non-applying or adapting accounting principles through compromises in regulations, which favour particular interests. Now that countries are slowly and unsteadily recovering from the consequences of the economic crisis (on an unprecedented scale) it is unlikely for such an insight to remain unnoticed even by opponents.

In the spirit of criticism, Huerta de Soto argued,“ ... the greatest error of the accounting reform recently introduced worldwide is that it scraps centuries of accounting experience ... when it replaces the prudence principle, as the highest ranking among all traditional accounting principles, with the “fair value” principle, which is simply the introduction of the volatile market value for an entire set of assets, particularly financial assets (Huerta de Soto, 2009).”

Yet, it is impossible to ignore the fact that companies in more than hundred countries, including nearly three-quarters of G20, apply IFRS, which hardly anyone used a little more than ten years ago. In the dispute focused on the nature of the reasons for the profound changes in EU financial reporting, as well as on the essence of the factors influencing the rulemaking and regulatory processes and their efficiency (Fearnley & Sunder, 2005), scientists, experts, specialists are not unanimous – conclusions and forecasts point to more than one perspective while the estimates range from positive to extremely negative.

Today, scholars, ecologists, government organizations and NGOs, regulators, professional associations and research institutes hold intense debates on the future of corporate reporting seeking ideas based on new philosophy. Under the influence of natural phenomena and large-scale events and processes in politics, economy and society posing new challenges to mankind, global initiatives are being created. The concept of applying a holistic approach (Oreshkova, 2012) which means to produce, combine and provide financial and non-financial (ESG) information in reporting on entity’s activities and results embodies the most advanced ideas. As a core prerequisite for the

⁴‘International Accounting Standards (IAS)’ and ‘International Financial Reporting Standards (IFRS)’ are used as equivalents in this study.

implementation of the new model, the first global Framework (<http://www.theiirc.org/international-ir-framework>) (IIRF) was developed and published by the IIRC (<http://www.theiirc.org>) (in December 2013). As a coalition the IIRC maintains the view that communication about value creation should be the next step in the evolution of corporate reporting. Therefore, the IIRF is designed to meet that need, provide a foundation for the future and promote the process of communicating information of organization's strategy, governance performance, relationships, and prospects, and how they lead to the creation of value over the short, medium and long term. So, the IIRF covers all aspects of corporate reporting, not just financial reporting.

The far-sighted goal is through the adoption of regulatory requirements for generating non-financial information⁵ to considerably increase the benefits of the financial information as well, to both the reporting entity and stakeholders. By providing the appropriate information to the outside world and itself the organization will be expected to present all its activities with their material aspects and effects, including the non-financial ones – arising or predictable in the foreseeable future. In my opinion, an organization which has embraced the idea of a more "holistic view" of corporate reporting ought to:

- **honestly** reveal the governance-supported strategy and corporate policy and the way they contribute or might be detrimental to the sustainable development process, the risks it is facing or it creates itself, the opportunities it is pursuing, the details relevant to its operations, which should be underpinned by transparent not simulative disclosures clarifying the nature and function of the applied non-financial measures, the methods of calculating the specific indicators etc.;
- **unbiasedly** discuss all its actions for preserving, restoring and reproducing the environment, even the essence of any specifics of undesirable interactions between the organization's activities and the environment, particularly including possible unfavorable influence on nature, employees, society, present and future generations;
- **objectively** reveal its attitude towards employed people and respect for human rights; an organization should be able to verify using evidentiary facts and information free of misleading data, the remuneration policy and benefits for personnel, vision of solving social problems, and more.

Under the pressure of the crisis, initially a debt one in the U.S. and evolved into an economic one on a global scale, social polarization and contrasts, unemployment and poverty have deepened in Europe and elsewhere (<http://www.theglobaleconomy.com/compare-countries>).

Although these issues are the subject of research in different scientific and social areas, they have gradually become interdependent ,therefore it is vital and beneficial to everyone, not just investors, be able to appreciate the importance of that interdependence. In my view, a key prerequisite for reaching the strategic goals of our time, mostly, maybe, to protect life on the Planet through the worldwide implementation of green technologies is the availability of credible information – financial and non-financial one both historical, and prognostic, selected and structured according to users' needs. The information should be presented in an open, clear and transparent way—in its interconnectedness and integrity – as to disclose the facts which fully characterize the two-way interaction between organization's activities and the environment ;it should be intended to reveal, not conceal the real effect today, anticipated tomorrow, or in the long term. Therefore, well-grounded non-financial key indicators of performance are needed to understand the information in the financial and corporate reports and to impartially assess the results. For that purpose, the information should not be redundant or burdened with superfluous details "masking" the simple facts of the company; it should be relevant to the needs of all society members; it should be essential

⁵ European Commission Memo Brussels, 16 April 2013, Disclosure of non-financial and diversity information by certain large companies and groups (proposal to amend Accounting Directives) - Frequently asked questions, 1-4.

in order to reveal the possible risks to all who could be affected if the risks really occur; moreover, the origins of all causes and factors that may have an impact on the results must be explained. For example, a company can dramatically decrease expenditure for R&D, for personnel training and qualification, for advertising, or it can lower provisions made for future physical destruction (liquidation) of production facilities (as nuclear facilities) etc. Such a decision could make the entity's financial position look much better in the next report, but it can also have a detrimental influence on the long-term profitability.

In my opinion, the idea of giving a more holistic view of corporate reporting is deeply humane and in the spirit of modern time challenges. However, issues not sufficiently investigated so far raised questions of a new dimension (<http://www.theiirc.org>). They need well-grounded answers from an academic and research perspective; otherwise, the IIRF application would be inadequate. Apart from the process of uniformity we need a change in the philosophy, culture and morals of representing the entity's activities and their environmental impacts as well as a general understanding of the broader and far-reaching goals to which it must be subordinated – today and in the future (Oreshkova, 2013). The change should be towards rethinking the values in corporate reporting, perceived as a vital and socially significant process since it generates information to a wide range of users. The belief is that the concepts of integrated reporting and its good practice will provide useful reference to stakeholders and promote further reform of corporate reporting. The need for a paradigm shift is increasingly discussed by scientists, economists, accountants. It is worthwhile to consider on the view of Professor Richard: "The IFRS are obsolete ... remain stuck in a quaint conception... In an era in which environmental degradation poses a serious threat to the survival of mankind and in which innovation plays an increasingly critical role in international competition, it is environmental and human capital that should be placed in the spotlight of corporate balance sheets and be the focus of systematic monitoring of their depreciation. By focusing uniquely on maintaining financial capital, the IFRS give rise to illusory profits and justify payouts of fictive dividends." (Rishard, 2005).

Although for decades now considerable resources have been spent on improving the CF and resolving issues subject to intense controversy, many of them still lack unique answers. Rhetorical is the question whether the definitions of "asset" and "liability" are consistent. A growing consensus has been reached on that both definitions, which should answer the most important questions in accounting: 'What is asset?' and 'What is liability?' need clarification. It is disturbing that key definitions which should have been reference point for researchers and practitioners need revision as it is admitted they are not fully satisfactory. Another critical question is: Are the criteria for distinguishing equity from liabilities sufficiently precise and how to calculate exactly the amount of equity depending on the valuations of assets and liabilities? An intensely discussed problem is how to recognize goodwill arising from a business combination – an object non-homogeneous in nature as it comprises the internally generated goodwill of the acquired entity, problematic for assessment, and the expected synergy. Now net profit or loss is measured followed by measuring other comprehensive income, but what exactly is meant by "other comprehensive income"; How reliable and effective is the evaluation at fair value when markets are in panic or in collapse, highly illiquid and the market value of certain assets virtually "disappears"; How to assess precisely the impairment loss consistent with IAS 36 *Impairment of assets* under so many assumptions and estimates required by the prescribed methodology? Isn't it naive to believe that professionals with varying degrees of training, expertise, qualification, and respect for ethical codes, laws and standard rules would reason and proceed in the same way if they suspect that an impairment has occurred or is looming even if they are under the same conditions in companies of the same industry sectors? Whether financial reporting today is far from exact science and practice is a question still to be answered since it depends on numerous estimates and forecasts. And if the subjective decisions are strongly influenced by artificial, false optimism, the backstage of lobbying or extreme conservatism, can it be

expected a government body, an investor – a potential or an existing one, or another stakeholder to be well informed in order to take the correct action and avoid error?⁶

This concern is related to the main question: why some general provisions and requirements in the CF as well as basic IFRS rules and solutions are being criticised (Oreshkova, 2013). Since September 2010 the discussions have intensified due to the fact that the IASB has revised the first chapters of the CF and replaced “prudence” with “neutrality”. The question was whether it’s just a matter of linguistic means of expression or of change in the essentials of financial reporting. The trouble was whether the fundamental idea of prudence, in my view intrinsically inherent in accounting since the time of Luca Pacioli, has not been finally rejected as conservative and arrogantly replaced with another one – more appropriate, maybe more relevant to the faithful representation or closer to the spirit of modern thinking like that of fair value, and why? Under the impact of economic and social concussions European societies suffer, disputes are getting increasingly excited and the opponents more scathing. Moreover, lawmakers and all that have contributed to the change have been criticized for indiscretion (and imprudence) in favor of shareholders, appraisers’ and others, resulting in overstated profits and/or understated liabilities. In November 2005 Professor Richard blamed Brussels for “abandoning the precautionary principle”. Later, in March 2009, other distinguished professors from the UK urged to “restore prudence to accounting (Fearnley)” and even suggested that “banks should reserve for possible losses earlier”. Moreover, Professor Fearnley claimed that “banks did until 2005 when the International Financial Reporting Standards accounting regime removed the principles of prudence and reliability from accounting, substituting neutrality and verifiability. This had two disastrous effects in the banking sector (Fearnley, 2009).”

On 16th December, 2010, at the First Symposium on Accounting Research held by the French Autorité des Normes Comptables (ANC), Yuan Ding, Head of the Department for Finance and Accounting at CEIBS focused on the pro-cyclical effects of fair value measurement and the subjectivity in fair value valuations in terms of China’s example. Ding argued that, “It seems difficult to claim as is often done that fair value represents an undeniable progress for accounting.” His greater disapproval is due to another “innovation”. “The real novelty consists in negating the principle of prudence by enabling the recognition of unrealised profits or by allowing astonishing liberties to be taken with accounting prudence as with IFRS in October 2008 or in April 2010 with US-GAAP: in a rising market unrealised profits are recognised; however, when the market turns around, they revert to measurement on the basis of held to maturity, so that the fall in market value is not recognised in profit or loss (Ding, 2010).”

Developing his reflections Ding claimed that the use of fair value raises an important problem with respect to “the going concern principle” and “the liquidation basis” of accounting. “Under the going concern basis, the assets are treated together as a unit, as the essential elements for implementing the business model, and as such they are only considered from the point of view of their utility as opposed to their sales values. The going concern principle supports measurement at historical cost and justifies the existence of goodwill, which recognises a part of the unrealised profits associated with the assets whereas under the liquidation basis, this unit is broken down into a series of individual assets that can be liquidated separately. The liquidation principle supports fair value measurement of each individual asset but appears inconsistent with the recognition of goodwill. International accounting standards seem to reflect a certain accounting opportunism, in which they allow fair value and goodwill to coexist.” (Ding, 2010).

⁶The highlighted issues are in the focus of the IASB current program of revising the CF for financial reporting in cooperation with the United States (U.S.) Financial Accounting Standards Board (FASB).

Examples of well-founded criticism can be found in literature. Did this criticism have no merit and which was the reason for the CF change concerning “prudence” in September 2010? Is it perhaps another “crucial” step towards global consistency?

What is the essence of the traditional concept of prudence (or “conservatism”)? In general prudence means: assets should be always valued at the lower (Richard, 2005) of the two values –either historical cost, most probably, cost of acquisition, or fair value, let's assume, current market value (price) on an active market; as to the liabilities, just the opposite– at the higher one; expenses should not be underestimated, nor should revenues be overestimated; net profit (or loss) should not be overstated (or understated respectively). The traditional concept core is: a potential loss is recognized when noticed, while a potential profit– when it is realized, understanding which provokes attacks resting on considerations of asymmetric timeliness of the information. “An important consequence of conservatism's asymmetric treatment of gains and losses is the persistent understatement of net asset values (Watts, 2002). Capital market regulators, standard-setters and academics criticize conservatism because this understatement in the current period can lead to overstatement of earnings in future periods by causing an understatement of future expenses. Accounting Research Bulletin 2 (AICPA, 1939) states: “conservatism in the balance sheet is of dubious value if attained at the expense of conservatism in the income statement, which is far more significant”. Professor Watts argues that such usage of “conservatism” (in order to describe conservatism's income statement effect for a particular period, popularized by its critics) does not fit with conservatism itself. Conservatism reserves the use of the term for the balance sheet and for income or earnings cumulated ever since the firm began operation (2002).”

Professor Watts claims that conservatism's influence on accounting practice has been both long and significant and refers to Basu (1997, p. 8) who argues that conservatism has influenced accounting practice for at least five hundred years, and to Sterling (1970, p. 256) who rates conservatism as the most influential principle of valuation in accounting. “Recent empirical research on conservatism suggests not only is accounting practice conservative, but also that it has become more conservative in the last 30 years. These results are surprising given the vocal opposition of many capital market regulators, standard-setters and academics to conservatism. The long survival of conservatism and its apparent resilience to criticism strongly suggests conservatism has significant benefits that are missed by its critics. The puzzle is: what are those benefits? If regulator and standard-setter critics try to eliminate conservatism without understanding the puzzle, the resultant standards are likely to be seriously detrimental to financial reporting (Watts, 2002)”.

The traditional ('conservative') view implies it is wise to wait until the sale and the respective payment are in fact made in order to calculate the actual profit realized (if any). Why? First, because this would provide cash – a highly liquid resource, a real “coverage” of the revenue and profit attributable to recognition; and second, this would provide money as to easily meet tax liabilities (obligations) if they occur. What the traditional approach promoted was to include only realized profits in the financial period results. It is contrary to its essence, a potential profit to be recognized because although it is highly probable, it might not be achieved in fact (even if it is highly probable, it might not come true) – the sale hasn't taken place until the payment is received. Recognising a potential sale (and hence a potential profit) means to use a probable evaluation (an estimation or approximation) for the entry procedure, not the actual amount, and if it turns out unfavorable, the reporting entity should suffer the consequences.

Nowadays, traditional prudence is abandoned due to a large number of circumstances (an influence of political and fiscal factors, of prevailing way of contracting etc.). The question is of whether being conservative the principle of prudence is also “incapable” of reflecting the present time financial risks? Similar opinions are refuted as inconsistent (or simply, without giving proof of disorder): “All arguments for the inability of the traditional system to reflect the new financial risks are not well-

grounded: If the principle of prudence is observed, it allows not only to immediately take account of these risks but makes it necessary to recognise the respective potential debts in the liability part of the balance sheet (Richard, 2005).⁷ Maybe, a key reason for downgrading or “forgetting” the importance of the traditional prudence nowadays is the priority given to another core principle –that of accrual accounting in conflict with the essence of prudence due to its fiscal nature: the idea of the accrual principle is subject to fiscal policy or is well combined with state’s interests. So, the fiscal policy is an important factor. There are plenty of Bulgarian examples illustrating the “inconvenience” arising in practice due to that contradiction. In many cases rather than receiving the expected (agreed under the contract) cash flows, which could reinforce the liquidity and solvency of the entity which has invoiced sales, hence transferred rights, it faces “non optimistic” prospects – the revenues, recognized under the “accrual accounting imperative”, remain unrealized, fictitious. Such revenues often correspond to dubious claims of debtors in arrears and to potential highly possible losses recognised long after the business has incurred them, which burden the results for subsequent periods. This in turn leads to the violation of other accounting principles (the matching principle etc.). But the trouble is not that modern principles “suffer”. What can hypothetically follow? A possible procedure is to recognise a certain reduction in the receivables, to write it off (partially or completely), to recognise an expense, or to make an adjustments to the relevant revenue (unauthorized under IAS 18 *Revenue*), to recognise a provision for the risk taking. For a period of the Bulgarian transition to a market economy a practice existed in the non-financial sector of accruing provisions for losses from doubtful and bad trade receivables (under NAS 3, repealed). It would be an exaggeration to claim that the standard has completely fulfilled its purpose. An explanation is – an entity “suffering” such losses most often needs the relevant cash amounts or equivalents rather than recognize expenses and higher losses (or lower profits). It would be quite unfavourable if the debtor is declared insolvent or in liquidation; if the liquidator classifies the receivables as uncollectible etc. In many cases while the “lender” patiently waits for the debtor in arrears to repay his debts, the authorities urgently remind “the creditor under duress” that the tax revenues on the reported sales, revenues and even profits have to be collected from him as soon as possible. But they unfortunately have proved to be unrealised, fictitious; something the fisc (treasury) is not interested in, especially in Bulgaria. This generates additional tension or financial stress for the enterprise with worsened indicators of liquidity and solvency for that matter. It could handle it on its own without a “creditor’s intervention” if it has created and maintained high-liquidity reserves in sufficient amount to absorb losses. Otherwise, what’s next? The alternatives aren’t many. It is a quite different issue whether a reasonable one can be found for the specific case.

It is true that the old CF definition of prudence contains a warning against excessive optimism and unduly optimistic assumptions, but it is more explicit against the danger of a “passion” for creating hidden reserves and excessive provisioning. What concerns does excessive conservatism cause? In periods of economic upsurge profits are artificially depressed – investors are likely to miss good opportunities. Another criticism we believe could be made, not from the perspective of investors’ interests, is that conservatism can be detrimental to the budget in periods of “profits’ suppression”. For example, in industrial enterprises the depreciation costs have a high share in the total amount of operational activity expenditure (I don’t have in mind Bulgaria). In literature, “depreciation” – in the case we should talk about “depreciation costs” as depreciation is an economic process, is regarded as a vehicle of formation and accumulation of hidden reserves – in my opinion a quite common and hence imprecise interpretation⁷. This is the reason for the introduction and application of fiscal mechanisms of regulation and tax transformation in some countries, including Bulgaria, in order to counteract a tendency of creating hidden reserves or to neutralize undesirable effects of such

⁷In literature there is the assertion that excessive depreciation encumbers the cost of manufactured products, which is true only in the case if it is taken into account as a cost component, but it might not be done. In the event that the relevant periods results are exacerbated due to excessive depreciation costs, it should not be attributed to the shortcomings of the system of hidden reserves, but the system of calculating or costing. This may mean that incorrect ways of costing or calculating are applied and the enterprise should bear all the consequences arising from this fact.

practices on the budget. From the perspective of modern-day thinking about credibility and neutrality of financial reporting presentation the biggest problem arises during an economic downturn – exists opinion that under any circumstances, the hidden reserves may be used to artificially increase revenues – it is possible for profits to be “enhanced” to disguise the worsening performance(so an investor might be encourage to continue investing longer).⁸ But this is just a speculation concerning the behavior of a human factor in a particular situation with a lot of uncertainty or unknown actions. However, there is also the other probability, remote perhaps, of hidden reserves not to be used “harmfully” –if for example, the newly-appointed Executive Director decides to reveal the state of play. Therefore, the problem lies not so much in the alleged existence of hidden reserves but in the likelihood that an accountant or another factor of importance if under pressure, impulse, or temptation might “use” them for “hiding” the negative results which in turn raises concerns about transparency. The hypothesis that the “hidden reserves system” can be used “unhealthily”– for “smoothing out” results, concealing degraded performance, or to the benefit of corporate interests unrelated to intentions of keeping the enterprise as a going concern, cannot be the reason for “devaluating” another old rule,whose application is a brilliant illustration of prudence –liquid reserves should be created in sufficient amount as it is extremely important to undertakings of certain types, and the State alike. The reserves are an indicator of the quality of capital – they, if are available, promote financial stability and strengthen economic foundations. It is amazing that even prewar the prominent Professor of International Law and Commerce Konstantin Katzarov⁹ discussed the problem (Katzarov, 1939). The objectives of creating reserves can be of various nature, including repayment of losses. Some losses are expected as being highly probable, nonetheless they might not “come true” if there is a twist for better (all's well that ends well) and, if so, fortunately there would be “an excess of reserve”; other losses incurre, without being expected, as they are unpredictable in nature. Recent events have reminded us – reserves are vitally important and necessary to survive in hard times and lean years without external “help” or interference.

While the overt reserves are included in the balance sheet (statement of financial position at the end of the period), the hidden reservesare not. The difference is due to the way they are formed. Besides understatement of assets, hidden reserves can be formed by overestimation of liabilities (i.e. financial obligations, provisions etc.) and in other ways. Reserves are created to protect and strengthen equity – i.e. own funds – in order to protect the enterprise from financial hardship or prevent a possible adverse effect on equity, strengthen the economic power of the enterprise, provide means and opportunity to repay certain losses that have not yet occurred, or “conceal” lower profits or incomes. As to the hypothesis of deliberately influencing the results through the system of hidden reserves we should not overlook the fact–net profit (or loss) and income can be forged in dozens of ways, depending on the policy of corporate governance and its vision for the future, the economic situation, the specifics of the reality in which the entity operates, etc. without

⁸The question which arise here is: Why is the focus put on the information needs of investors alone in certain circles? Why “prudence” is mostly considered from the viewpoint of investors and investors’ need for relevant information as a key to appropriate decisions; is the economic and other supplementary information in the financial statements intended for investors’ needs only? Isn’t it quite plausible to assume that, the faithful representation has suffered a lot of damages or has been an illusion if the concern over the years has been primarily for investors?

⁹Back in 1939Professor Katzarov thoroughly discussed the problem: “In the joint-stock company the so-called hidden reserves must be distinguished from the reserve fund. This is an underestimation of the asset items in the balance sheet, in order to strengthen the economic power of the company. So, if the regular depreciation of machinery or real estate of the company by technical calculations is 10 or 15%, with good company’s profits, depreciation can be entered in the balance sheet as a larger percentage for the process of depreciation to be performed in a shorter time. This is a hidden reserve that is not legally regulated, but which the commercial law does not prohibit. The formation of such reserves is not contrary to the rules set out ...in the Commercial Law on the way in which the balance in the joint-stock company is set out. It is another matter whether, from the point of view of fiscal laws and taxation hidden reserves are acceptable. However, most fiscal legislations do not deny in principle the possibility of the formation of hidden reserves, but consider them in taxation, considering them either as an asset, respectively a profit under different conditions (Professor Konstantin Katzarov, 1939, Bulgarian Commercial Law: A Systematic course)”.Nowadays the problem of the hidden reserves is not regulated in the Bulgarian commercial law, but in the tax law and other regulations.

the presence of any reserves – overt or covert. The problem with the hidden reserves is essential for both the accounting theory and financial reporting practice and deserves to be the subject of a separate research. As to the consequences that the criticized system of hidden reserves might result in, the negative ones seem to be exaggerated by the advocates of the “true picture”—a considerable part of the issues belong mainly to the moral and ethical category, which is obviously. Still, the question is whether the principle of prudence stays or is revoked?

Supporters of the modern idea of fair value measurement might develop their answers with some reasoning of the kind – what refusal could we talk about? There are rules for regularly charging depreciation of non-financial non-current (or fixed) assets, there are descriptions of tests and procedures prescribed for impairment of assets on any suspicion of a reduction in future benefits (probable, though!) they embody, there are rules for recognition of assets’ impairment of so many groups, classes and types, for evaluating inventories at the net realisable value when it is the lower one, accruing for provisions in many cases, etc. Others, more tactfully, would summarise: perhaps a debatable issue. But Professor Richard replies:“ As for the principle of prudence, it exists in the new American conceptual frameworks, as well as in those of the IASB (IFRS), but it is unrecognizable. He does not mention the obligation to take into account potential losses and to exclude possible gains, but simply for mandatory compliance with some degree of caution, when discretion is required during the assessment; the road to principle of lack of prudence is open!” (Richard, 2005).

The review of literature confirms my assumptions – it reveals the existence of different types of “prudence” (“conservatism”). Professor Dr. Günther Gebhardt, Professor Araceli Mora and Professor Alfred Wagenhofer (2014) discuss the importance of “conditional conservatism (news driven, ex post conservatism)”, under which unfavorable news are provided in a more timely fashion than good news¹⁰, and of “unconditional conservatism”. These academics unfortunately argue that the value of unconditional conservatism (news unrelated, ex ante conservatism), which measures assets at a lower amount than their actual value is doubtful. With all due respect to these professors I'm afraid I'm not sure about the veracity of this. A question immediately arises: which values should we consider to be the “actual” one of all the possible values, pursuing the credibility of financial reports. These scholars admit that it is still a matter of research.” (<http://onlinelibrary.wiley.com/doi/10.1111/abac.12024/full>.) Gebhardt, Mora and Wagenhofer conclude that the IASB could try to re-introduce prudence with a clear definition. Moreover, they consider that the CF could be a good way of encouraging or incentivizing the type of conservatism that has been shown to create value for capital providers.

IASB still argues that the reason of omitting the concept is related to an attempt to be unambiguous and avoid misinterpretations. Ian Mackintosh, IASB Vice-Chairman, claimed (June 23rd, 2014) that an overview of the current and new work programme and comments on a vision of international standard-setting would allow differences to persist. Furthermore, Mackintosh points out that as part of this project they have also sought feedback on their decisions back in 2010 to remove the word “prudence” from the CF in favor of “neutrality”. “We still believe that neutrality is an essential concept in financial reporting. However, some commentators have interpreted the removal of the word “prudence” as the IASB giving a green light for “imprudent” reporting, Mackintosh argued and went on saying:“We disagree with this interpretation. However, it is unhelpful for this perception to continue, so in May this year the IASB tentatively decided to reintroduce the word “prudence” into our Conceptual Framework while also making it clear that being prudent does not mean introducing bias.” (Mackintosh, 2014).

¹⁰Accounting conservatism is often expressed as “recognizing revenues and gains only when they are reasonably certain, while recognizing expenses and losses as soon as they are reasonably possible”. In principle, this implies that “bad news” is recognized earlier than “good news” in reported earnings.

On May 21st, 2014 the IASB tentatively decided to reintroduce a reference to prudence in the revised CF. What we are interested in is the “description” of prudence – exercising caution when making judgments under conditions of uncertainty. Further, it is acknowledged that prudence is consistent with neutrality and should not allow overstating or understating of assets, liabilities, income or expenses in preparing financial statements (IFRS Foundation, 2014). An argument or a rationale can be found in support of the viewpoint or decision for a change in defining “prudence”, visible at a glance –it is the reasoning that if assets are being undervalued now, it may cause the recognition of lowered costs or expenses tomorrow, a bit later in the current period, or in the near, medium, or long-term perspective; quite on the contrary – to overstate some liabilities now could cause a cognition of higher revenues (i.e. exaggerated earnings) later. If today we deliberately and on purpose overstate some assets, tomorrow we might be forced to underestimate some liabilities in order to avoid or prevent turning past exaggerated profits into real present losses.

The review of the literature confirmed our expectations—if the definition or description of “prudence” is restored into the CF, it will provide at least scant explanation. That state of affairs is not satisfactory. A question immediately arises – whether the importance of this problem is not deliberately compromised, which, if it is true, maybe incites to that line of thinking: “The IFRS are dangerous because they embody a systematic and all-out assault on a fundamental principle underlying accounting (already fairly well eroded throughout the 20th century) – the principle of prudence, which forbids statements of potential profits and prescribes disclosures of potential losses. Essentially, the roots of this financial crisis at the dawn of the 21st century can be found in the impudent imprudence of managers and shareholders who are greedy for short-term profit, backed by the pernicious ideology of “modern” financial textbooks, and protected by widespread compliance with the principles of irresponsibility – astronomical salaries and dividends, golden parachutes, liabilities limited to share of capital, etc. By sounding the death knell for the principle of prudence and by even daring to herald a principle of “imprudence” (non-statement of the potential losses during times of bust and statement of the potential profits in times of boom), the IFRS has contributed to the rise to power of the irresponsibility of financial capitalists and their executive agents with devastating results.” (Jacques).

Assessing the significance of the IFRS 9 *Financial Instruments*¹¹ improvements – e.g. loan loss provisioning and others, Hoogervorst admits that, “Accounting standards around the world, including IFRS, US and UK GAAP, are currently based upon the incurred-loss impairment model ... designed to limit management’s ability to create hidden reserves during the good times that could be used to flatter earnings during the bad times (Hoogervorst, 2014).” Further, the IASB Chairman points out that “... during this most recent crisis the model has been accused of resulting in impairment being ‘too little, too late’. In practice ... impairment was only recognised just before a loan defaulted. ...loan losses were often recognised far too late. As a result, many investors lost trust in the quality of banks’ balance sheets...For this reason we decided to move from an incurred loss model to an expected loss model” (Hoogervorst, 2014)¹².

The ‘expected loss model’ (ELM) for calculating impairment is much more forward looking than the incurred loss model (ILM). The belief is that it would contribute to a more realistic recognition of impairments and that “banks will have to clean their balance sheets in a more timely fashion (Hoogervorst, 2014)”.

¹¹In July 2014, the IASB issued the completed version of IFRS 9 *Financial Instruments* which will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 (2014) provides revised guidance on the classification and measurement of financial assets, an expected credit loss model for calculating impairment, and the general hedge accounting requirements that were originally published as a part of IFRS 9 (2013).

¹² “The new expected loss model recognises that whenever you buy a financial asset or lend money there is always some level of expected losses associated with it. Full lifetime expected losses need to be recognised when significant credit deterioration has taken place. This should happen long before an actual default takes place”.

The ELM model will reflect on the risk assessment and the internal credit rating, estimated by the management. The risk assessment, in turn, reflects on the probability of default, loss in case of default and exposure value for failure.

These changes seems to be an attempt of returning to a higher degree of prudence or maybe to "rehabilitate" prudence prestige and respect for it.

Conclusion

My belief is that the principle of prudence should be considered to be of the highest priority among the traditional accounting principles as it has been inherent in the philosophy and unique technique of double-entry accounting ever since its inception as a social practice, later gaining the status of science. In my opinion, prudence is consistent with neutrality rather than in conflict with it. It's hard for me to agree that the idea of prudence, if it is correctly understood, is incompatible with neutrality. I think the addition of prudence would not obscure the transparency of financial reports or weaken their ability to present the economic nature of a transaction.

The principle of prudence should be restored in the CF and its importance as an integral part of financial accounting and reporting essentials should be emphasized. The description should be sufficiently distinct and explicit to avoid any misunderstanding or misinterpretation. A thorough description would contribute to greater clarity and consistency. If not, the CF prescriptions would not comply with the essence of a number of standards which embody the conceptual idea of prudence (IAS 36 Impairment of Assets, IAS 16 Property, Plant and Equipment, IAS 38 Intangible Assets, IAS 2 Inventories etc.). If restored, it would provide for reasonable and well-balanced judgment under conditions of uncertainty in the estimation procedure.

Our findings confirm the presumable existence of different types or degrees of conservatism. The understanding varies across countries, accounting systems and cultures. It seems that despite its decade-long development, convergence has not advanced significantly. The major differences still exist due to the clash between traditions and long-lasting influences (historical, legal, political, institutional, economic, social, cultural etc.) under which the accounting models (for example, the Anglo-Saxon and the Continental ones) have been developed. The prevailing factors contribute to the establishment of the approaches which have dominated the accounting model. The principle of prudence is closely related to the continental style of governance, the traditional way of representing companies' activity based on the long-term view of business life (Heidhues & Patel, 2011). Scientists argue that the assumed conceptual superiority of IFRS reflects strong Anglo-American biases in describing continental European accounting models and reasonably question the assumption that the Anglo-American accounting model is superior to other accounting paradigms (Heidhues & Patel, 2011).

We need to restore confidence in the quality of corporate reporting and the information it provides. It means to mostly restore trust in the respective bodies and people, authorized to be responsible for its credibility and verifiability.

The moral of the probably ending crisis is that transparency, based on common sense, optimally combined with prudence, must become a priority in financial reporting and the presentation and disclosure of relevant financial and non-financial information, both historical and prospective. For this purpose, approaches, models and rules for recognition and measurement of assets, liabilities and capital components, of costs and revenues must be designed, developed and implemented in the spirit of this underlying philosophy.

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List of key abbreviations:

American Institute of Certified Public Accountants (**AICPA**); Autorité des Normes Comptables (**ANC**); Centre for Financial Analysis and Reporting Research (**CeFARR**); China Europe International Business School (**CEIBS**); Conceptual Framework (**CF**); Environmental, social and governance (**ESG**) information

European Commission (**EC**); Expected loss Model (**ELM**); Financial Accounting Standards Board (**US FASB**); Generally Accepted Accounting Principles (**US GAAP**); Incurred-loss Impairment Model (**ILM**); International Accounting Standards (**IAS**); International Accounting Standards Board (**IASB**); International Financial Reporting Standards (**IFRS**); International Integrated Reporting Council (**IIRC**); International Integrated Reporting Framework (**IIRF**); National Accounting Standard 3 *Accounting for provisions for doubtful and bad receivables from sales* (**NAS 3**); Non-Governmental Organizations (**NGOs**); U.S. Securities and Exchange Commission (**SEC**); UK Financial Reporting Council (**FRC**); University of National and World Economy (**UNWE**)

Relational resources in managing SME

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Abstract

Based on the resource-based theory, the relational resources are viewed as valuable and precious resources that guarantee a success of the firm in the market. Each firm, with their unique resource base, is connected with many other entities in a number of ways e.g. through relations. The problem of relational resources can be therefore viewed in two ways. Firstly, each relationship contains a combination of the existing physical and organizational resources which might be developed together with the development of the relationships. Secondly, different relationships between firms cause an increase in combinations of physical and organizational resources, which consequently translates into the increase in the value of these firms. The aim of the paper is to discuss, based on the literature studies, the relational resources and to present the results of research of relational resources in the Polish small and medium-sized enterprises.

Keywords

Relational resources, business value, competitive advantage

1. Introduction

Achievement of competitive advantage by enterprises due to better methods of utilization of the resources and acquisition of resources, original transformation into products and services, implementation of these resources and services into the market has been reflected in mainstreams and concepts of strategic management. Currently one of the leading mainstreams in strategic management is resource-based theory (BRT). Achievement of success in the enterprise is determined by resources viewed as everything the organization knows or has, which allows the enterprise to create and implement the strategies that affect final economic results (Rokita, 2007). The main assumption of the resource-based mainstream is the thesis that organization represents a set of resources and skills, with their configuration into the core competencies being the source of success and competitive advantage. Furthermore, this leads to further assumptions, including (Barney, 1991; Barney, 2001):

- competitive advantage and effectiveness results from properly configured resources and skills,
- competitive advantage of the enterprise can be determined by resources that meet VRIN category (valuable, rare, inimitable, non-substitutable). An important opinion concerning competitiveness was expressed by Krupski (2011, p. 14-15): "what makes some enterprises being successful while others are striving to survive or disappear is a key problem of contemporary theory and practice of management. (...) Investigations of the sources of enterprise profitability that were already carried out 20 years ago and even earlier attributed various importance to sector-related factors and specific nature of management. However, many of them pointed to resource factors. The resource-based approach views an organization as a set of assets (resources) and skills, while their configuration into core competencies represents a driver for success and competitive advantage (Obłój, 2007).

The above observations point to a departure from classic approach to enterprise resources, which was based on two basic categories: capital, labor and searching for resources that represented a source of competitive advantage. Although originating from the classical approach, contemporary views to resources have a broader context and they are regarded as everything which can be treated in the enterprise within the categories of strength and weaknesses in the enterprise. This approach leads to a number of definitions and classification of resources, but it does not determine which of these resources meet VRIN criteria. The most frequent classification used in the literature divides resources into two major types: tangible and intangible. Furthermore, it is often emphasized in the literature that market success is determined by intangible resources as those which reflect VRIN criteria. It is intangible resources which determine the competitiveness of the enterprise since they are characterized by inhomogeneity. As rightly put by Rzemieniak (2014), intangible values can provide the foundation for organization's survival under conditions of turbulent environment (external dimension) and the basis for creation of internal order in organization (internal dimension). Also with regard to intangible resources, there is no uniform classification in the literature. De Witt and Meyer (2010) divide them into relational resources and competencies. These authors defined relational resources as enterprise's opportunities that result from contacts with the environment, whereas competencies are understood to mean knowledge or abilities necessary for successful operation. A more specific division of intangible resources was proposed by Hall (1993), who first distinguished between the two groups: people dependent and people independent, and then each group was added some subcategories (see Tab.1).

Division of intangible resources connected with a particular enterprise conforms a stock of knowledge which is enhanced by multiple sources of investment (in R&D, marketing, organisational innovation, human capital) aimed at maintaining this stock as well as widening it (Fernandez, 2000). Through opportunities of processing and experimenting, intangible resources do not decrease their value but involvement of an enterprise in intangible resources, and, attracting its focus to the

process of organization's learning and cooperation might represent a determinant of its success in the future. In this context, it is worth emphasizing one of the subgroups of intangible resources: relational resources that reflect different types of ties.

Table 1: Typology of intangible resources

Intangible resources	Category	Components
People dependent	Human capital	Managerial skills Entrepreneurial ability Training Experience Intelligence Business idea of personnel Judgment
People dependent	Organizational capital	Norms and guidelines Databases Organizational routines Corporate culture Co-operation agreements Contracts Firm structures Decision-making and planning systems Controlling and coordination systems
	Technological capital	Patents Licences Innovations Trade secrets Industrial models and drawing Copyrights Knowledge-based rights Property-based rights
	Relational capital	Reputation Brands Commercial name Shop sign Loyalty Long-term relationships Distribution channels Networks

Source: based on Seppänen, M. & Mäkinen, S. (2007) and Fernández et al. (2000)

2. Theoretical Framework of Relational Resources

Problems of relational resources has plethora of threads and aspects. Having resources which actually determine competitive position i.e. knowledge, skills and technology might, from the standpoint of a single enterprise, extend its opportunities. Exchange of knowledge, know-how and other resources might offer mutual benefits for enterprises. The main assumption in building ties between enterprises is the thesis that the major part of enterprises have limited internal resources necessary for achievement of developmental goals, thus they have to use a series of international relationships in order to get an access to necessary resources (Tikkanen & Halinen, 2003). Each firm, with their unique resource base, is connected with many other entities in a number of ways e.g. through relations. The problem of relational resources can be therefore viewed in two ways. Firstly, each relationship contains a combination of the existing physical and organizational resources which might be developed together with the development of the relationships. Secondly, different

relationships between firms cause an increase in combinations of physical and organizational resources, which consequently translates into the increase in the value of these firms (Hakansson & Snehota, 2006).

What are the relational resources then? Let us assume the lexical approach to the term relation, which is understood to mean "a relation or dependency between objects, concepts and values" (Nowa Encyklopedia Powszechna, 1996) and focus on the relations in the science of management. Fernandez (2000) argues that relational resources consist of the potential derived from the intangible resources related to the market place. It includes reputation, brands, customer loyalty, long-term customer relationships, commercial name, shop sign and distribution channels. According to Todeva (2006, p. 84) "a relation in the most generic sense is an association between two entities – subjects or objects - that are co-present in a field". The association or relation between the entities is based entirely on the characteristics of actors and non-taken positions in a certain time and socioeconomic space. Creation of these initial conditions is necessary for exchange and communication in the relation and negotiation of transactions.

There are a number of definitions of relational resources in the literature. Dyer and Sigh (1998) regard relational resources as essential in creation of competitive advantage, which cannot be formed in isolation but in connection between different enterprises, which ensures that the enterprise is able to generate a relational rent through relation-specific assets, knowledge-sharing routine and complementary resources endowments. The network-based approach to relational resources was presented by Gulati et al., (2009) who regarded relational resources as a value of firm's network of relationships with customers, suppliers, alliance partners and employees.

Relational resources are often identified in the related literature as a component of intellectual capital and termed relational capital. With this approach, the definition of relational resources was presented by Capello and Faggian (2005) who argued that relational capital is defined as a set of all relationships—market relationships, power relationships and cooperation—established between firms, institutions and people that stem from a strong sense of belonging and a highly developed capacity of cooperation typical of culturally similar people and institutions. This definition leads to a conclusion that relational capital means a relation of the organization with internal and external stakeholders of a firm. They include customers, suppliers, employees, various associations and organizations as well as entities and strategic partners of the firm. In other words, relational capital can be described as a value of relations between the entity and its business environment. This approach to relational capital helps group them within the five categories (Werr et al., 2007):

- horizontal relationships, along the supply chain, which relate to suppliers, distributors and customers,
- industry relationships, which reflect relations between competitors and associations,
- vertical relationships, which concern the ties between parent company and daughter companies,
- personal relations, connected with purchasing knowledge from mentors, former colleagues and customers, friends and relatives
- expert relationships, including relations with consultants, academics, management training and courses.

Another approach to relational capital was proposed by Kashyap and Popli (2014). Based on the literature studies, these authors divided relational capital into: business relational capital and social relational capital. Business relational capital refers to the value of the organization of the relationships which it maintains with the main agents connected with its basic business process. While social relational capital refers to the value to the organization of the relationships which it maintains with other social agents in its business environment, expressed in terms of level of

integration, commitment, co-operation, cohesion, connection and responsibility. Table 2 presents components of individual types of relational capital.

Table 2: Typology of relational capital

Category	Components	Appropriation mechanisms
Business relational capital	Relationship with external customers	Relevant external customer base External customer loyalty External customer satisfaction External relationship process Distribution network
	Relationship with suppliers	Formalization of supply chain Technological support Personalization of goods, products and service Suppliers' response capacity
	Relationship with shareholders, institutions and investors	Business meetings Investors relations Market institutions
	Relationship with allies	Allies base Solidity of alliances Benefits of alliance
	Relationship with competitors	Knowledge of competitors Relationship process with competitors
	Relationship with quality improvement and promotion institutions	Relationship with quality improvement Certification and quality systems
Social relational capital	Relationship with public administration	Co-operation with public administration Participation in public management
	Relationship with media and corporate image	Trade mark recognition Reputation name of the company
	Relationship with environment protection	Ecological initiatives Environmental codes and certification Environmental protection institutions
	Social relationships	Relationship with trade unions Relationship with labor market institutions
	Corporate reputation	Codes of organizational behavior Corporate governance code Social action

Source: authors based on Kashyap and Popli (2014)

The basis for operation and development of any enterprise is relations that occur between persons and organizations, thus relational capital reflects intangible resources based on the relationships with enterprise's environment. It should be also mentioned that there is a classification that divides relational capital into internal and external, with internal capital defined as a set of intellectual properties of the organization created by the stakeholders that sub-constitute the organization (Perechuda & Chomiak-Orsa, 2013), whereas external relational capital is perceived as a set of relations with stakeholders from the environment.

Relational capital can be viewed from qualitative and quantitative standpoints. With the quantitative approach, it is regarded in the context of the number of relations with other business entities. The qualitative approach is characterized by numerous parameters, among which are: involved entities, duration of the relation, trust and risk level, tie strength, types of agreements, form of dependency, relationship dynamics, functional specificity of relationship (Castaldo, 2007).

What clearly distinguishes between relational approach and resource-based approach is termed 'independence myth', which says that the enterprise is able to operate independently (Baraldi et al., 2007). According to this assumption, with resource-based approach, the enterprise can carry out their own analyses of the environment where it operates, develop and implement its own strategies based on their own resources. Different situation is presented with relational perspective. The enterprises are not independent, which means that they have limited freedom of operation, with results of their activities depending on the activities of other enterprises that operate in the network. Business relations must be considered as a wholeness since no simple dichotomy occurs between relations based on cooperation and those relating to competition.

Relations are a process were two enterprises establish strong and intensive relationships of social, economic, services-related and technological character, aiming at reduction in total costs and increasing value added, thus reaching mutual benefits (Lefaix-Durand et al., 2005).

Relational resources are difficult to analyze in a single dimension, since the interactions that occur between relation participants are characterized by multidimensionality. Complexity of these problems affects the efficiency of cooperation of the enterprise and can be regarded in the following dimensions (Ngugi, et al. 2010, Czakon 2012):

- technological, which is directly connected with processes of value creation and compatibility of technologies of the involved parties. It consists in creation of the efficient interface between functions of sales and purchase in the supply chain, which creates conditions for quick response to changes in the needs of final consumer and innovativeness.
- human-related, which occurs at the level of individual interactions of cooperating groups and is strongly dependent on individual competencies of employees and local capacities of enterprises. This is conducive to development of absorption abilities and mutual learning,
- managerial, based on information and decision systems, which support making common decisions and relatively closed to interpretation of the results. Additionally, it is focused on common determination of the strategy of operation and its structural reflection,
- cultural, which forms a bond between parties and provides indications for mutually acceptable behaviors in unpredictable situation.

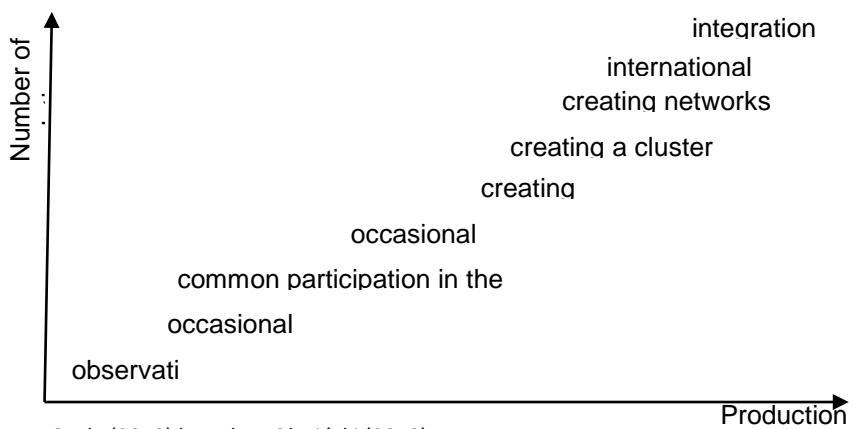
The purpose of building relations is to generate additional value in enterprises through the use of tangible and intangible resources which are impossible to be acquired independently by managers in a particular entity. The specific factors contributing to the value of relation can be distinguished in the creation of company value. These factors are benefits that relate to (Ulaga & Eggert, 2005):

- products: relations of manufacturers and suppliers of input products used for their transformation. The value of relations reinforces technical and economic benefits and affects the quality of product and key solutions in the process of production;
- services: relation of manufacturers and suppliers of services, connected with offering and supplying services necessary for core activities in the firm. In highly competitive markets, providing all the services connected with a product offer (e.g. product warranty service, distribution) or services which do not directly influence on the increase in the value of the enterprise (e.g. accounting and legal services) should be ensured within external functions;
- deliveries and time of market launch: relations allow for e.g. entering new markets, effective distribution connected with timely deliveries and flexibility, quick reception of semi-finished products and materials used in manufacturing, efficient inventory cost management;
- know-how: access to demanded resources and competencies. Relations positively affect the process of learning and acquisition of knowledge, innovativeness (development of new products, integration in the field of new technologies), optimization of the internal resources;
- human resources: this relates to satisfaction with the relations established, respect for the staff, integration in decision-making processes.

Creation of satisfactory relations between firms and monitoring them might contribute to generation of value added for the firms involved in these relations.

A source of competitive advantage is relations, which allow for synergy in the form of connected relations and competencies of enterprises involved in these relations. The relations allow enterprises to extend access to foreign resources and competencies and skilful using these relations. Operation of the organization in the network of interorganizational relationships is viewed as an important component of the organizational process of learning, since the entities learn through cooperation with others, observation and import of good practices from others (Nowicka-Skowron & Pachura, 2009). Relational resources supplement internal abilities of enterprises to create value added. Furthermore, Olesiński (2010) attempted to characterize relations that occur between enterprises. This author found 9 types of relations due to the frequency of relations and their effect on increased production, illustrated in Figure 1.

Figure 1: Typology of relations between enterprises in the context of number of relations and production size



Source: Otola (2013) based on Olesiński (2010)

The presented types of relations between enterprises are organized increasingly depending on their effect on production size and number of relations. Observation or occasional interaction suggests the lack of constant relations and is characterized by non-committal cooperation started several times a year and leads to insignificant increase in production. Another type of relations is characterized by firm relationships and allow for a certain increase in production (taking part together in a project, occasional cooperation). The third type helps create a number of fixed relations in clusters and networks, contributing to stabilization of the increase in production. The most intensified interorganizational relations allow for stabilization of enterprise development, using the economies of scale and scope in the relations form and are typical of transnational enterprises. A varied configuration of relations allows enterprises to derive benefits from cooperation that manifest themselves in the synergy effect and enhanced value added.

3. Relational Resources in Polish Small and Medium Sized Enterprises: Empirical Study

Small and medium-sized enterprises are a driver in any economy. Market effectiveness of the SME sector and such characteristics as low capital efficiency of production, short cycle of investment initiatives, susceptibility to innovation and capital changes, relatively low costs of production have an effect on overall high efficiency of enterprise operation in this sector. SME create ca. 3/4 of Polish GDP (71.8% in 2011).

There are ca. 1.8 million firms in Poland, of which the vast majority (99.8%) are small and medium-sized enterprises. Polish enterprises are active in particular in services and commerce (76%) and, less frequently, in construction (13.4%) and industry (10.6%).

SMEs represent a sector of the economy which points to higher resistance to crises through flexibility in adjustment to variable market conditions. They affect development of innovation and innovativeness more beneficially and are a complementary supplier of parts, subassemblies and services for production. As emphasized in theoretical considerations, from the standpoint of competitiveness and generation of value added, relational resources are essential. Therefore, the question arises of how and whether small and medium-sized enterprises utilize relational resources. Empirical investigations concerning the SME sector and relational resources in Poland are scarce. A few publications that reflect development of relational resources in the sector are, however worth emphasizing. Table 3 contains a characterization of the investigations concerning relational resources carried out by Polish researchers.

Table 3: Relational resources in SMEs: Polish studies

Research organization/ Author	Year of study	Area of research	Research sample	Aim of study
Polish Confederation Lewiatan	2013	Poland	N=1500	Risk relating from formation of relations with customers and employees
Nitkiewicz, Otola	2013	Śląskie voivodship	N=186	Utilization of relational resources in the process of implementation of ecological initiatives in production enterprises
Danielak	2009-2011	Lubuskie voivodship	N=305	Formation of relational capital in SMEs
Czuba, Szczepaniec, Jurkiewicz,	2009	Poland	N= 1346	Building relations between SMEs and various market entities, with particular focus on the effect and quality of relations on economic results of the entities
Krupski	2006		N=151	Barney attribute of resources
Bąkowska-Morawska	2004-2005	Dolnośląskie voivodship	N=232	Importance of relational resources in strategy of enterprises

A small part of an extensive research report “Polish small and medium enterprises on the road to modernity” prepared by Polish Confederation Lewiatan (2013) was sacrificed to relational capital with internal and external perspective. This survey showed that SMEs experience problems with formation of relational capital both with employees and customers. The highest risk is perceived by SMEs in relations with customers (2.99 on a scale of 0 to 5) with the major focus on changes in customer expectations. The substantial part of SMEs indicated that they were unable to create proper relations with customers, which generates risk of losing them and enterprises were unable to attract customers. The highest risk of losing customers was observed micro and small enterprises, whereas medium-sized enterprises are better in managing relations with customer although they regard them as imperfect. With sector oriented approach, it can be found that production enterprises indicated lower risk compared to service-providing enterprises. The second important risk is relations with business partners. Worries of SMEs concern first and foremost inappropriate behavior of partners, including late repayment of liabilities and supplying goods and services ordered. Examination of internal relations in enterprises concerned such areas as mistakes made by employees, stealing inside the enterprise, absence of employees, not respecting the provisions of the Labor Code and improper relationships between employees and managers. Over a fifth of the enterprises studied are concerned with the risk of mistakes made by employees, whereas 19.2% of them indicated absence of employees.

In a study on relational resources carried out by Nitkiewicz and Otolá (2013), the Analytic Network Process (ANP) was used and a model of choosing ecological initiatives in order to determine the significance of the criteria used in a decision-making process. The network model of choosing ecological initiatives in the enterprises from SME sector is aimed to indicate the most important decision alternative and significance of criteria used when making a choice. Four principal groups of criteria were found: economic, market-related, technical and relational. Relational criteria turned out to be the least significant group of criteria. The results concerning relational resources show that the enterprises from SME sector had poorer opportunities compared to larger companies to efficiently cooperate towards innovative development, including ecological enterprises.

However, significance of relational development, including ecological enterprises was demonstrated in a study by Krupski (2006). This author argued that 62% of the enterprises studied (mostly from the SME sector) found that their current position in the market depends on the most valuable resource i.e. informal relations with various entities present in their environment. This study shows that informal relations of entrepreneurs with the environment are very important and essential to the operation (72% of the answers). Creation of relational resources is perceived as a form of building the value of the enterprise and partnership relations with competitors can be emphasized with regard to SMEs. 60% of the enterprises studied considered competitors as enemies. Interestingly, current literature points to a network paradigm, i.e. relationships and cooperation between enterprises, including coopetition. A more recent study by Danielak (2013) demonstrated similar tendencies. SMEs are willing to be involved in relationships with customers and suppliers (over ¾ of the sample studied) and, only 27% of them, with competitors. Highly evaluated components of relational resources include ability to create, invest and maintain relationships with customers, and customers' satisfaction and loyalty. Furthermore, establishing ties with competitive enterprises is approached with greater prudence. The study published by Danielak (2013) is the most extensive and comprehensive analysis to date concerning relational resources with respect to SMEs sector. The author analysed relational resources with respect to e.g. external factors, types of relations and reasons for starting these relations, local and regional factors and intra-organizational factors. In opinion of entrepreneurs, relational resources based on trust, involvement and mutual obligations have a positive effect on economic results of business operations and allow for generation of revenues on sales. The author notes that the essential role in formation of relationships with business environment is played by human capital and significant characteristics include education of managers, professional experience and skills of acquisition of knowledge and information. Enterprises establish both formal and informal relations. Formal, occasional and loose relations are maintained with organizations from business environment i.e. business chambers, technological parks or industrial associations, whereas firm relations, which guarantee continuation of activity are established with customers and suppliers, with much importance played by informal relations. The main reasons for establishing and maintaining informal relations are the speed at which the aim can be achieved. The informal relationships are mostly used by microenterprises.

Problems of relationships between SMEs and various entities present in the market in the context of business results reached by small and medium-sized enterprises, with particular focus on turnover, profits, operational margin and financial liquidity was the focus of the study by Czuba et al. (2012). The analyses carried out by authors demonstrated that the increase in profits and operational margin was reported by the enterprises which established numerous relations (also better in qualitative terms) with business environment (mainly with customers and agents or suppliers). The level of turnover increases with the increase in the number of relations with business environment in micro and small enterprises, but these relationships are not observed in medium-sized enterprises. Creation of ties with business environment increases steadily for first 10 years of operation, whereas in the next years, these tendencies are not noticeable. Furthermore, analysis of the number of relations with market environment demonstrates that, typically, the most relations are established in commerce. The interesting problem is financial liquidity. The enterprises that established numerous

relationships and those whose relations with business environment were of high quality reported greater problems with financial liquidity. The authors suggest that the above phenomenon is connected with investment and innovative activity of these enterprises. The enterprises with high number of relations and high quality of relational resources incurred financial expenditures connected with innovative and investment initiatives more frequently, which could have caused problems with current financial liquidity.

4. Conclusions

Creation of value added in modern enterprises cannot occur without relational resources. Gaining a competitive position by an isolated enterprise seems to be impossible in the contemporary global world. Having the resources which determine the competitive position today, i.e. knowledge, skills and technology might, from the standpoint of a single enterprise, be unattainable. Furthermore, the relations allow enterprises to configure the resources so that they generate value to the partners. Development of relations depends on the goals the individual partners in these relations want to achieve. Establishing fixed relations represents a non-zero sum game since the value added is no longer the domain of a single but all the enterprises involved in the network. It is essential that small and medium-sized enterprises perceive opportunities of using relational resources. Previous results of the study lead to the conclusion that the enterprises from the SME sector are aware of presence of relational resources, although these resources are not properly utilized by them. The ability to establish stable relations based on trust might be conducive to building a competitive enterprise. Firstly, this allows them to utilize know-how and knowledge which is unavailable now. Secondly, involvement in a network of relationships helps them find contracts from their partners, which might positively affect their economic conditions and increases developmental perspectives. Currently it seems essential to raise awareness of the value of relational resources among enterprises from SME sector. This role should be adopted by various public institutions such as economic chambers, industrial parks and universities.

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Value Framework in the 21st Century: Journey towards Collectivism, Appreciation and Sustainability

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Abstract

The aim of our paper is to discuss the existing „truth“ in the business environment and offer new “truth” that is in contemporary educational and business setting considered as alternative to the mainstream of thought. Based on our research and practical insight we found: (1) the need for paradigm shift from teacher-centered education to student-centered education, (2) the need to move away from hero leader theories towards sustainable leadership and (3) transfer away from problem solving to appreciative inquiry methodology. We conclude that these advances enable the achievement of a new value framework of the 21st century where educational and business efforts are dedicated to collectivism, appreciation and sustainability.

Keywords

Values, appreciative inquiry, sustainable leadership, multiple intelligences, parallel thinking

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Introduction

„Most of the major problems in the world will not be solved by yet more analysis. There is a need to design a way forward.“

Edward de Bono, 2005, p. 112

Have values in contemporary business world changed? Values direct our perception. Looking at companies' webpages where they have their corporate values stated we can establish that the emphasis is on collectivism, appreciation of stakeholders and sustainability (eg. company Si.mobil). Is the same „truth“ still present – profit driven business? Or is there a new „truth“ evolving where business are driven by motivation to provide well-being for stakeholders? Do we just use different theories and concepts to achieve the goal of profitability? Do Henry Ford's famous words still hold: „Any customer can have a car painted any colour he wants so long as it is black? Do scholars introduce a new theoretical „truth“ that is changing the way we perceive business world or are we just introducing new theories as new ways to enable and support old „truth“. The authours would like to believe the time is ripe for new values that will enable a new perspective of the role of the business. Theories that we present in this paper are opening the floor for scholarly discussion, whether the theory of multiple intelligences, appreciative inquiry methodology and sustainable leadership theory offer different thinking framework at micro and macro levels. We think that the presented theoretically new ideas in the business environment are likely to shape future academic and business landscapes.

Theoretical Background

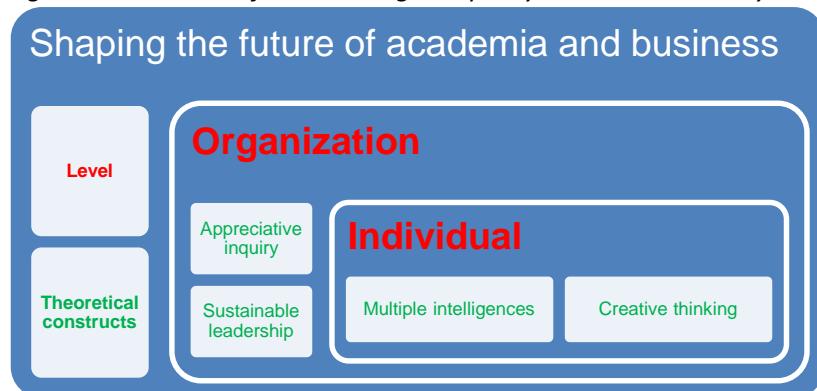
Values shape the decisions of sustainable leaders who are influenced by the values of internal and external stakeholders. Musek (1993, p. 72-73) defines values as generalized and relatively permanent understanding of goals and events that we appreciate. Values refer to the broad categories of subordinate objects and relations, and guide our interests and behavior. Systematic identification and coordination of stakeholders' values with the value system of the organization prevents ethical dilemmas in the context of sustainable leadership. Cussen (2005, p. 37) defines the term sustainable development through the care for the welfare categorized in four categories (beneficial for an individual, organization, society and natural environment), based on the value-based leadership, resulting in two key categories of values: (1) the intra-generational equality that means meeting the needs of the existing generation and reinforces the idea that all people have an equal right to resources for a decent life, and (2) inter-generational equality, which simultaneously meets the needs of future generations and expressing the idea that the human community is a partnership between different generations. Concept of sustainable development has changed radically since the Brundtland report in 1987 and has grown into an umbrella term for environmentally and socially responsible behavior (Kotler & Lee, 2004), based on the values of the intra- and intergenerational equality (Cussen, 2005, p. 37).

The aim of doing an analysis is to understand the reality around us. Values are an integral part of the world around us, however they are hard to detect and analyze. One of our most common „truths“ in strategic management is to analyze situation, recognize standard patterns and apply standard solutions. But what worked successfully in the past may not work as a proper solution today or tomorrow. Circumstances and values may have changed, therefore we need to understand them and decide if traditional management approach is still „true“ (Table 1).

Table 1: Old and new „truth“

Old „truth“	New „truth“
- Problem-solving	- Appreciative inquiry methodology
- Hero leader theory	- Sustainable leadership
- Teacher-based education	- Student-based education
- Argumentation	- Creative thinking

Changes in business models towards the direction of a learning organization (Dimovski, Penger, Škerlavaj & Žnidaršič, 2005) have contributed to sustainable leadership development. Learning organization is a philosophy and contemporary organizational model that has a flat organizational structure which creates the need for leaders at all organizational levels to take on and share authority and decision-making power irrespective of the organizational hierarchy. Knowledge sharing (Dimovski, 1994; Dimovski, Penger & Žnidaršič, 2004; Penger, Tekavčič & Dimovski, 2008; Seal, Neumann, Scott & Royce - Davis, 2011) is integral part of a learning organization and refers to the network processes of social relations through which individuals seek to establish a common understanding of reality and create (potential) ability to transform knowledge into collaborative action that forms successful performance and sustainable development.

Figure 1: Framework for Enabling Prosperity in the 21st Century

From Hero Leader Theory to Sustainable Leadership Theory

Hero leader theory was focused on individual's personal characteristics, such as courage, persistence and creativity. But as the world is becoming more complex and intertwined, it is vital that the leaders expand their perception (Ryde, 2007). Sustainable leadership involves the views of stakeholders (Sanford, 2011) and empowers them as co-creators of leadership initiatives. In that way stakeholders provide multiple intellectual capital, feel ownership of the initiative and become part of the socio-environmental entity. Hargreaves (2007, p. 224) defines sustainable leadership in educational setting as leadership that sustains and develops in-depth learning in a way that does not harm and creates positive effects on all stakeholders – present and future.

Decline of births in postindustrialized economies, a limited number of work-capable persons and increase in the elderly population requires consideration of the establishment of the succession system, which is at the core of the sustainable leadership. The traditional system of succession within the organization is not suitable for satisfying the growing needs for a sufficient future generation of leaders. In the academic and business world (as a balancing mechanism), therefore appears sustainable leadership, which spreads its influence by taking care of a wider range of stakeholders. Khan, Westwood and Boje (2010, p. 1418) consider researching the potential role of corporate social responsibility in ensuring sustainable development as unsatisfactory developed.

Our work is based on the following basic assumptions (McCauley, Van Velsor & Ruderman, 2010, p. 3): (1) there are many different leadership roles and most of the people in their life participate in different (in)formal leadership roles; (2) people are involved in leadership roles to fulfill responsibilities to the larger social entities; (3) leadership roles may be formal or informal; (4) instead of the classification leader-follower our work is based on the premise that people are developing in different ways which make them successful in a variety of leadership roles they assume; (5) leadership development (Conger & Fish, 2007, p. 442) is context-bound and (6) leadership skills can be developed and are socially desirable.

Theory of leadership development (Lord & Hall, 2005) has progressed and assumes that we can understand changes in leadership skills in terms of the general theory of learning and the acquisition of expertise; taking into account changes in information processing and knowledge structures that take place when skills are developing. Galli Bilhuber and Müller - Stewens (2012) are shifting perspective from the focus on human capital in leadership development towards the development of social capital and assume that social capital develops through the stages laid down by contact, assimilation and identification experience. Leadership development experiences differ in their potential role in contributing to the development of social capital and should therefore be appropriately designed. Penger (2006) emphasizes the development of positive psychological capital in the development of leaders.

Leadership development means an extension of the collective capability of forming direction, coordination and commitment, therefore, it is focused on changing the culture of collective leadership, which means that it changes beliefs and practices (Drath, Palus & McGuire, 2010, p. 405). Center for Creative Leadership (CCL) in the framework of its program „Leadership Development Program“ develops around 4000 leaders per year (Van Velsor, McCauley & Ruderman, 2010, p. xviii), where focus shifts towards the development of a relational component, ethics, commitment and sustainability. Knowledge of how to lead is subsidiary to values, therefore we are talking about value-oriented leadership, where long-term orientation is essential. Avolio and Vogelgesang (2011, p. 179) argue that most strategic developmental activities of leadership take place too late in an individual's life cycle in order to optimize the impact on the actual development of sustainable leadership, therefore they advocate leadership development at an early stage, before forming the actualization of „self“.

Reichard and Paik (2011, p. 312) found that researchers largely ignore how individual's development takes place before formal leadership development activities in adulthood take place, and consider beginning of leadership development in adulthood as too late. Sustainable leadership development in educational environment at a younger age is vital for its development in the adulthood and for the implementation of full leadership potential. Avolio, Reichard, Hannah, Walumbwa & Chan (2009) found only a 16-percent improvement in leadership skills due to the development investments in adulthood. Researchers and leadership development experts neglected early-life experiences because: (1) a comprehensive theoretical model of sustainable leadership with a focus on leadership of young people is still not developed and (2) so far it has not been studied what methods are most effective in promoting the development of youth leadership. Riegel (Avolio & Vogelgesang, 2011, p. 182) argues that an individual's development can be understood only through the perception of behavior over time as a result of the ongoing exchange between an organism and the wider environment.

From Problem Solving to Appreciative Inquiry Methodology

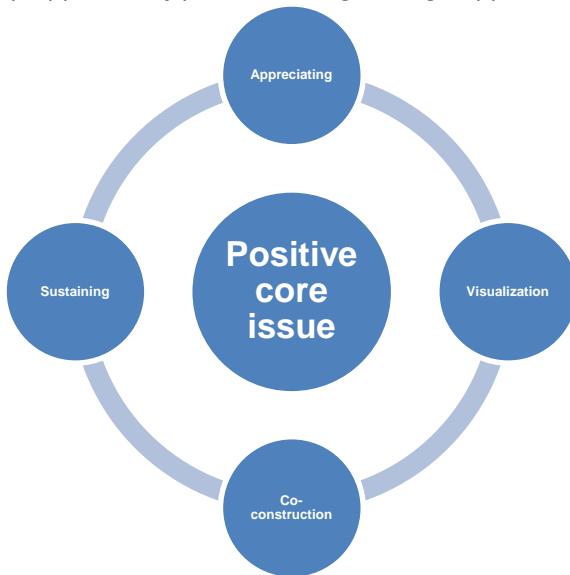
Leadership approach of positive change (Figure 2) or its operational method of appreciative inquiry (Cooperrider, Whitney & Stavros, 2003; Strecker Hunt, 2008) is the theory and implementation of

interventions in the action research approach (Dunlap, 2008, p. 23), which serves as an effective means of communication in higher education and business setting (Hargis, 2005) and represents the transition from problem solving because it allows exploration of the potential (Seligman, 2002) and the development of multiple intelligences. Professional development (Aronson, 2010) which is based on appreciative inquiry has a positive impact on change implementation and the effectiveness of teachers.

Action research results in: (1) a better insight; (2) improved professional practice, and (3) the promotion of systematic thinking about the work process which Bawden and Packham (in Patton, 2002, p. 180) define as systemic practice. Action research is a cyclical process, where each research circle consists of a formulated plan of action (planning), implementation of the plan (action) and fact-finding about the achieved results in comparison to the intended plan (evaluation) in order to successfully solve the task and create new knowledge (Khanlou & Peter, 2005, p. 2334).

Action learning (Ernst, Hannum & Ruderman, 2010, p. 396) is a method that takes place in a real working environment which is largely team-based and provides the opportunity of learning through action and resolution of specific work challenges. Action learning is a way of helping employees how to deal with the changes. Action learning team is an approach to develop sustainable leadership, where participants learn and progress together through working on strategic projects as sustainable leadership development requires more than just learning in the classroom - actual experiences are necessary to familiarize people with the complexities of interdependence. Action learning teams produce real, strategic outcomes, and not just reports and static knowledge, as they implement the outcomes of the work, which means that it is necessary to work beyond hierarchical and geographical boundaries. In this way, sustainable leadership develops naturally from experiences (Drath et al., 2010, p. 427). Cherniss, Grimm and Liataud (2010) found that the leadership development which is based on process-designed teamwork is more effective than traditional methods (such as coaching and workshops).

Figure 2: Leadership approach of positive change thru appreciative inquiry



From Teacher-Centered to Student Centered Education

Our educational system fosters analysis and problem solving and very little attention is dedicated to design which means creating new value. Old „truth“ of functioning in business environment is to solve problems by identifying its cause and then finding a solution to remove the cause that caused

the problem. „*If the cause cannot be removed it is necessary to design a new way forward by leaving the cause in place*“ (de Bono, 2005, p. 112).

Pluralistic theory states that there are variations in the levels of the advantages and disadvantages between multiple intelligences in the disciplines in which individuals with an expressed high intelligence operate. Conceptualization of intelligence construct as multiple instead of unifying means the basic difference between the theory of multiple intelligences and the factor „g“ that dominates the western theory of psychology and public discourse. The theory of multiple intelligences perceives intelligence as a combination of hereditary potentials and skills that can be developed through relevant experiences. In the essence of the theory of multiple intelligences is the finding that understanding and development are more comprehensive if we approach them context-specific through the construct of multiple intelligences than if we treat intelligence as a unifying and universal construct.

Student-centered approach is acknowledging multiple intelligences of students. Harvard professor Gardner (1983) identified seven original intelligences as cognitive processes - ways of perception, interpretation and organization of phenomena of which end result is a special form of creativity. The theory of multiple intelligences (Gardner, 1983) defines relatively independent intelligences that can be developed and thus achieve better adaptability to the environment and its modification in accordance with sustainable development: linguistic, musical, logical-mathematical, spatial, bodily-physical, intrapersonal, interpersonal, and naturalistic (added in 1999).

Even early scholars of intelligence knew that intelligence encompasses more than just mental abilities, which are represented in traditional intelligence tests, and Gardner (1983) instead of psychometric testing intensively used analysis of life stories, which demonstrated multiple intelligences that are an indicator of achieving socially desirable results within the specified time and social context.

Theory of multiple intelligences is transforming the fundamental beliefs regarding teaching and learning (Kezar, 2001, p. 141), as it has shifted the focus of the teaching process from the teacher and transferred the focus on the content, process and student-designed learning, which is a trend among educational organizations (Zuber - Skerritt, 2009, p. 37: Table 2).

Tabel 2: Focus of educational – developmental process

Focus on the teacher:	Focus on the student:
<ul style="list-style-type: none"> – Emphasis on the schedule, timeline, syllabus and written study goals – Content is divided from real-life experiences – Learning is given mainly through linguistic intelligence – Mainly focused on testing logical and linguistic intelligences – Syllabus is firmly stated before the start of the learning process 	<ul style="list-style-type: none"> – Focus on multiple intelligences – Contextual learning – Storyline approach – Action learning – Portfolio as evaluation means that testing is oriented towards long-term progress – Strengthens creating products and services as final outputs of learning – Values individual's strengths

Source: Adjusted after: Kezar, A. (2001). *Theory of Multiple Intelligences: Implications for Higher Education*, 145.

Higher educational system is confronted with changes, among which are also novel pedagogical approaches, such as cooperative learning, experience-based learning, action learning and interest communities.

From Argumentation to Creative Thinking

Humanistic theoretical stream of thought (Batistič Zorec, 2006, p. 87) was most acknowledged during the period of the enlightenment, which is characterized by an optimistic attitude to the unrestricted development of humanity. Humanistic psychology, which occurred in the 50ies and 60ies years, rejected the rigidity of quantitative measurement, behaviorism and focused attention on the inner sensemaking; relying on phenomenology and existential philosophy, as it was mostly interested in the uniqueness of the individual, whose understanding of his perception of the world is possible only from the perspective of his knowledge, experience, goals and aspirations through introspection.

An important humanist author, in addition to Maslow and his theory of motivation and the need for self-actualization is also Carl Rogers (1961), who stated that every individual has an ideal self - image of what he/she would like to become. The developmental process takes place in the direction of approaching this ideal by changing the ideal ego, which is becoming more realistic and acceptable to the diversity of emotions and behaviors. This process is monitored and influenced by important others (parents, partners, friends, etc.), in a way that development takes place from rigidity to flexibility, from static to process view, dependence to independence, predictability to unpredictable creativity and from defensive conduct to self-acceptance (Batistič Zorec, 2006, p. 88). Similarly, Kegan's perspective of life-span development (London & Maurer, 2004, p. 234) takes into account the social construction of reality and the potential value of self-awareness in relation to others, since development is supposed to enable the transformation to a more complex way of thinking and feeling through the reflection of obvious and hidden meanings of actions. A higher level of thinking enables social construction of reality, understanding of how people perceive themselves and the world around them, and enables the leaders the development of complex thought patterns in order to be more successful in challenging situations.

Argumentation is a crude way of researching a subject where each side presents its standpoint. Then, one side defends its own standpoint and attacks the other point of view. The other side afterwards does the same. Advancement of argumentation approach is argumentation according to humanistic psychologist Carl Rogers (Tabel 3). The essence of Carl Rogers argumentation is to convince stakeholders about our arguments by helping them to understand our approach by understanding their needs.

Tabel 3: Argumentation according to Carl Rogers

Argumentation principle	Practical demonstration
Stakeholders perspective	- <i>stakeholders are the ones we want to influence, therefore we are focused on their needs</i>
Avoiding direct confrontation	- <i>the essence of argumentation is not to demolish stakeholders' opinions but to help them understand our point of view</i>
Respect	- <i>real respect of different opinions and its explicit demonstration</i>
Dialog	- <i>encouragement of sharing opinions, especially when tension appears</i>
Explanation	- <i>we need not only to listen, but also hear and think about what we heard – reflect and only after that respond</i>
Active listening	- <i>asking questions, parafrasing, checking our understanding of others' people words and acts</i>
Empathy	- <i>Emphatic understanding of other person's wishes, needs, values, goals and expectations. My understanding does not mean I agree, but it enables easier communication.</i>
Pluralistic „truths“	- <i>I allow that there are many „truths.“</i>

In parallel thinking everyone directs attention in the same way in a certain period of time slots (first everyone thinks about the information we have, then about positive aspects, negative aspects and possibilities). Every person is objectively exploring the issue instead of just defending a standpoint. In

this way we can achieve a more productive decision-making that is based on systematic and collaborative thinking methodology of creative thinking. The focusing aspect is vital in parallel thinking process that designs creative future possibilities (Figure 3).

Figure 3: Path Towards Value Framework of the 21st Century



Conclusion

The purpose of civilisation is a combined effort to attend to human values (de Bono, 2005, p. 39). Sustainable leadership has a positive impact on an individual, organization, society and natural environment. It involves change management, because it is long-term oriented, therefore the changes that are taking place are unavoidable and require adoption of leadership approach of positive change. Sustainable leadership requires patience and effort because its challenges are manifold and extensive, therefore research has shown that individual's emotional stability as well as reflection of the inter-and intrapersonal intelligences are crucial to the development of sustainable leadership. Sustainable leaders promote through their work, good products, services, responsible attitude towards ecosystem and engage themselves to educate stakeholders towards responsible attitude to the wider community, which is an additional influential component –holistic development and educational orientation.

Lord, Hall and Halpin (2011, p. 229) emphasize the modern redirection of leadership development research to earlier stages of life, even before higher education. Identity is crucial in the development of leadership as leadership is a proactive process in which the individual must be motivated to develop leadership skills and taking on an initiative to lead. Cameron (1984) states that we need to adjust the framework within which we understand leadership development to organizational and environmental needs. However, we need to go a step further and begin to develop skills for sustainable leadership already in the educational environment because this allows enough time for reflection, which is a vital component in sustainable leadership development. Sustainable leadership development does thus not take place strictly in the organizational environment, but focuses on encouraging young people in the wider educational environment to take a responsible attitude towards oneself, organization, society and the natural environment.

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Liquidity of Credit Default Swap Spreads and Future Stock Returns

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Abstract

The liquidity of a firm's credit default swap (CDS) spreads, defined as the change in the total number of quotes for all tenors, contains information about future stock returns. Stocks with highest CDS liquidity outperform stocks with lowest CDS liquidity by around 2.51% per month. This result is robust for different weighting schemes and sorting dimensions. It also holds with Fama-MacBeth regressions. This result is also robust to controlling for stock characteristics and default risk measures. This predictability is stronger for the subsamples subjected to higher arbitrage cost. Firms with highest CDS liquidity are those with largest magnitude of earning surprises, which is not fully incorporated in the current stock prices, leading to higher expected stock returns, supporting the slow information diffusion explanation.

Keywords

Cross-section of stock return, credit default swap, liquidity

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Dispelling the Dogma of Advertising: Advancing a New Truth for Hospital Selection and Its Implication for Other Service Providers

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Abstract

Consumerism has long-been an important driver in other industries across the globe, as industries have embraced the importance of meeting customer and consumer expectations (Bennett & Mandell, 1969; Oliver, 1980; Bolton & Drew, 1991; Peyrot, Cooper, & Schnapf, 1993; Taylor & Cronin, 1994). Firms have attempted to understand consumer expectations prior to the delivery of service or product purchase.

Within the last ten years, this consumerism movement has infiltrated into the field of global healthcare (Herzlinger, 2002; Grazman, & Leifer, 2007). Tenets of the consumer-driven health care include increased demands for high performance, flawless quality, data analytics to support outcomes, and enhanced service delivery. In response to these emerging demands, hospitals in many global markets have sought to advertise their programs and services, with the hopes of securing existing patients and garnering new patients.

Across the globe, hospitals have been thrust into an environment of upheaval and intense competition. Regardless of the payment system, governmental intervention, or governmental controls, most hospitals compete for patients (Cooper et al., 2102). Results suggested that private and public hospitals alike responded to increased competition by addressing clinical performance and service delivery. At the same time, patients look for hospitals and health care providers to deliver value for the patient encounter (Porter & Teisberg, 2004). Patients presuppose that most health care providers will high quality. For them, the differentiating point will the extent to which health care providers deliver greater value.

In the United States, hospital advertising rose to \$717.2 million (or an increase of 20.4%) in from 2010 to 2011 (Newman, 2011). Worldwide, health care advertising spending was estimated at \$492.3 billion in 2011 and projected to increase 4.9% annually over the next five years (Catcha Digital, 2014). Increased levels of advertisements have been predicated on the truth that they yield concomitant levels of revenues. In other words, there is a quid pro quo relationship between increased advertising expenses and increased patient revenues.

As hospital margins continue to decline, it was important to question the widely-held dogma that increased advertising leads to increased patients and patient revenues. Many health care providers are now required to provide return on investment metrics or analytics. Future marketing expenses are often predicated on evidence from these performance metrics.

In this study, a large urban teaching hospital within a two-hospital town was selected. Both hospitals advertise their hospitals and services heavily, using newspaper, billboards, radio, television, and web advertisements. In addition, both use relationship marketing techniques, like targeted direct mail.

The one hospital selected for this study was chosen because of its generalizability to other health care markets – as many hospital competitors across the globe can be broken down to two major hospital or health care systems.

Over a two-year period, inpatients from the hospital were surveyed, assessing their levels of satisfaction across a number of dimensions and factors. During this period, a total of 12,881 patients were surveyed. The central hypothesis was that hospital advertising had an impact on hospital selection.

Aside from the normal demographic questions (e.g., age, diagnosis, gender, length-of-stay in the hospital, etc.), patients were also asked the following: Was this hospital your first choice?; Was this your first time being admitted to this hospital?; and Why did you choose this hospital for care (choices included insurance, location, physician suggestion, family/friend suggestion, marketing/advertising, or previous experience)? The latter question was the foundation for this study – which sought to determine whether hospital advertising was indeed an important criteria for hospital selection.

Cross-tabulations were analyzed for first-time versus non-first time patients and first choice versus non-first choice. Aggregated data was analyzed across the demographic variables. In addition, patient satisfaction was evaluated across factors and dimensions, controlling for hospital choice criteria. Results of factor analysis, correlation analysis, and regression will be presented report on the study's hypotheses.

From the data, physician recommendation was the principal determining factors across the various demographic screening variables (first time patients = 33%, hospital was first choice = 30%, hospital was not first choice = 53%). In the United States, where multiple insurance companies exist, the second leading reason for selecting a hospital was the hospital's participation in the insurance company's plan. In other countries with single-payer systems, this dynamic will not exist. Interestingly enough, 0% of respondents reported that hospital advertising drove their decisions to select the hospital – holding across the aforementioned screening variables.

The fact that no patients cited hospital advertising as a precursor for hospital selection flew in the face of modern thought that advertising does drive revenues. Additionally, respondents were asked about their sources of health information. As much of the hospital's advertising dollars are spent on health education, health promotion, disease prevention, and early detection, one might conclude that hospital advertising would be a major source cited by respondents. However, physicians (86%) and the internet (9%) were the major sources for health information, as reported by survey respondents. The remaining 6% included newspaper advertisements, magazine articles, and news items on the television or radio.

The results suggested that hospital advertising is not an effective method to garner patients. This conclusion dispels the widely-held dogma within other industries, which hold firmly the relationship between marketing and business success. Obviously, patients have a different model or heuristic from which they select hospitals. In the end, it appears that the presence of a relationship – be it between a physician, family member, or friend – or the existence of a past experience drive hospital selection. All of this supports the seminal work of Churchill and Suprenant (1982), advancing the notion of expectations on satisfaction and behavioral intention (or purchase behavior).

The implications from this study are appropriate for other service providers who rely on purchase and repurchase behavior from their past and current customers. While these businesses may hope to keep or garner customers from advertising, the results from this study may suggest that establishing solid relationships among customers is the best factor in future purchases (also referred to as

behavioral intention within the field of consumer behavior). Additionally, cultivating strong and lasting relationships may also foster strong advocacy or support from your current customers through positive word-of-mouth communication to family, friends, colleagues, and others.

Limitations of this study include the one-time nature of the survey and the surveying of only one hospital's patients. In addition, the surveying was not conducted across different global markets. Future research is needed to determine whether other markets yield the same results. That said, the study did yield some very interesting results, which may dispel widely held truths (i.e., advertising is a quid pro quo to increased revenues, sales, or customers). In addition, many managerial implications exist that can be offered for practitioners.

Keywords

Advertising, hospital selection, hospital, marketing, competition

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Food and Service Quality, Dining Atmospherics and Customer Satisfaction at Sit-Down Restaurants – a South African Perspective

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Abstract

Urban South Africans are exposed to a wide choice of sit-down restaurants that are all competing fiercely for customers in a challenging macro-economic environment (Chinomona, 2013). Not only remains the economic environment challenging for sit-down restaurants, so too are they confronted with changes in their customers' family dynamics and consumption behaviors (Moolman 2011, p. 131; Vanniarajan & Meharajan, 2012, p. 4). Consequently, customers are becoming ever more sophisticated with higher demands and expectations (Ryding, 2011, p. 504) thus becoming increasingly more difficult to satisfy.

Customer satisfaction is commonly employed as a key performance indicator of business success and is instrumental in building brand loyalty, retaining customers, spreading positive word-of-mouth and acquiring new customers (Yap, Ramayah & Shahidan, 2012). In addition, it is advocated that customer satisfaction in the restaurant industry is influenced by perceived quality, as well as the atmospheric elements present in the services cape (Ha & Jang, 2012).

With regard to perceived restaurant quality, Choy, Lam and Lee (2012) distinguish between two dimensions, namely (1) *food quality*, which generally refers to the freshness, tastiness, pricing, portioning and presentation of food, and (2) *service quality*, which refers to the level of service provided by restaurant employees. Besides perceived quality, Ha and Jang (2012:205) also identified *dining atmospherics* (defined as the designing of a space or area, with the intent to encourage specific emotional effects in customers) as having a significant impact on customers' dining experience. Existing literature (Countryman & Jang, 2006; Ha & Jang, 2012; Kumar, Garg & Rahman, 2010) suggests furthermore that, in order to attain a comprehensive understanding of customers' responses to their dining experience, the various dining atmospherics dimensions need to be considered, including the style, layout, colors or color-combinations used, type of lighting, furnishings and overall ambience of the dining area. According to Jangga, Sahari and Basir (2012, p. 2765) and Kaura, Datta and Vyas (2012, p. 67), if customers are satisfied with the restaurant's food, service and atmosphere, they will be more inclined to revisit the restaurant and communicate positively about the restaurant.

Before South African sit-down restaurants focus on developing marketing strategies to increase the quality of their food and services as well as the atmospherics of its services cape (in order to improve customer satisfaction), it is important to first determine the state of affairs within a South African context. This paper therefore focuses on determining customers' perceptions of food quality, service

quality and dining atmospherics at sit-down restaurants in the North-West Province of South Africa, and gauging the extent to which these variables predict customer satisfaction.

The study was quantitative in nature and a descriptive research design was followed to collect data through self-administered questionnaires from 250 patrons of sit-down restaurants in urban areas of the North-West Province of South Africa. Prospective respondents were required to have eaten at a sit-down restaurant at least once during the six months preceding the fieldwork. Doing this limited possible response errors due to the fact that the interaction with the sit-down restaurant took place too long ago. Respondents were selected using non-probability sampling based upon convenience. The fielded questionnaire commenced with a preamble, explaining the purpose of the research, rights of respondents, completion instructions, as well as a screening question. The remainder of the questionnaire included structured questions to compile a demographic profile of respondents, gain insight into respondents' patronage habits, and finally to measure the key constructs of the study (i.e. food quality, service quality, dining atmospherics and customer satisfaction). The items used in the scales measuring food quality, service quality, dining atmospherics and customer satisfaction, were measured on a seven-point unlabelled Likert-type scale, with 1 presenting 'strongly disagree' and 7 'strongly agree'. All items were either adapted or adopted from existing scales obtained from the work of Countryman and Jang (2006), Dagger and Sweeney (2007), Ha and Jang (2012), Jang, Liu and Namkung (2011), Joseph-Mathews, Bonn and Snepenger (2009), Namkung and Jang (2008) and Soriano (2002). The scales measuring the key constructs of the study were furthermore found to be valid and reliable.

The majority of respondents who took part in the study are 27 years and younger (37.6%), and 49 to 67 years old (25.2%). A total of 60.4% of respondents have completed high school or have a tertiary qualification. Two thirds are female (68.4%) and the majority are full-time employed (51.9%) with 22.4% being full-time students. The Spur Steak Ranch ranked in first place as the favorite sit-down restaurant (31.2%), trailed by Ocean Basket (10.0%), Mike's Kitchen (7.2%), Beef Boys (6.4%) and Wimpy (6.0%). A total of 39 other restaurants were also mentioned by respondents as their favorite sit-down restaurant. Respondents spend on average R157.03 per capita per meal at their favorite sit-down restaurant. With respect to the key constructs of the study measured on a seven-point scale, food quality realized the highest overall mean (6.04), customer satisfaction realized the second highest overall mean score (5.98), followed by service quality (5.73) and dining atmospherics (5.45) which realized the lowest mean.

A hierarchical multiple regression analysis was conducted to uncover the extent to which dining atmospherics, food quality and service quality predict customer satisfaction in the South African sit-down restaurant industry. The results of the first model that included only dining atmospherics as independent variable indicate that dining atmospherics explain 38.4% of the variance in customer satisfaction. Once dining atmospherics has been controlled for and the food and service quality were entered into the model, the second model explains 63.4% of the variance in customer satisfaction. Based on the second model, all three independent variables (i.e. food quality, service quality and dining atmospherics) significantly predict ($p < 0.0005$) the dependent variable (customer satisfaction of sit-down restaurant customers), although to differing extents.

Food quality (i.e. the freshness, tastiness, portioning and presentation of food) realized a β -value of 0.409, indicating that food quality is the best predictor of respondents' satisfaction. It is therefore important that South African restaurateurs deliver fresh and tasty food in an appealing manner to their patrons. Restaurateurs can also implement occasional customer surveys in order to determine patrons' food quality perceptions in an attempt to improve those aspects found lacking.

Service quality (i.e. the willingness, courtesy, competency, appearance and attentiveness of staff) realized a β -value of 0.319, indicating that service quality is second to food quality in predicting

customer satisfaction. Restaurateurs, therefore, need to ensure that those employees who interact with patrons (such as waiters) deliver continuous high levels of service. These employees also need to be consistently courteous, attentive to patrons, competent, and pleasing in appearance.

Dining atmospherics (i.e. the style, layout, colors, lighting, furnishings and ambience of the restaurant) realized the lowest β -value of 0.188, indicating that dining atmospherics predicts customer satisfaction to a lesser extent than food or service quality. To ultimately enhance patrons' satisfaction levels through dining atmospherics, restaurateurs can focus on optimizing the restaurant design and layout, implementing suitable color schemes and furniture, and establishing the desired ambience by means of effective light use.

Based upon the findings, it can be advised that South African sit-down restaurants need to focus on the consistent delivery of fresh and tasty food, with the assistance of competent, courteous and attentive employees. Although dining atmospherics predicts customer satisfaction to a lesser extent, restaurateurs still need to keep the respective dining atmospheric dimensions (i.e. style, layout, color, furniture and ambience) in mind as a way to improve customer satisfaction.

Keywords

Customer satisfaction, dining atmospherics, food quality, service quality, sit-down restaurants

The State of Ethical Consumption in America

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Abstract

"It is good for people to realize that purchasing is always a moral –and not simply economic – act."
Pope Benedict XVI, 2009

Consumer behavior has emerged as an important moral battleground in the 21st century. Individual product choices in categories ranging from coffee to bottled water to corn-fed beef are being increasingly scrutinized for the ethical and moral implications of their purchase and consumption. The attribution of moral significance to the choice of everyday consumer goods means that personal consumption becomes an exercise in ethical and political statement-making.

Ethical consumption and *ethical shopping* are terms often used interchangeably to denote the practice by consumers of including moral, societal, or environmental factors in everyday purchase decisions. Brinkman (2004) described ethical shopping in this manner:

"Every day we choose between different products, but our purchase decisions do not only affect us ourselves; the way the products have been produced can make a big difference to other people, to nature, the environment, and to animals. Ethical purchasing is about taking responsibility for the influence we [wield] through our buying choices." (Brinkman, 2004, p. 129)

While ethical consumption as we know it today had its genesis with the emergence of the green movement in the 1990s, nowadays it is more broadly defined-consumers can choose a range of products each supporting beliefs regarding people, the environment, or both (Doran & Natale, 2011). Ethical consumption encompasses choices surrounding green or environmentally friendly products, organic and/or natural products such as non-genetically-modified products, products that have not been tested on animals or that avoid animal cruelty, and fair trade products, i.e. products made by people whose human rights as workers are protected. Therefore, to consume products with an ethical component is to consume products that negatively affect neither man nor the natural world.

According to Tallontire et al. (2001), ethical consumerism is comprised of three types of consumer behavior: (1) consumer action, which involves such behavior as lobbying or direct action; (2) negative ethical purchase behavior, which involves not buying unethical goods (boycotting); and (3) positive ethical purchase behavior, which involves the consumption of goods with an ethical attribute. Ethical shopping is a type of positive ethical purchase behavior.

This paper condenses the existing literature on ethical consumption in the United States with the goal of providing an up-to-date review of the topic. It profiles the American ethical shopper and distinguishes the various instruments of ethical consumerism and their rates of diffusion in the United States. Among the important conclusions are the following:

- America has enjoyed steady growth in ethical consumption over the past decade as a result of product “mainstreaming” and the increased presence and growing credibility of ethical product certification. At the same time, the proliferation of eco-labels and ethical certifications coincides with emergent empirical data that question the extent to which consumers correctly perceive the meaning of many such certifications and actually use or rely on them when making product choice decisions.
- Ethical consumerism is significantly more mature and institutionalized in Europe than the United States; although recent trade data indicates the U.S. is following an equivalent but significantly accelerated progression as that followed in Europe. Of paramount concern is the commitment to ethical shopping as products mainstream and the U.S. movement matures. There is increasing evidence that ethical consumption here is mediated by economic and functional product factors like price, quality, and reliability.
- Little is currently known about what motivates U.S. consumers to engage in ethical consumption or the extent to which demographic data contribute to a meaningful profile of American ethical shoppers. Emerging psychographic research on American ethical consumers suggests loyal ethical shoppers have a more holistic worldview and greater universal (out-group) values than intermittent ethical shoppers who tend to be characterized by more traditional benevolent in-group (e.g. family) values and less universal social concern.
- Religious and political affiliation may hold special significance in explaining why Americans engage in ethical consumption or refrain from doing so. In America, where 82 percent of citizens say that religion is either very important or somewhat important in their lives, new findings show Buddhist, Hindu and the “Nonreligious” had much higher commitment to ethical consumption than Protestants and Catholics or “Other Christian” religions (Doran & Natale, 2011). This seems counterintuitive since it is the world’s big religions that are more successful in encouraging ethical behavior than other ethical influences because they provide their members with what Kung calls the “why and what for” of living (Kung, 1997). Now, religious affiliation in America has also been found to be a reliable surrogate indicator of political affiliation. In the last three U.S. presidential elections (2004, 2008, 2012), pollsters published strong and unequivocal data—voters who said they went to church every week overwhelmingly voted Republican; voters who went to church less often or not at all overwhelmingly voted Democratic. Coincidentally, numerous bills that would make international trade contingent upon the protection of human rights have been introduced in the United States Congress over the last decade. Perhaps not surprisingly, the vast majority of these bills failed to attract widespread bipartisan support when conservatives accused liberals of politicizing international trade by transforming it into a moral battleground in the war over social justice. New ethical research suggests that at the heart of the disagreement may exist fundamental differences in the way conservatives and liberals conceptualize such ideals as morality, freedom, rights, equality, harm, and justice. Haidt and Graham (2007) contend that cultural and political conservatives assign moral virtue to the respect for authority invested in societal institutions whether these institutions be “marriage, monarchy, or the market” as a way of protecting social norms. Thus conservatives embrace family values, hierarchical structures, and market dynamics (like free trade) as ostensible *moral* solutions to human problems in a way that liberals do not.
- Qualitative evidence suggests a growing number of American consumers perceive that global corporations embrace ethical positioning for profit motives and capitalistic ends rather than any true sense of corporate social responsibility. As many as two-thirds of Americans suspect some companies pretend to be ethical because of the effect of corporate social responsibility claims on brand image (*Strategic Direction*, 2007). The notion that management was failing to fulfill its social responsibilities was argued by Kotler (1972) as long as four decades ago, yet Doran and Natale (2011) argue:

"Management still contends its moral imperative is to provide a return to those who invest in businesses and not to other stakeholders. Businesses are emboldened by Friedman's (1970) argument that management's only responsibility is its fiduciary responsibility to investors and should managers feel obliged to be socially responsible then they should do so with their own money and not that of the business. This is not a sentiment that has dissipated over the last 30 years."

This disillusionment with "Corporate America" appears to have led today's ethical shoppers to take matters into their own hands.

As Pope Benedict XVI reflected in his 2009 papal encyclical:

"Global interconnectedness has led to the emergence of a new political power, that of consumers and their associations. This is a phenomenon that needs to be further explored, as it contains positive elements to be encouraged. It is good for people to realize that purchasing is always a moral –and not simply economic – act. Consumers should be continually educated regarding their daily role, which can be exercised with respect for moral principles without diminishing the intrinsic economic rationality of the act of purchasing."

Information of the kind presented in this paper contributes to a more comprehensive theory of ethical marketing in a world where globalization has changed the rules of business and consumptive behavior.

Keywords

Ethical consumption, social responsibility, political consumerism

Economic Crisis of 2008 and the Deindustrialization in Brazil

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Abstract

Brazilian Government faced international crises by implementing fiscal stimulus to raise internal consumption while sustained a high interest rate with flexible exchange rate system and low capital flow control. The mix of economic policies has increased the internal expenditure level, lowered income differences and has sustained inflation controls. The composition of internal expenditure has changed and external firms captured the higher demand. Therefore, an imbalance in transactions account is an increasing macroeconomic problem.

This paper analyses the relation between recent shifts in macroeconomic policies in Brazil, the growing importation of final goods and a different insertion and external sharing of Brazilian exportation. Fiscal policies, instead of increasing sales and firms revenues, has increased imbalances in transaction account and has feed the discussion about Dutch Disease and Deindustrialization in Brazil. We can define deindustrialization as a lower share in industrial jobs in the total employment in the country (Rowthorn & Ramaswany, 1999). The broad concept is a decrease in the industrial value added share to gross domestic product in addition to a lower industrial employment share (Tregenna, 2009).

In the first part, we discuss three different interpretations of causes of deindustrialization. Follows an analysis of consumption in Brazil and transaction account data. For some economists Brazil faces a historical and structural trend to currency valuation, related to commodities exports. These phenomena must be corrected through export taxation in order to sustain product diversification and national firms in manufacturing sector (Bresser-Pereira, 2011). Others consider that the mix of economic policies combined with low capital controls and pre-salt announcement, led to deindustrialization and devaluated currency. In addition, we can find in the literature that deindustrialization is a recent phenomenon closely linked to 2008 crisis (Bacha, 2013). Finally, some economists think that deindustrialization is a natural phenomenon and as economy growth, we can observe a pattern where service sector grows more than manufacture sector. This is related to the income increases and family demand (services has higher income elasticity of demand than manufacture goods).

In the second part of this paper, we show how a wage-led strategy to growth has increased imports and decrease exports instead of increasing national firms' sales and revenues. Recent data shows an imbalance in external accounts and a huge change in imports and exports composition.

In the third part, we show the consumption contribution to growth, aggregate demand since 2008, the increase in importation and the consumption pattern for durable, no durable goods. We also analyze the growing indebtedness of households and shifts in income sharing. Finally, a shift in composition of exports and imports ends the third part showing a different insertion of Brazilian economy.

The conclusion shows that firms in national territory fails in benefiting from increases in demand and in competing for exports. We raise questions about when one country should adopt fiscal stimulus to fight against crises and poverty. When fiscal policy is combined with monetary contraction and currency appreciation, the results are that firms cannot benefit from a growing demand and we call that Access Theory: exchange rate is strongly related to consumption level for national goods.

Keywords

Consumption, Brazil, economic policy, internal market, imports, transaction account, access theory

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Business Cycle Dynamics of the CEE Euro Candidates in the Face of Economic Crisis

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Abstract

Due to differences among business cycles in the Euro area asymmetric shocks, which create additional costs and destabilize the union, become relevant. Therefore, it is extremely important for countries planning on joining Euro area to have convergent business cycles and high degree of business cycle synchronization. Our study investigates business cycle synchronization pattern between eight the CEE countries and EU17 before and after the economic crisis of 2008. In addition, the research illustrates potential impact on business cycles co-movements of particular the CEE country's participation in Euro area.

Our findings reveal that Lithuania and Latvia are the most desynchronized countries with the EA and significantly contribute to cyclical divergence after the crisis. In addition, values of these countries' correlation coefficients with Euro area fall even further after the crisis. This is a troubling matter, since Latvia has already joined EMU and Lithuania is most likely to join in 2015.

Keywords

Business cycles, optimum currency area, EMU, CEE

1. Introduction

Creation of the EMU has shifted the responsibility for monetary policy from national central banks to the European Central Bank and restricted national monetary authorities from pursuing systematic policies to offset country-specific shocks. Due to differences among business cycles of member states asymmetric shocks, which create additional costs and destabilize the union, become relevant. According to the OCA theory huge differences in patterns of the national business cycles and underlying disturbances can undermine the effectiveness of a common monetary policy, since a single interest rate might not be optimal for the individual union members. For example, countries in the downward phase of the cycle would prefer a more expansionary monetary policy, whereas countries in the upward phase of the cycle would need to implement more restrictive economic actions. If such countries form a currency union, a common monetary policy will not be satisfactory for every member. Therefore, it is extremely important for countries within the Euro area to have convergent business cycles and a high degree of business cycle synchronization (Gächter, Riedl & Ritzberger-Grünwald, 2012; Peersman, 2011; Benčík, 2011).

The assessment of business cycles synchronization in Europe has received a lot of attention in scientific literature. However, most studies on business cycle synchronization between the Euro Area (EA) countries and non-EMU CEE members of the EU are conducted in the late 1990s and early 2000s¹. Thus, their conclusions are outdated and the findings cannot serve as a cornerstone for judging the present day economic reality. Moreover, academic research lacks empirical investigations of business cycle synchronization in Europe after the crisis, especially between the EA and CEE countries. Therefore, our research is aiming at analyzing the effect of economic crisis on the development of business cycles of the selected CEEEU members when compared to business cycles of EU17. Our study investigates the business cycle synchronization pattern between eight the CEE countries² and EU17 before and after the economic crisis of 2008. In addition, the research illustrates potential impact on business cycles co-movements of a particular the CEE country's participation in the Euro area before and after the crisis.

2. The Synchronization of Business Cycles in the EU

The evidences on business cycle synchronization in the Euro area are mixed. Some (Giannone, Lenza & Reichlin, 2009; Weyerstraß, Van Aarle, Kappler & Seymen, 2011) authors did not conclude any significant synchronization of business cycles among the EA countries. However, others reached a different conclusion. For instance, Kaufman (2003) detected that the EA countries have coherent cyclical movements. Whereas Monfort, Renne, Ruffer and Vitale (2003) found that France, Germany and Italy form a coherent area. Furthermore, Mansour (2003) estimated the annual GDP growth for 113 countries and made conclusion about the EMU stating that it is highly integrated region compared to others. Furthermore, Bayoumi and Eichengreen (1992) found a group of the EA countries that share synchronized cycles and another group of periphery countries which do not converge with the aforementioned group. Similar results were also presented by Horvath (2003) and Aguiar-Conraria, Martins, and Soares (2013). Analyzing business cycles of 12 "old" EA members, Van Aarle, Kappler, Sachs, Seymen and Weyerstrass (2008) traced three clusters of countries sharing similar cycles in the EA.

Later studies started to focus on synchronization of business cycles between the EA and CEE countries. For example, Buiter and Gafe (2002) and the IMF (2000) detected a relatively high degree of business cycle synchronization between Germany and the CEE countries. Similarly, Artis,

¹see e.g. Boone & Maurel, 1999; Barrell & Holland, 2004; Darvas & Szapáry, 2005; Korhonen, 2003; Frenkel & Nickel, 2002, Fidrmuc & Korhonen, 2003, 2004; Süppel, 2003; Fidrmuc, 2004; Csajbók & Csermely, 2002; Ramos & Suriñach, 2004.

²Latvia, Romania, Bulgaria, Poland, Czech Republic, Hungary, Lithuania, Croatia.

Marcellino, and Proietti (2004) found out that business cycles of Poland and Hungary are generally the most similar to the EA cycle. Whereas Darvas and Szapáry (2005) detected that GDP, industrial production and exports in Hungary and Poland have achieved a high degree of correlation with the EA region. Nevertheless, other studies, such as Traistaru (2004), Darvas and Vadas (2005), Demyanyk and Volosovych (2005), Karmann and Weimann (2004), Horvath and Rátfa (2004), Lättemäe (2003), detect that the CEE countries lack business cycle convergence with the EA.

Summing up, academic publications report different findings on business cycle synchronizations between the CEE countries and EA before the crisis, nevertheless, most researchers agree that the highest business cycle correlations between the CEE countries and EA are the ones of Hungary, followed by Poland. Moreover, Eickmeier, and Breitung (2006) found that these two “new” EU members exhibit higher degree of synchronization with the EA than peripheral EA countries in the time period of 1998-2002. Whereas Latvia’s business cycle is not synchronized with the cycle of EA, and in the prevailing number of studies Lithuania had even negative correlations. Nevertheless, most studies on business cycle synchronization between the CEE region and the EA are conducted before the crisis of 2008 and might be outdated, whereas our research aims at uncovering more recent changes.

The most recent study on business cycles synchronization between the CEE members of the EU and EA countries covering the economic crisis period was performed by Gächter et al. (2013). Their sample includes the EU12, the 5 “new” EA countries and 8 remaining CEE EU member states. We will use a slightly different mix of countries. We do not separate out 5 “new” EA members, due to the fact that common EA monetary policy considers aggregate output and price level developments rather than separating “new” EA members from “old”. The purpose of this article is to determine the synchronization or diversion business cycles of the CEE countries in comparison to the entire EA region. This will enable us to see the economic implications of economic crisis on business cycles of the CEE countries and compare them to the EA. Furthermore, our research also looks at the inclusion cost of the CEE countries to EA from the perspective of business cycle synchronization.

Conclusively, academic literature provides a number of studies on the synchronization of business cycles in the EA. However, the empirical evidences of studies vary because the samples include different countries, different periods covered in the analysis and different methods used for measuring synchronization of the business cycles.

3. Methodological Framework Used in the Study

The most widely used variable in analysis of business cycles is quarterly data on Gross Domestic Product (GDP) (De Haan, Inklaar & Jong-A-Pin, 2008). The objectives of this paper imply that study should focus on comprehensive and broadest possible output variable such as GDP. Thus, the data used in this study are seasonally adjusted quarterly real GDP figures (2005 price level) from 2000Q1 to 2013 Q1 (inclusively). The countries in question are the 8 CEE members of the EU that have not adopted the euro yet, i.e. Romania, Bulgaria, Czech Republic, Poland, Hungary, Lithuania, Croatia and Latvia. The latter, was considered as a non-EA member due to its recent admission. We compare the business cycles of the selected CEE countries with the cycle of 17 members of the EA and EA aggregate. The data is obtained from Eurostat database.

Before starting the measurement procedures, it is highly important to make a clear distinction between classical business cycles and deviation of growth cycles. According Burns and Mitchell (1946), classical business cycles can be determined in terms of absolute expansions and contractions of economic activity. In our research we analyze deviation cycles. Measuring deviation cycles implies “de-trending” by filtering out of the growth rate trend of the economy, i.e. decomposing the time series to growth and cyclical component. There are different filters adopted in the literature that can

be used to decompose the GDP data, for example, Hodrick-Prescott (HP), Baxter-King (BK), and Christiano-Fitzgerald (CF). In our study we applied HP filter based on Hodrick and Prescott (1997), which removes fluctuation in the trend and extracts the cyclical component of GDP time series.

In our research the synchronization of the output gaps of the individual countries is used as a foundation of analysis. The output gap is the difference between potential and real GDP of a country. The reason behind this choice is that output gaps indicate inflationary pressure in economies and represent a fundamental determinant for Central bank's key interest rate policy (Citu & Twaddle, 2003). Therefore, the synchronization of output gaps can serve as a measure of optimality of having the single currency (Gächter et al., 2012). HP filter decomposes time series data to growth and cyclical component and growth component is interpreted as potential GDP. The cyclical component, which can be found by subtracting potential output from original variable, serves as an estimate of the output gap. Two business cycles are synchronous if their cyclical components move upward or downward at the same time, and/or if the countries' output gaps are equal at a given time. If the output gaps do not have the same value this means that business cycles diverge and countries experience asymmetric shocks (Gächter et al., 2012).

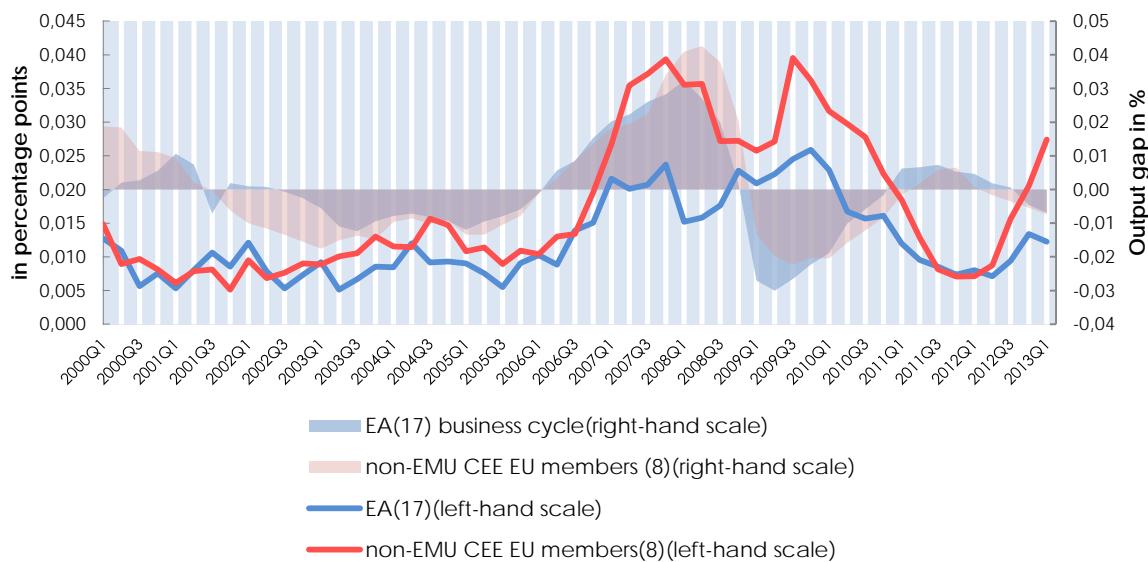
After estimating the cyclical component we investigated the synchronization of business cycles with the use of correlations, standard deviations and cost of inclusion/contribution of individual countries in the EA. Standard deviation is included as dispersion measure of output gaps it indicates the extent of variability within the group of data associated with the mean value. Unlike correlation, dispersion of the output gap can be assessed at any time by using the standard deviation of the cyclical components. This synchronization measure makes it possible to evaluate whether the business cycles converge or diverge at a particular time span. However, correlation measures are included in analysis, since output gaps might be moving in opposite directions and still have low standard deviations. Thus, the weaknesses of each synchronization measure are balanced by the advantages of the other measure.

The cost of inclusion/contribution indicator proposed by Crespo Cuaresma and Fernández-Amador (2010) will be employed as a measure of the potential influence of participation in the EA by the candidate country on the development of dispersion if this country would be the member state of the union. This indicator can demonstrate how high the potential cost of a country's entry to the EA would be.

To analyze whether the pattern of economic activities has changed since the most recent crisis, we compared the period up to the third quarter of 2008 with the subsequent period setting the insolvency of the US investment bank Lehman Brothers on the 15th of September 2008 as a cut-off date.

4. Empirical Findings on Business Cycle Synchronization

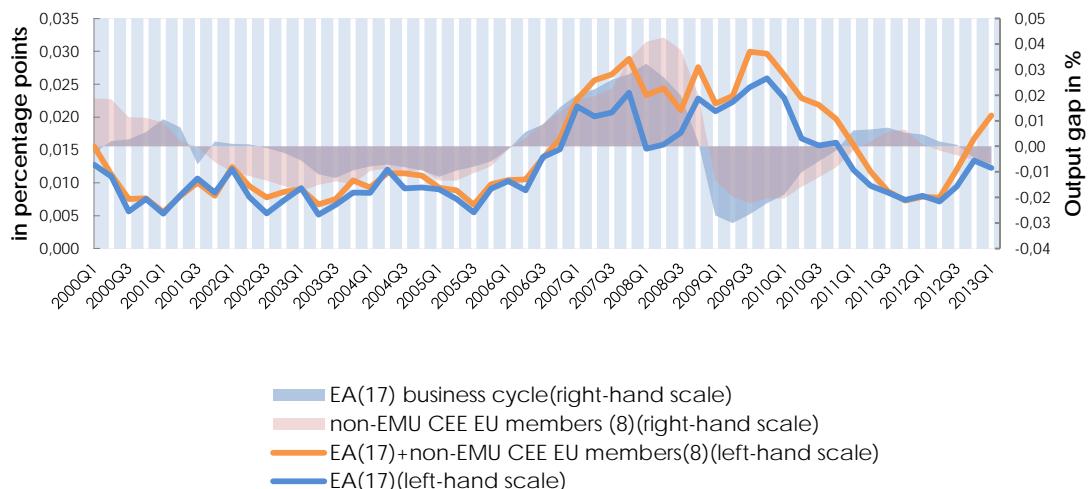
First of all, we examined the development of the aggregate CEE business cycle and its synchronization within the EA cycle. Figure 1 shows standard deviations of cyclical components for these two country groups as well as the groups' business cycles.

Figure 1: Standard deviation of cyclical components of EA(17)and selected CEE countries

Source: Authors' calculations

During the period between 2000 Q1 and 2006 Q3, business cycles' homogeneity predominates in the EA and CEE countries as cyclical deviations are relatively small. The increase in the dispersion of cyclical components across the two groups of countries started at the end of 2006 and further picked up in 2007 Q3 when large values of the standard deviation clearly stand out, especially within the CEE economies. Interestingly, this divergence of cyclical components became an issue approximately two years before the crisis, during the boom period, and this trend declined slightly at the beginning of the crisis when the cycles seem to move downward simultaneously.

The standard deviations peak for the second time at the beginning of the recovery phase (2009 Q4) for most countries, at the end of 2009. After that the figures started to decline again as economic activity weakens all over Europe due to the sovereign debt crisis. Although this pattern is observed for the two groups of countries, it is much more pronounced among the CEE countries. Evidently, the development across the CEE economies during the crisis was much more heterogeneous than across the EA countries.

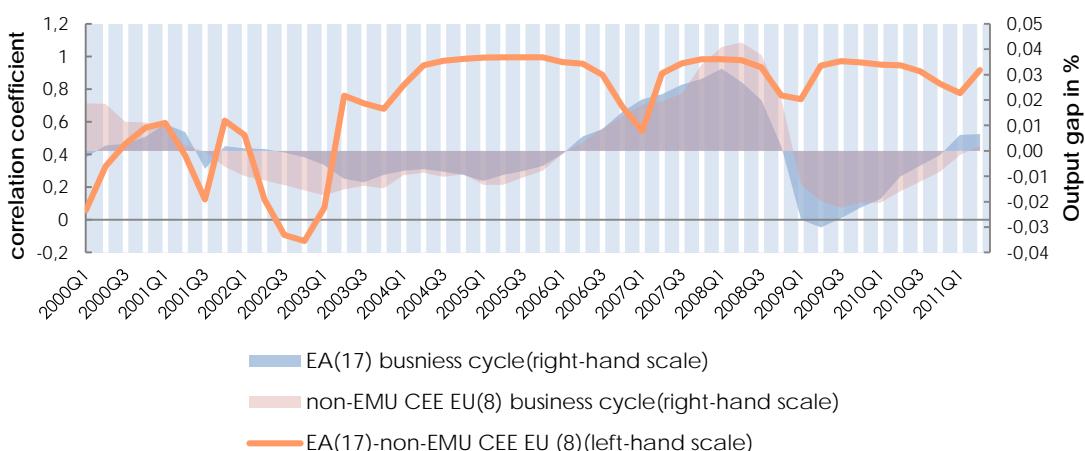
Figure 2: Standard deviation of cyclical components in the EA(17) and sample including EA(17) and selected CEE countries

Source: Authors' calculations

Figure 2 compares how convergence of business cycles in Europe would develop if the 8 analyzed CEE states were added to the EA. It can be identified that adding the 8 CEE countries to the sample led to higher values of the standard deviation during the whole period analyzed. Moreover, while being relatively high during the crisis, due to the inclusion of the 8 countries to the euro-countries sample, the standard deviations peaks at the end of 2007, at the end of 2008 and in the third quarter of 2009.

To find out whether the rises in dispersion do not simply represent increases in amplitude but also decreases in co-movements of the business cycles, we calculated the bilateral correlation coefficients between the EA countries and CEE members in a moving two year window. Our results are shown in Figure 3.

Figure 3: Correlation between business cycles of EA(17) and selected CEE countries



Source: Authors' calculations

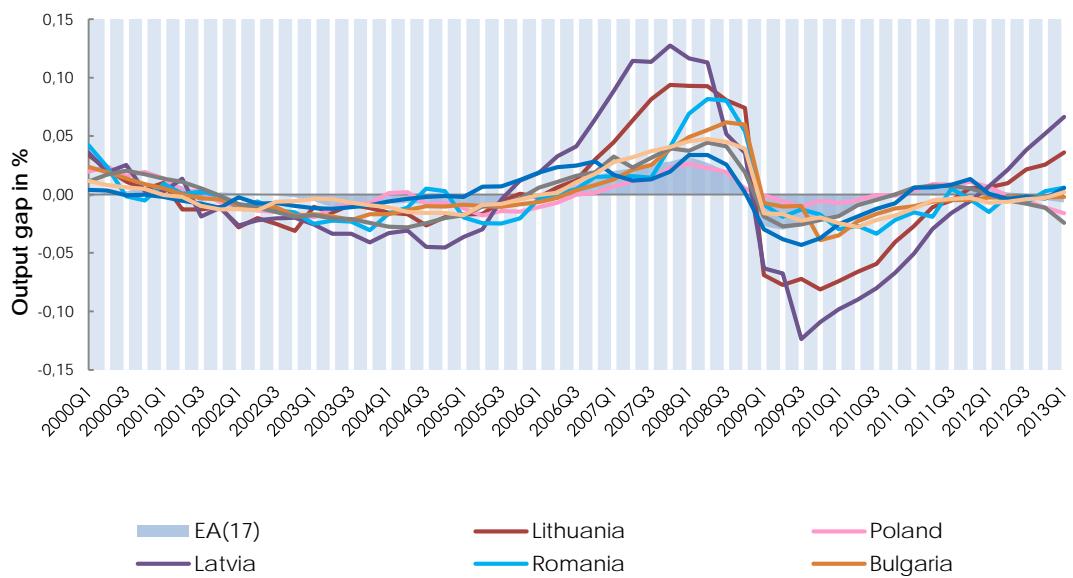
The calculations reveal that the correlation of business cycles of the two country groups were quite high at the beginning of the sample, but the correlation coefficients drop dramatically at the end of 2002. The negative coefficient values indicate that during this period the cycles moved in the opposite direction. However, the correlation coefficient values rise in 2003 and are very high during 2004 Q2 – 2006 Q2. This period marks the inclusion of majority of the CEE countries to EU and high correlations might be explained by increasing intra-trade among countries. In the middle of 2006 the values decline simultaneously with the rise of the standard deviation analyzed previously.

The extent of the business cycles correlation improve starting from 2007 Q2 and decrease slightly since the beginning of the crisis in 2008 Q3. The co-movement of business cycles increase again in 2009, then decrease reaching its low in 2010 Q1 - which happens simultaneously with the increase of the standard deviation in both country groups. Finally, our analysis shows a trend toward convergence of the two business cycles at the end of our sample which corresponds to the start of the dramatic decrease of the standard deviations.

4.1. Business cycles of the individual CEE countries and EA cycle before and after the crisis

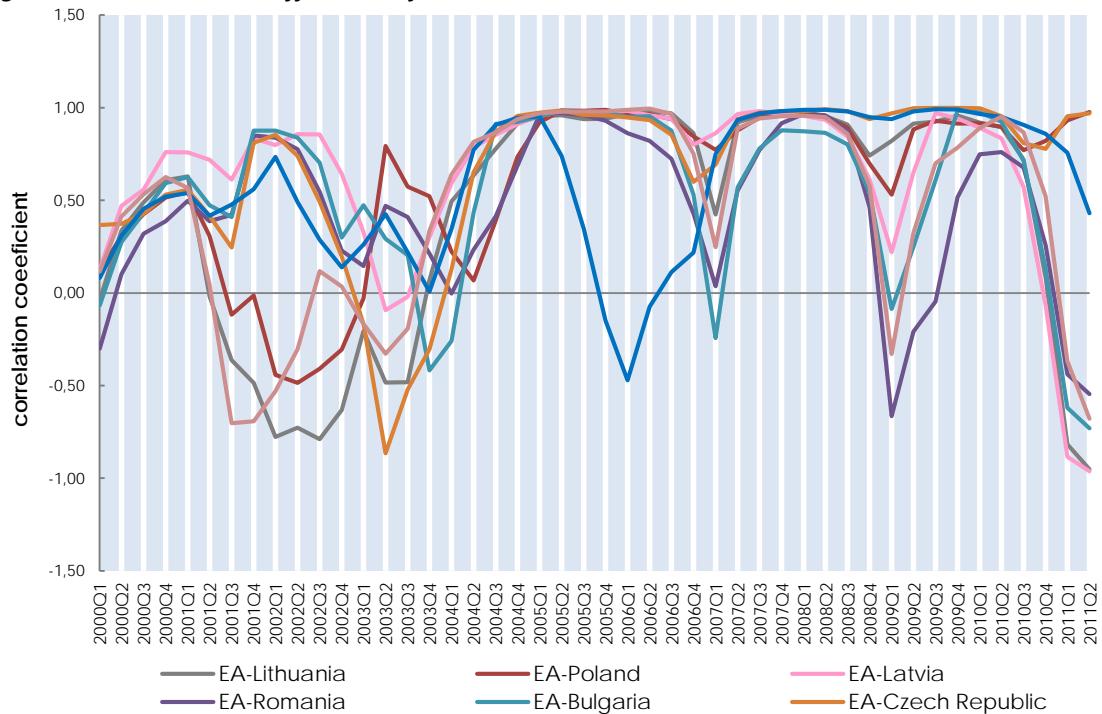
Figure 4 shows how business cycles of the EA along with Latvia, Romania, Bulgaria, Czech Republic, Hungary, Lithuania, Poland and Croatia developed between 2000 and 2013. The huge differences in the business cycles developments starting from the end of 2006 is noticeable even without statistical calculations.

Figure 4: Business cycle of the EA and selected CEE countries



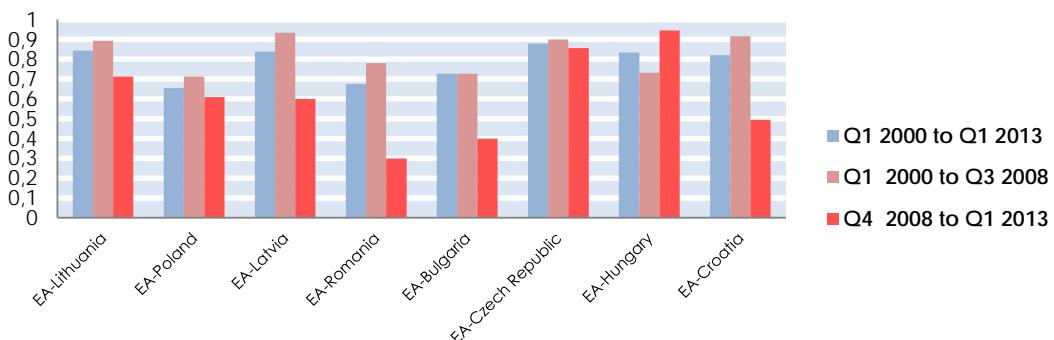
Source: Author's calculations

Bilateral correlation coefficients of all the CEE countries with respect to the EA change frequently at the beginning of our sample (see Figure 5). Starting with high numbers, each country pair has increases and drops of their coefficient values: some countries' correlation coefficients declined significantly, even to negative numbers during the period of 2001 Q1 – 2004 Q1, such as correlation coefficients between the EA and Croatia, Poland, Lithuania, Latvia, Czech Republic as well as Bulgaria. At the beginning of 2004 all 8 countries and EA members experienced an economic growth. The coefficient values at the beginning of 2005 between each country and the EA increased close to perfect correlation. This trend continued till 2006 Q3. Only Hungary's correlation decreased dramatically starting from 2005 Q2. Like in other analyzed countries, such as Czech Republic, Latvia, Lithuania and Poland, EU accession and belief in convergence to the EU income per capita, cheap funds from foreign-owned banks and optimistic expectations have triggered economic growth in Hungary (Blanchard, Griffiths & Gruss, 2013). Moreover, looking at the business cycle of Hungary during 2004 – 2008, we can notice economic growth which was more rapid than in the other analyzed CEE countries during 2004 – 2006. But it slowed at the beginning of 2007, while economic growth improved in the other countries, especially in Lithuania and Latvia. Unlike any other newly EU accepted countries, in 2005 and 2006 a high budget deficit hurting Hungary's economy (nearly surpassing 10% of GDP in 2006) was revealed and the country became subject to the EU excessive deficit procedures (Blanchard et al, 2013). Thus, this weak economic performance before the crisis, compared to the other CEE countries, is reflected in our findings (see Figure 5).

Figure 5: Correlation coefficients of the individual CEE countries and EA

Source: Authors' calculations

Figure 6 presents more generalized overview of business cycle correlations between CEE countries and EA cycle for the entire period (2000 Q1 to 2013 Q1), as well as for the period preceding the crisis (2000 Q1 to 2008 Q3) and the period following the crisis (2008 Q4 to 2013 Q1). According to our analysis, the crisis had an impact on the business cycles symmetry: the correlations with the EA before and after the crisis have changed in every country. The coefficient falls markedly for some countries during the crisis, particularly coefficients between the EA and Romania, Bulgaria as well as Croatia. The coefficients drop less in other countries, but not in Hungary, which cyclical synchronization with the EA improves after the crisis.

Figure 6: Comparison of correlation coefficients of the individual CEE countries and EA through 3 periods

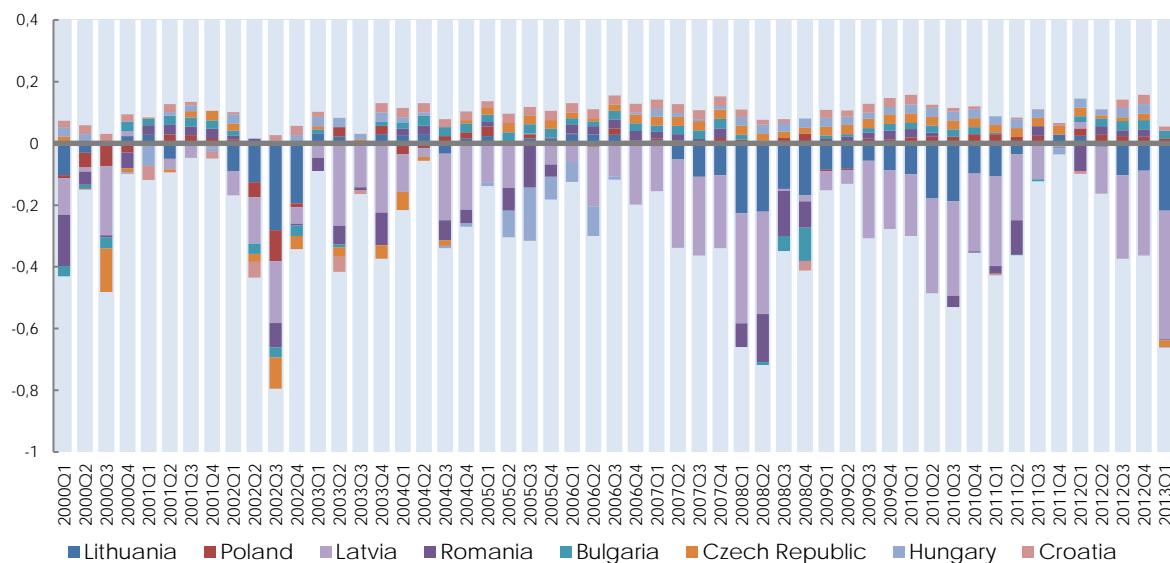
Source: Authors' calculations

To conclude, all 8 CEE countries more or less tend to follow the EA business cycle, but cyclical symmetry between EA and Bulgaria, the Czech Republic, Croatia, Poland, Romania, Latvia and Lithuania decreases after the crisis, while it increases between EA and Hungary.

4.2. Cost of inclusion of CEE countries to EA

For efficient monetary policymaking it is not simply relevant whether the cycles tend to move in the same direction, but also important to reveal how much they deviate from the respective cycle. Therefore, an additional dimension to the analysis is added in this section -the pattern of the cost of inclusion/contribution indicators presented in Figure 7. The indicators show the change in the dispersion measured in terms of the standard deviation of the cyclical component under the assumption that the respective CEE country is/is not an EA member. The change in the dispersion may be interpreted as the cost of including the respective country in the monetary union or contribution to synchronization of business cycles in the monetary union (Crespo Cuaresma & Fernández-Amador, 2010).

Figure 7: Cost of inclusion/contribution indicators to the EA of individual countries



Source: Authors' calculations

Prior to recent economic crisis, it was mainly Lithuania, Latvia, Czech Republic, Romania and Hungary which caused the standard deviations to rise if added to the euro-countries sample. Especially, adding Lithuania and Latvia in the sample led to higher values of the standard deviation in the period preceding the crisis which starts from 2007. At that time, Lithuania and Latvia experienced a massive economic boom compared to the other 6 countries (see Figure 4). Lithuania's and Latvia's cost of inclusion declined markedly after 2007 Q3, but raised again at the beginning of 2009 and peaked in 2010 Q3. It should be noted, that since the outset of the crisis, it were again mainly Lithuania and Latvia who contributed significantly to the divergence of business cycles due to the fact that Baltic States were hit by the recession greater than the other EU economies and due to the choice of their responses to crisis - namely, the internal devaluation through lowering wage costs and increasing productivity rather than external through nominal exchange rates adjustments which would work faster (Blanchard et al, 2013; Aslund & Dombrovskis, 2011). Moreover, Latvia's economic boom was healthy at the start, but, became increasingly unbalanced afterwards, in 2006 (Blanchard et al, 2013). As a result, Latvia was the hardest-hit country as it was operating above its potential output before the crisis. This led to a clear overvaluation reflected in an unusually large current account deficit. Latvia would not avoid the adverse effects of the global crisis in any case, but if the government had its policy tighter from 2006, the adjustment would have been easier (Blanchard et al, 2013; Aslund & Dombrovskis, 2011).

The pattern of the cost of inclusion/contribution indicators before and after the crisis appears to change noticeably for the Czech Republic, Bulgaria, Hungary and Poland. Until 2006 these countries frequently show negative values, however, their cost of inclusion passes the threshold of zero and the countries turn to contributors to business cycles synchronization later on. In general, during the recession these countries continue contributing to business cycles convergence, but their positive effect tends to decrease since 2010 Q2.

5. Conclusion

Countries in the EMU pay a high price for the loss of national monetary policy autonomy when macroeconomic shocks hit the members asymmetrically. Previous analyses and studies point out that business cycles synchronization of the potential EMU members remains a key issue, even if the motives behind EMU membership are not only economic ones.

This study finds that the most synchronized CEE country with the EA business cycle is Hungary. Only this country would contribute to the synchronization of business cycles if added to EA (17) economies. Also, Hungary has even higher correlation coefficients with the EA (17) after the crisis than before it.

Bulgaria, Czech Republic, Poland and Croatia are those countries which also positively affect business cycle synchronization if added to the EA (17) sample, however, their contribution to business cycles convergence decreases due to the crisis. Moreover, values of their correlation coefficients with the EA fall after the crisis, whereas Romania shows negative affects to synchronization of business cycles after the crisis, but its impact was insignificant compared to Baltic States.

Lithuania and Latvia are the most desynchronized countries with the EA and their cost of inclusion to the EA would significantly contribute to cyclical divergence after the. In addition, values of these countries' correlation coefficients with the EA fall even further after the crisis. This is a troubling matter, since Latvia has already joined EMU and Lithuania is most likely to join in 2015.

To sum up, we observe a pronounced business cycle decoupling of the CEE countries (with exception of Hungary) from the EA business cycle starting with the onset of the crisis.

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Decision Paths: Creation of a Research Design Developed For Tracking Consumer Memories

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The goal of my dissertation is to identify the means-end chains between the consumer memories and the product attributes, which are supposed to be evaluated during the purchase preference system construction.

As I suppose consumers do not always reveal exactly the preference system in their buying decision that were described for themselves in their minds before. They reorganize it and reveal it (?) in the purchase. Both preference systems are true and valid under certain circumstances and mindsets. A potential explanation for the changes can be found in the different (1) inner (conditions, mindset, current attitude, mood, memories...) and (2) outer environment (point of purchase elements, marketing messages, assortment, available references, trends, orientations, appearance of selling personnel...).

My research question is to identify the role of consumer memories in the (1) preference system established in not-purchase-situation so as (2) in the buying decision (=choice). The reduced importance of the memories in the purchase situation could be one of the potential reasons why there are reversals in the preference system before and during the purchase.

The most important differentiation between the conditions (meaning inner and outer as well) of the two situations is the availability of the product. When consumers think about the product they recall experiences from their memories, which can not represent the product itself in 100%. Every time the consumer reveals her will in the choice she relies on a preference system which she creates right before the purchase. In this case she experiences the product itself in its reality. Memories shall fade away.

As it is a multi-step process its measurement requires a multi-step research design. I used the mixed method research philosophy from Teddlie and Tashakkory (2003). It suggests developing adequate designs for each problem and encourages researchers to change qualitative and quantitative techniques. The greatest advantage of its application is that it supports the better understanding thanks to the numerous sources and different techniques (Creswell, 2012). In order to gain useful data this design focuses particularly on elements which can be enjoyed by the respondents. Following the 4E experience marketing philosophy (for more information see: Bernd, 2010) there are different tasks, each part is very short and easy to understand.

The subject of the investigation is the flight. It was chosen because in its case memories are more characteristic:

- a service due to the HIPI features is processed more individually as products;
- due to the high performance risk the decision process is overriding;
- flights can be expected to be fun, which makes the memories more vivid;
- it is complex enough to find a wide-range of MEC between memories and attributes;

- the frequency of flights among students is not high: on a smaller memory base experiences are easier to identify;
- students perfectly form a smaller part of the leisure segment, which is clearly described and approved in practice,
- purchase nor flight is probably not repeated during the survey period – there will not be new us disturbing experiences nor overrepresented ones;
- this service is lifelike to buy online.

The logic of this design is to catch insight into the cold (not in decision situation; where thinking dominates) so as into the hot state (in decision situation, where action dominates). As there is an experiment part built in the design the goal was to

First, respondents are selected based on the following criteria:

- the minimum and maximum number of occasions;
- the time of the latest experience: the closer in time the memories are easier to reach;
- the level of involvement and subjective knowledge: these factors enhance the reliability of the responses.

Then respondents are asked to recall data about the journey, like duration and accompanying persons – strictly focusing on the flight neither on the destination nor on the purpose of the flight. The goal of this task is to orient the respondents to make the recall of the episodic (picture-like, soft) memories clear (Hyde & Jenkins, 1969; Till & Jenkins, 1973).

The next step is to create a digital collage on a blank PowerPoint slide, which consist of 5-10 pictures. Collage is a projective technique, suitable for reaching underlying contents (Herz & Riefler, 2013). The respondents are allowed to use pictures with the help of Google. The advantage of the internet-based search engine opposite to the magazines is that it enables the creators to find the most suitable pictures. It is better lead by their thoughts. In magazines, like in catalogues there are several pictures in front of them serving as stimuli connected to the flights. In this phase we are looking for their personal memories. After the collage the next slide in the ppt asks them to explain the collage as one picture itself avoiding the one-by-one stories.

The ladder interviews come next. Their goal is to find the connection between the identified key memories and the service attributes. Originally the means-end chain idea links the product features (=means) through the consumer reaches her goals (=end) (Gutnam, 1982). We carry on working with the identified attributes.

After a while (like a 2-week long break) the same respondents will make a Q-grid representing importance of the service characteristics. The Q-grid by Stephenson (1953) is a triangle formed chart, which helps consumers to create a proper range of preferences. The given items consist of attributes, which is a mixture of (1) those, were identified in the first part and (2) those, which are mentioned in the literature. Due to the pyramid form of the Q-grid it will be easy to identity the pattern of the memory-attributes. It will show their importance and dispersion and rate compared to the independent-from-memories attributes. The Q-layout represents the cold state: the organization of the theoretical preference system in the decision making process. Next time, the respondents face a homepage, which consists of several flight offers. Their task is to choose one. There are equal bits of information –both in quantity and quality – available about each option. The flight dates, the destination is fixed, the candidates receive it “as a present” to avoid money matters like price differences. After the choice (=this phase represent the selection in the hot state) respondents are asked to evaluate all of the familiar attributes from the Q-layout according to their involvement in the decision. This shows that group of attributes which were considered right before the choice.

This basis establishes a wide-range of analytical directions: a linear one, which shows the memories' dominance trends or a crossed one, where a comparison can be made between the two processes (i.e.: theoretical decision making in cold state and reveal in choice in hot state).

Science is about looking for small but important differences. New solutions can be expected from (1) new research methodologies or (2) synthesis of different sciences. By its nature this path holds enhanced risk of failure. As business innovations can be expected only from small – and medium – sized enterprises rather than giants (Peters & Waterman, 1984), so as intellectual innovations can be expected from new approaches.

In case the results justify the research question a (1) more conscious CRM could be developed so as would it be beneficial (2) in the development of the right marketing communication.

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Challenges to the Mainstream Economic Paradigms

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Abstract

This conception paper gives an overview of the theories on nowadays economics. It explains the axioms of mainstream economic (utility maximization, rationality, information) and parallel, summarizes the critics on the internal factors (utility maximization and rationality). After showing the weaknesses of the model it offers alternatives to handle the discrepancies of the forecasters in order to make them more precise. The essay describes the consumer decision process from the preference order's (1) creation and (2) change aspect. Through this model we can step-by-step identify the critical parts, which potentially could lead to irrational behavior = inconsistent preference order. Finally we sum up the new consumer decision paths and suggest further research directions.

Keywords

Utility, rationality, preferences, behavioral economics

Status Quo

Even the canonized theories can contain hidden mistakes. The scientists' task is to reveal them (Popper¹). Following this spirit we expect economic science to move on a two-dimensional scale. Nowadays debates tries to place human decision strategies on utility maximization ability – disability and rationality – irrationality scales. The possibilities appear in the following groups:

- (1) acknowledging utility maximization strategy and rationality to reveal it economic choices
- (2) acknowledging utility maximization but irrational logic
- (3) rational decision makers, who are unable minimalize their utility
- (4) irrational decision makers, who opportunistically follow patterns. Meaning the utility maximization is determined by the given circumstances.

For the better understanding of these segments we need more empirical information, new facts. In order to discover such correlations (1) application of new methodologies are needed or (2) as DeBono's parallel thinking tool (2007) suggests representatives of different areas should be involved but keeping a narrow focus on the problem itself, not letting any field to dominate over the question. In our article we deal with the utility theories.

The theoretical background which supports the neoclassical views lie on the following criteria:

- perfect information level, an outer determinant
- utility maximization, and
- rationality as inner items.

Their net with one another is very strong. Rationality, for example, can be a derived theoretical component, which, at the same time has a practical appearance. It can give a feedback in one hand to the perfect information level: its condition is the flawless recognition, at the same time, on the other hand it appears in the utility maximization: the rational process supposes the ability the construction of a stable preference order. Rationality seems to be the most complex component of the three axioms. We pay particular attention to the relation between rationality and utility maximization through the next chapters.

Utilities in Neoclassical Context

Despite Keynes's General Theory (1936) the neoclassical principles kept their dominance int he economic theory. It's surplus compared to the classic school is that

- (1) instead of national economies it focuses on the individuals. In itself it is brought closer to the marketing: the common part of these fields are the individual economic decisions, like the buying process.
- (2) It divided value from money, which strengthened the positivist characteristic. The neoclassical school models a lot. This algorithmic characteristic was adapted by the marketing science as well.
- (3) They suppose the a strong connection between utility and demand. From the marketing's aspect this became a basic principle.

Rabin (2002) completed the axiom system with a statement on relation to time: it is static. It means that its framework cannot handle changes caused by inter temporality. The models represent a problem space, where time plays no role. From marketing aspect it is problematic, because the most informative part of the buying situation for the marketers – boths scholars and practitioners – the decision-making process.

¹Source: <http://www.demokratikusneveles.hu/index.php/cikkek/13-egyeb-szerzok/104-popper-tevedhetetlenseg> 06/05/14

Utilities in Economics and in Marketing

Considering the early theories on utility maximization (see: Bernoulli, 1738) scientists used interval scales, which expected the consumer to be able to express the right weight of a certain attribute weigh. This way makes the cognition (from the scientist's side) unequivocal. The other presumption was that this evaluation represents the real choice situation: this methodology does not count with the preference system inconsistencies (due to the changes in inner or outer circumstances – or due to the instability of the preference system in itself). Later, instead of the cardinal utility the ordinal scales are rather well-spread. Nagy (2006) explains that the cardinal utility is not interested in the input side; in the way which consumer comes to the conclusion. Nowadays behavioral economics philosophy stands closer to the ordinal utility, which doubts the unambiguous assignment between utility and attribute.

In the microeconomics preferences are a part of utility theories. In marketing, we adapt their theses as axioms. It means marketers count with (1) utility maximizing (2) rational (3) well-informed consumers. They communicate and attend towards them within these simplified beliefs: such elements can be found in quality management, quality measurement, like conjoint analysis or product development.

Critics

Simon (1957) criticized the rationality criterion first. According to him we follow patterns – however these matters are not always rational. It means that consumer behavior is predictable, but not based on rational decision making rather pattern tracking. He suggests knowing human behavior better and trying to summarize this primary information in models. Behavior economic opposite to the neoclassical school first experiences, second: explains with theories. Simon (1987) says behaviorists apply a procedural technique, an experimental way: observation – explanation – consequence, independent from interest or culture. Katona (1951) identified the ultimate explanation of the economic processes derived from human motivation and decisions. He also remarked that the economic theory does not consider this fact. He also criticized the rationality. His rationality is limited to the statistical methodology: clustering the experiences in order to define which pattern has the greatest probability to happen. Another research question could be about the deviances. Katona (1951) thinks the neoclassical school underestimates the role of the effects in between the decision and the buying situation. Sen (2004) summarizes as the behaviorism expands to the attitude to the utility as well. However BDM (behavioral decision making) or BDR (behavioral decision research) has a strong link to cognitive psychology, it is not driven by psychology. Its background is supported by the intensifying cognitive researches (Hastie and Dawes, 2001). Behavioral economics is not classic decision sciences, because the behavioral researches focus on situation and derives patterns from them. Its goal is not to reveal or handle deviances, it concentrates on the systematic behavior patterns (Dawes, 1998).

The challenge of next generational marketing is to decrease the gap between the results of the market research and the post-purchase survey. In order to reduce the dissimilarities

- measurement techniques can be improved
- understanding preference construction method
- examining environmental factors.

Appearance of the Discrepancies in the Buying Process

Due to preference reversals economists cannot forecast right buying behavior. On an aggregated level it makes the demand's trends unexpected. How does it happen exactly?

Considering an average good (excluding incremental product innovations, which lack prior information and direct experience) and average buying situation (excluding buying situations without routine) we can believe in a hypothetical preference order in the consumer's mind. The problem is that this preference order is not always revealed in the buying decision.

Hoeffler – Ariely (2013) describes predictable behavior as the followings: the individual in the present thinks about herself how she will behave in the future, and in the future, she behaves another way. My correction to the buying situation is the following: the consumer in a non-decision situation thinks about what she will buy in the decision situation, and when she reaches the decision situation, she reveals a different preference system. The key differences between the states are (1) non-decision and decision situations and (2) thinking about a preference system and revealing it.

The reason-whys between the two states can be caused by (1) time, by changes in (2) inner and (3) outer environment. As time goes by it brings the potential change: there are indirect messages or influences which reach the consumer and form her opinion. We doubt the consumer's decision method is always the same: maybe she follows a different logic than before: she uses System 1 instead of System 2, or her mental conditions are not the same: can be more overloaded or has more capacity. The outer circumstances has the most "marketing": they can influence the cognition, consume attention.

Alternatives

During the following phases we do not deal with environmental factors (POS, messages, sensory branding, personnel selling etc.). Our article limits suggestions to the methodological and internal factors, which can explain preference system inconsistencies. Building at least one of the following factors to economic models we can expect an improved functionality.

Patterns

Some authors think that preferences can be grouped according to their weight stability. Harman (1995) differentiates between theoretical and practical rationality, which originates from the differences of logical and psychological brain functions. This supports Samuelson's (1947) theory about preference manifestation: revealed preferences can be clearly observed in buying situations. In spite of their correctness one cannot rely on as a future indicator. Their explanation value is very low. The more informative preference system stays hidden from the observer's eye.

Special means-end chains: links between attributes and weights

Goldstein (1990) differentiates between global and local attribute. An attribute is global, if it saves its value – whatever it is low or high – under different circumstances. An attribute is local, if its value is context dependent. Goldstein (1990) supposes

Identity

Marketers shall calculate with the different identities. Depending on the circumstances consumers can have variant dominant roles (parent, woman/man, boss). They belong to multiple preference orders, driven by variant values. As Birdwell (1968) shows the consumer expresses herself with the chose goods: she loans the product's image for herself. Király (2014) explains our efforts to be in harmony with our social selves and environment. The individuals reduce nonconformity, which can violate the original latent preference order. These compromises end in preference reversals and often explain post-purchase cognitive dissonance. This mechanism is especially true in the visible product dimension.

Hierarchy of needs

The preference construction can be launched by a basic principle, which is determined by the types of the need, which is expected to be fulfilled through the economic transaction. The basic physiological needs are mostly linked to parts, which can be reached well by neuromarketing techniques: they have the closest relation to the physically measurable changes in human bodies. Probably the psychological needs behave the most like it was described by behavioral economy's laws. If we go one step further, the key variable will be the self: like in moral questions, rules or constraints, society's norms and expectations will order the consumers' preference system (Rabin, 1995). This is why the literature mentions community preferences, in connection with common goods like drinking water, clear air etc. Our essay excludes community preferences, because they belong to the macro not to the microenvironment – besides, common goods are not for sale. (For more about community preferences see Bacharach (2006)).

Summary

The study contributes to the basic economic theory by summarizing nowadays consumer decision strategies, as it is shown in Chart 1 below.

Chart 1: Dimensions of rationality – irrationality

Behaviorist matrix	rationality	irrationality
stability (the preference order is the same before and during the decision making)	homo oeconomicus from the neoclassical theories	stochastic models: handling the predictable insecurity
instability (the preference order is not the same before and during the decision making)	behavioral economics there are types and typical situations, where most possible patterns can be identified	there are certain conditions and individual behavior: unexpected cases probably appear

From the marketing aspect the study summarizes the challenges, which can cause so-called irrational, but pattern following consumer behavior. This factors can be grouped into (1) internal (2) external and (3) time-related factors. As the question is about time itself its research should be longitudinal, which takes quite long time. As the external factors are well-known and business-driven it is hard to represent comparable situations to the research. Numerous factors cannot be involved, which would distort results. The most interesting part would be to get insight into the consumer decision mechanism.

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Key Issues in Tourism Marketing Strategies: A Case Study on Romania

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Abstract

As the importance of tourism is increasing, ever more states from Europe and not only are using strategic branding and a variety of marketing means to attract a growing number of tourists. However, destinations are among the most difficult entities to market. Considering the importance of a clear marketing strategy and proper images and slogans used, the paper examines the effect of Romania's official marketing tools on destination image. The analysis of the visual and textual information on the official web-site and brochures, as well as presentation spots, aimed to identify the places worth-visiting, targeted specific countries, if any, and what are the most important market segments by travel interest.

Keywords

Tourism economics, tourism trends, planning, Romania

Tourism Development in Rural Tourism Areas by Using Public-Private Partnerships

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Abstract

Over different periods of time, rural areas have been a very attractive place for people to spend their leisure time and live a cozy life, as the countryside landscape and unspoilt nature are an ideal setting that thrills and captivates the urban population of different age groups. For some people, rural environment means the nature where they can find their stability, freedom and balance, whereas it provides other people with the opportunity to put their strength and self-confidence to the test, so they prefer real nature and unspoilt wilderness where they can do extreme sports, taste the local food and drinks, and communicate with the local population. Collaboration between the public and private sectors has only recently been developing into a specific and widely applicable form and method of social development optimization. The recent period of economic turbulences has been characterized by many mergers, acquisitions and joint-ventures. Hence, it can be concluded that the future of a sustainable rural tourism development is based precisely on mutual cooperation of all participants in the market i.e. it can be achieved by merging the strengths of the public and private sectors. The available literature provides several studies with a similar topic, but there is no specific research that takes into consideration the latest trends and opportunities for the use of the European Union funds in coordination with the public and private sectors for the purpose of tourism development in rural areas. The main contribution of this paper is the proving of the hypothesis that the mutual cooperation of the public and private sectors, along with the possibility of co-financing projects from the European funds, in the long-term may influence the tourism development in a rural area, while at the same time using the neglected public real estate properties for rural tourism, from which the private sector may also derive benefit. The paper describes a similar model applied by a small Istrian municipality, the Municipality of Tinjan, but the same or similar model can also be implemented in other rural environments, as well as in other economic fields in a rural area.

Keywords

Public-private partnership, rural tourism area, tourism development in rural areas

1. Introduction

Rural tourism is a type of tourism taking place in a rural area, including all the activities carried out in the respective area. The most important characteristics of this type of tourism are a quiet environment, lack of noise, well-preserved landscapes, communication with hosts, home-made food, and involvement in the activities of the farm operation. The development of rural tourism is based on sustainable development; in other words, the revitalization of the existing buildings built in traditional style, i.e. the heritage, which is given a new tourism-related purpose. This form of tourism does not need new properties to be built but, what is more, it faces the challenge as to what the best and the most appropriate way is to make use of the existing structures. However, notwithstanding the definitions, what is important is what makes the farm tourism, agritourism and rural tourism special and more original than other forms of tourism. Rural tourism is implemented in different forms, among which the farm tourism (agritourism) is especially recognizable, as well as other forms implemented in the rural area outside of farms. Collaboration between the public and private sectors has only recently been developing into a specific and widely applicable form and method of social development optimization. The recent period of economic turbulences has been characterized by many mergers, acquisitions and joint-ventures. Hence, it can be concluded that the future of a sustainable rural tourism development is based precisely on mutual cooperation of all participants in the market i.e. it can be achieved by merging the strengths of the public and private sectors along with making use of various EU funds. A public-private partnership is a group term used to describe different types of forms of arrangements concluded between the government and other public sector entities and legal and natural persons from the private sector. Based on a thorough analysis of the available literature and the research carried out by the authors, this paper proves the hypothesis that the mutual cooperation of the public and private sectors, while at the same time making use of the opportunity to co-finance projects from the European funds, in the long-term may influence the tourism development in a rural area, and that the neglected public real estate properties can be converted into buildings that can be used for tourism-related purposes i.e. for rural tourism, from which both the public and the private sector may derive benefit. The subject of the research described in this paper is the analysis of the main factors affecting the development of tourism in rural areas focused on identifying a proposal for a development model designed to provide a more efficient use of all tourism resources, and the investigation of the possibilities of involvement of the public and private sectors in an active creation of rural tourism initiatives and projects. The research was conducted using questionnaire and in-depth interview methods involving representatives of local self-government units in the central Istria. In order to identify the key indicators, the research included sources of technical literature, the legislation, and in-depth interviews with renowned experts in the field of rural tourism and public–private partnership. The research was conducted in 30 local self-government units in the Region of Istria, with an emphasis on rural municipalities in the central Istria. Most questions referred to the analysis of the most important indicators that the representatives thought would mostly affect the long-term sustainable development of rural tourism in their respective areas. As a limiting factor when collecting the necessary data, the authors noticed the fact that in some cases the representatives of local self-government units did not have all relevant information about tourism in their respective areas and needed to consult their expert colleagues, thus making it more difficult to collect the relevant data for the research. One of the limiting factors for this paper is the fact that the research did not identify any development model for rural tourism of this type, and there are no similar models either in theory or in practice in other regions or countries.

2. Theoretical Considerations

Tourism is the sum of the phenomena and relationships arising from the travel and stay of non-residents, insofar as they do not lead to permanent residence and are not connected with any earning activity (Hunziker & Krapf, 1942). According to WTO, tourism comprises leisure, travel and

relaxation, and a tourist is any person travelling to a place other than their usual environment for less than 12 months and whose main purpose is other than the exercise of an activity remunerated from within the place visited. The development of tourism in rural areas, especially recreation, gained momentum after the World War II. However, the rural tourism as it is meant today (as a factor of revival and development of the countryside and an integral part of the tourism product) has been developing in the European countries and the USA since the mid-sixties (Lukić, 2013). The bases for its development were the increasing free time and the increase in the individual motorization rate. Back then, there was no talk of developed environmental awareness or tendency towards active and diversified forms of tourism – factors that today, along with the economic ones, shape global trends in tourism and are directly related to rural areas. Up until the sixties, recreation and tourism in rural areas were not subject to the open market rules or the principles of supply and demand, and were not influenced by government authorities. The interest was focused on coastal and mountain tourist villages and cities, points of tourist concentration. The allocated use of the land in rural areas is rarely defined outside the framework of agriculture, forestry and water resources management. After the original phase of tourism development in rural areas, in which the dominant factors for the development had been the spirit of self-initiative of the population providing certain services, but also of the people visiting rural areas, mostly looking for peace and pure nature, the beginning took place, in parallel, and especially in those countries that were facing the problem of a highly polarized development and depopulation of rural areas, of the process of planned use of rural tourism for the purpose of revitalization and transformation of rural areas (Dulčić, 2001). Austria is probably the best known example of the use of rural tourism as a „tool“ for the purposes of development of rural areas.

Today, the attitude towards the rural area has completely changed. Cultivated fields, long term crops, and the rural landscape are winning back the urban population. The wish reappears to encounter the countryside, but even further - the wider rural area and wilderness. The fear of nature, which used to be considered dangerous, has gone, and the isolation, danger and risk are attracting more and more the contemporary man who easily overcomes the brutality of the natural environment (Bušelić et al., 2004). In the book *Ruralni turizam* (*Rural tourism* by Ružić Pavlo, 2005, second edition 2009), the author carries out for the first time a systematic analysis of rural tourism in the area of Central Istria. The book is the primary educational literature for all persons interested in new knowledge regarding rural tourism. Through his book, the author is trying to encourage the wish to improve rural environments and to help the local population in preserving their tradition and the amenities of the area, and in improving their presentation to tourists coming from all over the world. The idea of establishing the consortium *Ruralis* in Gračišće in 2006 should have been one of the turning points in the development of tourism in the area of Central Istria. The consortium began very intensively with its work, the preparation and organization of various workshops and seminars, the training of new manpower, and systematic monitoring and analysis of the trends of the basic factors affecting the development of agritourism (Rajko, 2009). After a while, the consortium converted into a private consulting company for the provision of consultancy services in rural tourism. With the foundation of the Agency for Rural Development of Istria (AZZRI) in 2002, the prerequisites were created for a systematic networking of agritourism properties, education of their owners, and preparation of joint projects for the purpose of better promotion and animation of potential visitors of agritourism farms. The Agency has been implementing several successful projects related to the development of agritourism in the area of Central Istria so far, among which the "Agritourism Open Door Days" is the most successful and the most popular one.

The origins of public-private partnership reach into distant past; and in the area of the development of infrastructure projects, partnership has a long, almost centennial tradition. Collaboration between the public and private sectors in the development of rural tourism has only recently been developing into a specific and widely applicable form and method of social development optimization. It has been found out that there is no unique way to achieve sustainable development

and that the optimal social and economic development can only be reached through joint work of the public and private sectors. At the same time, it is precisely the sustainable development that requires the establishment of good management that lies at the basis of a transparent and participatory process, comprehensive partnership, various government associations, private sector, non-government organizations, and other elements of civil society. Back in the period of the Roman Empire, i.e. before and during the 5th century, the first issues arose regarding the regulation of concessions and business deals, and the management of public works in the area of infrastructure. According to some sources, the building practice in the Middle Ages was characterized by building activities supported by some forms of concessions and infrastructure management by government institutions. In the 16th and 17th century, the most important infrastructure development and the most significant business arrangements were made in the area of roads, public illumination, waste disposal, mail distribution and transportation. There were many infrastructure projects implemented in the territory of France, and the construction of the Oxford Canal in 1791. The Suez Canal (opened in 1869) has to be mentioned among some of the most important projects due to its high value, the length of construction, the contribution to connecting the world and to the development of global trade. Special interest, due to understandable (mainly financial) reasons, caused the partnership in infrastructure projects to continue to be dominant during the most part of the 20th century. The first project of a modern highway construction was carried out in Italy in 1924. It was a 48 km long toll highway connecting Milan and Lago. A government-owned company was in charge of the works. This example is taken because of its importance for the development of public-private partnership and the return of the funds invested from the very project. This way the investment costs were recuperated without the involvement of additional government or other sources. The first concessions were approved in the 1950s in France and Italy. The concessions were granted to government-owned companies for motorway construction.

After the above described successful examples of partnership, the momentum was lost largely due to the economic stagnation in the 70s (oil shocks, inflation, unemployment) in the developed countries. However, as early as in the 80s, most forms of partnerships in financing, constructing and managing infrastructure projects found their application. More importantly, partnership expanded from the area of infrastructure projects in many other areas (first in Great Britain and later followed by other countries) and forms of cooperation on the international level. At the same time, public-private partnership is a common approach and model promoted by all participants involved in the world development and development assistance i.e. the relevant institutions of supranational association and cooperation such as the United Nations, the World Bank, the European Union, and other international organizations and integrations. Hence, partnership is no longer a mere possibility in terms of questioning the requirements for its affirmation. Through many models of cooperation of the public and private sectors, partnership has been globally proven and, in practice, it is a proven method of development planning. Its ultimate goal is to increase the overall social welfare. Based on the research conducted, it can be concluded that precisely the public-private partnership model is one of the possible models that can be used to successfully convert the real estate resources of the public sector, along with the financial support of the private sector and the EU funds, into a sustainable rural tourism project, from which all participants may derive benefit.

Based on the above mentioned theoretical assumptions, it can be concluded that there is no thorough theoretical research on the possibilities of using the public-private partnership model for the purposes of sustainable tourism development in rural areas, but only in major infrastructure projects. The research results in this paper are a result of the research conducted in local self-government units in the territory of the Region of Istria, which disposes of significant economic, cultural and tourism resources that are still insufficiently exploited, and there are no established institutional mechanisms for maximizing the use and exploitation of comparative advantages of this region (Rajko, Krajnović & Tomčić, 2008).

3. Development of Rural Tourism Based on the Leader Approach

Bearing in mind the diversity of European rural tourism areas, it was learned that development strategies can be more efficient and effective, if the related decisions are made on the local level by the local actors. LEADER teaches how, rather than what to do. It is based on principles that have to be considered not individually, but as a whole, because only in this way it is possible to achieve long-term effects on the dynamics of rural areas and their capacity for solving their own problems. LEADER is an acronym that stands for Links between Actions for the Development of the Rural Economy. As suggested by its very name, it is a method of mobilizing and implementing rural development in local rural communities, and it also involves the development of tourism. The experience has shown that LEADER can lead to a real change in the everyday life of people living in rural areas. It can play an important role in fostering innovative responses to old and new problems in rural areas, thus becoming a „laboratory“ for the creation of local abilities and the testing of new ways of meeting the needs of rural communities. LEADER generates valuable results in many rural areas in order for them to adapt to the changed reality of today.

This approach based on the specific characteristics of the area and on the approach „bottom up“, by involving the local community and the creation of added value to the local resources, has gradually proved itself as a new way of creating employment opportunities and encouraging the development of entrepreneurship in rural areas. The overall objective of the LEADER approach is „to promote the rural development of tourism through local initiatives and partnerships“. The specific objectives of the LEADER approach are:¹

- encouraging and developing activities of the rural population to jointly act through cooperation projects;
- developing integrated local development strategies and preparing their implementation;
- promoting local initiatives and partnerships by involving local communities, business representatives and representatives of the local authorities;
- transferring achievements, experiences and know-how, and the availability of information and conclusions through the network.

The operational goals are as follows:²

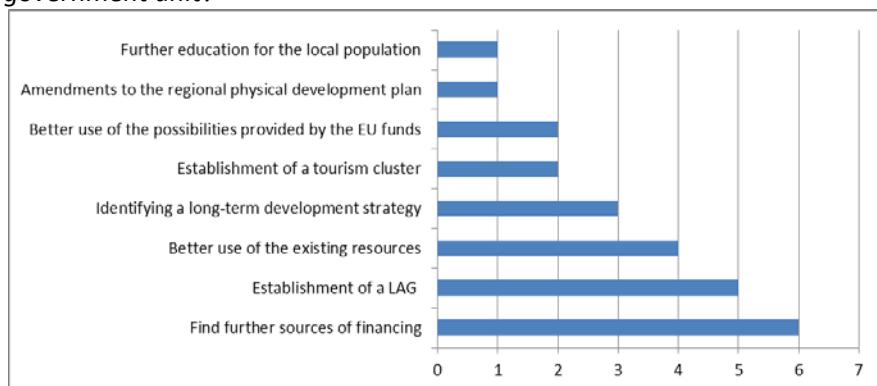
- capacity strengthening among the rural population and the members of the Local Action Group, which involves professional training and education;
- developing, organizing and managing LAGs;
- preparing and – if possible – starting the implementation of local development strategies in a limited number;
- implementation of cooperation projects.

According to the definition and the practice of the European Union, LAGs (Local Action Groups) are made up of public and private partners from a rural territory comprising several neighboring communities, and must include representatives from different socio-economic sectors. They are entitled to non-repayable financial assistance to implement local development strategies. A LAG-represented territory becomes integral from the economical, social and physical (geographical) point of view and does not belong to the territory of other LAGs. The same location must not belong to more than one LAG, meaning one partnership, one strategy and one territory. The analysis of the questionnaires reveals that all local self-government units gave a positive response as to the need of founding a LAG as a prerequisite for further long-term development. The graph below shows the obtained results.

¹ www.mps.hr, Plan za poljoprivredu i ruralni razvoj Republike Hrvatske, 02.01.2011, p.233

² Ibid.

Graph 1: What are the first steps to be taken for a fastest possible development of your local self-government unit?



Source: Authors, based on the research

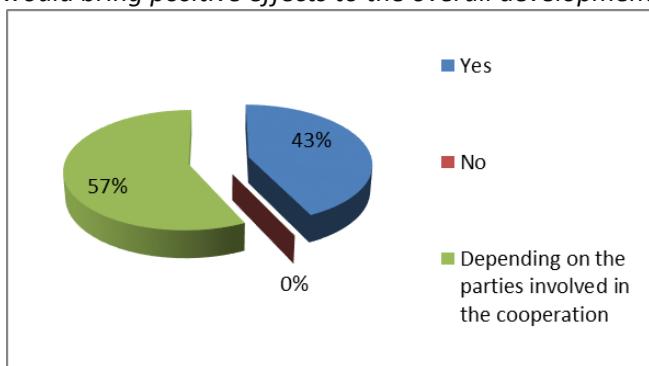
The graph shows the fact that, besides the solving of the problem of lack of financial means and financing possibilities for projects, the main prerequisite for further development in the area of Central Istria is the establishment of the LAG Central Istria that should create the prerequisite for further long-term sustainable development of the area of Central Istria. Other important measures are finding the ways and models for better use of the existing resources, identifying a long-term development strategy, establishing a tourism cluster, and better use of the possibilities offered by the EU funds. It is obvious from the graph that the local self-government units from central Istria do not have any problems with the adjustment of the respective Physical Development Plans and the inadequate level of general education.

4. Cooperation of the Public and Private Sectors for the Purpose of Tourism Development in Rural Areas

One of the possible and necessary measures, which can actually help Croatian tourism enterprises to increase their competitiveness, is the implementation of the concept of clusters as a model for their restructuring. With a proper application at different levels of tourism development, this model may substantially affect the increase of competitiveness of the overall tourism of the Republic of Croatia. What is crucial in the whole process is the understanding of the possible depth of positive changes arising from the proper application of the cluster model as well as its successful implementation. A cluster can be defined as a group of economic activities, companies, institutions, geographically concentrated (either locally or regionally), that have established formal or informal relationships among themselves, either horizontal or vertical, and the favor of the industry sector through which they exchange information, expertise and goods in order to produce a joint product (Horvat & Kovačević, 2004) or service. In the case of clusters, it is about complementary products, i.e. complementary products as value „outputs“ of such economic activities. The physical boundaries of a cluster are defined based on objective economic principles, rather than legal and political or voluntary principles.

The local self-government units in the Central Istria declared that they would (in most cases) mostly prefer to associate with local self-government units from their surroundings, i.e. with neighboring municipalities, and local self-government units they have a common interest with. The graph below shows the response to the question whether representatives of the local self-government units in the Central Istria believe that their association with other parties would bring positive effects to the overall development of their local self-government unit.

Graph 2: Do you believe that an association of your local self-government unit with other parties would bring positive effects to the overall development of your local self-government unit?



Source: Authors, based on the research

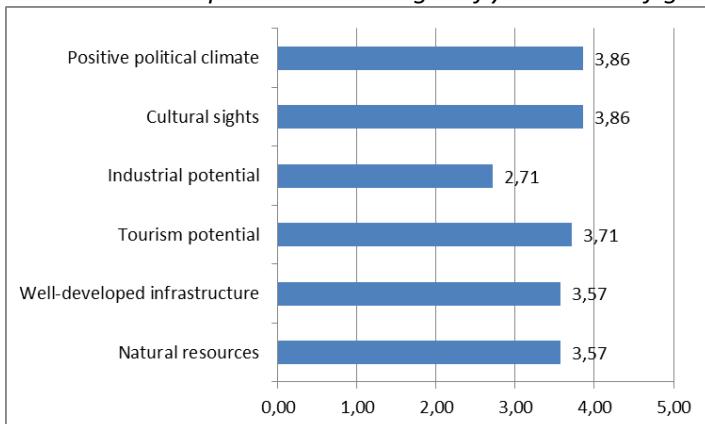
The graph shows that slightly less than half of the respondents stated that any association could result in positive effects, whereas more than half declared that positive effects of cooperation depend exclusively on the parties involved in the cooperation. On the other hand, nobody expressed the opinion that an association would not result in positive effects. Since the area of Central Istria is predominantly inhabited by rural population, the assumption is that several clusters will be established in the near future to interconnect agricultural producers and tourism enterprises in the rural area. One such example is the establishment of the tourism cluster CEROT in the Municipality of Tinjan.

A public-private partnership (PPP) is a group term used to describe different types of forms of arrangements concluded between the government and other public sector entities and legal and natural persons from the private sector. It is a model of construction or reconstruction of infrastructure, tourism and social projects with the help and participation of the private sector, which has been developed throughout the world for twenty years. In order to facilitate the implementation of such projects, many European countries have issued special regulations or directives thus providing a legal framework or guiding the implementation of such projects. The public-private partnership model is very complex and often acceptable only for major infrastructure projects because of its organizational complexity; hence, it is necessary to study the experiences from other countries, its advantages and disadvantages by individual sectors and then, based on the resulting findings, make a decision as to whether it is cost-efficient to build an infrastructure through this model. Most regional and local self-government units are the owners of many old real estate properties deteriorating day by day and there are no models that would bring these properties into use. Thanks to the activity of a small Istrian municipality – the Municipality of Tinjan – this paper describes a good practice example, where some thirty persons joined together, founded a joint company, and reconstructed an old run-down school building into a rural tourism house intended for rental purposes.

The existing legislation provides a legal and institutional framework for public-private partnership in case of major infrastructure projects, but this model requires further and integral standardization and adjustment in order to be further developed in small rural environments. Since public-private partnership is at its very beginnings in the Republic of Croatia and given the fact that the Republic of Croatia has started with the implementation of only few projects based on the public-private partnership model, it is very difficult to investigate the influence of such a model on the development of tourism in rural areas. However, the successful example coming from the small Municipality of Tinjan proves the hypothesis that it is possible, through the mutual cooperation between the public and private sectors and using the non-repayable funds of the European Union, convert old neglected buildings into buildings that can be used for rural tourism purposes i, from which both the public and the private sector may derive benefit.

Through informal conversation with the representatives of local self-government units, the authors have collected a lot of useful information about every local self-government unit having certain comparative advantages that it should better exploit. The graph below shows the average status of certain comparative advantages of local self-government units. The evaluation was done in such a way that the representatives rated with one (1) the characteristic which is their biggest disadvantage, and with five (5) their best advantage in the respective environment.

Graph 3: What are the comparative advantages of your local self-government unit?



Source: Authors, based on the research

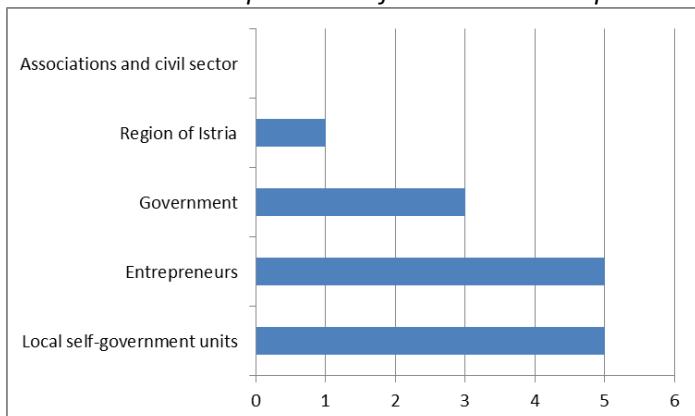
The graph shows that a positive political climate and cultural sights are the greatest recognized comparative advantages in the local self-government units in the Central Istria. Tourism, well-developed infrastructure and natural resources are recognized as medium-developed advantages, whereas the industrial potential is the poorest developed in comparison to the surrounding self-government units. Based on the conducted survey and interviews with representatives of the local self-government units in the Central Istria, data were revealed that the area of Central Istria has outstanding comparative advantages for **cultivation of long-term crops** (in wine growing, fruit growing, olive growing and medicinal herbs (land, climate, tradition, market, indigenous assortment)), and **development of rural tourism** based on the trend of renting rural houses and agritourism facilities.

Rural tourism development in rural tourism areas of the Region of Istria has been recently more and more associated with the trend of construction of rural houses intended for rental purposes and the popularity of such houses in the global tourism market. During the period of the construction boom in the Central Istria (2003-2007), more than 200 rural facilities were built for rental purposes. These are mostly rural houses (villas) with pool, sleeping 4 to 8 guests at the same time, and their price ranges from 700 to 3.000 Euros a week. The owners of these houses are mostly Croatian investors, but with the place of residence outside the territory of the local self-government units where they have built their facilities. Some of the owners are foreign citizens that are not allowed to carry out the rental business, and some are national investors that have estimated that such investment may be profitable in the long run.

Based on the research conducted in the local self-government units in the Central Istria, it was discovered that the representatives of these units believe that the most important issue at this moment is that the local self-government units and entrepreneurs self-initiatively come up with new projects. Most respondents agree with the statement that at this point of time local self-government units should establish the „driving force of the development“ of economy that would pull along all other economic agents and prepare the ground for entering the global European market. The graph below shows the response of the representatives of the local self-government units in the Central

Istria to the question as to who should be the promoter of economic development in their local self-government unit.

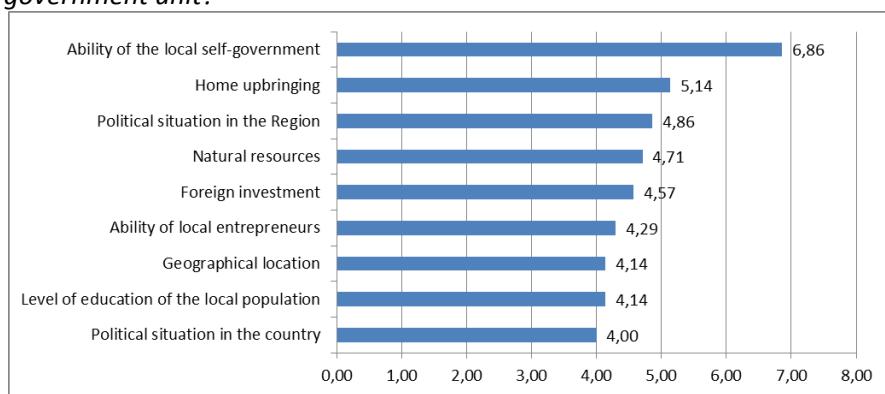
Graph 4: Who should be the promoter of economic development in your area?



Source: Authors, based on the research

The graph clearly shows that the majority of representatives of the local self-government units in the Central Istria agree with the statement that local self-government units and entrepreneurs should be the ones to stimulate the economy in their respective local self-government units. In terms of providing help to stimulate the local economy, they are followed first by the government, and only then by the Region. With regard to associations and the civil sector, the respondents do not consider them as exercising any substantial influence over the economic development of their respective local self-government units. The graph below shows the average response of the respondents to the question as to who, in their opinion, influences the most the development in general in their local self-government unit. Very little or no impact was rated with one (1), and very high and intense impact was rated with ten (10).

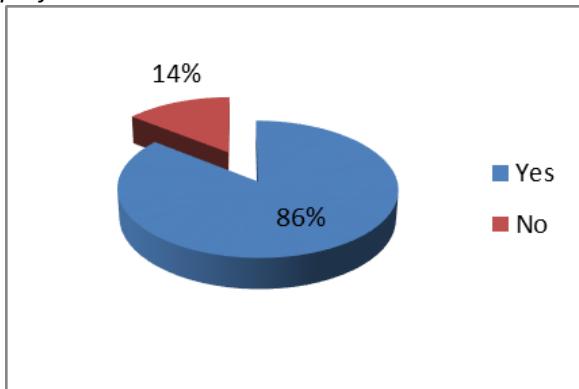
Graph 5: In your opinion, what does mostly affect the general development of your local self-government unit?



Source: Authors, based on the research

An analysis of the data from the graph above led to the understanding that most respondents think that precisely the local self-government unit has the crucial and the most important impact on the overall development of their respective local self-government unit. After that, according to the opinion of the representatives of the local self-government units in the Central Istria, the strongest influence on their development is exercised by home upbringing, followed by the political situation in the Region, natural resources, foreign investment and the ability of local entrepreneurs, whereas the least influence is exercised by the geographical location, the level of education of the local population and the political situation in the country. The graph below provides a response to the question whether legal and natural persons should be involved in public-private partnership projects.

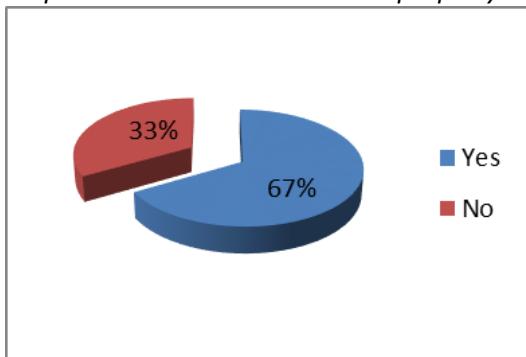
Graph 6: Should legal and natural persons from your local self-government unit be included in PPP projects?



Source: Authors, based on the research

It is evident from the graph that 86 % of respondents believes that and natural persons from the territory of their local self-government unit should be included in PPP projects, which is an extremely high percentage thus representing a fact that any project manager should take into consideration when preparing plans and development strategies for individual projects. The graph below shows the responses to the question whether each co-owner's property share should be limited in case of PPP projects.

Graph 7: Should each co-owner's property share be limited?



Source: Authors, based on the research

The analysis of the collected and processed data revealed the information that one-third of the respondents does not consider it strictly necessary to put a limit on the co-owners' share in the property, whereas two-thirds of the respondents believe that co-ownership should be restricted. Different data were obtained as a response to the question regarding the percentage of such limitation, but most respondents agree that individuals (legal or natural person) should be the owners of more than 25 % of the project.

5. CEROT – a Good Practice Example

The Municipality of Tinjan, by consensus of the majority of political parties, is implementing a project of converting the local community into a functional tourism and agriculture entrepreneurial structure named "CEROT". The project should operate on the principles of sustainable development and reasonable use of natural tourism and agricultural resources. This is why in the year 2010, the company CEROT d.o.o. was founded. The founders were the Municipality of Tinjan and 32 natural and legal persons from the territory of the Municipality of Tinjan. Two recapitalizations totaling 400.000 kn have been done so far, and all shareholders are from the territory of the Municipality of

Tinjan. The company was established for the purpose of planning and implementing strategic tourism and agricultural projects in the territory of the Municipality of Tinjan, such as:

- Reconstruction of old buildings owned by the Municipality and converting them into rural tourism facilities;
- Valorization and use of uncultivated agricultural land in the territory of the Municipality of Tinjan, with an emphasis on the government-owned land;
- Development and management of the future business area of renewable energy sources Finida Tinjan;
- Construction of a biogas plant to be fueled by biomass;
- Planting of long-term crops of medicinal herbs, olive trees and hazelnut trees;
- Implementation of other tourism projects of strategic importance for the Municipality of Tinjan.

So far, CEROT has completed the project of reconstruction of the old school building in the village Jakovici into a modern rural tourism facility for rental purposes. The project was co-financed from IPARD funds, MEASURES 302. CEROT is currently in the process of obtaining the approvals required for new projects, as 3 ha of agricultural land have been bought from the state and 20 ha have been granted in a lease for the purpose of establishment of plantations of long-term crops. All projects will apply for support granted by the European Agricultural Fund for Rural Development.

6. Conclusion

Based on the conducted research, the representatives of self-government units in the Region of Istria stated that the tourism development in rural areas of the Region of Istria can achieve long-term development by using the possibilities offered by the public-private partnership model, namely through the reconstruction of old buildings owned by the regional and local self-government units. Taking into consideration this statement and the good practice example from the Municipality of Tinjan, the starting hypothesis that the mutual collaboration of the public and private sectors can influence the long-term and faster development of tourism in rural areas, while at the same time using the old neglected buildings in public ownership and converting them into rural tourism facilities, has been justified. The majority of the interviewed representatives of self-government units believe that the local self-government and the local entrepreneurs should be the main promoters of economic development. On the other hand, they are of the opinion that the overall economic development is mostly influenced by the ability of the local self-government, home upbringing and the political situation in the Region. Taking into consideration the possibility of influence of the local self-government on certain areas, it becomes evident that local self-government units can mostly influence the development of rural tourism in their respective areas, followed by the development of agriculture and economy. The public sector, consisting of local and regional self-government units, companies owned by the state or local (regional) self-government units, public institutions, and beneficiaries of the budget, has its special interests and goals, namely to achieve the identified goals and implement projects of common interest, while at the same time solving the problem of lack of budget funds and the use of old and neglected properties. The practice has shown that the public sector cannot rely on the revenues obtained exclusively from public sources, but it is necessary to find new ways of joining up with the private sector that needs to be „persuaded“ to invest its capital in projects from which all citizens would derive benefit. The public partner in the tourism sector, through the public-private partnership looks for benefit from the possibilities of faster construction of tourism infrastructure, faster implementation of projects, lower total cost (including long-term maintenance), better risk allocation, higher-quality services, and more efficient management. The private partner gets its benefit from the opening of new markets, the stability of the conditions under which the activity is carried out, the possibility of long-term planning of the income and outcome, and the contracting of long-term business deals, thus allowing for a long-term survival of the private partner in the market. It can be concluded that based on the available literature, the

existing practice and the conducted research, it is possible to form such a public-private partnership model that would allow small local self-government units in rural areas to join with private partners and to put their old real estate properties into use for rural tourism purposes.

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Spouses in the Spotlight - The Influence of the Spouse on Strategic Decisions and on the Overall Development of the Family Firm

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Abstract

This study focuses on the complex world of the entrepreneur's spouse which combines both business and personal relationships (copreneurs). The specific aim of this study is to obtain a deeper understanding of the spouse's influence on strategic decisions and on the overall development of the family business. For this reason, we investigate the strategic world of copreneurs in a large-scale study from various angles. This paper reports on our findings concerning the highly influential role of spouses on strategic decisions and on the overall development of family firms.

Purpose

Worldwide a third of the large group of family firms is accounted for copreneurial businesses (Dyer, Dyer & Gardner, 2013; Fitzgerald & Muske, 2002). These are firms in which couples who share a personal relationship jointly own or work in a business together (Muske, Fitzgerald, Haynes, Black, Chin, MacClure & Mashburn, 2009; Barnett & Barnett, 1988). This phenomenon can be explained by necessity, family obligations, unemployment or the willingness to simply help one's spouse with their business life (Fletcher, 2010).

Although copreneurial firms represent a significant force in the world economy, a surprisingly limited amount of research has been conducted on them to date (Sharifian, Jennings & Jennings, 2012). Very little is known about the strategic decision-making procedures prevalent within companies of this kind (Hedberg & Danes, 2012). Even less is known about the concrete influence of spouses on strategic decisions and, therefore, on the overall development of copreneurial firms.

According to Blenkinsopp and Owens (2010), the role of the spouse has been explored to a limited extent. As a result, the authors suggest the necessity to gain a greater understanding of the unique dynamics between couples who share a personal and a business relationship and the impact this may have on a business (Blenkinsopp & Owens, 2010). To achieve this, we have to recognize the socially constructed nature of the copreneurial relationship (Danes, 2011) and explore the interactions of both partners and the effects these can have on the family firm (Hedberg & Danes, 2012).

One reason why we do not have much information on copreneurial firms can be traced to the difficulties encountered when researching systems like this of such a complex nature (Blenkinsopp & Owens, 2010). Another reason is grounded in the diversity of copreneurial family firms (Schjoedt,

Monsen, Pearson, Barnett & Chrisman, 2013; Fletcher, 2010). In contrast to prior research, it is the diversity of copreneurial firms, relationships and the interactions within them which this study attempts to address. We want to know who, how, why and in which form someone can influence strategic decisions and to what extent. In this paper we will discuss the spouses' point of view.

Method

A theory-generating approach was selected (Glaser& Strauss, 1967; Eisenhardt, 1989; Yin, 2006) to understand the concrete influence of spouses on strategic decisions and on the overall development of copreneurial firms. Applying a case study method to investigate complex situations and processes involving several actors (Yin, 2006; Patton, 2002; Eisenhardt, 1989) has already gained acceptance in entrepreneurship and family business research (Perren& Ram, 2004, p. 83).

Sampling: From the overall research project we chose eight theoretically useful cases (Eisenhardt, 1989; Eisenhardt & Graebner, 2007). Special attention was paid to achieving the maximum variation within the sample (Patton, 2002): fast growth vs. no or slow growth, first generation (founder) vs. second or third generation (successor), couples with children (young, grown up) and with no children, small and medium sized firms vs. big companies, young (e.g. electronic) vs. old industries (e.g. wood). All of the companies are run by the owner(s); and the spouse is working in the firm or has a substantial influence with regard to strategic decisions. The eight copreneurial firms who met the above criteria are described in the final paper.

Data Collection: Semi-structured face-to-face interviews were performed in order to learn about the development of the copreneurial firm, its current strategic position, the strategy processes employed and the achievement and evaluation of performance. For this study we were especially interested in the roles, competences, tasks and activities of the spouse. The interviews also made it possible to gain insight into the spouses' point of view. Observations from visits to the firms' facilities were documented in field notes. They supplement the survey, together with the documents made available by the interview partners and those gained through an internet study.

Data Analysis: the analysis of the gathered data followed an iterative process. First, interview protocols, and field notes were read carefully in order to gain an overview of the collected material. Second, categories and constructs were developed by coding, sorting and structuring the available material (Mayring, 2010, p. 92 ff.) with reference to previous literature (Yin, 2006; Eisenhardt, 1989) in order to build up a base of key items.

As the study progressed, it was possible to develop a conceptual framework. The latter combines evidence from the case studies with theoretical insights from the debate on copreneurs, top management teams and entrepreneurial teams, family business and strategic management literature sources which will be reviewed in this article.

Theoretical Frame

For quite some time it has been recognized that in family businesses, family and the business spheres partially overlap and influence each other (e.g. Frank, Lueger, Nosé & Suchy, 2010; Habbershon, Williams & MacMillan, 2003; Aldrich & Cliff, 2003; Stafford, Duncan, Dane & Winter, 1999). Copreneurship researchers acknowledge the complexities involved for those combining business and personal relationships (Hedberg & Danes, 2012; Danes& Olson, 2008; van Auken & Werbel, 2006; Marshack, 1993). A system approach towards strategic management helps us to understand how the different systems influence each other and affect strategic decisions (Frank et al., 2010). Relevant discussions by scholars from different disciplines will be presented in the final paper.

It is also acknowledged, that the contribution and influence of spouses—mostly equated as women (Blenkinsopp& Owens, 2010) - is evaluated differently by different protagonists (Dyer et al., 2013;

Heinonen & Stenholm, 2011). Given the relatively limited knowledge regarding the spouses' strategic influence (Hedberg & Danes, 2012; Danes, 2006), a holistic approach has been taken and allows the spouses themselves to define their influence regarding the copreneurial firm.

Contribution

Drawing on our knowledge of copreneurs, entrepreneurship, family business and strategic management literature as well as the results of eight case studies, it is proposed that regardless of the extent of the spouses' involvement in the business, their specific roles, tasks or responsibilities, an influence on strategic decisions and on the overall firm development exists. The influence may indeed be very different, but it seems to appear in copreneurial teams—highlighting the complex dynamics between the entrepreneur, the spouse and the family business. Hereby we challenge the myth of the entrepreneur making strategic decisions in isolation. In accordance with Danes (2013) we suggest that the influence of the spouse should be regarded as essential for the overall development of a family business.

In the final paper, several theory-building propositions regarding strategic decision processes in copreneurial firms will be proposed. Furthermore implications for copreneurs, family business consultants, and future research will be discussed.

Keywords

Copreneurs, Strategic Decision, Family Business

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Credit Risk Mitigation via the Example of Guarantee Programmes in Hungary

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Abstract

This paper aims to provide an overview of the current situation of the Hungarian guarantee programmes in respect to Small and Medium Enterprise (SME) financing; to find out how the Hungarian guarantee associations operate, what types of guarantees they offer, how successful they are, and how the global recession has affected them.

The recent bond issue of the Hungarian Exim Bank has confirmed that the guarantee schemes are especially vital in the midst of the recession and that although the SME sector does require guarantee programmes to boost their loan accessibility their issues are much deeper than that. The guarantee programmes are anti-cyclic; however, their programmes can be more effective with counter-guarantees (that are able to reduce the systematic risk and the cost of funding as well).

Keywords

Guarantee, counter-guarantee, credit risk, SME funding

1. Introduction; Significance of the Topic

This paper attempts to examine, analyse and rate the role of Hungarian guarantee institutions and programmes in Small and Medium Enterprise (SME) financing¹, with special attention to the credit guarantee schemes that convey a solution to the financing gap that exists in this respect.

Funding the SMEs has always been a key decision about risk-taking from the lender's perspective. As a consequence of the financial crisis, the borrower-lender relationship has changed, so that the risk appetite of the lender has lessened, and that the credit analysis undertaken on borrowers has become more thorough by now. This risk awareness "comes into discussions about a pricing grid linking margins to credit rating or other tests" (O'Donovan, 2011). Looking forward to Basel III effects on bank lending, it is clear that the cost of loans will increase as new capital, liquidity and funding requirements start to come in. These measures are unfavourable to borrowers in respect of the lending capabilities and willingness of the bank-based financial intermediation.

On the other hand, the modern SME sector has also altered in creditworthiness and in accessibility to bank funding – people used to invest in more tangible asset based projects and enterprises, however in recent years it has moved towards innovation and intangible asset based businesses, which have lower chances of accessing credit products at banks. The first issue is the lack of collateral, as tangible assets are much easier to capitalise than intangible assets (mainly due to the difficulty of measuring their real value, and the lack of market demand), the second is that their cash flow is a lot less predictable, in many occasions a project's cost only fully returns after the project's end, for example after developing a software. IT companies like Google and Facebook are good examples, although they do own considerable fixed assets today, they have lacked the necessary collateral when they were only start-ups. Nowadays, more and more businesses like them are set up, providing an interesting financing issue to be solved.

Guarantee programmes are one of the major helping hands in this modernised SME sector, which could mitigate the risk in the way that has already been mentioned – small businesses gain access to credit financing that couldn't before.

Among the financial guarantees (including credit, equity investment and other types of guarantees) this paper deals solely with the credit guarantees. According to the literature (Deelen & Molenar, 2004), a credit guarantee is a financial product that a small entrepreneur can buy as a partial substitute for collateral.² It is a promise by the guarantor to pay all or part of the loan if the borrower defaults. O'Bryan (2010) describes the guarantor is an independent entity that acts as a third party between the lending bank and a borrower.

¹In Hungary, the XXXIV. Act on small and medium enterprises defines SMEs as businesses that employ less than 250 people, its yearly revenue is not over 50 million euro, or its total assets are not over 43 million euro. Small enterprises are which employ less than 50 people and its yearly revenue or total assets are not over 10 million euro. Finally, micro enterprises are which employ less than 10 people and its yearly revenue or total assets are not over 2 million euro. No enterprise could be described as SME in which the state or local governments have ownership of 25% or more.

Size of Enterprise	Number of Employees	Yearly Revenue	Total Assets
Medium	<250	<= EUR 50 million	<= EUR 43 million
Small	<50	<= EUR 10 million	<= EUR 10 million
Micro	<10	<= EUR 2 million	<= EUR 2 million

²Equity investment guarantees are obviously similar to credit guarantees; the difference is that whereas at the latter, the credit's issuer is "insured" by the guarantee in case of default, equity investment guarantees provide guarantees for equity investors.

The last of the three categories covers more than one types of guarantee – the non-refundable grants of the European Union, the lease contracts and other financial products; both are covered by guarantee programmes.

1.1. The structure of this paper

The following part provides a brief overview about the literature of credit guarantees, and their emergence with these years of the crisis. Then different types of guarantee schemes are tracked, with their relevance on the Hungarian SMEs. The author has found it relevant to examine the role of credit guarantees in financial markets where high risk-premia discourages the extension of new credit lines and the optimal allocation of financial resources. When pricing the credit guarantees, a new approach is put forward: credit default swap spreads are proposed to estimate the amount of credit guarantee fees. Finally, some conclusions are to be drawn.

2. Literature Review

2.1. History of financial guarantees

The first guarantee funds were created in 1848 in Europe (Deelen & Molenaar, 2004), namely the Brussels Credit Union and later the Banque Populaire in France (A. Green, 2003) – both formed as guarantee associations. In the 19th century, guarantee funds meant mutual assistance amongst small entrepreneurs – groups of entrepreneurs set up funds where they contributed their own funds to provide credit guarantees for each other (Deelen & Molenaar, 2004). Later, in the early 1900s more mutual guarantee funds were set up in France, Belgium and Germany – all countries with “a strong tradition of guild of craft organisation”. Such programmes are still important in several regions in Europe, and some even evolved into considerable financial institutions.

After the Second World War, state-supported guarantee programmes gained territory which played a key role in reconstructing the economy in Europe, especially in Germany and the Netherlands. The small enterprise sector benefited from these state-owned funds, and some of these are still operational today.

As Deelen and Molenaar (2004) described, in the 1970s and 1980s a new wave of guarantee schemes appeared in the developing countries, many of them being ‘donor-driven’ initiatives – these programmes tried to overcome gaps in the banking system, or in the SMEs operational system. As these were only experiments in high-risk regions, many ended up as a failure. In his review Levitsky (1997) stated that in Latin-America, the first larger-scale schemes appeared in the 1980s, with the majority failing because of high claim rates or poor investment decisions – banks also became increasingly unwilling to make use of the guarantees. Corruption also played a part. Development agencies became averse of experimenting with guarantee funds again.

In the 1990s, credit guarantee funds appeared in the post-communist countries in Eastern Europe, like in Hungary. Either state-supported or programme based, they served the reconstruction and reactivation of the SME sector in the aforementioned countries. The Hungarian example is Garantiqa, which has been founded in 1992.

Table 1: Historical overview of guarantee fund models

Period of establishment	Major focus	Most prevalent type of guarantee fund
Europe, 19 th century	Mutual assistance amongst small entrepreneurs	Mutual guarantee association
Europe and North America, 1950-1960	Reconstruction of small and medium enterprise sector	State-supported national schemes
Developing countries, 1970-1990	Development of small and micro-enterprise sector, agricultural development	State-supported or programme-based
Transitional economies, 1990-2000	Reconstruction, reactivation of small and medium enterprise sector	State-supported or programme-based

Source: Deelen & Molenaar, 2004, 13-14

2.2. How guarantee programmes essentially help SMEs

Collateral issues are mentioned by Deelen and Molenaar (2004), European Commission's Best Report (2006), and O'Bryan (2010), so it can be safely said that it is one of the key elements. As mentioned in the introduction especially the modern businesses like the IT sector's start-ups don't have the necessary collateral to apply for credit – especially not cheap credit – as a bank's lending decisions tend to be based on the amount of collateral available, which reduces lending risk. In the current economic climate, with the low market activity disabling a speedy and successful capitalisation on collateral, banks are even stricter in terms of credit security.

According to Deelen and Molenaar (2004), the features of a good collateral from the banks' perspective is that its ownership is easy to verify; it is easily and cheaply seized; it cannot be removed; the costs of converting it into cash or some other desirable asset are low and that its value remains relatively stable over time. The issue is that small entrepreneurs often lack collateral that's attributes match the list, so they need some kind of help.

An even bigger factor in the financial institutions' reluctance to provide loans to SMEs is the existent information asymmetry. In his analysis O'Bryan (2010) defines the asymmetry as that "the lender has much less knowledge of the potential borrower's likelihood of default than the borrower does". SMEs are unable to provide the banks with information on their creditworthiness, which can be the end product of the lack of appropriate accounting records and the above mentioned collateral issues. The integrity of the borrower is at stake, as the bank can only guess whether the enterprise is reliable, while obtaining the necessary information can also cost too much (OECD Report).

A. Green (2003) states that the third reason for the banks' reluctance to provide credits to SMEs is the 'high administrative costs of small-scale lending'. As the costs of administration aren't directly proportional to the size of the enterprise, it is more cost effective to have a lower number of loans with higher value than more loans with lower value. Another related issue is that for a number of reasons, the administrative costs of monitoring loans, loan applications, and information-gathering can be higher for SMEs than bigger firms with advanced accounting and administration expertise.

A. Green (2003) ends his list with high risk perception as the fourth main issue in SME credit financing – he comments that "commercial banks tend to impute a high risk to small enterprises and are therefore reluctant to extend credit to them. Due to their small size and inherent vulnerability to market fluctuations, the mortality rates of small enterprises are relatively high". It is the nature of the enterprises which scares the banks away, as they are usually young, lack the financial history, lack expertise in business management and organisational management, lack a quality accounting and controlling setup, which all raise different risks. Busetta and Zazzaro (2009) describe the issue as "they have a short credit history, meet less rigorous reporting requirements and the availability of public information on them is scarce", agreeing with A. Green (2003) that the less 'professional' nature of the SMEs scare the creditors away.

3. Types of Credit Guarantee Schemes

There are currently many types of guarantee funds operating all over the world. All have the same mission and core objectives, but the ways they execute it differ. There are several ways funds can be compared. In their work (2004) Deelen and Molenaar identified five focus questions which show the major differences and similarities of (credit) guarantee funds.³

³Every guarantee scheme combines the aforementioned attributes, so one scheme can be funded and ex-ante, but obviously, none can be both ex-ante and ex-post.

Table 2: Types of guarantee fund

Focus	Typology
How has the fund been capitalised?	Funded scheme Un-funded scheme
How are the guarantees delivered?	Individual guarantee scheme Portfolio guarantee scheme
When are the guarantees delivered?	Ex-ante scheme Ex-post scheme
Whose loans are guaranteed?	Enterprise-orientated scheme Institution-orientated scheme
What is the ownership structure?	Mutual scheme Non-mutual scheme

Source: Deelen & Molenaar, 2004, 24.

They state that every organisation which wants to offer (credit) guarantees has to convince the bank that in case of default, they have the necessary resources to pay. In order to achieve that, funded schemes keep cash reserves, or save investments that can be used as proof for their reliability. On the other hand, in un-funded schemes “government assumes financial responsibility for the guarantees offered and meets deficiency payments directly from the government budget”. The advantage is by not maintaining a fund; there are no costs and problems of managing it. There are special requirements from un-funded schemes, though, as only public institutions like governments are trustworthy and reliable enough to provide guarantees without direct reserves.

In the individual guarantee schemes the institution monitors every client, which means direct contact. It is very labour-intensive, and means double screening (once from the guarantor, once from the bank). A portfolio scheme differs as instead of looking into each and every application, it gives the bank permission to attach a credit guarantee to any client that fulfils the eligible criteria. The advantage is that it is cheaper and takes less time, the disadvantage is the lower control, the guarantor has to put its trust to the credit issuing bank.

Enterprise-orientated funds guarantee SMEs directly, while institution-orientated funds guarantee microfinance institutions, or NGOs (Non-governmental Organisation). Many microfinance institutions need credit from banks to start functioning, and need guarantees to do so – as they help SMEs, this is called indirect guarantee.

Guarantees can be given either before the bank has approved, or after the bank has approved to give credit in case the guarantee is given as well. At an ex-ante scheme, the client approaches the guarantor first to inquire for guarantee before asking for credit. The disadvantage is that after getting the guarantee there might be pressure on the bank to issue credit. Ex-post schemes on the other hand deal with inquiries after the bank has in principle approved the credit and its only further requirement is a guarantee. The author assumes that it is more cost-effective, as only those clients approach the guarantors, who are creditworthy in the bank’s opinion.

Mutual guarantee associations (MGAs)(A. Green, 2003) differ a lot from the other types of guarantee schemes. MGAs are solidarity groups, formed by small firms in need of, but without access to credit. “Through their capacity to reduce asymmetric information, these associations are able to achieve considerable financial and economic additionality”. Deelen and Molenaar (2004) state that the members contribute through shares and fees to guarantee each other’s loans.

The KPMG research took another direction in analysing the types of guarantee associations. They also distinguish guarantee associations through ownership structure. At the entirely public model, the guarantee fund is entirely owned by the government, in countries where the devolution process is most developed (for example, Japan), by administrative bodies as well. Through their research KPMG came to the conclusion that it is mostly an Asian model. The mainly public model is more European – the fund is publicly-and-privately-held, but with public majority. In addition to the

government, other parties which promote these organisations are financial institutions, chambers of commerce and, in some cases, state owned funds. The latter might only be a single participation to provide additional funds, for example in the time of financial crisis. The mainly private model means a high percentage of private interests, and only residual public. The KPMG research found that the promoters are financial institutions and the enterprises that benefit from the guarantee.

Regardless of the model type, KPMG researchers state that public support is essential to the operation of the guarantee organisations, with the government remaining a main shareholder.

3.1. Briefly on Hungarian guarantee associations

There are two institutions whose clear profile is guarantee services – GarantiqaHitelgaranciaZrt (Garantiqa Credit Guarantee Ltd.) and AVHGA (Rural Credit Guarantee Foundation).

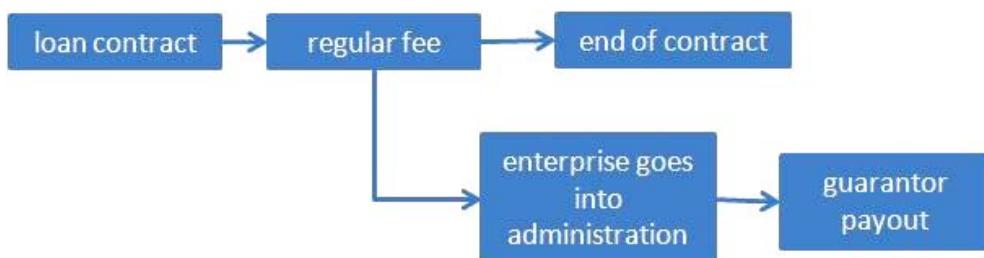
The process of an SME loan appliance can be seen in the chart below. First the SME decides to apply for loan at a financial institution, usually at a bank. The enterprise never gets in direct contact with the guarantee association. In case the bank decides that guarantee will be needed in order to issue loan they process the details of the loan appliance and the SME, and the guarantor decides whether it agrees to guarantee or declines. In case of portfolio based guarantee scheme, the process is automated.

Chart 1: The process of loan application with credit guarantee backing



After the guarantor has agreed on the contract the bank pays the fee regularly, which is usually a certain percentage of the guaranteed sum. In case the borrower SME goes into administration, the guarantor association pays the agreed amount to the bank, then tries to win back at least a proportion of the paid out sum through the redistribution of properties at the end of the liquidation process.

Chart 2: The process of monitoring with credit guarantee collateral



Garantiqa offers credit guarantees to many types of loans (both in Hungarian forint – HUF, and euro) including business overdrafts, mortgage loans and investment loans, along with others. They are involved in the Széchenyi Card programme, which is a Hungarian loan programme offered to SMEs. They do not interact directly with the SMEs, instead the financial institutions forward the applications to them. They can either decide to accept or to withdraw, based on calculations and research on the enterprise.

AVHGA “is aimed to issue on-demand guarantees to micro, small and medium-sized enterprises which are engaged in the agricultural sector or whose activity is related to a rural area” (avhga.hu). As it can be seen, the Foundation specialises in providing guarantees for the agricultural enterprises, thus its operating territory is narrower than Garantiqa’s. AVHGA’s guarantees are provided indirectly to SMEs just as Garantiqa’s – the guarantee is applied for by financial institutions from the Foundation when an enterprise would not be granted the loan without the interaction of AVHGA.

Using Deelen and Molenaar’s (2004) differentiation system, it can be said that both Garantiqa and AVHGA can be grouped into funded schemes, as they both have equity that is used for payouts. Garantiqa delivers guarantees on both portfolio and individual basis. Portfolios are for the relatively cheaper loans, where risk can be estimated – Garantiqa creates its strategy for portfolio-based guarantees considering the participating banks’ and other financial institutions’ loaning practice, setting up the conditions for the guarantee approval. A good example is the guarantee for the Széchenyi Card. Individual guarantees are for the more complex, less usual types of loan contracts. AVHGA operates with an individual guarantee scheme.

Both Garantiqa and AVHGA are ex-post schemes, as the client does not approach them, instead they apply for loans, and the credit issuer institution connects with the guarantors in case guarantee is needed to accept the loan application. They are also enterprise-orientated, as they guarantee individual SMEs’ loans. Lastly, none are mutual guarantee schemes.

According to the KPMG research’s definition, both Garantiqa and AVHGA are based on the mainly public model, as the state is the main owner, with several financial institutions having a small part of the shares.

Additionality, as the European Commission’s Best Report (2006) describes means the added value to the economy, but in the interpretation of the author it is also the notion that the guarantor does not cover the entire loan, only shares risk up to a certain amount (it adds risk sharing, which creates value). Additionality is measured by the percentage of the loan guaranteed by the programmes. Emphasis need to be put on the importance of mutual risk bearing, which makes all the stakeholders interested in the prudent, responsible loan processing and business operations. Garantiqa offers guarantees up to the 80-90% of the loaned sum, with counter-guarantees of 70-80% by the Hungarian government, and the EU. AVHGA offers guarantees to the 50-80% of the loaned sum, with counter-guarantees of 85% by the Hungarian government.

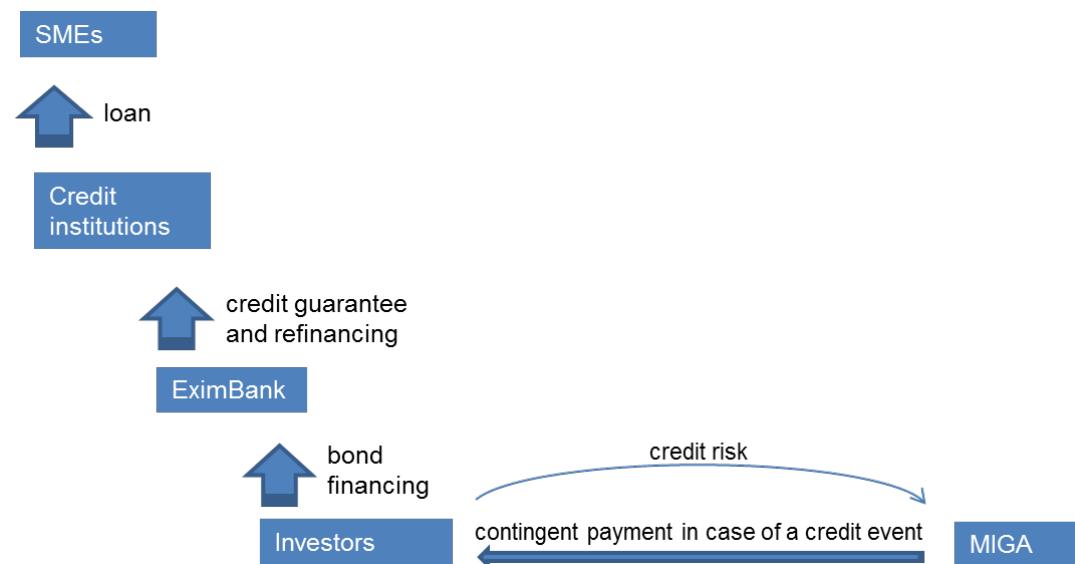
4. The Counter-Guarantee of International Financial Institutions

In 2012 and 2013 roughly 17% of the loans were guaranteed, which means that these enterprises probably would not have been supplied loan without the help of guarantee programmes. This proves that guarantors provide valuable products to the SME sector. However, in most cases, the effort of governmental policies to support SMEs is limited to the sources of funding. Especially this is the case for emerging economies, whereas the sovereign risk premium is added to the funding costs of SMEs. This was the point where a financial innovation – namely a counter-guarantee of a highly reliable partner – has been introduced to the Hungarian financial markets.

In favour of export-oriented SMEs, the Hungarian Export-Import Bank (EximBank) provides direct financing facilities, and, more substantially, provides refinancing facilities (that may be related to the discounting of supplier's credit, to buyer's credit facilities and to export pre-financing). These fixed-purpose funds, depending on the facility in question, can be used by the commercial banks for the pre-financing and/or post-financing of their customers' exports. The refinancing provided for the purpose of export pre-financing may, subject to individual appraisal, be linked to the assumption of a loan guarantee.

The EximBank is a Hungarian government-owned specialised financial institution; however, the bank is financed by market investors. In order to mitigate the sovereign risk of EximBank, the counter-guarantee of an international financial institution has been concerned in 2013. MIGA, the political risk insurance and credit enhancement arm of the World Bank Group, announced then its intention to support a €400-million financing backed by notes to be issued by EximBank.

Chart 3: Risk-mitigation scheme with the MIGA counter-guarantee



Specifically, MIGA's guarantee has been providing coverage against non-honouring of the sovereign financial obligation for the principal and interest on the bond notes. This represents MIGA's first use of this cover for a capital markets issue. As Hungary's official export credit agency is wholly-owned by the government, EximBank's liabilities are secured by a government guarantee.

MIGA's support significantly enhanced the credit quality of the issue (from non-investment grade to AAA). The nominal value of the bonds is EUR 400mn, the maturity is February 2019, and the interest rate is 2.125% p.a. Compared with the double-digit effective rates on usual commercial credits, the EximBank refinancing facilities certainly bear advantage.

4.1. How the guarantee (counter-guarantee) fees could to be estimated

In the above financing structure, the credit risk of SMEs has been transferred first to a specialised financial institution (EximBank), and then, in the second step, to MIGA. By this, the risk premium on the loan, resulting from the creditworthiness of the borrower (the SME) has been eliminated, and then also the sovereign risk of the country (Hungary) has been covered. The second step has similarities with credit default swap (CDS) agreements, whereas the credit risk of a (sovereign) borrower is concerned, an agreement in which one party buys protection against losses occurring due to a credit event up to the maturity date of the swap.

In financial markets, CDS is an agreement between two parties to exchange the credit risk of an issuer (reference entity). The buyer of the credit default swap is said to buy protection, against losses in the event of bankruptcy, the issuer failing to pay outstanding debt obligations, or in some CDS contracts, a restructuring of a bond or loan (called as credit event). The seller of the credit default swap is said to sell protection in the case of a credit event. In the above case, the investors in EximBank bonds have bought protection from the MIGA.

CDSs are marketable instruments; the CDS market price, also called as CDS spread or fixed rate, should be multiplied by the notional amount of the swap in order to calculate the regular payment due under the swap agreement. The value of a CDS can be interpreted as a scenario analysis where the credit survives or defaults.

5. Conclusions

The main issues of banks with loaning to SMEs are the lack of collateral, the high risk accompanied with low reward, the cost of administration and finally it must be added that SMEs lack information on loan programmes as well. After analysing the effect of the recession the author could build up a theory on that the guarantee programmes are anti-cyclic, as the amount of guaranteed loans increased during the last few years. With guarantee programmes, SMEs could raise external funds more easily. It is linked to the public support which holds interest in helping the SME sector after a serious damage in trust that both affected banks and enterprises.

The author examined the existent guarantee associations in Hungary – all have public interest which strengthens the concepts of the professional literature that guarantee programmes most often exist with government help only. With their contribution, SMEs can have access to loan financing, though, the cost of funding stays relatively high (since the interest rate level is relatively high in emerging markets). The systematic risk of the Hungarian financial markets could have only been mitigated by the counter-guarantee of an international financial institution.

The counter-guarantee of the MIGA (a World Bank guarantee fund) has given impetus for funding SMEs through Exim initiatives, at a rate of around 2 per cent. The bond issue has been expected to benefit mostly small and medium-sized exporters.

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German Sport Foundations – An Explorative Study

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Abstract

In recent years foundations have experienced a renaissance throughout Europe. This is based on a number of reasons such as their social importance. It is assumed that foundations are complementary to public and private institutions as they supply special demands and/or compensate for shortages (Anheier & Appel 2004, p. 8). Being mainly incorporated foundations under civil law they are traditional instruments for donating money for public purposes. According to the Association of German Foundations, representing the interests of foundations vis-à-vis the public, governmental bodies and administration, in Germany an average number of 891 foundations have been newly founded between 2001 and 2010 (BDS, 2011). Notwithstanding the dynamic development of the field as well as the high and rising social pertinence of foundations, the state of research still has to be described as deficient. Particularly regarding the structure and the objectives of sport foundations in Germany no studies are available. The paper therefore seeks to describe the sports related foundations-scene in Germany. It aims to understand their programs as well as to explore the prospects of their future development. Socio-economic and political science theories, i.a. Market- and Government Failure (Hansman, 1987), Third-party Government (Salamon, 2002), Symbolical Politics (Edelman, 1964), have been used as a theoretical framework; hypotheses regarding aims and objectives as well as current acting have been derived and empirically been tested.

Methodology, Research Design and Data Analysis

To answer the research questions first a structure analysis has been conducted, based on the 23.685 foundations which are officially registered at the BundesverbandDeutscherStiftungen (BDS, Association of German Foundations). By analyzing the statutes and mission statements of those 18.700 foundations who published their data sets in the directory of foundations 256 could be identified which primarily promote sport and/or use sport as their basic field of activity. Second, referring particularly to the identified sport foundations, additional data has been collected and evaluated (background, programs, specific spheres of action a.s.o.). Finally a quantitative survey has been carried out. A questionnaire was sent to all identified sport foundations (including 55 identified soccer foundations, N=256, response rate: 39,4%).

Results, Discussion and Implications/Conclusions

The study clearly indicates the high and rising importance of sport as a scope of German foundations. The structure analysis allowed the researchers to gain even deeper insights into their programs and the reasons for their relevant activities. Especially soccer plays an important role: the more foundations aim to reach wider circles of the population the more they focus on soccer as an area of operation. The results are of great social and practical relevance as they allow both the transfer of

knowledge as well as the development of recommendations concerning the strategic alignment of foundations. In the course of further strategic development of German sport foundations it is suggested to draw specific attention on the special potential of synergetic campaigns (sport/culture) as well as on the European Commission's campaign "Creative Europe", a unique instrument that enables arts and culture to strengthen solidarity and experiment with innovative social and economic models.

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How to Successfully Create Aesthetic Products: A Shift from Market Orientation towards Aesthetic Orientation

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Abstract

While marketing research has made several important contributions to the field of product aesthetics, the process of creating aesthetic products has been widely neglected. By integrating knowledge from diverse fields of research, this paper develops emerging assumptions concerning the process of creating aesthetic products and organizational issues that facilitate the creation and marketing of aesthetic products. First, it argues that creators of aesthetic products engage in a product-centered activity that allows them self-fulfillment. Second, it suggests that in order to successfully create aesthetic products, companies need to follow an aesthetic orientation rather than market orientation. Following the emerging assumptions, implications for managers and suggestions for future research are derived.

Keywords

Aesthetic orientation, marketing strategy, aesthetic products, product management

Infringement of Intellectual Property in Innovation Partnerships

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Abstract

Using data from the German Community Innovation Survey (CIS) from 2008 I analyze whether innovation partnering increases the risk of experiencing infringement of intellectual property (IP). The results show that depending on types of IP innovation partnerships increase the risk of infringement by up to 57% compared to the average risk in the sample. The results suggest that this massive increase can be reduced by intellectual property rights, contracts to govern the partnerships, as well as a proven willingness to defend ones intellectual property in front of courts. A further finding is that infringement in innovation partnerships more commonly relates to the infringement of formally unprotected intellectual property, such as tacit knowledge and know-how. An important implication is that firms should not only seek to find effective protection for their protectable knowledge assets but should devote also attention to their unprotectable know-how when they enter innovation partnerships.

Keywords

Infringement, intellectual property, innovation, partnerships, alliances, protection

Gamification to Unlock Service Paradox in Manufacturing

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Abstract

The literatures have addressed the service paradox in manufacturing organizations. It points out major challenge to servitization adoption involves: 1) balance between product business and service business, and 2) insight of customer processes. Organizations are structured heterogeneously. Internal to the organization, there are service business and product businesses. Externally, customer operations are also captured at two levels—core competencies and outsourcing functions. More recent literatures have pointed out the role of gamification technologies through highly interactive and media-rich content that can support servitization adoption. Our result shows four areas where gamification can be applied: 1) product business 2) service business, 3) intra-organizational, and 4) inter-organizational. Our research contributes to theoretical understanding the heterogeneous organizational fields both within the organization and external to customer operations. We also contribute to practical understanding about how gamification can help manufacturing organizations to accelerate servitization.

Keyword

Servitization, service paradox, gamification, manufacturing, change management

1. Introduction

Service paradox in manufacturing refers to despite significant resource and capacity investment the returns of service business do not match managers' expectations (Gebauer & Friedli, 2005). The cultural frame of product business and service business within the organization's structure can increase the complexity of servitization adoption.

Organizations comprise of occupational communities, each employing its own language and cultural frames for issue interpretation (Hoffman, 2001). Manufacturing firm becomes a composite of functional responsibilities, involving product business with responsibilities in selling a product and service business with responsibilities in servicing the customers.

Manufacturing personals from product business tend to see organization problems in production terms (Baines & Lightfoot, 2013). Managers with the manufacturing background often have 'locked in' value, where service functions to protect the product (Auguste & Harmon, 2006), and adopt a dominant strategy focusing on a single market (Fligstein, 1991). Therefore, they keep service captive within the structures of product business (*Ibid*).

Marketing personals from service business tend to view size and extent of the market as critical to organization's survival and growth (Fligstein, 1991). The front end customer facing unit (CFU) often respond to customers' call for solutions (Davies et al., 2006), too much customization and fail to create repeatable solutions, and advanced service contract can be easily oversold (Baines, 2013; Davies et al., 2006).

External to the organization, customer operations are also structured with core competencies and outsourcing functions, which can affect manufacturers' servitization strategy. For instance, product service systems delivered too close to customer core competencies; customers may react to defend themselves (Baines & Lightfoot, 2013).

More recent literatures have pointed out the role of gamification technologies through highly interactive and media rich content can support internalization of new practices (Shi et al., 2014b; Petridis et al., 2014). Game developers can design modular content to help manufacturers to adopt servitization (Ballance, 2013).

Our intent is twofold, first; we examine heterogeneous organizational fields both within the organization and external to customer operations. Second; we examine how gamification can help manufacturing organizations to internalize servitization.

2. Methodology

Research suggests service paradox in manufacturing, where manufacturers are locked inside the 'iron cage' of manufacturing mentality (Bhakoo & Choi, 2013; Choi & Eboch, 1998; Baines & Lightfoot, 2013; Brax, 2005). Despite increased investment, the results of servitization implementation were unsatisfactory (Gebauer & Friedli, 2005).

Gamification adopts highly interactive, content-rich, and media intensive digital technologies have demonstrated multiple benefits to a range of organizations, ranging from government agencies promote education to the public (Werbach & Hunter, 2012), to advanced industrial equipment manufacturers working together with their business customers (Zichermann & Cunningham, 2011), and to highly innovative software firms co-create content with their active user communities (Chesbrough, 2010).

Our interest is to elevate this discussion by observing heterogeneous organizational field, we adopt organizational decoupling theory (Meyer and Rowan, 1977) that organizations are composite of professional communities (Scott, 2013), differences in their reflection to organizational decisions are the source of service paradox in manufacturing (Choi and Eboch, 1998).

We also observe how gamification is applied to service paradox in manufacturing. We aim to bridge understanding and further discussions between servitization community and gamification community.

We adopt systematic literature review process (Tranfield et al., 2003) to cover a wide range of publications, including academic journals, books, conference proceedings and trade journals. We identified a number of key databases, including Web of Science, Proquest, Emerald, ABI Inform and Business Source Premier. We also established review protocols based on keyword search associated with service paradox in manufacturing and gamification. We then conducted a thematic analysis involving a detailed review of the content of each article. We created a coding frame to catalogue the textual content and summaries of each paper. Our coding framework evolved inductively into four key areas, involving 1) product business, 2) service business, 3) Intra-organizational processes, 4) Inter-organizational processes. Finally, we observe how gamification can be applied to service paradox in manufacturing. We then present our findings in sections below.

3. Findings

3.1. Product business level

Product business often have adopted many best practices to improve their operation efficiency, such as supply chain management, just in time (JIT), six sigma and statistical control method (Chesbrough, 2010). Servitization requires managers to move-out their expertise and take on activities where the payback is uncertain (Gebauer & Friedli, 2005; Oliva & Kallenberg, 2003).

Product business relies on expertise in product innovation, and are specialized in skills that rewards economies of scale (Auguste & Harmon, 2006). On the flip side, they may lack resources devoted to service innovation. For example, product business adopts incrementally proved design functions such as physics and geometry oriented engineering method (Meier et al., 2010). It is difficult to apply these methods into product service designs because personalized attributes are more complex than fixed physical design variables (Sampson & Spring, 2012), and companies tend to use traditional cost-plus pricing approach rather than based on 'perceived value' (Indounas, 2009).

Gamification combines mobile technologies and game mechanics can promote user engagement with data collection (Shelton, 2013). For instance, complex industrial equipment manufacturers use games to provide instant feedbacks to improve customer usage on their assets, and reward for 'best practices' to drive down cost (Shi et al., 2014a).

Gamification applies psychological and social factors that drive immersive game plays to gain insight about their users (Donato & Link, 2013). Traditional modelling and simulation techniques are difficult to track data from dispersed human interactions with the product (Shelton, 2013). Gamification combines digitized product, enable users to visualize and derive insight from the product (Paharia, 2013), and give feedbacks to the manufacturers. Therefore, help manufacturers to build behaviour oriented predictive models (Naciri et al., 2012), and encryption and data mining capabilities (Shelton, 2013) for offer improved product service features.

Product business tries to find customers for the product (Galbraith, 2002). The unstructured and ad-hoc service development (Fischer et al., 2009) that keep services merely as a tool to protect or

enhance product positions (Auguste and Harmon, 2006), and incrementally adding services under the product business can be hazardous (Brax, 2005).

Product business often perceives services as cost centres, a necessary function but not a source of differentiation (Chesbrough, 2010). Therefore, service is often under-priced in a bundle (Auguste & Harmon, 2006) without creating real value (Brax, 2005).

Gamification is a useful virtual demonstration tool that help managers to transform their perceptions. Managers can learn about potential risks for adding services on top of the product business, moving toward appreciation of services, rather than perceive services as cost centres. For instance, General Electric applies a process known as 'procedural rhetoric' in their Patient Shuffle games to demonstrate the challenges of running an emergency room and administrative processes for healthcare professionals (Zichermann & Linder, 2013). Therefore, persuasive games through 'procedural rhetoric' such as graphic intensive, and interactive game processes can channel effective communication for meaningful messages (Bogost, 2007).

Therefore, our result shows:

Finding 1: Service paradox in product business include lack of skills in understanding customer's operations, as a result, service offers are locked inside the product business structures. Gamification can help to develop data interpretation capabilities for better customer insight, as well as, transform attitude to appreciate value creation about services.

3.2. Service business level

Service business tries to find many customers for the product and integrate them (Galbraith, 2002). Taking over customer's business requires re-designing manufacturer's business model (Fischer et al., 2008). For instance, service business needs to consolidate customized solutions to allow cost effective delivery processes (Chesbrough, 2010). Too much emphasis on customization can impede the provision of repeatable solutions (Davies et al., 2006; Brecher et al., 2012), and lead to uncontrollable complexity (Kagermann et al., 2011) that confuse the main source of competitive advantage (Auguste & Harmon, 2006). Therefore, organization win from market growth, but come at the expense of profitability. On the other hand, excessive cost reduction can also deteriorate service revenues (Reinartz & Ulaga, 2008).

Advanced service contract can be oversold, and offers are too generous (Baines, 2013). Service business that incompatible with other business unit, manufactures make promises at service levels that they can't deliver profitably (Auguste & Harmon, 2006). Consequently, led to abandoning the service business, because growth from service revenue can deteriorate overall corporate revenue (Fischer et al., 2008).

Manufacturers can design flexible offering platform to improve their customer interface (Reinartz & Ulaga, 2008). Gamification can help managers to learn about complex interactions between customized solutions and process required to deliver them. For instance, innovation contest (Haller et al., 2012) and game-storming techniques (Zichermann & Linder, 2013) applies human competitive nature can create interactions among diverse groups, allow innovative ideas to flow not only within the four walls of the company, but also extend to the user groups (Thomke & von Hippel, 2002).

Gamification creates interactive game environment can help managers to gains insight about processes required to deliver high variety of customized offers (Kagermann et al., 2011) and test virtual prototypes (Werbach & Hunter, 2012) with their user community. For example, Chrysler the automobile manufacturer develops games to enable their users to virtually to drive the vehicle under

variety of conditions and learn feedback from them (Bogost, 2007). Similarly, Daimler adopts design contest to engage user community and learn preferences on style designs (Haller et al., 2012).

The nightmares for advanced service providers are the ‘moral hazard’ when customers no longer care about the cost of breakdown (Reinartz & Ulaga, 2008; Baines & Lightfoot, 2013). Advanced services providers that fail to design mechanisms to hedge against the moral risks, can find themselves in constant capacity squeeze, deteriorating profit margins and service quality downgrade (Reinartz & Ulaga, 2008).

Service business has limited access to customer data (Koudal, 2006), large-scale customer data sets not always create valid patterns (Kagermann et al., 2011), lack of data collection processes (Brax, 2005), and data interpretation capabilities (Ulaga & Reinartz, 2011) to understand resource need and capabilities required to manage customer's needs efficiently (Koudal, 2006).

Gamification can use ‘fun’ element can help to drive customers for desired behavior change (Surdak, 2014), and provide immediate feedback about how the equipment are used within the customer’s facility (Baines and Lightfoot, 2013). Therefore, the operators at the customer’s facility are engaged directly with the manufacturers to learn about the ‘best practice’ in using their equipment. On the other hand, manufacturers also gain insight about the operators; they can identify what are the operational issues related to equipment and design variables to improve performance.

Advanced services taking over the customer’s entire operation and offers result-based solutions may rely on their supply chain partnering competence (Davies et al., 2006). They can benefit from the specialized skills and capabilities of their suppliers (Davies et al., 2007). But, at the downside, overly dependent on suppliers, the advanced service provider may lose their critical manufacturing know-how (Baines & Lightfoot, 2013), and put their business models at risk when their suppliers are moving into direct relationship with their customers (Choi, 2002).

Gamification can help the manager to learn about system awareness. For instance, IBM developed Innov8 an interactive, three-dimensional game to allow managers to learn complex decision variables in supply chain, and techniques require to improve the inter-organizational cooperation (Balzert et al., 2012). On the other hand, gamification also allows managers to learn about unintended and disruptive events (Edery & Mollick, 2008). For instance, the team-work game help managers to learn about inventory risks when supply chain communication breakdown (Werbach & Hunter, 2012). In addition, managers can use game mechanisms to engage voluntary participation for collaborative programmes and reward for loyalty among supply chain members (Hugos, 2012).

Therefore, our result shows:

Finding 2: Service paradox in service business include inadequate capacity planning to deliver against promises, the ‘moral’ hazard of customers and value chain collaboration. Gamification can help managers to improve capacity planning by using virtual prototypes and feedback from extended user community, improve data collection and interpretation capabilities, and teach managers about complex value chain scenarios.

3.3. Intra-organizational processes

Servitization requires manufacturers to develop new organization structures to manage tension between product business and service business (Chesbrough, 2010; Baines & Lightfoot, 2013). Develop strong intra-organizational processes with front-end customer facing unit (CFU) and standardized back-end process, where solutions can be easily reconfigured and reused with lower cost (Chesbrough, 2010). Managers that drive the change are servitization entrepreneurs, they sense the need for servitization transformation.

Norms within the professional communities can inhibit transformation into new organizing structures. For instance, managers with the manufacturing background make decisions through production terms, and managers in service business reflect decisions in the world of services (Baines & Lightfoot, 2013).

Gamification can be effective communication tool that breaks the cultural barriers. Servitization entrepreneurs within the manufacturing organization can use gamification to converge knowledge gaps. Gamification use customized component tailored for particularly organizational needs (Ballance, 2013). For instance, servitization entrepreneurs can use games to teach managers in product business to learn about servitization using terms adopted by production engineers. As well as guide service managers in language adopted in services, to learn about back-end processes and production challenges for servitization.

Therefore, our result shows:

Finding 3: Service paradox in Intra-organizational processes are due to different norms and practices within the professional community. Gamification applies simplified, content rich, and graphic intensive, interactive virtual space, allowing servitization entrepreneurs to channel effective communication to guide managers within the organization about processes required for servitization.

3.4. Inter-organizational processes

Inter-organizational processes are complex; especial customer's operations consist of core competencies and outsourcing functions.

Outsourcing decisions typically made at customer's corporate level (Brax, 2005). When manufacturers try to integrate their processes with customer's processes, there is little support from local management of customer. Because new ways of work was coerced down to the customer's local managers, they are less prepared about the process and have little knowledge about the benefits (Brax, 2005). Therefore, customer's local management may superficially believe about servitization, when they are in 'forced marriage' by the corporate level.

Customer fear to lose control over cost (Choi & Linton, 2011). Handover their design, production or entire operations to a single supplier can reduce their bargaining power because time required to fine tune operations or switch another supplier.

Customers are reactive to servitization offerings if they don't see the benefit to their operations (Brax, 2005), and don't have visibility to technology development (Choi & Linton, 2011). For example, in high value manufacturing, customers not only access first tier suppliers, they also require information about lower tier supplier's latest technology innovation (Choi & Linton, 2011). In addition, lower tier suppliers operate in multiple markets often spot market shift early, which can be critical information for the customers (Choi & Linton, 2011).

Customers can against servitization offerings if they see a threat to their core competence (Baines and Lightfoot, 2013). Customers adopt measures to protective their core business expertise (Kagermann et al., 2011). Davies et al. (2006) suggest manufacturers move too aggressively into customer's territory or without prior agreement can create channel conflicts. For instance, industrial equipment manufacturer offers bundled logistics are found themselves in competitions with customers' internal operations group (Auguste & Harmon, 2006).

Gamification provides an innovative communication channel to accelerate internalization processes by expressing care rather than opportunism (Brax, 2005), and transform managerial perceptions,

where activities require are no longer bureaucratic burden but real efficiency benefit to the customer's organization. For instance, Siemens developed Plantville simulation game, which allow players or customers to engage in an interactive factory environment, engineering customers can learn about Siemens product functionality, and optimization the use of different machines (Hugos, 2012).

Therefore, our result shows:

Finding 4: Service paradox in manufacturing at Inter-organizational processes are due to heterogeneous perceptions about servitization at customer's organizational level. Gamification through interactive virtual demonstration can be applied to convince customers about the benefit of servitization. Therefore, change customer's attitude towards manufacturer's product and advanced service offerings.

4. Conclusion

We studied the service paradox in manufacturing through a particular lens using organizational decoupling theory (Meyer & Rowan, 1977; Scott, 2013; Choi & Eboch, 1998). We suggest organizations are structured heterogeneously. Internal to the organization, there are service business and product businesses. Externally, customer operations are also captured at two levels—core competencies and outsourcing functions.

Our finding shows the heterogeneous professional norms both within and external to the organization can create a different interpretation about servitization. Therefore, service paradox in manufacturing could happen at four areas (Figure 1): 1) product business level, 2) service business level, 3) intra-organizational processes, 4) inter-organizational processes.

We are also interested to understand how gamification through technologies through highly interactive and media-rich content can be applied to each individual areas of service paradox (Figure 2). Therefore, to further our understanding about how gamification can benefit servitization adoption.

Our research contributes to theoretical understanding the heterogeneous organizational fields both within the organization and external to customer operations. We also contribute to practical understanding about how gamification can help manufacturing organizations to accelerate servitization.

Figure 1: Service Paradox in Manufacturing

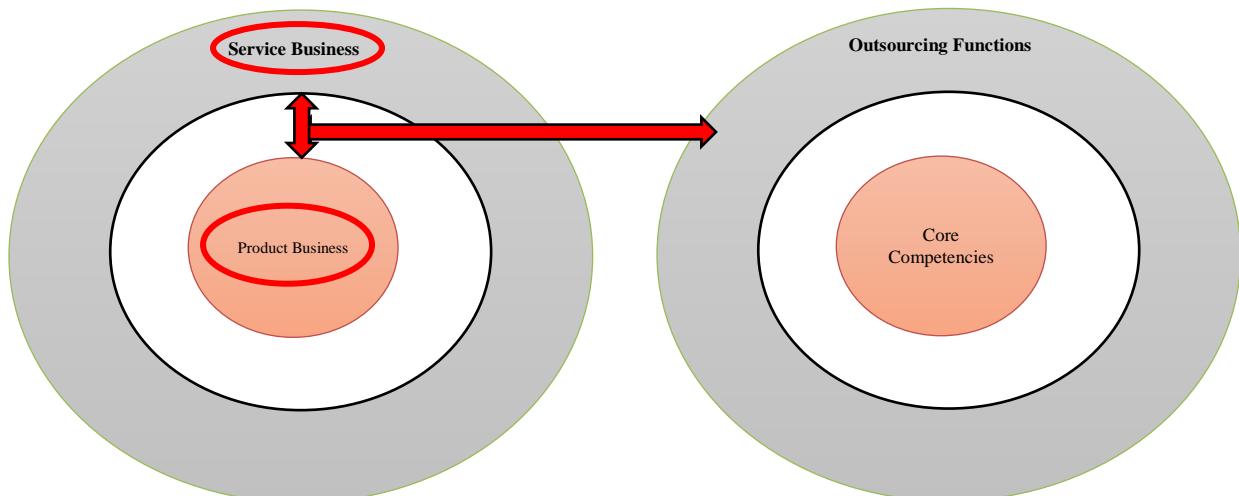
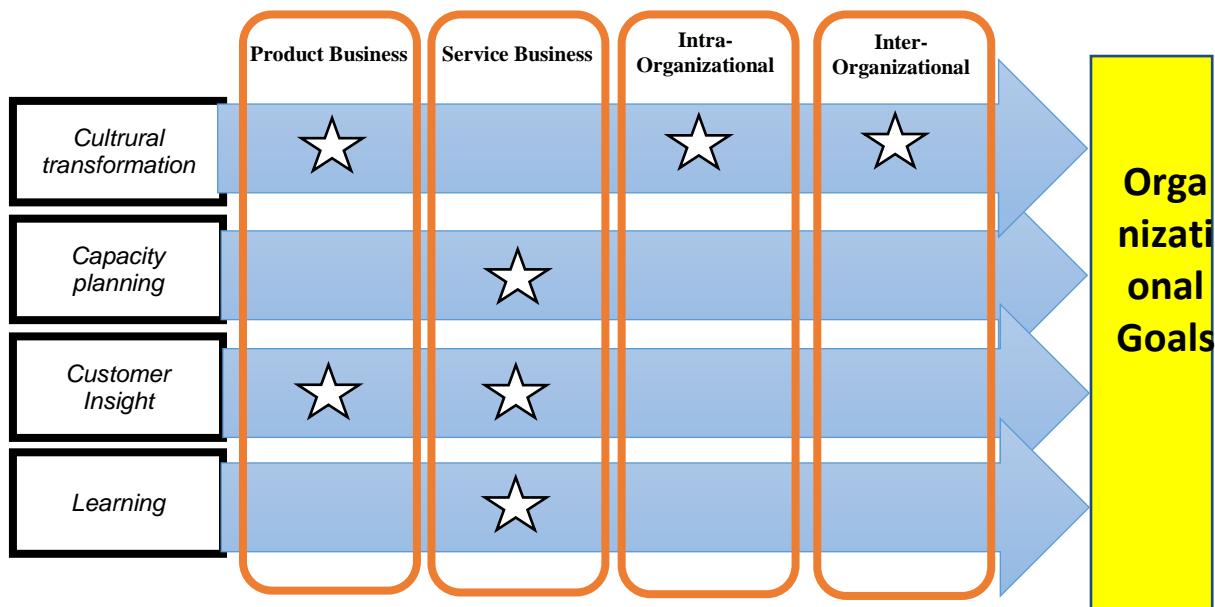


Figure 2: Gamification to Unlock Service Paradox in Manufacturing



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Servitization for Business Games

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Abstract

The literature has addressed how business games can be applied for servitization purposes (Shi et al., 2014). It points out games can benefit servitization through a highly immersive and interactive digital learning environment to accelerate servitization adoption. In contrary, little research has examined how servitization can help the commercialization processes of the business games. Our intent is elevate this discussion by observing adoption of servitization concept with the business game community. We adopt servitization framework approach (Baines & Lightfoot, 2013) to gain understanding of servitization adoption in the business game community. Our paper contribute to the theoretical understanding of organizational transformation processes in the business game community and offers an insightful practical perspectives for gaming firms to embrace servitization concept.

Keywords

Servitization, business model, business games, transformation, change management

1. Background

The gaming empire have conquered many views in the digital entertainment landscapes. People from all walks of the society are increasingly interested in playing games, and organizations no matter to its size and sectors are accelerating the use of game mechanisms to help achieve their goals(Shi et al., 2014; Petridis et al., 2014).

Servitization as a new business model concept have gained increasing momentum from industries around the globe (Baines & Lightfoot, 2013; Baines & Shi, 2014; Yorozu & Shi, 2014). Organizations adopt innovative servitization offerings to cover ambidextrous defensive and offensive positions (Baines & Lightfoot, 2013; Fischer et al., 2010).

Servitization concept offers an immense opportunities for the gaming industry (Cruz-Cunha, 2012). Gamification mechanics are basic building blocks for business games (Shi et al., 2014; Petridis et al., 2014), and organizations adopt business games to achieve varying purposes (Zichermann & Linder, 2013; Zichermann & Linder, 2010; Shelton, 2013; Werbach & Hunter, 2012; Surdak, 2014; Pink, 2010).

2. Methodology

We conduct a systematic literature review (Tranfield et al., 2003) to categorize motivators, enablers and benefit of servitization for business games. We then interpret our result into three areas of key findings.

Findings

We adopt servitization framework (Baines & Lightfoot, 2013) identified three areas of servitization capabilities that can be applied to business games: 1) technology enabled platforms capabilities, 2)business ecosystems position capabilities, and 3) value co-creation capabilities.

Technology enabled platforms capabilities

Servitization adopt advanced information technologies explores the business opportunities to extend the scopes of product offerings. ICT allow product developer to better understand customer needs and increase the scope of their offerings by design and distribute a platform of customized solutions to help customers create value. For example, MAN truck business desin services to help their customer reduce cost by monitoring driver behaviour (Baines & Shi, 2014), and John Deere developed synchronize automated harvest systems, the JDLink allows farmers and dealers to monitor tractors remotely, used along with onboard sensors that track crop yields, sophisticated precision farming tools can help a farmer or operators decide, for instance, which parts of a field need more or less fertilizer(Gruley & Sing, 2012).

Technology enabled platforms capabilities allows scalable modularization of business game components for different organizational applications.

Business game can be designed to help organizations facilitate complex cultrual transformations (Shi et al., 2014), Mentalities of manufacturing engineers at the plant level may be different to marketing, sales and service professional. Business games can be developed to facilitate cross functional learning, about customer processes (Laine, 2012).

Business games can be designed to gain insight about customer's processes and learn assets performance through gamified embedded intelligence. Manufacturers can track and monitor how their product are being used at customers operations. Use this knowledge manufacturers can

introduce new features, simplify processes and help customers to optimize the use of the manufacturers assets.

Application of business games can drive productivity. For instance, MAN truck applies business games to save fuel cost and reduce carbon emissions by extrinsically reward drivers to adopt cost efficient driving behaviour. Microsoft adopt business games to intrinsically engage with employees.

Business games can channel effective communication with customers. Interactive games can help customer to learn about product and service offerings, implicitly inform customer about the functionality and credibility of product. Therefore, gain trust and remove customer fears (Werbach & Hunter, 2012; Zichermann & Linder, 2013).

Business games can promote collaboration among supply chain actors. Strategic business partners can win reward for their loyalties, those reward not necessarily monetary, it can be also functional. Business games help organizations to promote supplier and customer relationships and build relationships.

Finding 1: business game developers can develop platform of product and services to achieve organizational goals such as gain insight of customer processes, drive productivity and behavior change, facilitate communication and enhance business relationships.

Business ecosystems position capabilities

Servitization evaluate organization's structural and infrastructural capabilities (Hayes, 2005; Baines & Lightfoot, 2013). Business game developers need to gain complete view of participants ecosystem in their field. Different product offerings requires changes at both structure and infrastructural level transformations. For instance, business game developed for mobile device apps requires shorter development cycles than developing a full client based games (KenResearch, 2013), and business games developed to operate on social networking website such as Facebook requires more frequent new product development than traditional PC games (KenResearch, 2013). Business game developers need to gain capabilities to collaborate with multiple levels of structural and infrastructural resources.

Distribution channel for business game developers refers to platforms that interact with final customers. Ken Research (2013) categorize different types of games include: mobile games, social games, PC games, massive multiplayer online games.

External to organizational level constraints, there are also market pressures that interact with organizational level constraints. Supply chain positioning capabilities can help business game developers to examine entire value chain participant, product and processes decisions are made in reflection to business strength and weaknesses.

Value co-creation capabilities

Business game developers require knowledge management capabilities (Chesbrough, 2010). Business game developers can design and distribute platform of services to target complex customer needs and learning outcomes (Cruz-Cunha, 2012). Game designers need to acquire specific knowledge required in scopes that are beyond their professional expertise, transfers of intellectual knowledge assets requires knowledge management skills to absorb information from multiple sources, such as from end user community, professional knowledge owners and business models that foster multi-disciplinary, multi-community collaboration.

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Towards Sustainability Marketing Practice: An Exploration of Firm's Green Marketing Capabilities and the Effects on Market Performance (A Conceptual Model)

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Abstract

The emergence of 'green marketing' was due to the thematic environmental sustainability becoming predominant among researches in the marketing field. With the increasing public concern, stringent regulations, stakeholder pressures and consumers highlighting on the natural environment, 'green' or 'environmentally-friendly' activities that are relatively less harmful to the natural environment have gained interest in firms' operational managements (e.g. Leonidou, Katsikeas & Morgan, 2013; Banerjee, 2002; Hult, 2011; Maignan & Ferrell, 2004; Kotler, 2011). The concept of 'green' is merged into marketing programs upon the attention paid to the natural environment, marketing aspects of sustainability and the green consumer segment (Leonidou et al., 2013). The highlight upon greening marketing programs sets off important environmentally-friendly marketing practices for firms.

Past research argues 'green' or 'environmental' marketing practice may be incomprehensible due to the traditional belief in marketing role that provokes infinite consumptions (Peattie, 1999). However, the current study postulates that challenges of green imperative or environmental sustainability imply how companies' policies and their marketing activities are strategically harmonized towards environmental friendliness. In which it would give rise to sustainability marketing practice. The debate about the effective measures that develop the processes of sustainability marketing practice and competitive outcomes has left open. Hence, the present study shall respond to what changes required towards sustainability marketing scheme from the traditional marketing grounds.

There has been proven by past studies that environmental marketing strategy or enviropreneurial marketing of corporate environmentalism and performance are affected by governmental regulations, top management commitment and the industry types (e.g. Menon & Menon, 1997; Banerjee et al., 2003; Baker & Sinkula, 2005; Aragón-Correa et al., 2008). Moreover, firms' environmental marketing have impact on commercial and operational performance (Fraj-Andrés et al., 2009), as well as the greening marketing programs have influence on product-market performance as indicator for market effectiveness and investment (Leonidou et al., 2013).

Furthermore, literature suggests marketing aspects of sustainability involve in marketing strategies as well as the market orientation approach to sustainability(e.g. Baker & Sinkula, 2005; Banerjee et al., 2003; Fraj-Andrés et al., 2009; Crittenden et al., 2011). This suggests relevant elements that lead to development of environmental issues within marketing practices (Leonidou et al., 2013), such as pricing (Menon et al., 1999), design and product development (Pujari, 2006), green advertising, promotional and communication practices (Banerjee et al., 1995; Maignan & Ferrell, 2004).

Within firms' marketing capabilities, there are two distinctive marketing functions representing as 1) the marketing planning skills and implementations (namely architectural capability), and 2) the

marketing-mix programs (namely specialized capability) (Morgan, 2012). These capabilities can be defined as processes of integration of multitasking functions between individuals, groups, organizational systems, structures and marketing resources combining with knowledge and skills transformed into capabilities and contribute to marketing goals (e.g. Morgan, 2012; Mahoney & Pandian, 1992; Grant, 1996; Marino, 1996). The researchers (e.g. Porter & van der Linde, 1995; Leonidou et al., 2013b; Chang, 2011) point out that the significant lower cost in a long term from waste management and energy saving process as well as an operational improvement and differentiation of product to recyclable supplies and/or materials are benefits from implementation of the environmental marketing strategies and activities. Moreover, the incorporation of green marketing strategies and environmental practice may have influence on firms' environmental and economic performance (Fraj, Martinez & Matute, 2013). As a result, firms' merger of marketing capabilities and green or environmentally-friendly practices would lead to increase efficiency of the green marketing capabilities towards performance aspects of sustainability.

Accordingly, firms' capitalization on the integration of marketing skills and practices in line with environmental friendliness is crucial. The greening marketing planning and implementation as well as other marketing programs are bound to evaluate companies' overall green marketing capabilities and competitiveness. Competitive advantage is concerned as a step to success in which a company's execution of competitive strategies may seek to be differentiated and difficult to be replicated by its competitors (Chang, 2011). Therefore, the greening focus and marketing capabilities would derive a source of competitive advantage for firms such as lower-cost and differentiation advantages (Murray et al., 2011) which have impact on the performance outcomes.

Due to the world's finite natural resources and current climate change issues, businesses should adapt and adopt environmental orientation throughout their operations and marketing management. This would help them leverage the scarce resources and outperform skills and capabilities to prolong competitiveness and superior performance. Upon review of the extant literature, research on the development of green marketing capability and its effects on performance towards sustainability marketing practice is still unsettled. The main contribution of this study is the attempt to integrate the role of marketing practices and 'green' or 'environmentally-friendly' philosophies in order to posit green marketing capabilities (GMC), and to understand how GMC can be accomplished to sustain firms' competitive advantage upon performance outcomes of green marketing capability (GMCP). Consequently, it posits GMC as means towards sustainability marketing practice. Key research questions are presented as follows:

- 1) What are the fundamental components of green (environmentally-friendly) marketing and practices undertaken in firms for green marketing capabilities (GMC)?
- 2) What constitutes competitive advantage by implementing GMC? And
- 3) What are the relative impacts of GMC on performance (GMCP)?

More literature on green (or environmentally-friendly) marketing practices, green marketing capabilities (GMC), sustainability marketing paradigm, competitive advantage and market performance outcomes represented as GMCP are reviewed. This paper subsequently proposes a conceptual model and research propositions. Future research directions are also discussed.

Figure 1: A conceptual model linking green marketing capabilities (GMC), competitive advantage and GMCP



Keywords

Competitive advantage, environmentally-friendly marketing, green marketing capability, market performance, sustainability marketing practice

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The Relevance of Trend Variables for the Prediction of Crises and Insolvencies

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Abstract

Within this study the ability of trend variables, computed as difference between accounting ratios for two consecutive years, for the early detection of corporate crises and insolvencies was analysed. The results show that trend variables are not having a better explanatory power than accounting ratios and that they were not in the position to improve classification performance of forecasting models based on multivariate linear discriminant analysis for one and two years prior to the event of insolvency. This aspect is attributable to the fact that trend variables are not carrying enough as well as relevant informational content, which could be exploited for an improved classification accuracy, to assign firms into the states solvent and insolvent. Therefore, differences of accounting ratios of two consecutive years are not producing sufficient early warning signals, which could be used for optimization of classification accuracy.

Keywords

Accounting ratios, trend variables, insolvency prediction, discriminant analysis

1. Introduction

The research concerning understanding of corporate crises and insolvencies is still a prominent topic within management research. Especially during the times of financial crisis it was visible that certain early warning systems were not in the position to predict insolvencies, so that their forecasting ability remained questionable. Even if research found important aspects, which are relevant for the occurrence and definition of crises and insolvencies, there still exists no theory, which can explain both aspects based on nowadays generally accepted financial theories. Our knowledge is somehow restricted, so that further attempts are necessary, in order to gain additional understanding about the development and evolution of crises and insolvencies. This is also the reason, why research is justified in this field. Within this work the ability of trend variables, computed as the difference of accounting ratios between two consecutive years, for an improved early detection of corporate crises and insolvencies was analysed. The aim was to prove, whether the inclusion of trend variables within forecasting models based on linear discriminant analysis can help to increase classification accuracy and to provide more reliable early warning signals concerning deterioration of the economic situation of a firm.

2. Literature Review

Within prior studies different types of variables were used in order to divide between the different groups of firms, which were mostly assigned into the two dichotomous states solvent and insolvent. Almost every variable seems to have a certain informational content, which could be exploited for early detection of insolvencies (Pretorius, 2008, p. 417). A closer look on previous literature reveals that certain variables appear more often than others, so that the universe of potential early warning indicators could be contracted to some meaningful variables, which should be in the position to discriminate best between the two types of firms. The first approaches mainly focused on accounting ratios, whereas they were in the position to provide certain segregation between the different groups of firms (Beaver, 1966; Altman, 1968; Edmister, 1972; Blum, 1974; Libby, 1975). Their suitability of accounting ratios for prediction purposes could be denied, because managers are in the position based on generally accepted accounting principles to veil the real economic situation of the firm, so that such manipulated variables could not be used as early warning indicators (Keasey & Watson, 1991, p. 97; Sharma, 2001, p. 18-21; Tsai, 2013, p. 44).

Generally, it must be discussed, whether early warning systems are relevant, when the theory of market efficiency is assumed to be valid. In case of strong form accounting ratios cannot provide additional information, as all relevant information is already impounded within market prices (Varamini & Kalash, 2008, p. 18). There are certain reasons, why this assumption can be rejected. It is generally accepted that the semi-strong form of market efficiency is valid, because certain studies showed that investors can achieve abnormal returns (Varamini & Kalash, 2008, p. 24). This can be argued by the fact that not all information is immediately and fully reflected in market prices (Zhang, 2006, p. 107; Agarwal & Taffler, 2008, p. 461 – 463). This means that certain information contained in accounting ratios are not transported automatically to market prices, so that accounting ratios are having informational content, which can be exploited for an appraisal of enterprises, which also includes the forecasting about economic prospect (Beaver, Kettler & Scholes 970, p. 679; Hopwood & Schaefer, 1988, p. 335-337; Setiono & Strong, 1998, p. 635; Nissim & Penman, 2003, p. 553; Lambert, Leuz & Verrecchia, 2007, p. 410-411; Milburn, 2008, p. 298).

Therefore, the incorporation of accounting ratios within early warning systems seems arguable and useful, because they are including certain ability to provide early warning signals about the economic situation of companies (Kwon & Wild, 1994, p. 346-347; Piotroski, 2000, p. 1-4; Turetsky & McEwen, 2001, p. 339; Chava & Jarrow, 2004, p. 553; Milburn, 2008, p. 287). About 93 percent of the variables used in prior studies were based on accounting ratios (Du Jardin, 2009, p. 41), so that their

importance within development of forecasting models can be argued. Nevertheless, it is nowadays generally recognized that a insolvency or crisis prediction model should be constructed using different types of variables, this means also non-financial variables, market data and macroeconomic factors, in order to improve the model stability and accuracy (Barniv, Agarwal & Leach, 2002; Grunert, Norden & Weber, 2005; Muller, Steyn-Bruwer & Hamman, 2009; Altman, Sabato & Wilson, 2010; Madrid-Guijarro, Garcia-Perez-de-Lema & van Auken, 2011).

Even if this knowledge is given, the search for suitable accounting ratios is still prominent, because they are showing information redundancies, so that some variables can to a certain degree replicate other variables (Laurent, 1978; Chen & Shimerda, 1981; Pohlman & Hollinger, 1981; Kwabena, 1991). The usage of trend variables based on accounting ratios had also been analysed within several studies (Edmister, 1972; Blum, 1974; Bryant, 1997; Ohlson, 1980; Sen, Ghandforoush & Stivason, 2004), whereas they showed abilities for discrimination between solvent and insolvent firms. Their appearance in literature compared to classical accounting ratios remains relatively low, so that it is justified to conduct additional research in order to test their predictability and potential to act as early warning indicators.

3. Research Design, Research Hypothesis and Questions

3.1. Database

The database of the study included accounting ratios from Austrian firms from different industries for the observation period 2010 to 2012. The year 2012 was set as the insolvency date and the previous periods were defined as follows:

- 2011: one year prior to insolvency
- 2010: two years prior to insolvency

The firms were divided into the states solvent and insolvent. Within the groups of insolvent firms two subclasses were summarized. The first sub-class contained enterprises, which went into bankruptcy in 2012 based on the legal findings of Austrian insolvency law. The second sub-class was set up with firms exhibiting a specific indicator, under which they can be subsumed as distressed. A possible definition for distress is the occurrence of negative earnings for two consecutive years. Such a definition and procedure was also used within prior research (DeAngelo & DeAngelo, 1990; Platt & Platt, 2002; Platt & Platt, 2008; Molina & Preve, 2009). Solvent firms were negatively defined and were neither insolvent nor distressed. In sum 1,616 firms were identified from the database, for which three consecutive financial statements were available. The can be divided into the defined groups based on table 1.

Table 1: Division of firms into the different economic states

Economic state	Amount
Insolvent	26
Distressed	70
Solvent	1,520
Total	1,616

Within the study no matched pairing was applied, because of a potential choice-based sampling (Zmijewski, 1984, p. 59-60; Platt & Platt, 2002, p. 186; Skogsvik & Skogsvik, 2013, p. 29-30). In case of paired samples the chosen sample is not replicating the true proportions between solvent and insolvent firms. As insolvencies are indeed a rare event, they are carrying certain characteristics and prior probabilities different to solvent cases. In order to detect these characteristics and associated patterns it is useful to use different proportions between the two types of firms (Thomas, Edelman & Crook, 2002, p. 122). Therefore, within this study a proportion similar to previous studies was used (Ohlson, 1980; Zmijewski, 1984; Hillegeist, Keating, Cram & Lundstedt, 2004; Chaudhuri, 2013).

3.2. Methodology and research design

The purpose of this study was to develop forecasting models based on linear discriminant analysis, whereas accounting ratios and trend variables should be included. For this following procedures were conducted:

1. Descriptive statistics was computed in order to derive some measures like mean, median and standard deviation for the comparison between the two groups.
2. A test form normal distribution of data was applied, in order to recognized, whether a parametric or non-parametric test for differences between the two groups must be applied.
3. For detection of the best discriminating variables parametric tests for differences in means (t-test) and differences in variances (Levene-Test) and a non-parametric test (U-test) were applied.
4. Finally, several discriminant functions were computed, with whose it is possible to test the hypothesis and to answer the research questions.

The hypothesis of this work is:

Corporate crises and insolvencies can be much better detected, when trend variables are incorporated within early warning models.

Additionally following research questions should be answered:

- o Which accounting ratios and trends are useful for discrimination between solvent and insolvent firms and for early detection of crises?
- o Are trend variables more suitable in forecasting potential corporate crises compared to accounting ratios?
- o Can a combination of accounting ratios and trends increase the classification performance of early warning systems?

4. Model Building

The chosen variables did not show any normal distribution, which is assumed to be an important precondition for the application of linear discriminant analysis (Klecka, 1980, p. 61; Subhash, 1996, p. 263). Nevertheless, the application of linear discriminant was used, because certain deviations from normality can be tolerated (Silva, Stam & Neter, 2002). Based on the results of pre-analysis a non-parametric approach (U-test) for the assessment of the best discriminating variables was necessary and it was visible that certain variables had a much higher potential for prediction purposes, but the results did not indicate whether accounting ratios or trend variables are more suitable for this task. In order to receive the best discriminating variables discriminant analyses based on Mahalanobis distance were applied, whereas different combinations were tried.

After “out-of-time” and “out-of-sample” validation for the different combinations three discriminant functions remained, which had a Gini-coefficient of above 0.5, which is to be said a threshold, for the detection of useful prediction models (Anderson, 2007, p. 205). Following this three discriminant functions were developed:

$$\text{Model 1} = 4,283 \cdot NI / TA + 0,001 \cdot S / TE + 0,565 \cdot TE / TA + 0,119 \cdot EBIT / S + 0,449 \quad (1)$$

$$\text{Model 2} = 2,526 \cdot NI / TA + 0,505 \cdot RE / TA + 0,073 \quad (2)$$

$$\text{Model 3} = 2,338 \cdot NI / TA + 0,493 \cdot RE / TA + 0,115 \cdot \Delta CF / TD + 0,025 \cdot \Delta NI / TA + 0,104 \quad (3)$$

The results show that all models better classify solvent firms and therefore type I errors are relatively high. This aspect is due to the fact that the cut-off value, which is responsible for classification, was

set at zero. Firms with a value above zero were assigned as solvent and otherwise as insolvent. The models could be improved towards reduction of type I error using different techniques to adjust cut-off values, which was not the purpose of this work, but could be a task for further research. Within table 2 the first column of every model shows the results, when the respective function was applied on the development group. The second columns show the “out-of-sample” and the last two columns provide the “out-of-time” validation results.

Table 2: Performance measures for discriminant functions

	Model 1		Model 2		Model 3									
	DG	VG	DG	VG	DG	VG	DG	VG	DG	VG				
Accuracy	0.901	0.859	0.918	0.890	0.862	0.840	0.834	0.823	0.863	0.835				
Type I error	0.729	0.854	0.833	0.854	0.563	0.659	0.490	0.634	0.563	0.659				
Type II error	0.059	0.097	0.034	0.063	0.111	0.129	0.146	0.149	0.111	0.133				
AUC alone	0.777	0.719	0.766	0.794	0.774	0.796	0.778	0.742	0.771	0.802				
Gini-coeff.	0.553	0.437	0.533	0.587	0.549	0.591	0.557	0.484	0.542	0.605				
AUC grouped	0.759		0.774		0.779		0.767		0.779					
Gini-coeff.	0.518		0.549		0.558		0.533		0.557					
AUC in sum	0.766				0.773				0.763					
Gini-coeff.	0.533				0.545				0.525					

DG = development group; VG = validation group

It is remarkable that model 1 provided a better accuracy, when it was validated on the development group of the year 2010, whereas the Gini-coefficient was higher for the validation group of the same year. This indicates that the developed model has a certain stability and can be also be applied on different time periods. Similar conclusions can be made for the other models too, because Gini-coefficients are in case of validation sometimes better than for development group. Therefore, the models show a certain relevance, so that their practical application could be justified, but it would be necessary to adjust the cut-off values in order to reduced type I errors and accordingly the overall cost of misclassification. The highest potential is given for model 1, because it exhibited the highest type I errors.

5. Summary of Results, Limitations and Recommendations

Accounting ratios showed a discriminatory power to divide between solvent and insolvent firms. The inclusion of trend variables did not provide additional information content, so that the classification results could not be improved. Models solely based on trend variables were not useful at all. The only model combining accounting ratios and trend variables was model 3, which showed a lower performance quality compared to the other two reported models. The models were quite stable, because the application of “out-of-sample” and “out-of-time” validation showed similarly well results. The signs of the variable within the functions are economically consistent and can be interpreted accordingly. Firms exhibiting a higher profitability are less likely to be insolvent (Beaver, 1966; Zmijewski, 1984; Chava & Jarrow, 2004). A higher asset turnover is improving stability and is also decreasing the danger of insolvency (Platt, Platt & Chen, 1995).

Equity-ratio (TE/TA) and retained earnings (RE/TA) also appeared as relevant discriminators within the functions. The higher the values for both variables are, the less likely a firm will go into insolvency (Altman, 1968; Pompe & Bilderbeek, 2005; Grunert, Norden & Weber, 2005; Altman, Sabato & Wilson, 2010). Concerning trend variables it can be concluded that companies, which are improving their relation between cash flow to total debt, are having a lower probability of failure. It is also visible that firms with an improved relation between net income to total assets can reduce their

probability of failure. The highest potential for development can be seen in model 1, because of the high type I error. With an appropriate adjustment of threshold value, the practical applicability can be increased.

The results generally provide evidence that accounting ratios and derived differences are having an early warning ability, which could be used to set up prediction models. The relevance of trend variables seems to be however limited, as the inherent informational content could not be exploited to receive improved early warning signals, so that the research hypothesis had to be rejected. The model quality was affected by non-normality of data and unequal covariance matrices, which are two pre-conditions for a proper application of linear discriminant analysis. However, even if these aspects were given, the model performances were quite good, so that the effect of these violations was not that extreme. Another problem concerning model quality is maybe the definition of distressed firms, which were subsumed under the group of insolvent firms. Distressed and insolvent firms may follow different behavioural patterns, so that this aspect was not considered fully within the analyses and led to a deterioration of explanatory power of the chosen ratios.

Even if these results were obtained, further research could be conducted using other methods of computing trend variables, which are maybe much more suitable to divide between the two groups of firms and which are in the position, to impound sufficient informational content beneficial for an improved model accuracy. Additionally it could be thought to apply other statistical methods like logistic regression, which could be in the position to exploit the inherent potential of trend variable much better for an improved early detection of corporate crises and insolvencies.

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Entrepreneurship-Specific Education and Entrepreneurial Intention: Do Female Students Benefit?

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Abstract

This study explores the linkage between entrepreneurship-specific education participation, alertness and risk-taking general human capital skills, and the intensity of entrepreneurial intention. We integrate insights from human capital theory with views from social feminist theory and socially learned stereotypes theory, and challenge the view that ESE generates equal benefits for both female and male students.

1. Introduction

Women are a reservoir of entrepreneurial talent (OECD, 2003). There is consistent support for the *women entrepreneurship under-represented hypothesis*. Across several countries, women are less likely than men to become entrepreneurs (Kelley, Brush, Greene & Litovsky, 2013). Few studies have compared the entrepreneurial intentions of women and men, of which, most find that men have higher intentions than women (Gupta, Turban & Bhawe, 2008). Dolinsky, Caputo, Parsumarty and Quazi (1993) examined variations in the likelihood of women entering, staying and re-entering self-employment by educational attainment level. An increased likelihood of each outcome was associated with higher levels of education. However, a meta-analysis suggests there is inconclusive evidence surrounding whether or not entrepreneurship-specific education (ESE) provided by universities helps to create more entrepreneurs (Martin, McNally & Kay, 2013). There is conflicting evidence surrounding whether or not female students benefit from ESE in the same way as male students do (O'Connor, 2013; Bae, Qian, Miao & Fiet, 2014).

This study re-analyses a dataset where gender had been considered as a control variable in a study focusing upon the intensity of entrepreneurial intention reported by students in the Ukraine. Solesvik, Westhead, Matlay & Parsyak (2013) detected that female students who did and did not participate in ESE were not associated with significantly different intensity of entrepreneurial intention than male students who did and did not participate in ESE. The latter study failed to specifically explore the outcomes of ESE for female students. Here, we integrate insights from human capital theory with views from social feminist theory and socially learned stereotypes theory, and challenge the view that ESE generates equal benefits for both female and male students. The following research questions are explored in the Ukraine context: Do female ESE students report lower intensity of entrepreneurial intention than male ESE students? Are the ESE general human capital skills, alertness and risk-taking, reported by female ESE students reporting high intensity of entrepreneurial intention the same as those reported by male ESE students?

2. Theory

2.1. ESE General Human Capital

Becker's (1975) human capital theory suggests that individuals participating in education will seek to receive a compensation for their investments in human capital, and they will try to maximize economic benefits over their lifetime. General human capital acquired during education can be applied to different contexts. Education is assumed to provide discipline, motivation, self-confidence, skills, and knowledge, and facilitates students to make better decisions. A meta-analysis by Unger, Rauch, Frese and Rosenbusch (2011) found a positive relationship between education and success as an entrepreneur. Social feminist theorists (Fischer, Reuber & Dyke, 1993) assert there are differences between male and female experiences from the outset of life, which lead to different ways of viewing the world due to unique socialization processes. Distinctive experiences lead to women and men possessing unique human capital, and women and men use different types of human capital to identify opportunities (DeTienne & Chandler, 2007). General human capital accumulated by female ESE students may not be the same as that accumulated by male ESE students. ESE provides students with theory, techniques, and tools to take risks and to detect new ways to collect and analyze information to discover opportunities. Martin et al. (2013) and Bae et al. (2014) found a significant positive link between ESE and entrepreneurial intention. Hence:

Hypothesis 1: There is a positive relationship between student participation in ESE and intensity of entrepreneurial intention.

2.2. Gender

Gender is a social construction of biological sex where social practices and representations of femininity and masculinity are ascribed to women and men (Ahl, 2006), which can shape women's career choices (i.e. gender-role stereotypes) and identification with masculine or feminine characteristics (i.e. gender identification) (Gupta, Turban, Wasti & Sikdar, 2009; Shinnar, Giacomin & Janssen, 2012). There is general consensus that women, on average, are more likely to report attitudinal self-image and self-confidence (Wilson, Kickul & Marlino, 2007), which can be barriers to careers in entrepreneurship.

In the area of leadership, a phenomenon called 'think-manager-think-male' is often reported, which refers to a common assumption that women possess more communal qualities relating to expressiveness, connectedness, relatedness, kindness, supportiveness, and timidity than men (Eagly, 1987). These attributes fit the stereotype of a leader less than more agentic qualities such as independence, aggressiveness, autonomy, instrumentality, and courage generally associated with men (Schein, 1976). Following insights from socially learned stereotypes theory, we know that gender stereotypes are descriptive and prescriptive (Sczesny et al., 2004). These norms relate to gender-typical social roles (Eagly, 1987). We assume a similar stereotypical view can be found relating to entrepreneurial intention (Díaz García & Jiménez-Moreno, 2010). This can manifest itself in a perceived incongruity between the female gender role and the entrepreneur leader role, and the attribution of entrepreneurial abilities. Gender roles can act as a gate-keeping device that perpetuates a set of characteristics that need to be demonstrated to engage in an entrepreneurial career. There are differing rewards and punishments for individuals that cross gendered boundaries because "social responses reserve rewards for specific behavior from specific populations" (Godwyn & Stoddard, 2011, p. 116). Women might self-stereotype in so far that a masculine construction of entrepreneurship can block female entrepreneurial intention because they perceive a lack of fit between themselves and the masculine stereotype associated with entrepreneurship. Walter, Parboteeah and Walter (2013) detected a positive and significant link between ESE and self-employment intention for male, but not female students. ESE may reinforce rather than overcome gender stereotypes. Hence:

Hypothesis 2: The relationship between participation in ESE and intensity of entrepreneurial intention is moderated by gender such that there is a negative relationship for female students and a positive relationship for male students.

Debate surrounds whether the alertness skill can be taught, Tang, Kacmar and Busenitz (2012) suggest that alertness is a unique capability that can be learnt to discover opportunities in uncertain contexts. Alertness involves *scanning and searching* for information to acquire new information; making *evaluations* relating to the existence of profitable opportunities; and *evaluation* relating to the existence of profitable business. Studies have detected a positive link between female students' alertness and the intention to start new firms (Martin et al., 2013; Bae et al., 2014). A potential issue for some female students is to identify opportunities that overcome a perceived lack of fit between the gender and the entrepreneurial role. Due to female ESE students perceiving a lack of fit between themselves and the masculine stereotype 'alert entrepreneur', the benefits of accumulating the alertness general human capital skill is assumed to be less for female ESE students compared to male ESE students. Hence:

Hypothesis 3: Gender will moderate the relationship between ESE and (a) scan alertness, (b) connection alertness and (c) evaluation alertness human capital and intensity of entrepreneurial intention, such that the relationships will be weaker for female than for male students participating in ESE.

Prospect theory suggests that a person's willingness to take risks is dependent on their perception of the situation (Kahneman & Tversky, 1979). ESE encourages students to accumulate risk-taking perception (i.e. assessment of risk in a given situation) and propensity (i.e. ability to take or avoid risk) skills to evaluate opportunities. Walter et al. (2013) found a positive significant link between risk-taking propensity and self-employment intention for male, but not female students. Given our argument above that women might perceive a lack of fit between themselves and the entrepreneurial role, and the view that they realize that others will perceive this lack of fit, female ESE students might accumulate a heightened perception of the risk associated with becoming entrepreneurs compared to male ESE students. Hence:

Hypothesis 4: Gender and participation in ESE will moderate the relationship between accumulation of risk-taking human capital and intensity of entrepreneurial intention in so far that for female ESE students a weaker relationship will emerge between (a) risk-taking perception and (b) risk propensity human capital and intensity of entrepreneurial intention.

3. Data

ESE evaluations need to meet the following basic standards of methodological rigor (Martin et al., 2013): (1) use a representative random sample of ESE students; (2) include a control group containing a random sample of students who never participated in ESE; (3) randomly assign participants to those groups; and (4) conduct pre- and post-programme participant testing at several points in time post-ESE intervention. This study meets three out of the four criteria.

A structured questionnaire was administered between May and December 2012 to a group of ESE business students where ESE is compulsory, and a control group of engineering students not allowed to take ESE courses. Students followed courses provided by three universities that differ in ownership and age in the city of Nikolaev. ESE provided in each university is identical in terms of objectives, content, delivery modes and assessment. ESE students take an entrepreneurship theory course, and a practically oriented course in business planning through lectures and practical seminars. A questionnaire was designed in English. It was translated into Russian, and back translated into English. To explore content and face validity issues, a pilot study was conducted with 5 business and 5 engineering students. No problems with the questionnaire emerged. At the European University, 280 business students had taken ESE by April 2012. A random sample of 45 business students was hand-administered a paper-based questionnaire during a class, and 29 responses were obtained (64% response rate). Information was also gathered from a random sample of 17 engineering students. At the National University of Shipbuilding, 536 business students had taken ESE by February 2012. A random sample of 100 business students was hand-administered a paper-based questionnaire during a class, and 75 responses were obtained (75% response rate). Information was, in addition, gathered from a random sample of 47 engineering students. At the Petro Mohyla Humanitarian University, 320 business students had taken ESE by February 2012. A random sample of 30 business students was hand-administered a paper-based questionnaire during a class, and 21 responses were obtained (70% response rate). No engineering students were contacted.

Chi-square tests failed to detect significant differences between the 125 business student respondents (71% response rate) and the 50 business student non-respondents (i.e. university origin, age, gender, and degree course) at the 0.05 level of significance. Data was gathered from 64 engineering students. In total, 83 students were male and 106 students were female. Further, 137 students were bachelor students and 52 students were masters students. Their mean age was 20.40 ($SD = 1.49$).

To improve measurement quality compared to studies that used a single question (Díaz García & Jiménez-Moreno, 2010; Shinnar et al., 2012), students in our study were presented with six questions

(each measured on a 1 to 7 scale) in relation to whether they had seriously considered starting their own business. Students were asked: "Have you seriously considered starting your own business?". They were presented with the following six statements: I am ready to do anything to be an entrepreneur; my professional goal is to become an entrepreneur; I am determined to create a business venture in the future; I have very seriously thought about starting a firm; I have got the intention to start a firm one day; and I intend to start a firm within five years of graduation (Liñan & Chen, 2009). Students were asked to rate each statement on a seven point scoring from 1 'absolutely disagree', 4 'neither agree nor disagree', to 7 'absolutely agree'. A principal component analysis (PCA) found that all six statements loaded on a single component. This component has a Cronbach's alpha of 0.92. An entrepreneurial intention intensity dependent variable was computed relating to the component scores (Intention).

Students who participated in ESE were allocated a score of '1', and those not participating in ESE were assigned a score of '0' (ESE).

Following Tang et al. (2012), students were presented with six statements focusing on the scanning and search entrepreneurial alertness skill (Scan), namely, I have frequent interactions with others to acquire new information; I always keep an eye out for new business ideas when looking for information; I read news, magazines, or trade publications regularly to acquire new information; I browse the Internet everyday; I am an avid information seeker; and I am always actively looking for new information. They were also presented with three statements focusing upon the association and connection entrepreneurial alertness skill (Connect), namely, I see links between seemingly unrelated pieces of information; I am good at 'connecting dots'; and I often see connections between unconnected domains of information. Further, students were presented with four statements focusing upon the evaluation and judgment entrepreneurial alertness skill (Evaluation) relating to: I have a gut feeling for potential opportunities; I can distinguish between profitable opportunities and not-so-profitable opportunities; I have a knack for telling high-value opportunities apart from low-value opportunities; and when facing multiple opportunities, I am able to select the good ones. A PCA detected that the six statements relating to Scan loaded on a single component. The three statements relating to Connect loaded on a single component. Further, the four statements relating to Evaluation loaded on a single component. The Cronbach's alpha scores for the components were 0.85, 0.75 and 0.85, respectively. Component scores were computed for each component.

The risk perception (Riskperc) scale developed by the Entrepreneurial Intentions Research Group (EIRG) at the University of Nordland was employed. Riskperc skill comprises the following three statements: starting a new business is very risky; I see the possibility of starting a business as a potential loss; and the probability of a new venture doing poorly is very high. Students were asked to rate each statement on a seven point scoring from 1 'absolutely disagree', 4 'neither agree nor disagree', to 7 'absolutely agree'. A PCA detected that all three statements loaded on a single component. This component has a Cronbach's alpha of 0.81. Component scores were computed.

The risk propensity (Riskprop) scale developed by the EIRG was employed. Riskprop skill comprises the following three statements: I see the possibility of starting a business as a potential opportunity to pursue; if I do not start my own business, I may be missing a great opportunity; and overall I would label the option of starting a business as something positive. Students were asked to rate each statement on a seven point scoring from 1 'absolutely disagree', 4 'neither agree nor disagree', to 7 'absolutely agree'. A PCA detected that all three statements loaded on a single component. This component has a Cronbach's alpha of 0.84. Component scores were computed.

Female students were allocated a score of '1', and male students were allocated a score of '0' (Female). An individual's socialization at home and school can shape whether they are inclined to entrepreneurship. Students drawn from business owner and/or self-employed parental backgrounds

were coded '1', and otherwise they were coded '0' (Parents). Students drawn from the National University of Shipbuilding were allocated a score of '1', otherwise a score of '0' (NUS). Further, students drawn from the European University were allocated a score of '1', otherwise a score of '0' (EU).

A Harman one-factor test relating to all independent and control variables was conducted. Explaining 73% of variance, five factors with eigenvalues greater than 1.0 suggests there is no common method bias. Table 1 presents the correlation matrix. The variance inflation factor (VIF) scores suggest that the presented ordinary least squares (OLS) regression models are not seriously distorted by multicollinearity. Power analysis confirmed that the sample was large enough to test two- and three-way interactions.

Table 1: Correlation matrix (n = 189)^{(a)(b)}

Variables	VIF	Mean	SD	1	2	3	4	5	6	7	8	9	10	11
1. Female	1.49	0.56	0.49	1.00										
2. Parents	1.08	0.42	0.50	.04	1.00									
3. NUS	1.15	0.65	0.50	-.20**	-.11	1.00								
4. EU	1.10	0.24	0.48	.07	-.02	-.67**	1.00							
5. ESE	1.72	0.66	0.47	.58**	.16*	-.16*	-.05	1.00						
6. Scan	1.76	31.77	7.28	.09	.07	-.10	.03	.23**	1.00					
7. Connect	2.06	14.60	3.58	-.05	.07	.01	.01	.08	.56**	1.00				
8. Evaluation	1.96	20.12	4.97	.01	.05	.04	-.08	.18*	.46**	.51**	1.00			
9. Riskperc	1.08	14.92	3.93	.01	-.04	-.04	-.04	.02	.16*	.20**	.07	1.00		
10. Riskprop	1.57	14.77	4.23	.12	.16*	-.02	.01	.32**	.43**	.40**	.44**	.06	1.00	
11. Intention	27.87	9.17	.04	.16*	.05	.01	.21	.45**	.33**	.43**	.09	.52**	1.00	

(a) Means and standard deviations (SD) for Scan, Connect, Evaluation, Riskperc, Riskprop and Intention relate to summative scales for this table.

(b) * p<0.05 (two-tailed), ** p<0.01 (two-tailed).

A Heckman two-step regression procedure was conducted. A probit regression analysis was estimated during step 1 with regard to the total sample of 189 students relating to their propensity to be an ESE student or not. At least one independent variable has to be included in step 1 but not step 2, which is theoretically associated with the propensity to participate in ESE, but not a higher intensity of entrepreneurial intention. Student work experience has been found not to be significantly associated with student entrepreneurial intention (Dohse & Walter, 2012). Students with work experience at university were allocated a score of '1', otherwise a score of '0' (Work), and is the selection variable that was included in step 1.

Model 1 in Table 2 is the step 1 Heckman model relating to the control, selection, and independent variables focusing on ESE participation or not. The inverse Mills ratio, which is a function of the correlation between the disturbances of the probit model, was considered during step 2 relating to the intensity of entrepreneurial intention. The OLS regression analysis relates to the control and independent variables, but not the Work selection variable. Standard errors were corrected for heteroscedasticity. The Inverse Mills ratio relating to step 2 Model 2 is not significant at the 0.1 significance level. The OLS model focusing on intensity of intention relates to a random sample of students, and the step 2 is not distorted by selection bias. A two-stage Heckman procedure was, therefore, not conducted.

4. Results

Hierarchical multiple OLS regression analysis was used. To improve interpretation of the interaction coefficients the independent and control variables were centered with regard to their means. Table 2 shows the results. Model 3 is the baseline control variable model. Those from self-employment and/or business ownership backgrounds (Parents) (p< 0.05) reported significantly higher intention. The gender variable and the university dummy location variables were not significant.

Table 2: Regression Models ^(a)

Dependent variable: intention	Model 1: step 1	Model 2: step 2	Model 3 controls	Model 4 direct effects	Model 5 interaction	Model 6 interaction
Controls						
Female	-0.04	-0.04	0.05	-0.09	0.31*	-0.04
Parents	0.02	0.05	0.15*	0.12	0.06	0.04
EU	0.05	0.01	0.01	0.05	0.01	0.04
NUS			0.08	0.13	0.06	0.10
Work	0.09					
Direct effects						
ESE	0.05	0.04		0.28**	0.20*	0.05
Scan (S)	0.25**	0.27**			0.26**	0.26*
Connect (C)	-0.10	-0.10			-0.13**	-0.28*
Evaluation (E)	0.17*	0.18*			0.21**	0.26*
Riskperc (RC)	0.07	0.07			0.09	0.19*
Riskprop (RP)	0.33***	0.32***			0.29***	0.34**
Inverse Mill's ratio	0.01					
Observations	189					
Sensored observations	49					
Unsensored observations	140					
Interaction terms						
ESE*F				-0.49***		
ESE*F*S					-0.02	
ESE*F*C					0.23*	
ESE*F*E					-0.06	
ESE*F*RC					-0.17*	
ESE*F*RP					-0.02	
R ²	0.03	0.08	0.40	0.39		
Adjusted R ²	0.01	0.05	0.36	0.34		
Δ R ²	0.03	0.05	0.32	0.31		
F value	1.29	2.99	10.17	7.08		
Sig. F change	0.01	0.000	0.000	0.000		

a) Standardized beta regression coefficients * p<0.05; ** p<0.01; *** p<0.001.

Building from this baseline model, to test hypothesis 1, we included the ESE participation variable in Model 4. ESE is positively and significantly associated with high intensity of intention. Hypothesis 1 is supported.

Model 5 includes the interaction term exploring whether female students are less likely to benefit from ESE participation. As hypothesized, the interaction between ESE participation and gender (ESE*F) ($p < 0.001$) is significantly negatively associated with high intensity of intention. Simple slope analysis (t -value = -2.06) shows that there are negative relations between ESE and intention for female ESE students, and positive relations between ESE and intention for male ESE students. Hypothesis 2 is supported.

Model 6 includes the three-way interaction variables and explores whether female ESE students accumulated scan, connect, and evaluation alertness skills, and risk-taking perception and propensity skills. Out of the five interactions, only two were significant. For female ESE students, the connection alertness skill is significantly positively associated with high intensity of intention (ESE*F*C) ($p < 0.05$).

The interaction between female ESE students and risk perception skill (ESE*F*RC) ($p < 0.05$) is significantly negatively associated with high intensity of intention.

Table 3 shows the significance values of the slope differences for connection alertness. For female ESE students, a positive relationship emerges between connection alertness and intention. The relationship is significantly different for non-ESE female students. The latter relationship is slightly negative. Non-ESE female students and non-ESE male students also differ significantly with regard to the relationships between connection alertness and intention. The relationship between connection alertness and intention are positive for all groups except non-ESE female students. Hypotheses H3a, H3b and H3c are not supported.

Table 3: Slope Analysis: Gender, ESE and Connect Alertness on Intention

Pair of slopes	t-value for slope difference	p-value for slope difference
ESE-female and ESE male	-0.02	0.984
ESE-female and Non-ESE female	2.11	0.036
ESE-female and Non-ESE male	0.61	0.545
ESE male and Non-ESE female	1.57	0.118
ESE male and Non-ESE male	0.42	0.673
Non-ESE female and Non-ESE male	-2.03	0.044

Table 4 shows the significance values of the slope differences for risk perception. Male ESE students differ significantly with respect to the relationship between risk perception and intention from non-ESE female students. For non-ESE female students, the relationship between risk perception and intention differ significantly from non-ESE male students. For both male groups, the relationship between risk perception and intention is positive. This means that both male groups are more oriented towards higher intention when they perceive more risk. For both female groups, the relationship is low and slightly negative. Women tend to be lower on intention when they perceive risk. This supports hypothesis 4a. However, hypothesis 4b is not supported.

Table 4: Slope Analysis: Gender, ESE and Risk Perception on Intention

Pair of slopes	t-value for slope difference	p-value for slope difference
ESE female and ESE male	-1.55	0.124
ESE female and Non-ESE female	0.51	0.611
ESE female and Non-ESE male	-1.83	0.069
ESE male and Non-ESE female	2.66	0.009
ESE male and Non-ESE male	-0.46	0.647
Non-ESE female and Non-ESE male	-3.02	0.003

5. Conclusions

ESE students reported higher intensity of entrepreneurial intention than students that did not participate in ESE. ESE did not unequivocally benefit all participants. Female ESE students reported significantly lower intensity of intention than male ESE students. Contrary to expectation, the three-way interaction analyses detected that gender did not moderate the relationship between ESE and scan, connection or evaluation alertness skills and intensity of intention. The relationship between connection alertness and intention was positive for all groups apart from non-ESE female students. Both men and women benefit from ESE in that they showed higher intention at high connection alertness than those not participating in ESE. This emphasizes the positive nature of ESE at least when it comes to connection alertness.

For female ESE students, the relationship between risk propensity and intensity of intention was slightly negative, similar to the one for non-ESE female students. For men it was positive, and overall

intention was higher for male ESE students at high risk perception. Women are more risk averse, or more realistic, when it comes to entrepreneurship, in so far, that when their risk perception increases their intention decreases. Men appear to have a higher intention at high risk perception than women and this is even more pronounced for men taking part in ESE. This is not necessarily a good thing because it might lead to men taking undue risks, and it might explain the high new firm failure rates. ESE did not increase the risk-taking skill by female ESE students. ESE can encourage female students to become more realistic surrounding a career in enterprise (Oosterbeek, van Praag & Ijsselstein, 2010).

We challenge the view that ESE generates equal benefits for both female and male students. Many women perceive that they will be less rewarded for some behaviors. Increasing the connection alertness skill was associated with high intensity of intention reported by female students, but the increase of the risk perception skill reduced the intensity of intention reported by female students. This is an important contribution to human capital theory and the appropriateness of teaching these skills in ESE.

Courses that focus on the accumulation of the connection alertness skill can increase the pool of students, particularly women, with higher intensity of intention. Conversely, ESE that focuses on the risk propensity skill can reduce the intensity reported by female students. It encourages women to become more realistic about entrepreneurship, and it could potentially reduce female firm failure rates. The 'one size fits all' ESE approach is not appropriate, and our findings suggest the need for 'gender-sensitive ESE' (Wilson et al., 2007). There may be a case for female only ESE classes taught by women with female entrepreneur and practitioner guest speakers who can promote female entrepreneurship by overcoming a perceived lack of fit (i.e. feminine gender identification) in relation to the entrepreneurial process.

This study addresses several technical problems with previous studies, but it is inevitably associated with limitations that provide opportunities for additional research attention. Future research can strengthen the generalizability of our findings by conducting cross-sectional and longitudinal evaluations of ESE in different national contexts, at different universities, and for different types of ESE courses relating to entrepreneurial intention and the likelihood of NFF post-university education over several points in time. Additional studies are warranted exploring whether the teaching of bricolage, effectuation, imagination, creativity, and innovation skills, particularly appropriate in a resource-constrained context, are more likely to raise female entrepreneurial intention than teaching solely focusing upon alertness and risk-taking skills. Studies need to move beyond a focus on 'average students', and there is a need to explore the heterogeneity among women.

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The Business Process Management Practice in Services

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Abstract

The purpose of this paper is to investigate business process management and business process improvement practice in Serbia in service companies, in order to notice company's process maturity level according to CMMI model, and what are problems and challenges that service companies in Serbia encounter while trying to implement process change initiatives. Questionnaire was sent to approximately 500 companies in Serbia. Results show that process maturity level is in accordance with the companies in the world, that the main business driver for process change is productivity/efficiency improvement, cost reduction and customer satisfaction improvement and main challenge is lack of interest within top management. This paper suggests steps for further efforts in process management and improvement practice within service companies.

Keywords

Business process management, process improvements, Serbian industry, service companies

1. Introduction

Processes and process approach are actual themes in literature and practice for a few decades. Hammer and Champy (1993) define process as "set of activities which transform one or more inputs in output which has values for users". According to Davenport (1993), process could be defined as „structural set of activities which can be measured, and which is designed to produce output for specific customer on the market". In these definitions, focus is on creating the value for the customer and process measurability also. If the case is accepted, that the processes are vital for each organization, than they must be observed as resources which should be managed. They are the part of business system, so one can say that business system can be managed through management of his business processes. (Tomašević et. al, 2011)

Many associations of process professionals like BPTrends or Process Excellence Network analyze and monitor development of BPM practice in the world for several years (Stojanovic et. al, 2014). First research of this kind was conducted in Serbia two years ago. Similar study was repeated this year and results are presented in paper (Stojanovic et. al, 2014). The motivation to repeat the similar study after two years was to notice if there is any progress in process work in Serbia.

The sheer size and continuing growth of the service sector and service occupations, the lack of significant improvement of productivity within services, and a late start of the research on the operational issues of services make service operations an important and fertile area of research (Apte et.al., 2008). A significant number of respondents in survey were from service companies, so it was interesting to see the results specific for services only.

After an introduction, a brief literature review will be given about business process management and improvement. Chapter three will present research methodology which was used for the purpose of this paper, and the main results of the research will be given in chapter 4. These results will be discussed in chapter 5, and the conclusion and future implications will be given afterwards.

2. Theoretical Background

Radović et. al. (2012) define processes as "set of activities which lunch specific event (or events), with assignment to accomplish specific goal". According to Gareis and Stummer (2008) process orientation is an element of new management paradigm. Business process management has emerged as a concept in the last two decades. Jeston and Nelis (2006) defined BPM as "achievement of organizational objectives, through the improvement, management and control of essential business processes", and emphasized that the "process management is an integrated part of "normal" management". Therefore, the first part of the research is dedicated to ways in which companies understand BPM and how they describe level of interest for process improvements.

In order to recognize the level of adoption of process management practice in Serbia, authors used CMMI model, which contains five level of process maturity (initial, repeatable, defined, managed, optimizing). Stojanović et. al. (2012) stated that immature companies cannot provide the consistency of their performance, while mature companies provide quality services at effective and consistent manner, and key point of the CMMI model is to understand where the organization is today and where it wants to get.

Rummel et. al. (2010) emphasized that processes should be performed on the effective and efficient manner, but they must be managed on the effective way. That could be secured through continuous work on process improvement which the basics goals are process efficiency and effectiveness and process performance improvement, which is the part of business process management.

One of the shortcomings of BPM is long duration of implementation and companies cannot wait long to see the results, so they need to define improvement projects which will achieve and show results quickly and these projects can be a key drivers for successful BPM deployment. (Stojanovic et.al., 2014) One part of the survey is dedicated to process improvements as part of the BPM in order to comprehend success factors for process improvements so as BPM.

Therefore, the main goal of this research is to assess level of adoption of process practice in service companies and to propose further efforts in process work which can be useful for practitioners and researchers on this field.

3. Research Methodology

The purpose of this study is to determine the state of business process management practice in service companies in Serbia, through investigation of process maturity, main drivers and challenges for process change and characteristics of process improvement practice. It is also interesting to see what the next steps are for the process management in service companies in Serbia.

Questionnaire was used as survey instrument and included 28 questions divided into three groups: the first group are general questions about company and respondents, second group are questions about process maturity and third group of questions refers to business process improvement practice. The questions are requiring single or multiple choices and some of them include an open form.

The research instrument was mailed to general managers, functional/department managers, business and process analysts at a random sample of 500 manufacturing and service organizations in the Serbia. A total of 89 usable responses were returned, resulting in a response rate of 17,60 percent. Authors also used social professional network group LinkedIn to contact potential respondents. A 54 of 89 usable responses were companies with service orientation. Only those companies were included in the results presented in this paper.

Statistical package SPSS was used for calculation of frequencies and X^2 test (with significance set to 0.05)

4. Results

Among 54 respondents in the services, 11,1% were general managers, 5,56% were executive officers, 14,8% were business function/department managers and business analyst also, 16,7% were process analyst, and consultants with the same percent, 9,6% were researchers, while 11,1% of respondents stated that their position was something else. Majority of the companies with service orientation were small companies (40,7%) with less than 50 employees, and 22,2% were medium companies and 37,1% of large companies .

Most companies were domestically owned (72,2%), about 5% of them have foreign owners, and with the rest (22,2%) the ownership was shared between domestic and foreign owners.

Figure 1 present survey respondents by industry. Majority of them provides consulting services (24,07%) and banking or insurance services (16,67%).

Figure 1: Survey respondents by industry

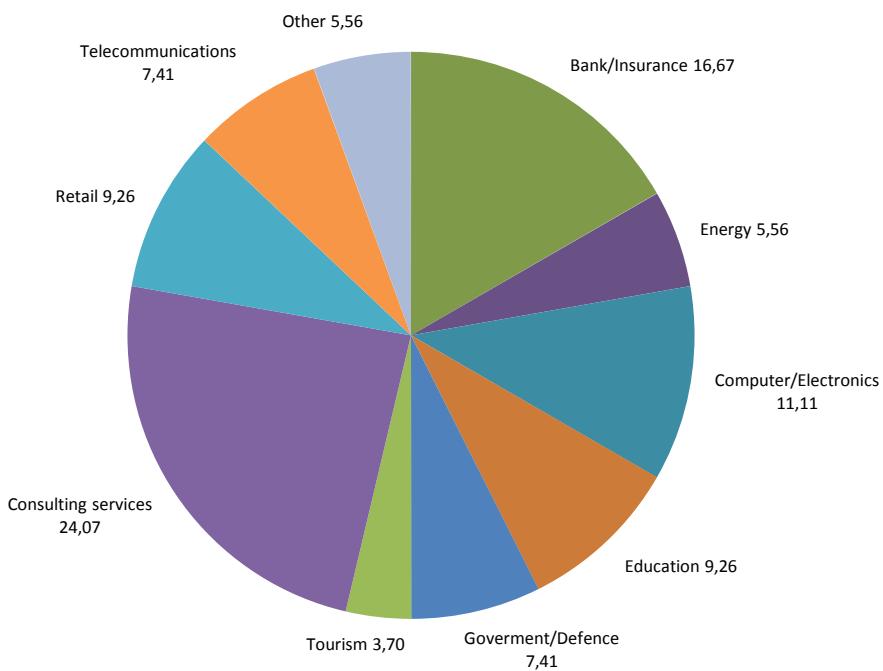


Figure 2 presents way that respondents understand the term Business process management.

Figure 2: Companies' understanding of Business process management concepts in services

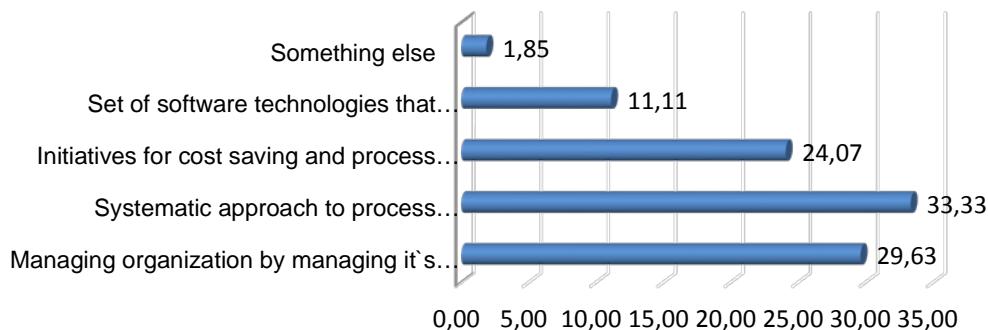
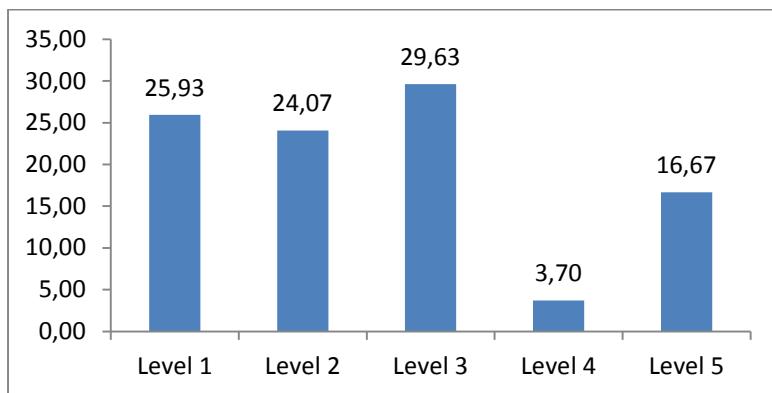


Figure 2 shows that respondents were mostly indicated that their organizations understand BPM as systematic approach to process analysis, improvement, redesign and management (33,3%) or managing organization by managing its business processes (29,6%). Initiative for cost saving and process improvement of certain processes is also represented in 24%.

The respondents were asked to position their company at one of the levels offered by CCMI maturity model. The results are shown in Figure 3.

Figure 3: Levels of CMMI process maturity of service companies in Serbia

Majority of the companies are on third level of process maturity (29,3%), while significant percent is also for level 1 and 2, while 16,7% of the respondents stated that their companies are at the highest level of process maturity.

Table 1 show that majority of the companies stated that they are undertaking activities concerning process maturity “in some cases” or “always”, and these results supports the assessed position of process maturity.

Table 1: Questions concerning process maturity in service companies

Questions concerning process maturity	Never	In some cases	Always
Business processes documented and updated	3,70	66,67	29,63
Business processes measured and monitored	7,41	59,26	33,33
Core business process models include activities of suppliers and partners	24,07	57,41	18,52
IT support in accordance with business processes	9,26	55,56	35,19
Skills needed for activities are defined and documented	12,96	62,96	24,07
Managers are trained for analysis, design and business process management	20,37	51,85	27,78
Process managers use data about performances in order to manage processes	18,52	59,26	22,22

About 20% of the respondents stated that process improvement initiatives are always being able to identify and remove problems and inconstancies, while 68,5% stated that problems are frequently solved by process improvement initiatives, and 11,1% mark never as answer.

In 2014, 64,8% of the companies stated that they don't have formal group for process management, or if they have formal process management group, location is within their executive management (14,8%), or quality unit (9,3%).

Main drivers behind business process change initiatives identified among service companies are given in table 2 (multiple answers were allowed).

Table 2: Main drivers behind business process change initiatives in services companies

Main drivers behind business process change initiatives	%
Need for productivity/efficiency improvement	68,52
Need for savings - cost/defect reduction	50,00
Need for customer satisfaction improvement	42,59
Revenue or market share growth	38,89
Need for product/service improvement in order to remain competitive	31,48
Adapting to regulations	25,93
QMS certification	22,22
Risk management	11,11
Need for managing IT resources (ERP/CRM)	9,26
Onetime events (reorganization/mergers/acquisitions)	7,41
Business partner's requirements	3,70

Main driver for business process change in 2014 were need for productivity/efficiency improvement (68,52%), need for savings (50,00%) and need for customer satisfaction improvement (42,59%).

Respondents were asked to mark business process initiatives which they have been undertaken so far (see Table 3, multiple answers were allowed).

Table 3: Business process initiatives that companies have undertaken so far

Business process initiatives undertaken so far	2014	2014
	No. of companies	%
Modeling/documenting processes	38	70,37
Business Process management	34	62,96
Business process architecture development	28	51,85
Business process measurement system development	28	51,85
Core processes redesign	22	40,74
Process automation projects	19	35,19
Process managers training for process analysis/redesign	9	16,67
Continuous process improvement projects/KAIZEN	7	12,96
Lean improvement projects	5	9,26
Redesign of processes with reference models	3	5,56
Six Sigma improvement projects	2	3,70
Lean Six sigma improvement projects	2	3,70
Process excellence concepts	2	3,70

Majority of the service companies worked on modeling/documenting processes (70,37%), business process management (62,96%), business process architecture and measurement system development (51,85%).

With regard to challenges and resistances encountered while trying to expand business process initiatives in service companies, third of respondent's answered that lack of interest within top management is the main challenge (31,48%), management doesn't want to invest in process change projects at this time (29,63%), and that process change projects require same resources (24,07%).

But, two companies stated that they haven't encountered any type of resistance. Results are given in table 4 (multiple answers were allowed)

Table 4: Challenges and resistances encountered while trying to broaden business process initiatives in services

Challenges encountered	2014	2014
	No. of companies	%
Lack of interest within top management	17	31,48
Management doesn't want to invest in process change projects at this time	16	29,63
Multiple process change projects require same resources	13	24,07
Previous process improvement projects were unsuccessful	8	14,81
Management requires ROI that is not achievable	5	9,26
No resistance	2	3,70
Something else	0	0,00

Respondents were asked what process initiatives they plan to undertake in the following period, and results are in Table 5.

Table 5: Process initiatives that companies plan to undertake in the following period

Business process initiatives undertaken so far	2014
	No. of companies
Core processes redesign	22
Business process measurement system development	15
Business Process management	14
Modeling/documenting processes	12
Business process architecture development	11
Process managers training for process analysis/redesign	10
Process automation projects	10
Redesign of processes with reference models	10
Continuous process improvement projects/KAIZEN	7
Lean improvement projects	4
Lean Six sigma improvement projects	4
Process excellence concepts	3
Six Sigma improvement projects	2

One part of the survey was dedicated to business process improvement. A majority of companies reported that process improvement is part of normal work environment (42,6%), and 35,19% stated that interest in process improvement was expanding, and 14,81% reported that they do not have interest for business process improvements. Companies which reported expanding interest for process improvement were so far engaged in following business process initiatives: Modeling/documenting processes (11 companies), Business process architecture development (10 companies) and Business process management (10 companies). These companies are planning to implement Core process redesign (10 companies), and will continue to work on Business process management and business process measurement system development. Companies in which process improvement is a part of normal work environment have so far implemented following initiatives: Business process management (18 companies), Business process measurement system development (15 companies), and Business process architecture development (15 companies).

Majority of the service companies stated that they were engaged in business process improvement for more than two years (40,74%), and one third of companies reported that they work more than five years on process improvements (33,33%).

The focus of business process improvement initiatives is mainly on production/operations (15 companies), IT business unit (23 companies), sales (11 companies), finance (13 companies) or customer service (18 companies). According to the survey, 12 companies reported that they apply business process improvement methodologies in the whole company.

In accordance with expansion of application of BPI in companies, majority of the respondents had enterprise-wide improvement projects (39,6%), 26,42% implement BPI projects in one or more business unit, 22,64% are small scale pilot and 11,3% had trained process improvement resources but without formal program. Companies stated that their process improvement project length is 6-12 months (20,7%), while 16,9% reported that average project length is less than three months. Companies which process improvement project length is 3-6 months account for 15,1%. Survey shows that more than half of the companies expect that number of employees dedicated to process improvement will increase (51,8%), and 37,04% stated that number of employees will remain the same. Only 11,1% said that this number will decrease in the future. The similar situation is with budget for process improvement program.

Chi-square was used in order to test whether interdependence between the basic parameters of the company, drivers and challenges with process management and improvement practice in service companies in Serbia exists. Service companies are oriented to process improvement deployment in IT sector ($\chi^2=12.049$, df=2, p=0.000). Companies which do not have as main driver QMS certification did not have challenge of unsuccessful process change projects ($\chi^2=3.61$, df=1, p=0.05) Companies which do not have as main driver Adaptation to regulations expect that number of employees involved in process improvement will increase ($\chi^2=7.66$, df=2, p=0.02) Companies with developed process models which include activities of external suppliers or partners, are facing with the challenge that multiple process change projects requires the same resources. ($\chi^2=8.406$, df=2, p=0.01) Service companies that work on business process measuring did not faced with the challenge of lack of interest within top management. ($\chi^2=6.356$, df=2, p=0.04)

5. Discussion

Majority of respondents are process analysts and consultants, but also significant percent of respondents are business/function department managers and business analyst. Respondents job title preliminary show that companies are aware of business process importance. Respondents' understanding of BPM shows that they know that BPM is systematic approach that enables managing whole organization through business process management, but it is also recognized as initiative for cost reduction. Majority of the companies are at Level 3 of CMMI process maturity, which is in accordance with companies in the world (Wolf and Harmon, 2012). Still, the significant number of companies was at Level 1 or 2, and there are nine companies at Level 5.

Higher number of respondents reported that process improvement initiatives are always being able to identify and remove problems than respondents who marked answer "never", while significant percent of respondents stated that they can solve problems frequently with process improvement initiatives. Process maturity level of service companies implies that processes are well documented, monitored and measured, and in that situation it is easier to find errors and to react in appropriate way, thus making problem solving more efficient.

Service companies mostly do not have formal group for process excellence, and this can be a future task for our companies. (Stojanovic *et al.*, 2014) stated that companies which do not have formal BPI group are less successful in their process improvement program.

With regard to the main drivers for business process change, service companies are more oriented to the productivity/efficiency improvement, cost reduction and customer satisfaction improvement.

Chi-square test shows that companies which do not have QMS certification as main driver did not have challenge of unsuccessful process change project, and also companies which did not work on processes because of adaptation to regulations expect that number of employees involved in process improvement will increase. Service companies were more oriented to the modeling/documenting processes, implementation of Business process management in the whole, with business process architecture and measurement system development. The number of companies engaged in incremental improvement was less than service companies that work on core process redesign.

Growing lack of interest within top management for process improvements is not so good result, especially in large companies. Service companies in Serbia are also facing with the problem that management doesn't want to invest in process change projects at this time.

Service companies plan to work mostly on Core process redesign, and to continue to undertake Business process management implementation with specially development of process measurement and process architecture. This can contribute to higher process maturity within service companies and this situation is corresponding with companies' readiness to undertake Core process redesign. Also, a significant percent of service companies reported that process improvements are part of their normal work environment or that they have expanding interest for such initiatives, and these companies mostly undertake implementation of Business process management in the whole, and plan to work on Core process redesign.

Majority of the companies stated that they work on processes longer than 2 or 5 years, and that their focus was mainly on production or core operations, IT or customer services, which is expected result and confirm the development of combination of improvement practice with IT within services.

It is interesting result that service companies which work on development of process measurement system did not face with the lack of interest within top management, and this can be consequence of creating a better system for managing business system as whole.

6. Conclusion

Considering the results obtained from this study, it can be concluded that services companies in Serbia have process awareness which is in accordance with the companies in the world. Situation which contributes to this fact is that process specialists are able to solve the problems in companies. Characteristics of process improvement project for services are enterprise-wide projects with duration mainly less than one year. Service companies are oriented to establishing complete Business process management system, as well as redesign of core processes. There is an obvious need to develop the formal process groups, with assignment to promote BPM.

The most significant challenge is lack of interest within top management. The main success factor in any kind of change project is commitment of top management, and their support is needed also for these kinds of projects. Further step for solving this problem can be education of managers about BPM benefits through different trainings and better business and academia connections.

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Implementing Family-Friendly Organizational Practices in Transition Economy: Analyzing the Effects on Work–Family Conflict of Employees

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Abstract

Successful balancing of work and family demands is impacted by factors on three levels including governmental, organizational and individual. In many transition economies the governmental support for balancing work and family demands has been decreasing and those countries are witnessing a rise in family-friendly practices that employers are offering to their employees, however it remains unclear how the support available in the workplace and support available at home affect the conflict between work and family demands. Based on the data collected from 1500 employees from nine companies that acquired the “Family-friendly company” certificate this paper examines how available support impacts the work-family conflict. The study shows that work demands affect the work-to-family conflict, but much less to not at all the family-to-work conflict. Social support in the workplace is very important, but it is the emotional support one can expect at work and not just institutionalized and implemented family-friendly programs and practices, that is reducing the work-to-family conflict. In general both work and family support have a moderating effect on how demands affect the conflict. We argue that in order to become a family-friendly organization it is not enough to develop and practice family-friendly programs but it is crucial to truly adopt and internalize the family-friendly corporate culture throughout the organization, so that employees offer each other support when needed.

Keywords

Work-family conflict, social support, transition economies, family-friendly company

Introduction

Balancing work and family demands has been an increasing challenge for many individuals and families. The discussion on how to reduce the conflict between work and private life has been active among politicians, managers and employees (Barling, 2005). Demographic and socio-economic movements like ageing population (Eby, Casper, Lockwood, Bordeaux & Brinleya, 2005), higher women participation in the work market (Boylum-Breen, 2006), increasing age at retirement (Kohli, 1991), longer working days (Lewis, 2003), more men involvement in family life (Gambles, Lewis & Rapoport, 2006), reduced institutional support for work life balance in transition economies (Poelmans & Kalliath, 2008; Trefalt, Drnovšek, Svetina-Nabergoj & Adlešič, 2013) have caused that individuals find it harder to manage and balance competing demands (Hewlett & Luce, 2006). People have many roles that can be separated in two domains, work and private of family life (Frone & Russell, 1992a). Successful balancing of all demands is impacted by several factors that can be clustered in three levels including governmental (Saltzstein, Ting & Saltzstein, 2001), organizational (Beauregard & Henry, 2009) and individual (Tausig & Fenwick, 2001). The role of employers and the support they provide to their employees is gaining importance (Goff, Mount, & Jamison, 1990) as companies around the world are introducing several practices to help their employees give their best at work and at home (Lau, Hem, Berg, Ekeberg & Torgersen, 2006).

Socially responsible business practices in are no longer just about a humanitarian or charitable involvement in various events. They involve the integration of responsibility for different areas in the business environment into the company's strategy. Fields of action include environmental protection, human rights, equal opportunities, health and safety, business ethics, and facilitating the balance of work and family life (Heslin & Ochoa, 2008; Otubanjo, Amaeshi & Olufemi, 2008). Employers are showing an increasing degree of social responsibility to their employees (Bretherton, 2008), including internal communication, better working conditions, continuous training and education, providing equal opportunities and facilitating the reconciliation of work and family life. If employees experience a serious imbalance in their work-family divide, the employer faces additional costs due to absenteeism (Allen, 1983), staff turnover (Hinkin & Tracey, 2000), accidents at work (Monnery, 1998) and, even more indirectly, costs arising from employee dissatisfaction and lower commitment to work (Rusbult & Farrell, 1983), etc. It is becoming ever clearer that attitudes to the work-life balance and parenting cannot only be governed by legislation, but need to also be addressed at the organisational level (Bloom, Kretschmer & van Reenen, 2006; Pärnänen, Sutela & Mahler, 2007; Raskin, 2006).

Since the governmental support for balancing work and life demands has been decreasing in many transition economies like for example Slovenia (Edlund, 2007; Trefalt et al., 2013) those countries are witnessing a rise in family-friendly practices that employers are offering to their employees. Although the family-friendly organizational practices are being increasingly introduced in all continents including Europe (Klammer & Klenner, 2004), Australia (Parkers & Langford, 2008) and USA (Epstein, 2006) there is no clear understanding of how the support available at work and support available at home and the interplay between both affect the work-to-family and family-to-work conflict of employees (Goff et al., 1990; Kossek & Nichol, 1992).

This paper focuses on understanding the mechanisms that influence the conflict between work and family demands in the context of transition economy. Based on the data collected from more than 1500 employees from nine companies in Slovenia that acquired the "Family-friendly company" certificate this paper examines how the elements of social support inside and outside the workplace influence employees' conflict between work and family demands.

This paper contributes to existing literature in two ways. Firstly, we propose and empirically test the model that explains the influence of social support inside the organization (management and

coworkers) as well as social support one has outside their job (spouse, family and friends) one's perception of work-to-family conflict as well as family-to-work conflict. Secondly, we propose some recommendations for companies on how to successfully nurture family-friendly corporate culture.

Literature Review

Work-family conflict

In the literature on work and life the work-family conflict (WFC) remains one of the most elaborated concepts. We follow the Greenhaus and Beutell's definition that WFC is "a form of interrole conflict in which the role pressures from the work and family domains are mutually incompatible in some respect (1985). This is, participation in the work (family) role is made more difficult by virtue of participation in the family (work) role" (Greenhaus & Beutell, 1985, p. 77). The research of the work-family conflict suggests that multiple roles with its infinite demands are likely to cause a conflict for individuals because they have scarce resources such as energy and time to meet these demands (Goode, 1960). According to Greenhaus and Beutell's definition (1985), work-family conflict can occur in two directions: work can interfere with private life (work-to-family conflict, WtFC) or private life can interfere with work (Family-to-work conflict, FtWC). For example, a working parent might experience WtFC due to long, irregular, or inflexible work hours, work overload and other forms of job related stress, extensive travel due to work, unsupportive supervisor, coworkers or organization (Voydanoff, 2004). For example, an unexpected meeting late in the afternoon may prevent a parent from spending quality time with children and spouse or preparing a meal for the family. On the other hand a working parent might experience FtWC due to the primary responsibility for young children, responsibility for elderly family members, interpersonal conflict within the family or unsupportive family members (Hill et al., 2008). For example, a parent may need to take time off to care for a sick child or to accompany a sick family member to the hospital. Although in early studies work-family conflict has been conceptualized as a uni-dimensional construct (Kopelman, Greenhaus, & Connolly, 1983), later studies distinguish two distinct constructs (Michael R. Frone, Russell, & Cooper, 1992b; Kelloway, Gottlieb, & Barham, 1999) depending on the direction of the interference, namely WtFC and FtWC. Accordingly, in this paper we look at how family and work demands affect each of those conflicts and the moderating effect of family support and support at the workplace. The conflict between family and work is intensified with higher demands an individual faces and diminished with higher levels of support one receives both at the work place and in their family. However two types of conflict, namely WtLC and LtWC are expected to be influenced in different ways whether the demands are work or family related and whether support happens in the workplace or at home.

The role and nature of demands

Demands are defined by Voydanoff (2005, p. 823) as: "structural or psychological claims associated with role requirements, expectations, and norms to which individuals must respond or adapt by exerting physical or mental effort". Jones and Fletcher (1996, p. 34) define that demands are "the degree to which the environment contains stimuli that peremptorily require attention and responds" and "things that have to get done". Work demands refer to "physical, social, or organizational aspects of a job that require sustained physical or mental effort, and are therefore associated with certain physiological and psychological costs" (Demerouti et al 2001 in Beham & Drobnić, 2010). Work demands may consist of long hours, shift work, frequent travel or job pressure, while examples of family demands are for example household and care responsibilities for children and older family members (Schaufeli & Bakker, 2004).

There exists tight relationship between demands and work-family conflict. Antecedents related to work-family conflict include family demands (e.g., number and age of children or hours of care provided to aging parents) (e.g. Duxbury & Higgins, 1991) as well as work demands (e.g. job pressure) (Voydanoff, 2005). Schaufeli and Bakker (2004) find that job demands and private-life demands both

put a pressure on the work-family conflict. Authors Beham, Drobnić, and Präg (2010) show that individual perception of work-family conflict derives from assessing the extent to which demands hinder, or resources enhance, the performance of work and family roles. In study of Yang and Zheng (2011) found that American employees experienced greater family demands than Chinese employees, and family demands had a greater effect on WFC among Americans whereas work demands had a greater effect on WFC among Chinese workers. However, two types of conflict have different (Byron, 2005) and need to be studied separately (M. R. Frone & Russell, 1992a).

In this paper we expect to prove that work demands affect primarily the work-to-family conflict, while private life demands affect primarily the life-to-work conflict.

H1a: Work demands will increase work-to-family but not family-to-work conflict

H1b: Family demands will increase Family-to-work but not work-to-family conflict

The role and nature of social support

Social support is broadly defined as the ability to help relationships and the quality of those relationships (Leavy, 1983 in Parasuraman, Greenhaus & Granrose, 1992). Hobfoll and Stokes (1988, p. 499) have defined social support as a “social connection or relationship that allows individuals to participate in, or sense of belonging to a person or a group that is perceived as loving and caring”. House (1981) cites that social support involves the exchange of resources between at least two persons, with the aim of helping the person who receives the support. The support elements can come from work, like for example managers or supervisors, co-workers and institutionalized family-friendly programs that are available to employees or the support available in one's private life, like for example spousal support, support from family members and friends and paid support (cleaning or childcare help) (e.g. Kossek, Pichler, Bodner & Hammer, 2011)

The classification of social support goes even further than separating support depending from where it comes from (work or private domain) and some authors also differentiate between the different types of support, namely instrumental and emotional support (Abendroth & Den Dulk, 2011). Instrumental support refers to e.g. tangible support and assistance aimed at solving problem and emotional support refers to more intangible aspects e.g. listening and providing empathy (Adams, King & King, 1996). Authors like Abendroth and Den Dulk (2011) differentiate between instrumental and emotional type of support in both the private domain and the workplace. Following their examples organizational family friendly programs and practices available to employees can be seen as instrumental support in the workplace. While on the other hand, emotional support comes from managers and supervisors as well as from coworkers when they show empathy for the employee's work-life balance situation. In the private domain, emotional support comes from the spouse, family members and friends, while instrumental support comes from example from paid childcare or household help.

Given the focus of this paper it is important to look into the relationship between those two types of support in the workplace and how it affects the work-to-family conflict as well as family-to-work conflict. Research findings suggest that both instrumental as well as emotional supports are needed in the workplace. Instrumental support in the workplace is not enough to achieve a successful work-life balance (Abendroth & Den Dulk, 2011; Den Dulk & Peper, 2007; Lyness & B., 2005). The emotional support aspect coming from supervisors and coworkers is crucial for the actual take-up of workplace family-friendly programs and practices and for successfully managing work and family life. Behson (2005) found that emotional support explains more variance in work-life conflict than work-family benefits. As Abendroth and Den Dulk (2011) prove that emotional and instrumental support in the workplace have a complimentary relationship. Emotional support alone is insufficient and family-friendly arrangements at the organizational level also appear to be necessary to help employees with work-family conflict.

In our paper we differentiate between instrumental and emotional support in the workplace, operationalizing the instrumental support with institutionalized family-friendly programs that the company offers to its employees. We measure emotional support in the workplace through the perception of support one gets from superiors and coworkers in the company, like for example having empathy and understanding for each other's work-family challenges and helping each other in times of high pressure related to balancing work and family responsibilities. Because of the post-socialist tradition in Slovenia we didn't include instrumental support within the private domain. Paid domestic help and similar arrangements are extremely rare, as well as paid childcare since public childcare options are available and affordable to basically everyone. Instead we decided to measure separately the emotional support from the spouse and support coming from other family members. We did that for two reasons – first we believe there is a different level of emotional support involved with spouse versus extended family and second, support from friends and neighbors is rarely used in work-life research.

Many authors mention the importance of support in connection with work-life balance. For example, Anderson, Coffey, and Byerly (2002) identified the support of co-workers as an important coping mechanism in struggling to balance professional and family obligations. Furthermore, authors Pines and Aronson (1983) in their research discovered that professional employees are evaluating emotional support as one of the most important social support functions. Taken all together, social support has been proven to help reduce the conflict between work and private life demands. Among employed individuals there are two sources of social support –support at work and support in private life.

Studies have found that support people get affects the way demands influence the work-life conflict people experience. Thomas and Ganster (1995) found that work-family policies are negatively related to the work-to-family conflict. T. D. Allen (2001) suggested that the availability of family supportive benefits might be indirectly related to work-life conflict through the perceived family supportiveness of the organization. Her results indicate that workers who perceived the organization as less family supportive experienced more work-life conflict and less job satisfaction than employees who perceived their organization as more family supportive.

Prominent in the research on the support in private life are studies on spousal support. Studies show both a direct and a buffering effect of spousal support on work- family conflict (e.g. Matsui, Ohsawa & Onglatco, 1995; van Daalen, Willemsen & Sanders, 2006). Other sources of support, such as help from friends, neighbors and paid domestic help are a less frequent topic of research.

In the context of this research, we expect family-friendly programs and practices in the company and supportive supervisors and coworkers make work responsibilities less overwhelming by offering support in times of high pressure from balancing work and family demands. Similarly, we expect support from spouse and family members to help decrease the family-to-work conflict by offering understanding and taking over some family responsibilities when one faces hardship in coping with demands in both roles.

H2a: Work support will decrease work-to-family but not family-to-work conflict

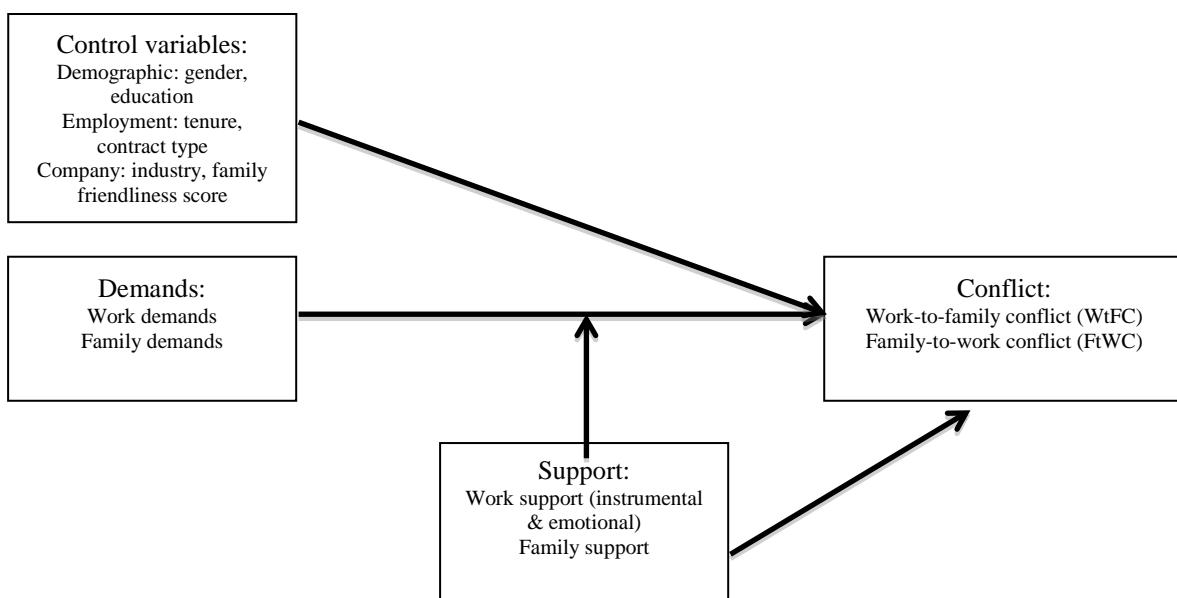
H2b: Family support will decrease family-to-work but not work-to-family conflict

We want to support the relationship between constructs, where support (in the workplace and in private life) moderates the relationship between demands (at work and at home) and the perceived conflict between family and work demands (WtLC and LtWC). Based on the literature review, it is expected that different sources of support (in the workplace and in private life) help reduce the demands' pressure. As Abendroth and Den Dulk (2011) argue, work and life demands do not necessarily have a negative impact on work-life balance, when there are adequate mechanisms of

support in place to help the individual cope with these demands. House (1981) argued that social support could mitigate or buffer the effect of potentially stressful objective situations by causing people to perceive the situation as less threatening or stressful. Schaufeli and Bakker (2004) therefore hypothesized a negative relationship between work demands and work resources in their study, since job resources potentially reduce job demands. Furthermore, authors suggest some examples of how family-friendly policies in the workplace can help employees accommodate their family responsibilities without reducing work hours or the amount of work that is performed (Voydanoff, 2005). Those include dependent care benefits and flexibility regarding when work is done, for example, flexible work schedules. Family-friendly work programs and practices make it easier for employees to accommodate family responsibilities by enabling workers to take time from work or to work part-time in order to meet family responsibilities. Accordingly, we expect the support (in the workplace and in the family) to moderate the effect of demands (in the workplace and in the family).

H3: Support will moderate the effect of demands, making it less intense

Figure 1: Conceptual model



Family-Friendly Organizational Practices and Transition Economies

As already mentioned an important part of the social support comes from the workplace. As companies are increasingly implementing different family-friendly programs and practices it is important to understand how they affect the conflict between demands employees face at home and at work.

This is specifically the case for transition economies which have received very little attention in work-life research but have a very specific set of characteristics that all affect how individuals in this countries face conflicting work and private life demands (Brainerd, 2000; Ferrarini & Sjöberg, 2010; Pascall & Lewis, 2004; Stropnik, 2001; Trefalt et al., 2013). As Abendroth and Dulk note in their paper European countries have different welfare state regimes and depending on that sources of support for balancing work and life demands come from state, market or family (2011). Transition economies faced a sudden change in socio-economic system from socialism to capitalism and in most transition

economies the level of state support for work-life balance, which was traditionally high, reduced significantly (Abendroth & Den Dulk, 2011). Sudden decrease in state support for work-life balance could have a very negative effect on work-life experiences unless this responsibility was transferred to employers and work-life support became compensated at organizational level. In different transition countries the decrease in state support varied (Crompton & Lyonette, 2006; Mortazavi, Pedhiwala, Shafiro & Hammer, 2009) and included shorter maternity leave, less payment/compensation for parental leave (e.g. Haas, 2003), less financial support for state-funded child care facilities, etc. Accordingly the extent to which employers reacted with organized and institutionalized work-life support at the organizational level varied.

In Slovenia, where state level support for balancing work and private life demands was traditionally very high, drop in state level support happened incrementally but with a clear signal that each year will bring even less support due to economic crisis and tightening public budget (Mrčela & Sadar, 2011). For example in the past years we faced drop in state compensation during parental leave (ZUJF), increased cost of childcare (Delo, 2012), public preschool, which used to be free for the second and any consecutive children now needs to be payed for all children in the family (Hočvar, 2012), etc. This was a clear signal that employers will need to compensate and institutionalize family-friendly programs and practices because the expectations that citizens have stayed high and did not (yet) adjust to external changes. It takes generations to lower the expectations of what level of work-life support is expected (Trefalt et al., 2013). In line with economic and social trends described above, an extensive nationwide project »Family-Friendly Company Certificate« has been introduced to several companies in Slovenia in order to help them develop and implement family-friendly programs. The basis for introducing the Family-Friendly Company certificate in Slovenia is the "European Family Audit" system developed by the German organisation Berufsfamilie. In Slovenia, the procedure for obtaining a certificate was introduced in 2007 by the Ministry of Labour, Family and Social Affairs in partnership with the Ekvilib Institute, which is an audit institution. With government support the number of companies is growing each year, from 32 in 2007, to over 60 in 2011 and more than 130 in 2014 (Ekvilib, 2014). Companies did not have much experience and needed support including external institute, sharing best practices, supporting each other and national level/government support. The project leadership as well as government were equally devoted to implementing family-friendly programs in participating companies as well as to evaluating and measuring the effects of such practices at the corporate and individual level in order to truly understand the mechanisms at play and to be able to better support the evolution and growth of family-friendly culture in organizations in Slovenia and beyond.

The »Family-Friendly Company Certificate« project offers a catalogue containing 110 programs proposed by the institution authorised to perform the certification procedures. The family-friendly programs are divided into eight thematic groups including: working time, organisation of work, workplace conditions, information and communication programs, leadership, human resources development, the structure of pay and performance, and services for families. Some examples of family-friendly programs are shown in table 1.

Table 1: Some examples of family-friendly programs a company can introduce

Group of family-friendly programs	Examples of programs the company can introduce
Working time	Flexible working time, shift work, part-time work, condensed working week, job sharing, extra leave
Organisation of work	Team work, replacement
Workplace	Telework, work at home, financial and technical support
Information and communication programs	Brochures, meetings of employees, open day, PR, interviews
Leadership	Social skills, education, 360° analysis
Human resources development	Interviews, career planning, education, self-management training, stimulating of women
Structure of pay and performance	Compensation for nursing, scholarship, loan, free time activities
Services for families	Counseling, babysitters, kindergarten, vacation offers, rooms for children

Source: <http://www.ekvilib.org/>

By evaluating the certification process as well as company level effects of introducing family-friendly programs (Knaflič, Svetina Nabergoj, & Pahor, 2010a; Knaflič, Svetina Nabergoj, & Pahor, 2010b) it became clear that in Slovenia companies that joined the certification project initially institutionalized those family-friendly programs that were informally already in place in their company (like for example communication with employees regarding work-family reconciliation, flexible work schedule and a free day when a child starts elementary school) and only later started introducing programs that are new and were (in most cases) suggested to the leadership as relevant programs to implement based on employee surveys (like for example childcare, telework, career planning and counseling for employees when undergoing transitions in life) (Knaflič et al., 2010a). In the literature there appears to be an important distinction between implementing a family-friendly program by institutionalizing it in the company and putting it in the catalogue of family-friendly options an employee has and actually achieving that the whole company from employees to managers and the board of directors embraces family-friendly corporate culture. In order to test the effects of those different levels of support at work, we ran a study described in the next section.

Research Method

We collected the data on more than 1500 employees from nine companies that acquired the “Family-friendly company” certificate. Two modes of data collection were used – web or paper questionnaire – depending on the company and job position. There were no systematic differences between the two modes of collection. The number of employees in individual companies varied from 75 to just under 400. Sampling in individual companies varied from complete coverage to random sample, with cluster sampling, using departments as clustering units, was employed as the sampling method.

We first checked the consistency and reliability of existing scales and developed new scales using exploratory factor analysis and reliability testing. We used the scales in an OLS regression using the Matthews, Kath, and Barnes-Farrell (2010) scale for “Work-to-life conflict” as the dependent variable. We included explanatory variables in a hierarchical manner, adding blocks of variables as follows: personal characteristics, work-place characteristics, perceived support from private life (spouse, family and friends) and perceived support at work.

Findings

First we tested the consistency of scales that we used to measure demands, support and conflict. We argued that work-life conflict comes in two forms, as work-to-life conflict and as life-to-work conflict.

We constructed a scale (Matthews et al., 2010) six items, half indicating work-to-life conflict and the other half life-to-work conflict. We tested the scale reliability using Crombach's alpha and the nomological and discriminant validities of the scale. All the tests show that using two separate scales is more appropriate than using a single work-life conflict scale.

Table 2: Scales and relevant Cronbach's alphas

Item	Work-to-life conflict scale	Life-to-work conflict scale	Work-life conflict scale
I have to miss family activities due to the amount of time I must spend on work responsibilities.	0.750		0.679
I am often so emotionally drained when I get home from work that it prevents me from contributing to my family.			
The behaviors I perform that make me effective at work do not help me to be a better parent and spouse.			
I have to miss work activities due to the amount of time I must spend on family responsibilities.		0.711	
Because I am often stressed from family responsibilities, I have a hard time concentrating on my work.			
Behavior that is effective and necessary for me at home would be counterproductive at work.			

To test our hypotheses, we ran four sets of three models. We varied the models by the dependent variable – we tested separately for work-to-family conflict (WtFC) and the family-to-work conflict (FtWC) as a dependent variable. Also, we separated the effect of work demands and support at work on one hand and family demands and family support on the other hand, which, together with the division of the work-life conflict into WtFC and FtWC, gave us the four sets of models.

In each set, the first model included (besides the control variables) the demand variable(s). Work demands and family demands variables are both scales of two items each on a response, how much time do people dedicate to each of the activities. In the family demands we also included a separate variable, child-age pressure, which is calculated as a sum (18 - child age) over all children. As control variables we used demographic controls including gender, and education, as employment controls we used employee's tenure in the company and type of work contract he/she has and as company controls we used industry, the perception of how family-friendly the employer (company) is and whether or not the employee has actually used family-friendly programs that are available to him/her within the company.

The second model of each set included social support variables. In the family support, two separate scales for spouse support and other family members' support were used. In the work support we used the instrumental support variable (a three-item scale measuring the employee perception of how family-friendly the company is) as well as emotional support in the workplace (a six item scale measuring the support employee can expect from coworkers and managers and supervisors).

The third model for each set added the interaction between work or family demands and work or family support respectively in order to control for the moderating effect of support on the relationship between demands and work-life conflict.

Table 3: Effect of work demand and support on work-to-life conflict

		Model 1		Model 2		Model 3	
		b (t-value)	Sig.	b (t-value)	Sig.	b (t-value)	Sig.
Controls	(Constant)	3.54 (11.8)	***	4.2 (11.9)	***	5.89 (5.8)	***
	Company family friendliness level	-0.32 (-9.2)	***	-0.21 (-4.5)	***	-0.21 (-4.6)	***
	Use of family-friendly programs	-0.06 (-0.9)		-0.07 (-1)		-0.08 (-1.1)	
	Gender	-0.11 (-1.6)		-0.14 (-2)	*	-0.14 (-2)	*
	Tenure in the company	0 (0.5)		0 (0.1)		0 (0.2)	
	Years of education	-0.02 (-0.9)		-0.02 (-1)		-0.02 (-0.9)	
	Employment contract type	-0.19 (-1.6)		-0.21 (-1.7)	*	-0.2 (-1.6)	
	Banking Industry dummy	0.29 (2.4)	*	0.34 (2.8)	**	0.32 (2.6)	**
	IT industry dummy	0.27 (3.4)	**	0.28 (3.5)	***	0.29 (3.6)	***
Demands	Work demands	0.24 (4.2)	***	0.27 (4.7)	***	-0.28 (-0.9)	
Support	Institutionalized family-friendly programs (instrumental support)			-0.02 (-0.3)		-0.03 (-0.5)	
	Actual support in the workplace (emotional support)			-0.25 (-3.6)	***	-0.67 (-2.7)	**
Interaction	Work demands * Actual support at work					0.14 (1.8)	*
	R Square	0.213		0.233		0.237	
	Adjusted R Square	0.2		0.219		0.221	

The first model set shows the effects of work demands and support in the workplace on work-to-family conflict. As expected, higher work demands have a positive effect on work-to-family conflict (Model 1). Support at work lowers the work-to-family conflict (Model 2). Interestingly, it is not the institutionalized family-friendly programs and practices that the company has implemented but the actual support one gets or can expect from co-workers and superiors that has the effect. This leads to a conclusion that it is not enough to have the family-friendly programs and practices in place (instrumental support), but what really matters in reducing the work-to-family conflict is how those programs and practices are actually implemented through people in the company and home much support one gets or can expect from managers and co-workers (emotional support). Interaction, added in Model 3, changes the effects of support and demand quite dramatically. The demands' main effect becomes non-significant and even changes sign, the work support variable becomes even strongly negative, while the interaction coefficient is positive. We can therefore conclude that work support moderates the effect of work demands, so that they cause much less work-to-family conflict when adequate work support mechanisms are in place in the company.

The second model set shows the effects of family demands and family support on work-to-family conflict. Family demands have a mixed effect on the work-to-family conflict. Child age pressure has a slight positive effect, while family demands a negative one (Model 1). Spouse support doesn't seem to affect the work-to-family conflict, while the support from family members is even positively correlated with it (Model 2). We believe the causation here is reversed – higher work-to-family conflict triggers the need for more support from other family members. Interaction, added in Model 3, is not significant and does not affect the model substantially. It however eliminates the counter-intuitive negative effect of family demands on the work-to-family conflict.

Table 2: Effect of family demands and support on work-to-family conflict

		Model 1		Model 2		Model 3	
		b (t-value)	Sig.	b (t-value)	Sig.	b (t-value)	Sig.
Controls	(Constant)	4.77 (18.2)	***	4.77 (13.9)	***	4.2 (4.3)	***
	Company family friendliness level	-0.33 (-9.3)	***	-0.33 (-9.1)	***	-0.33 (-9.1)	***
	Use of family-friendly programs	-0.21 (-2.8)	**	-0.21 (-2.8)	**	-0.21 (-2.8)	**
	Gender	-0.13 (-1.8)	*	-0.15 (-2)	*	-0.15 (-2.1)	*
	Tenure in the company	0 (-0.5)		0 (-0.4)		0 (-0.3)	
	Years of education	-0.01 (-0.2)		0 (-0.2)		0 (-0.2)	
	Employment contract type	-0.14 (-1.2)		-0.15 (-1.3)		-0.15 (-1.3)	
	Banking Industry dummy	0.09 (0.7)		0.06 (0.5)		0.06 (0.5)	
Demands	IT Industry dummy	0.2 (2.4)	*	0.21 (2.5)	*	0.2 (2.4)	*
	Child age pressure	0 (2.1)	*	0 (1.7)	*	0 (1.7)	*
Support	Family demands	-0.13 (-2.6)	*	-0.13 (-2.5)	*	0.1 (0.2)	
	Spouse support			-0.05 (-0.9)		0.09 (0.4)	
Interaction	Family support			0.09 (2.6)	*	0.09 (2.6)	*
	Family demands * Spouse support					-0.04 (-0.6)	
		R Square	0.213	0.233	0.237		
		Adjusted R Square	0.2	0.219	0.221		

Table 3: Effect of work demands and support on family-to-work conflict

		Model 1		Model 2		Model 3	
		b (t-value)	Sig.	b (t-value)	Sig.	b (t-value)	Sig.
Controls	(Constant)	2.33 (9)	***	2.54 (8.3)	***	2.58 (2.9)	**
	Company family friendliness level	-0.15 (-4.9)	***	-0.11 (-2.7)	**	-0.11 (-2.7)	**
	Use of family-friendly programs	0 (-0.1)		0 (-0.1)		0 (-0.1)	
	Gender	-0.05 (-0.8)		-0.06 (-0.9)		-0.06 (-0.9)	
	Tenure in the company	0.01 (1.4)		0 (1.2)		0 (1.2)	
	Years of education	0.01 (0.5)		0.01 (0.5)		0.01 (0.5)	
	Employment contract type	0.13 (1.3)		0.13 (1.2)		0.13 (1.2)	
	Banking Industry dummy	-0.12 (-1.2)		-0.1 (-0.9)		-0.1 (-0.9)	
Demands	IT industry dummy	0.17 (2.4)	*	0.17 (2.4)	*	0.17 (2.4)	*
	Work demands	-0.01 (-0.3)		0 (-0.1)		-0.01 (0)	
Support	Institutionalized family-friendly programs (instrumental support)			0.02 (0.4)		0.02 (0.4)	
	Actual support in the workplace (emotional support)			-0.11 (-1.8)	*	-0.12 (-0.5)	
Interaction	Work demands * Actual support at work					0 (0)	
	R Square	0.056		0.061		0.061	
		Adjusted R Square	0.041	0.043		0.042	

The third model set shows the effects of work demands and work support on family-to-work conflict. The R squares in models involving family-to-work conflict are three to four times lower than those involving work-to-family conflict – with this set of explanatory variables it is much harder to explain a substantial portion of the conflict in this direction, when work suffers because of family demands.

Work demands don't have a significant effect on the family-to-work conflict (Model 1). Support at work lowers the family-to-work conflict slightly (Model 2), however, adding the interaction term in Model 3 eliminated this effect. In general, neither work demands nor work support seem to affect the family-to-work conflict substantially.

Table 4: Effect of family demands and support on family-to-work conflict

		Model 1		Model 2		Model 3	
		b (t-value)	Sig.	b (t-value)	Sig.	b (t-value)	Sig.
Controls	(Constant)	2.15 (9.7)	***	2.32 (7.9)	***	3.24 (3.9)	***
	Company family friendliness level	-0.13 (-4.4)	***	-0.13 (-4.1)	***	-0.13 (-4.2)	***
	Use of family-friendly programs	-0.09 (-1.4)		-0.09 (-1.4)		-0.09 (-1.4)	
	Gender	-0.03 (-0.6)		-0.05 (-0.8)		-0.04 (-0.7)	
	Tenure in the company	0 (0.6)		0 (0.7)		0 (0.6)	
	Years of education	0 (0.2)		0 (0.2)		0 (0.2)	
	Employment contract type	0.04 (0.4)		0.04 (0.4)		0.04 (0.4)	
	Banking Industry dummy	-0.25 (-2.4)	*	-0.26 (-2.5)	*	-0.27 (-2.5)	*
Demands	IT industry dummy	0.15 (2.2)	*	0.16 (2.3)	*	0.17 (2.4)	*
	Child age pressure	0.04 (2.7)	*	0.03 (2.4)	*	0.03 (2.4)	*
Support	Family demands	0.04 (0.9)		0.04 (1)		-0.25 (-1)	
	Spouse support			-0.07 (-1.7)	*	-0.29 (-1.5)	
Interaction	Family support			0.06 (2.1)	*	0.06 (2.1)	*
	Family demands * Spouse support					0.07 (1.2)	
		R Square	0.065	0.077		0.08	
		Adjusted R Square	0.049	0.058		0.059	

The final set of models shows the effects of family demands and family support on family-to-work conflict. Child-age pressure has a significant positive effect on the family-to-work conflict (Model 1). Partner support lowers the family-to-work conflict slightly, while the support from other family members seemingly increases the conflict (Model 2). Again, we argue the reverse causality, meaning that higher family-to-work conflict triggers help from other family members. It may also be that the need to ask and receive help from other family members consequently triggers feelings of guilt and indebtedness, adding to frustration and conflict in individuals. The interaction term added in Model 3 is not significant, although it alters the family demands coefficient drastically.

To sum up, we found strong support for Hypotheses H1a and H1b in the first model of each set. The work demands affect the work-to-family conflict, but much less to not at all the family-to-work conflict. Family demands have a mixed effect on work-to-family conflict, but a positive effect on family-to-work conflict. Regarding hypotheses H2a and H2b, work and family support are important, but in the case work support (H2a) the actual emotional support one can expect at work (not just institutionalized and implemented family-friendly programs and practices) is successful at reducing the work-to-family conflict, but quite ineffective in mitigating the family-to-work conflict. Spousal support helps reduce the family-to-work conflict, but not the work-to-family conflict, while support from other family members is, in contrary to expectations, positively linked to both work-to-family and family-to-work conflict. However, we do believe that it is the experience of increased conflict between work and family demands that causes individuals to seek extra support from family members and not vice-versa, although other mechanism (e.g. guilt) may be at play. As previously predicted by Abendroth and Den Dulk (2011) and formulated in the hypothesis H3, both work and private life support have a moderating effect on how demands affect the conflict.

Discussion and Concluding Remarks

In transition economies we are witnessing the decrease in institutional support for balancing work and non-work demands at the national level. Accordingly companies are increasingly implementing different family-friendly programs and practices to help their employees successfully balance work and private life demands. In Slovenia so far more than 130 companies have introduced family-friendly programs and practices through a national project "Family-friendly company". Due to external monitoring and continuous evaluation of the project implementation all companies have succeeded in implementing the chosen family-friendly programs at the instrumental level (i.e. informing employees of their options, offering a wide variety of family-friendly programs and practices in order to address different employee needs, etc.), however there seem to be an important difference between companies in how their employees embrace the family-friendly programs and practices at the emotional level (i.e. having empathy for coworkers and offering support to co-workers when they face work-life challenges, not refusing to adapt their workflow and work load when co-workers use family-friendly programs, etc.).

Based on our findings we argue that in order to become a family-friendly organization it is not enough to develop, institutionalize and formally practice family-friendly programs but it is crucial to truly adopt and internalize the family-friendly corporate culture throughout the organization, so that all employees embrace the work-life challenges and offer each other instrumental as well as emotional support when needed.

The research is based on a fairly large sample, however because of practical limitations of the research the number of scales and items is limited. Mixed modes of collection were used and although no significant differences between the modes were found, this may have an effect on the results, as well as different sampling modes in different companies. However, we do believe that including company controls solves most of these problems. A further limitation is that we have a single instrument for collecting variables on both sides of the regression equation. However, Harman's single factor tests with a value of 0,17 doesn't suggest any problems with common method bias.

Since we found some interesting positive links between the work-family conflict and support from family members others than the spouse, which we believe is caused by the reverse causality, it would be interesting in the future to collect temporal data in order to test this theory even further.

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Introduction to Taxation of Interest on Term Deposits in Croatia

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Abstract¹

The paper discusses the environment of the current Croatian tax system and the impact of the taxation on interest as a new form of taxation. Although most of the EU countries have been applying the taxation of interest on savings for many years, announced taxation is expected to be implemented in Croatia from the beginning of 2015. Considering the significant importance of tax revenues for the central government budget, the paper compares the level of tax burden in Croatia with the level of tax burden in economic peer countries from CEE region. Despite the fact that overall tax burden in Croatia is lower than the EU average, it could be concluded that, from the investor's perspective in CEE countries, the tax environment in Croatia is unfavorable. Moreover, the tax environment refers not only to the tax burden, but also to frequent changes in tax regulations. The intention to write this paper was the assumption that the implementation of tax may impact the status of depositors and consequently that it will affect financial stability of banks. For the purposes of this paper, banks have been divided into three peer groups (large, medium-sized and small banks) and it was found that medium-sized and small banks rely more on deposits, particularly retail term deposits, as a source of financing and they, therefore, bear higher costs of funding and operational costs. Analyzing the potential effects of taxation, it has been concluded that small and medium-sized banks are much more sensitive to potential outflows of retail deposits which would be reflected to their liquidity and profitability. Potential spill-over effects could happen if banks decide to transfer their interest expenses to debtors through the increase of interest rates on loans. Although the effects of interest taxation may individually affect certain bank in terms of relation between sources of funding and granted loans, it is unlikely to expect serious distortions in banking system that would result from this new form of taxation.

Keywords

Taxation of interest, interest expenses, outflow of deposits

¹ The views expressed in this article are those of the authors and do not necessarily represent the views of their employers.

1. Introduction

In the period when the global economy is undergoing toward a new global economic crisis of enormous proportions, national economies are concerned about the strategies for stimulating economic activities which will consequently serve in budget revenue formation. Although most of the EU countries have been applying the taxation of interest on savings for many years, it is a novelty in the Croatian tax system and currently is under preparation to be implemented. Since it is a new form of tax which will be implemented within the personal income tax, this paper is dealing with the main features of the tax system and finally will be examined the consequences of the new tax revenue from the aspect of depositors and from the aspect of banks as main participants in the financial system.

2. Current Fiscal Environment Prior To the Introduction of a New Tax

2.1. Overview of the tax system

Croatian tax system has evolved parallel with the establishment of the Republic of Croatia in the early 1990s. First significant changes were done with the reform of the direct taxes (personal income tax and corporate income tax) which have been implemented from the beginning of 1994. The intention of the second part of the reform was to transform the sales tax by introducing value added tax and excise taxes from the beginning of 1998. Above mentioned taxes, together with social security contributions² represent the basis of the tax system while other taxes are not so relevant with regard to their contribution to total tax revenues. Taking into account various levels of public administration, we can distinguish state taxes, county taxes and municipal or city taxes.

Irrespective to the level of the administration, taxes represent the most abundant source of budget revenues and, due to that, the government has paid the greatest attention to their development and optimization of their usage. For this reason, a lot of changes in the tax system took place in the last twenty years which has resulted with numerous amendments to tax laws.

2.2. The impact of tax burden in Croatia

Total budgetary central government revenue at the end of 2013 amounted to HRK 108.6 bn out of which HRK 100.2 bn (92.3%) is related to revenues from taxes and social security contributions (Ministry of Finance, 2014). Considering the significant importance of tax revenues for the central government budget, it is reasonable to verify the level of tax burden in Croatia and consequently, to come to a conclusion whether there is still room for a further increase of tax revenues.

Considering that value added tax and social security contributions are real state taxes, they represent more than three quarters of tax revenues of the central budget. On the other hand, personal income tax is an example of the tax whose revenues are shared among various levels of government, so these revenues represent the most important item in local budgets. It is important to address the major differences between personal income tax and value added tax. While personal income tax has features of progressivity, since individuals with higher incomes are taxed higher, value added tax is regressive. Irrespective to the level of personal income, all individuals pay value added tax at the same rate, so regressivity is evident because people with lower incomes have relatively higher expenditures according to the share in their gross income. Therefore, it is considered that these two taxes act complementary: the progressivity of the personal income tax "compensates" the regressivity of value added tax (Urban, 2011).

² The basic difference between taxes and social contributions is that taxes have no predetermined purpose, while the purpose of contributions is known in advance (e.g. pension insurance, health insurance).

Considering the level of tax burden, it is useful to observe the level of tax burden in Croatia compared with its economic peer countries. For the purpose of this paper, another 7 EU member countries situated in CEE region (Poland, Czech Republic, Slovakia, Hungary, Slovenia, Bulgaria and Romania) have been compared.

From the perspective of overall tax burden, which is in Croatia at the level of 35.7% of GDP (Eurostat, 2014), it can be concluded that the impact of taxes is not very significant. Namely, the average in EU is 39.4%, while the highest values were recorded in Denmark (48.1%) and Belgium (45.4%). However, the Croatian economy should be rather compared with its peer countries among which, the results show that, five countries have lower tax burden and only Slovenia (37.6%) and Hungary (39.2%) have more significant impact of taxes in GDP. Therefore, it could be concluded from the investor's perspective that the tax environment in Croatia is unfavorable. An insight into the structure of the tax system is showing that Croatian tax system significantly relies on indirect taxes and on revenues from the social security contributions. Since VAT standard rate of 25% is one of the highest in EU, it can be assumed that, in budget revenues, VAT plays a crucial role. On the other hand, direct taxes among which is the personal income tax, represent only 6.1% of GDP, which is very favorable compared to the other peer countries and significantly less than EU average of 13.2%. Some surveys show that the majority of the older EU members collect almost equal amounts of revenue from direct and indirect taxes and social security contributions, while in the new member states, the share of direct taxes in total revenues is lower (Bratić, 2013). Considering the calculation of tax effort for each of peer countries, it is obvious that the level of tax collection in Croatia as in other countries is high, but the tax effort in Croatia is the highest respectively tax authority collects more tax than allowed by tax capacity of taxpayers (Le, Moreno-Dodson & Bayraktar, 2012).

With regard to the above mentioned relations, it can be concluded that one of the areas for the competition between the peer countries is the tax environment which, in case of Croatia, is mostly burdened by the influence of indirect taxes and social security contributions. Taking into account the focus of this paper, the personal income tax will be more detailed discussed in the following section.

2.3. The role of personal income tax

From the beginning of application of the personal income tax in 1994, two rates of 25% and 35% were prescribed by law. Three years later, the lower rate of 25% was replaced by the rate of 20%. Other changes were related to changes in personal allowances and, consequently, in changes of tax brackets. From the beginning of 2001 until the adoption of the second personal income tax law, three tax rates were applied (15%, 25% and 35%) and were finally supplemented with a fourth rate of 45% in 2003. From the introduction of the personal income tax law from 2004, (which is still in use today), some changes were made in terms of tax rates and personal allowances. From July 2010 three tax rates (12%, 25% and 40%) have been applied and personal allowance is currently at HRK 2,200. The tax rate of 12% is applied to income up to the amount of single personal allowance, the tax rate of 25% is applied to income of four times the amount of personal allowance and tax rate of 40% is applied to income which is higher than the four times the amount of personal allowance.

In case of Croatia, incomes below the amount of HRK 2,200 (EUR 288) are currently taxed by the rate of 12%, incomes below the amount of HRK 8,800 (EUR 1,152) are taxed by the rates of 12% and 25% and higher incomes are taxed by all three rates of 12%, 25% and 40%. Comparison with the other seven peer countries is showing the following facts: flat rate ranging from 10% to 16% is being used in four countries, system of two tax rates is applied in two countries and system of four tax rates is applied in one country. Higher tax rates are usually applied to taxpayers with distinctly high incomes, but for the vast majority of taxpayers lower statutory rate is applied. This is, specifically, the main difference between the tax brackets currently applied in Croatia and those applied in other countries.

Regulation of personal income tax, stated previously, is an introduction for the main topic of this paper - taxation applied to interest on saving deposits. Although this form of taxation has already been applied in other European countries for a long time, it is still not applied in Croatia, although there are serious discussions about its implementation. As shown in the Table 1, all the CEE countries, which are observed as peer countries, apply taxation of interest on saving deposits in the range from 10% in Bulgaria to 25% in Slovenia. It is evident that taxpayers do not show any kind of serious resistance in acceptance of this form of taxation. The importance of saving as well as correlation of saving and its taxation was recognized by the developed countries many years ago due to its importance for personal economic security and for national economic performance as well (Bernheim, 2002). In that sense, different strategies for stimulating or discouraging savings depending on the situation in the economy can be applied. It should also be noted that, in some papers, relationship between the personal income taxation and economic growth was identified aiming at the governments to choose the optimal taxation (Myles, 2009). Arnold (2008) found negative relationship between the progressivity of personal income tax and economic growth and his analysis suggested that income taxes are generally associated with lower economic growth than taxes on consumption and property.

Table 1: Overview of personal income tax rates and tax rates on interest on savings deposit among peer countries

Country	Personal income tax rates	Tax rates of interest on savings deposits
Slovenia	16%, 27%, 41%, 50%	25%
Hungary	16%	16%
Poland	18%, 32%	19%
Czech Republic	15%	15%
Slovakia	19%, 25%	19%
Romania	16%	16%
Bulgaria	10%	10%
Croatia	12%, 25%, 40%	???

Source: Eurostat: Taxation Trends in the European Union

Taxation of interest on savings deposits is generally organized as a flat tax rate and is equally applied for the taxation of dividends as a form of capital gain. In countries which use flat tax, the same tax rate is used for taxation of interest and in countries which use several different rates, one of the lowest tax rates is usually applied for the taxation of interest.

From the beginning of 2013, receipts from dividends are deemed as an income from capital and tax rate of 12% is applied. However, dividends up to the amount of HRK 12,000 per year are not taxed. Since the interest on savings is often observed similar to the income from dividends, it is expected that the tax exemption will be set on the same level. Under the assumption that the average interest rate is 3%, for the realization of interest on savings in the amount of HRK 12,000, deposit saving of HRK 400,000 is required. With an increase in interest rates, the marginal principal is logically lower and vice versa. Existence of tax exemptions is perhaps very doubtful. In fact, the reduction or even elimination of tax exemption on certain forms of income would offer the advantage of broadening the income tax base, allowing potential decrease of income tax rates (Fuentes, 2013).

Implementation of taxation of interests on savings is economically reasonable because equal tax treatment for all forms of income from capital is expected. Apart from the additional tax revenues, it is necessary to take into account non-financial effects of taxation, due to the fact that spillover effects in form of capital outflows to other types of assets could appear. Significant reduction of

deposits could encourage banks to increase deposit interest rates, but would probably have negative effect in form of the increase of interest rates on loans which would have a negative impact on debtors and increase the probability of loan default. However, many researchers have shown that financial stability risks mainly remain manageable after exposure to commonly used economic shocks (increase in interest rate on loans, devaluation of the exchange rate, increase in the unemployment rate) (Sugawara & Zalduendo, 2011).

Announced taxation is expected to be implemented from the beginning of 2015 and is estimated that the state budget revenues will increase by 0.09% of GDP per year or about HRK 300 million. However, in case of any unplanned outflow of deposits, this target will be difficult to achieve. Hopefully, mentioned taxation is not only the instrument of increase of tax revenues, but also a fiscal tool for realization of other macroeconomic goals.

2.4. Effects of consecutive changes in the tax system

Considering the level of tax burden in Croatia, compared to its peer countries, tax environment is not attractive for new investors. Moreover, the tax environment refers not only to the tax burden, but also to frequent changes in tax regulations that do not provide adequate stability and predictability required by potential investors. For example, from its introduction in 1994 personal income tax was replaced by two new laws and in addition there were eight amendments to the law. Too often changes in tax system combined with relatively high tax burden surely do not motivate new investments.

It is often discussed how to reduce excessive tax burden and what kind of taxation is optimal for achieving it. However, fiscal policy is a much broader concept than the tax policy (Roller, 2009) and certain shifts have to be made not only on the revenue side of the budget, but also on the expense side. Problem of fiscal policy in Croatia is that it is often focused on the exploitation of tax capabilities by the introduction of new forms of taxation rather than on expenditure restraints. For instance, although the state budget is already in excessive deficit and there are weak signs of recovery, the government proposes to reduce the tax burden on income with the aim of increasing individual consumption. By increasing the personal allowance and by extending tax brackets, higher net income will be available for taxpayers, but at the same time, it will increase the budget deficit. European Commission has recently made similar recommendations for countries with high tax burdens. Effective ways of control of public finances without hindering growth potential are not tax rate increases, but the reductions in the level of expenditures or a broadening of the tax base and the removal of ill-targeted exemptions (European Commission, 2013). It is important to understand that, for the long term sustainability of fiscal policy, it is required to reduce public expenditures with aim of reducing public debt.

Announced taxation of interest is a good starting point to explore the correlation between the taxes and their impact on individual depositors in banks and consequently on the financial stability of banks and of the whole banking system. It will be discussed in the following section.

3. Anticipated Changes in the Banking Sector Due To the Introduction of Taxation

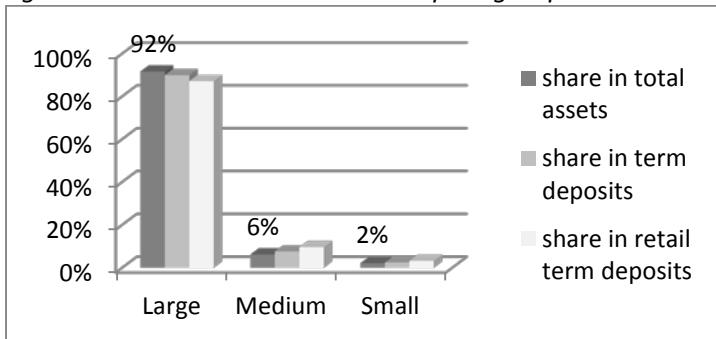
3.1. Structure of banking system and different types of deposits

At the end of 2013, there were 29 banks and one savings bank operating in Croatia and their assets stood at HRK 397.8 bn (EUR 52.1 bn). For the purposes of this analysis, banks have been divided into three peer groups (large, medium-sized and small banks). The criterion for selecting the banks into one of the peer groups was done according to the size of their assets. Large banks are banks whose assets exceed HRK 5 bn (EUR 655 m), medium-sized banks are those whose total assets are greater than HRK 1.5 bn (EUR 196 m) and less than HRK 5 bn (EUR 655 m) and small banks are institutions

whose assets are less than HRK 1.5 bn (EUR 196 m). Following such distribution, each of the peer groups contains almost the same number of banks. According to the size of the assets at the end of 2013, the banking system included nine large, ten medium-sized and ten small banks. A proof of the considerable concentration of the banking system is the fact that the peer group of nine large banks accounted for more than 90% of total assets of banking system. Since this paper is focused on retail deposits, it was interesting to examine the distribution of term deposits and particularly the distribution of retail term deposits among the banks grouped into those three peer groups.

As it is shown in the figure 1, the concentration of total assets in the group of large banks was not similarly followed by the same distribution of total amount of term deposits and of total amount of retail term deposits. Distribution between the medium-sized banks is not surprising when we take into account the fact that medium-sized and small banks rely more on deposits as a source of financing. Therefore, the share of the total assets of medium-sized banks in the total assets of the banking system is 6.2%, while the share of the total amount of retail term deposits in the total amount of retail term deposits of the entire banking system is 9.6% which proves the above explained fact.

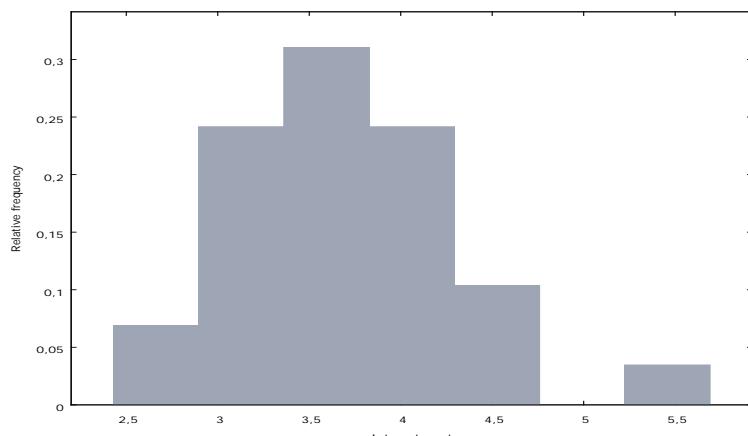
Figure 1: Distribution between bank peer groups



Source: Financial statements of banks

Considering the total deposits to asset ratio, the highest average value was recorded by medium-sized banks (78.4%) and was much lower at large and small banks (70.6% and 70.1% respectively). Taking into account only retail term deposits to total assets, calculated ratios for medium and small banks (50.5% and 49.5%) significantly differ compared to large banks (33.1%). Namely, many large banks are oriented to funding from abroad (mainly by borrowing from their foreign majority owner in Austria, Italy, France etc.), while significant proportion of their funds includes deposits of corporate sector, government and public enterprises.

Costs of funding and operational costs are typically higher for small and medium-sized banks in comparison to large banks, what results in differences in their profitability, level of interest rates on bank loans, variety of products offered to clients etc. According to data at the end of 2013, average annual interest cost on retail term deposits was 3.4% for the whole banking system, but the differences occur depending on the size of banks. Average ratio of paid annual interest to cumulated retail term deposits was 3.3% for large banks, 3.8% for medium-sized banks and 4.0% for small banks. For eight small or medium-sized banks they exceed 4.2% which together with value of 4.0% at one large bank could indicate the basis for unstable sources of funding in the banking system because these are deposits (depositors) with higher response to the level or changes in interest rates. Additionally, it is a potential indicator of banks with possibly higher negative effects of interest rate taxation or another shock which could stimulate the withdrawing of deposits.

Figure 2: Distribution of interest costs on retail term deposits in banking system

Source: Financial statements of banks

Since small and medium-sized banks are much more sensitive to potential outflows of retail deposits, they could be willing to pay much higher interest on term deposits in case of undesirable depositors' behavior and/or unstable conditions with significant effects on the liquidity position of banks. That is one of the reasons why monetary, fiscal or other shocks usually are not linearly distributed in banking system. Impacts are more effective for small banks, while (due to dominant position of large banks) potential negative effects can be lower or relatively irrelevant for system as a whole. Negative consequences of expensive costs of financing could result in higher interest rates on loans and stronger orientations on short-term lending, while both can be related to the increase of credit risk and/or destruction in the quality of banks' debtors. On the other hand, depositors (both in stable and unstable banks) often don't care about the safety of a particular credit institution if their retail deposits are covered by government organized system for deposit insurance which is in Croatia set up to the amount up to 100,000 euro per depositor at one credit institution. Depositors with large amounts of savings often dedicate a considerable attention to the level of interest rates that can be achieved at a particular bank, but do not think enough about the potential problems of poor corporate governance and moral hazard behavior of individual banks. The above was confirmed by several cases of bank failures in last few years whereas term deposits of some individuals were significantly higher than the amount covered by insurance (see more in Ivanov et al., 2013).

Table 2: Credit institutions' interest rates on retail term deposits in kuna

Kuna deposits	1Q 2013	2Q 2013	3Q 2013	4Q 2013	1Q 2014	2Q 2014
Outstanding amounts (weighted monthly averages of interest rates)						
Up to 3 months	2.80	2.68	2.52	2.43	2.25	2.17
Over 3 and up to 6 months	3.58	3.30	3.10	2.97	2.87	2.76
Over 6 months and up to 1 Y	4.08	3.94	3.77	3.59	3.41	3.27
Over 1 and up to 2 years	4.48	4.36	4.17	4.00	3.78	3.63
Over 2 years	4.09	3.91	3.76	3.70	3.59	3.53
Total retail term deposits	3.92	3.77	3.61	3.49	3.32	3.21
New business (weighted monthly averages of interest rates)						
Up to 3 months	2.53	2.67	2.28	2.13	1.97	1.87
Over 3 and up to 6 months	3.40	3.12	3.00	2.87	2.74	2.54
Over 6 months and up to 1 Y	3.81	3.63	3.53	3.30	3.07	2.96
Over 1 and up to 2 years	4.45	4.18	3.95	3.74	3.46	3.44
Over 2 years	4.04	4.31	4.13	3.95	3.79	3.56
Total retail term deposits	3.43	3.33	3.11	2.93	2.77	2.63

* 16.42% of total retail term deposits consist of term deposits in domestic currency (kuna).

Source: Croatian National Bank

Apart from average interest cost of retail term deposits calculated from financial statements of particular banks, monetary statistics for whole banking system indicate lower weighted average interest rates on retail term deposit both in domestic currency (kuna) and foreign currency (mostly euro). Interest rates are typically higher for deposits in domestic currency (since depositors prefer holding of f/c deposits) and for deposits with longer maturity. In last two years interest rates (on loans and deposits) recorded downward trend as a result of stabilization in banking system after period characterized by negative events caused by the global crisis. However, the downward trend could be changed if the banks will have to raise interest rates on deposits, for example in case of increased competition between banks to attract depositors. Consequently, it is possible for bank to transfer interest expenses to the debtors through the increase of interest rates on loans. Therefore, the consequences of the taxation of interest on term deposits could be probably paid by debtors of bank.

Table 3: Credit institutions' interest rates on retail term deposits in foreign currency

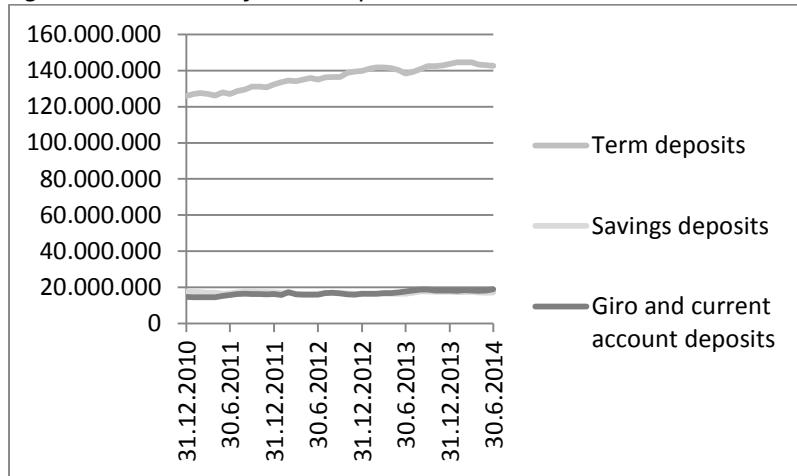
Foreign currency deposits	1Q 2013	2Q 2013	3Q 2013	4Q 2013	1Q 2014	2Q 2014
Outstanding amounts (weighted monthly averages of interest rates)						
Up to 3 months	2.08	1.86	1.69	1.60	1.53	1.45
Over 3 and up to 6 months	2.73	2.50	2.27	2.10	2.00	1.93
Over 6 months and up to 1 Y	3.44	3.31	3.12	2.89	2.69	2.57
Over 1 and up to 2 years	3.78	3.58	3.42	3.29	3.19	3.04
Over 2 years	3.92	3.80	3.66	3.55	3.48	3.41
Total retail term deposits	3.48	3.34	3.18	3.03	2.91	2.82
New business (weighted monthly averages of interest rates)						
Up to 3 months	2.09	1.83	1.67	1.58	1.52	1.49
Over 3 and up to 6 months	2.62	2.45	2.23	2.09	1.98	1.95
Over 6 months and up to 1 Y	3.12	2.90	2.69	2.55	2.42	2.31
Over 1 and up to 2 years	3.83	3.55	3.36	3.10	2.91	2.90
Over 2 years	3.96	3.76	3.55	3.34	3.27	3.14
Total retail term deposits	3.14	2.91	2.73	2.54	2.48	2.40

* 83.57% of total retail term deposits consist of term deposits in foreign currency.

Source: Croatian National Bank

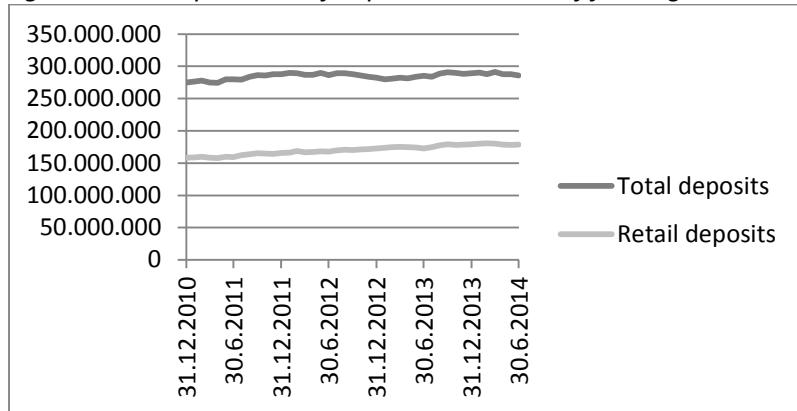
Prior to start calculating the effects of the potential outflows of deposits, it would be useful to briefly consider the structure of deposits and their formal status. Apart from term deposits as the largest deposit group, there are giro account and current account deposits as well as savings deposits. Retail giro and current account deposits are form of transactional accounts used with the purpose of the efficient transfer of funds between different accounts. Although they are defined as deposits, their primarily purpose is not interest revenue nor they are used for saving. The other two types of retail deposits are primarily used for saving: savings deposits are contracted without a predetermined date of maturity whereas term deposits are negotiated by the depositor for a specific agreed time.³ The most important impact has latter mentioned retail term deposits and actually their developments initiate growth or fall of total retail deposits. At the end of 2013 total retail deposits stood at HRK 178.2 bn out of which the largest items are retail term deposits with the amount of HRK 143.0 bn. Next figure shows upward trend in the growth of term deposits with average annual growth of HRK 4.9 bn.

³ The difference between savings deposits and term deposits is well described in Bulletin of Croatian National Bank.

Figure 3: Structure of retail deposits

Source: Croatian National Bank

Above mentioned importance of retail deposits was particularly emphasized because of its impact on total deposits in the banking system. In fact, nearly two thirds of total deposits (62.5%) consist of retail deposits. While total deposits have increased in the previous three and half years for HRK 11.2 bn, retail deposits rose even sharper and have increased for HRK 20.3 bn (+12.8%). Other two groups, less important than retail deposits, are corporate category and foreign financial institutions category which have even recorded a fall of deposits in the observed period.

Figure 4: The importance of deposits as source of funding

Source: Croatian National Bank

About half of total amount of retail term deposits (50.2%) consists of short-term deposits what means that the static liquidity position of the banking system is strongly influenced by the maturity mismatch between granted loans (including high share of housing loans) and collected deposits. The share of retail term deposits with maturity over 2 years is only 11.93% for kuna deposits and 24.29% for f/c deposits, but both shares are relatively stable during the time. Thus in the dynamical term, the majority of deposits in whole banking system can be viewed as stable core deposit, irrespective to their formal maturity. However, for every single bank is important to collect long-term sources of funds which includes permanently renewal of deposit after expiry of the initial period of their maturity. Therefore, potential significant outflow of deposits from one or several banks could mean particular liquidity problems, while consequences could be higher if outflow behavior affect whole banking system (for example if depositors decide to substitute their term deposits with other form of financial assets or with deposit outflows abroad). In such circumstances central bank is able to offer short-term loans to banks or increase system liquidity by lowering required reserves. In spite of this, it is reasonably to suppose the rise in interest rates of term deposits (due to higher competition

between banks) and consequently higher interest rates on bank loans (outstanding amount and new business).

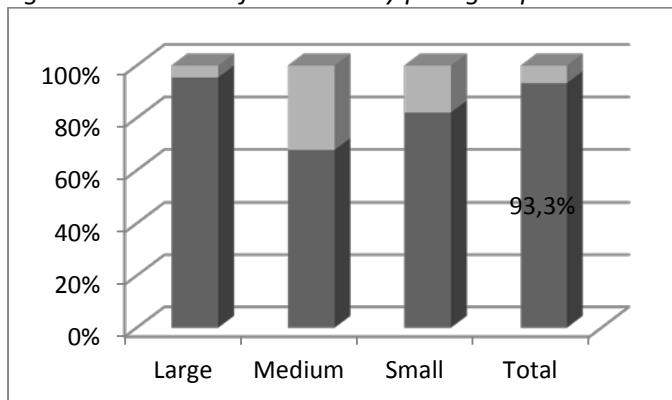
In addition, banks are particularly interested to retain clients with very high amounts of savings, including amounts exceeding HRK 400,000 (as it could be the potential base for taxation of interest) to the very high amount of several million HRK. According to the latest publicly available information, such important clients represent only 5% of all depositors which implies that introduction of interest tax will have relatively weak effect on the macro-system of saving. However, the share of large deposits over HRK 400,000 is in some banks substantially more significant, reaching even nearly 50% of the total amount of retail term deposits.

Interest rates on large savings are typically negotiated at levels considerably higher than those for other clients, and such clients generally have far greater bargaining power in dictating the conditions for keeping their savings in a single bank. For rich clients, the calculation of interest is often proactive (anticipated calculation of interest) and interest is paid well before the expiry of the deposit maturity. Since it is still not clear what the level of tax base is, planned revenues from this tax are very doubtful. Potential interest payments before the introduction of taxation could be a good decision of banks to avoid a liquidity crisis in the first year of application of taxation, but negative consequence would appear in profitability indicators, except if higher cost of interest expenses banks will substitute with higher interest on loans or higher fees for banking services.

3.2. The role of deposits in bank's level of liquidity

After a brief insight into the structure of the Croatian banking system from the aspect of key factors that constitute sources of funding, it would be useful to consider to what extent deposits affect bank's liquidity. There are numerous financial ratios that measure bank's level of liquidity but, for the purpose of this paper, we will focus on just one indicator that relates to the bank's main role and responsibility: accepting deposits from the public and giving loans to the debtors. The indicator that measures the ratio between the bank's total loans and the amount of deposits is known as Loan to Deposit Ratio (hereinafter: LTD ratio). According to the level of this indicator, practices of lending and deposit activities of different banks can be easily recognized. There is actually no optimal level of this ratio and each bank has to choose the level at which it will, the most efficiently, maximize its profits. When the ratio is lower than 1, it means that the bank's lending activities can be completely covered by the bank's amount of deposits. Decision about placing all the collected funds into loans (where this indicator would be close to one) may lead to a potential liquidity risk because bank has not used the opportunity to diversify funds into non-credit placements as well. The relation between the amounts of deposits and granted loans should be always coordinated with respect to two important factors: maintaining sufficient liquidity and at the same time achieving adequate profits. There have been many researches done on the topic of relationship between liquidity and profitability and the results were varying. However, it can be said in general that this relationship depends largely on a bank's business model and the state of economy (Bordeleau & Graham, 2010).

Having in mind previously defined classification of banks into three peer groups (large, medium-sized and small banks), LTD ratio was analyzed for each of the group respectively. For the group of large banks, it can be concluded that almost the entire amount of collected deposits was directed for granting loans. As it was mentioned before, such distribution may endanger the level of liquidity when the portfolio of assets is not sufficiently diversified. Peer group of medium-sized banks shows the lowest level of LTD ratio which means that deposits are obviously directed to some other types of assets beside loans. In the peer group of small banks, the LTD ratio is slightly higher. Considering the most significant impact of the big banks, the average LTD level for the whole banking system was 93.3%.

Figure 5: The level of LTD ratio by peer groups

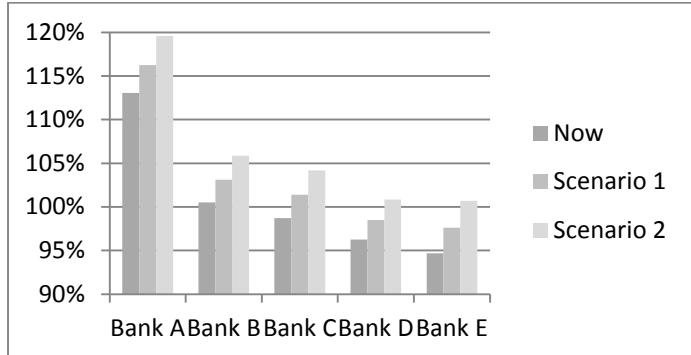
Source: Financial statements of banks

It is considered that banks dominantly rely on deposits as sources of funding (particularly on retail deposits) and preliminary analysis has confirmed such belief. Although a stable source of funding, deposits (as sources of funding) can become potentially volatile in case of financial disturbances and potential economic crisis. From the perspective of current situation in the Croatian economy, it can be stated that average income has gradually weakened and there will remain less disposable funds with the intention for saving. Furthermore, a current downward trend in interest rates on deposits leads to a reduction of interest in such an investment, especially when the financial system gradually evolves and offers new investment opportunities.

Considering the above mentioned circumstances as well as the assumption of amending the tax regulation (meaning the introduction of tax on income from savings), it raises the question of long-term viability and stability of this type of funding sources. It may be assumed that the withdrawal of retail deposits would produce the strongest impact on individual liquidity of banks and on banking system liquidity as well.

For the purpose of this paper, usual form of liquidity shocks will not be simulated, but in the example of LTD ratio (as one of the liquidity ratios) it will be shown value changes if there are disturbances in the sources of funding. It is reasonable to assume that the realization of some of the previous circumstances could lead to the deposit outflows. In the following two scenarios, it is assumed that the introduction of taxes on retail savings could result with the outflow of term deposits by 5% or 10%.

In present situation there are six banks with the value of LTD ratio greater than 100%. Assuming the outflow of retail term deposits by 5% (scenario 1), there will appear one more bank whose LTD ratio will be greater than 100% and due to the realization of scenario 2, there will appear another two banks whose granted loans would potentially exceed the amount of deposits. It can be assumed that the realization of these two scenarios would probably deteriorate other liquidity indicators and that the individual banks would probably confront the liquidity problems. Therefore, frequently mentioned diversification of investment in assets is extremely important, in order to prevent endangerment of the stability of individual financial institutions and financial environment in general by the introduction of tax on the income from savings.

Figure 6: The effects of term deposit outflow on LTD ratio

Source: Financial statements of banks

As it was shown in Figure 4, the highest level of LTD ratio was recorded in the group of large banks. Taking into account the fact that in the group of large banks is the biggest concentration of high amount retail term deposits (which are at the forefront to be taxed), potentially greatest changes in LTD indicator can be expected in those banks.

4. Conclusions

Announced taxation of interest is a good starting point to explore the correlation between the taxes and their impact on individual depositors in banks and consequently on the financial stability of banks and of the whole banking system. The paper shows that taxes together with social security contributions represent the most abundant source of budget revenues and therefore any changes in taxes may have significant repercussions from the aspect of taxpayers. In that sense, in paper was considered the level of tax burden in Croatia compared to its economic peer countries in CEE region. The analysis shows that from the investor's perspective, tax environment in Croatia is unfavorable. Despite of this, the introduction of a new tax is not necessarily problematic, but it is much more important a stable tax environment and on the other side control of public expenditures.

Analysis of the sources of funding shows that deposits have the greatest impact on medium-sized and small banks and due to the costs of funding and operational costs, those banks are more sensitive to potential outflows which would be reflected to their liquidity and profitability. Potential spill-over effects could occur if banks decide to transfer their interest expenses to the debtors through the increase of interest rates on loans. Although the effects of interest taxation may individually affect certain bank in terms of relation between sources of funding and granted loans, it is unlikely to expect serious distortions in banking system that would result from this new form of taxation.

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Corporate Brand as a Contract with Stakeholders – Theology or Pragmatism?

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1. Introduction

The literature suggests that corporate branding plays an important role in business-to-business as it does in consumer markets (de Chernatony, McDonald and Wallace, 2010; Lynch and de Chernatony, 2007; Mitchell, King and Reast, 2001; Mudambi, Doyle and Wong, 1997; Suvatjis and de Chernatony, 2005 ; van Riel, Pahud de Mortanges and Streukens, 2005). The strategic importance of corporate brands is associated with their ability to produce an equity (Keller, 1998) linked to brand's ability to live up to its promise to customers (de Chernatony et al., 2010). Balmer and Greyser (2003) postulate that a corporate brand communicates its promise via an informal contract (covenant) between them and organisation. Thus, the concepts of brand promise, brand contract and brand equity are among central in both theory and practice. While the notions of brand promise and brand equity are provided solid theoretical and empirical foundations (Keller, 1998; de Chernatony et al, 2010), the concept of brand contract is still rather ambiguous. Multiple authors used this concept (e.g. Balmer and Grey, 2003; Muzellec, 2005; Leitch and Davenport, 2007; Lawer and Know, 2007; Mukherejee and Balmer, 2007) but very few managed to clearly define and/or empirically prove its significance.

Among the few studies that address the brand contract are He and Balmer (2006) and Otubanjo et al (2010). Using the Christian analogies of God's covenant with its people, the latter study advances our understanding of the "brand contract" by driving parallels between God and firm, and the nature of God's contract with people with that between a firm and its stakeholders. Although very insightful, this view of brand contract implies a strong power asymmetry in firm-stakeholder relationships. Another stream of literature advances a more balanced view of a corporate brand as a social contract (McMurrian and Washburn, 2008; Donaldson, 1982; Dunfee, 1991). In the present study, this latter view is referred to as pragmatic and rooted in the doctrine of pragmatism by James (1907).

This paper argues that adhering to one or another view has consequences stretching beyond a purely academic debate as they influence the mindset and actual behaviours of market actors. Indeed, the discourse of the mainstream literature (e.g. Knox et al, 2000; de Chernatony et al, 2010), in which brands are viewed as providing the desired customer benefits via one-way, unconditional pledge of unique experience, has a theological spirit, since it puts managers and customers in strongly uneven positions. On the other hand, the pragmatic view of the brand contract as a social exchange brings these stakeholders on the par with each other and allows for a more equal type of relationship.

Given the existence of two opposing views of the contract relationships in the literature, the study aims at resolving this disagreement by exploring the nature of brand contract from two perspectives: the theological and the pragmatic. This is done by building a tentative conceptual framework of a dialectical brand contract and exploring its plausibility empirically. Choosing the B2B context for this study seems especially relevant, given the strong managerial focus on relationship building with their suppliers.

Thus, the objective of the study is to understand *how* managers and external stakeholders (suppliers) use a brand contract for increased brand equity. This is achieved by identifying *whether* a corporate brand is, indeed, perceived by both parties as a contract. Then, it is vital to know *how* they use different elements of the brand contract for increased brand equity. The in-depth case study of IKEA's branding aimed at its Chinese suppliers is used to develop a new conceptualisation of corporate brand contract in B2B, challenge the existing assumptions of the nature of a corporate brand as well as provide some managerial recommendations.

2. Literature Review

2.1. Corporate brand and brand equity in B2B context

Corporate brands continue to receive attention by academics (Balmer, 2001; Balmer and Gray, 2003; Balmer, 2008; Balmer and Greyser, 2003; Ind, 1997; Melewar and Karaosmanoglu, 2009). Balmer (2001), Balmer and Greyser (2003) and Balmer (2008) propose that corporate brand is a new type of organisation's identity. They conceptualise it as a "covenanted identity" which augments the organisation's identity through its distilled attributes in the form of a clearly defined branding proposition to customers. Knox, Maklan, and Thompson (2000) especially stress the growing role of firm's networks of suppliers as an explicit part of the customer value proposition.

One way of appreciating the role of suppliers in customer value creation is to shift attention to their roles in the brand equity. The unique characteristics of B2B marketing are extensively discussed in the literature (de Chernatony et al., 2010; Lynch and de Chernatony, 2007; Mitchell et al., 2001; Mudambi et al., 1997; Suvatjis and de Chernatony, 2005 ; van Riel et al., 2005). The most critical issues are people-related due to a complex composition of a purchasing team, importance of managing a functioning, long-term relationship with the supplier's team, greater risks and more time involved by both sides. It is also argued that corporate branding plays as important role in B2B as it does in B2C markets (de Chernatony et al., 2010).

A corporate brand creates value by enhancing business customers' confidence in the organisation's offerings. They seek not only product performance benefits but also supportive staff, positive reputation in the industry and respected personality of the company (Mudambi et al., 1997). Corporate brand is a valuable asset that allows a firm to build up long-term and trusting relationships in B2B markets (de Chernatony et al., 2010). Looking deeper in the nature of these relationships, Lynch and de Chernatony (2007) highlight the role of staff in building brand relationships by personifying the brand values. In combination with the company's vision and mission, core values represent the basis of its corporate identity outwards, to its external stakeholders (Suvatjis and de Chernatony, 2005).

If brand's core values resonate with stakeholder values and its value proposition result in their positive associations, high brand reputation or well-functioning relationships with the organisation, a strong corporate brand equity is created (Keller, 1998). Shamma and Hassan (2009) stress that corporate brand equity is composed of perceptions about the brand by a large number of stakeholders, for instance, it can be examined from the industrial actors' perspective (van Riel et al., 2005). As argued (Johnson, 1999), the industrial actors value effective, long-lasting relationships with the firm since they result in the increased mutual trust and lead to their higher operational efficiency. As these indicators are also linked to a higher operational performance of the firm, they can be used as measures of B2B brand equity of the firm (Shamma and Hassan, 2009). Besides, industrial actors can also influence the focal firm's brand equity by developing their own brands with positive reputations in their respective industries (Blomback and Axelsson, 2007). Thus, it can be argued that a realised brand promise to business customers translates into a higher B2B brand equity. In the next section, the concept of brand contract will be introduced and its applicability to B2B branding discussed.

2.2. Corporate brand as a theological contract with stakeholders

The notion of brand contract or covenant is coined by Balmer (2001, p. 281) in his definition of corporate branding:

“..Involves the conscious decision by senior management to distil the attributes of the organisation’s identity in the form of a clearly defined branding proposition. This proposition may be viewed as a covenant_with key stakeholder groups and networks. This covenant underpins organisational efforts to communicate, differentiate and enhance the brand in the minds of such groups.”

Surprisingly, Balmer has never tried to clearly define the notion of *brand covenant*. The epistemology of this word is deeply rooted in the Christian doctrine. The word “covenant” is the English translation of the Greek word “diatheke” and Hebrew word “berith”, both used in the Bible. The problem of their interpretation has been the subject of a large body of theological research that, in very short, concludes that in both Old and New Testaments, the covenant implies a one-party promise of a more powerful person (a deity) to a less powerful one (Berkhof, 1949; Ridderbos, 1953). Thus, it constitutes an unconditional promise of God to its people in terms of their salvation and it does not require any reciprocity.

The theological overtones of brand covenant seem to have influenced the branding discourse. The notions of brand’s value proposition (Knox et al, 2000) and brand promise (de Chernatony et al, 2010) bear clear similarity to a covenant since they represent a firm-driven, mainly one-way delivery of benefits to customers. Furthermore, Balmer and Greyser (2003) and Balmer (2008) introduce a special type of “covenanted” identity. Its unique role lies in its ability to have a life of its own (Balmer, 2008), strongly resembling a religion. Although considering a broad range of stakeholders, corporate branding is, in general, about one-way corporate communications (Balmer and Greyser, 2003). It is also taken for granted that a relevant brand promise will translate into stakeholders’ interest, awareness, trust and, ultimately, loyalty (de Chernatony and McDonald, 2011). Brand religion (Kunde, 2002) and brand culture (Schroeder, Salzer-Mörling, Askegaard, 2006; Holt and Cameron, 2010) are other examples of the theological heights, to which a strong brand can rise in its dominance over people’s minds. Although overly critical, these latter studies have not explored the roots of brands’ overarching power over customers.

Brand covenant is re-addressed by He and Balmer (2006, p. 244) and explored by Otubanjo et al (2010) who drew the explicit parallels between God’s contract with its people and firm’s contract with its stakeholders. The underlying principles of corporate brand covenant are as follows: as initial scenario; a covenanter, a covenant and covenatee; the covenant’s binding effect on all parties; the covenant’s perpetual and irreversible nature, and the idea that the covenant stems from firm (God) and is handed on to man (*ibid*). The definition of corporate brand covenant: “A promise or a pledge made by business organizations to stakeholders about who or what the firm is, what the firm does, how a firm does what it does, where the firm is coming from, where the firm is, why is the firm there...what the firm stands for...and how it tells stakeholders about itself...” (*ibid*, p. 417) is totally excluding stakeholders from the contracting process. It also assumes the underlying “godly” intentions of the firm.

To summarise, the underlying idea of corporate brand covenant is that a brand is a firm-driven, non-questioned system of beliefs. However, some cautious voices were raised against seeing corporate branding as one-way process and brand partnership was suggested as an alternative (Johansson and Hirano, 1999). In addition, some insights can be “borrowed” from sociology and industrial marketing. Discussed further in the paper, these ideas are related to the doctrine of pragmatism.

2.3. Pragmatism and theology

The idea of pragmatic contract is rooted in the epistemological doctrine of pragmatism by the James (1907). As used by other authors and James (1907) himself, the word "pragmatism" indicates both a theory of the nature of truth and the criterion of validity in propositions. Focusing on the first sort of pragmatism, Lovejoy (1908, p. 143) summarises the essential differences between pragmatism and theology (or monism): "The essential contrast between pragmatism and monism is that for monism reality is ready-made and complete from all eternity, while for pragmatism it is still in the making, and awaits part of its complexion from the future." Among key characteristics of pragmatism is a real, determinative responsibility of men for their moments of action and their future of real and undetermined possibilities as well as the act of purposeful volition. Men are viewed as creative: "We add, both to the subject and to the predicate part of reality. The world stands really malleable, waiting to receive its final touches at our hands. Like the kingdom of heaven, it suffers violence willingly. Man engenders truths upon it." (ibid, p. 143).

2.4. Corporate brand as a pragmatic contract with stakeholders

The ideas of pragmatism bear parallels with the notion of social contracts between organizations and stakeholders, or communities, in general. Based on the social-contract theory (Dunfee, Smith, and Ross Jr, 1999), McMurrian and Washburn (2008) argue that a brand's promise can be generally seen as a contract in which one community (organisation) makes a promise to another community (customers) and the promise is eventually accepted as a norm. The terms of a social contract can be viewed as including certain standards, which can be either explicit obligations based on laws or implicit ones based on shared notions of what is considered right or wrong behaviours (Donaldson, 1982; Dunfee, 1991). Using these ideas, McMurrian and Washburn (2008) proposed that corporate branding can be seen as a social contract of organisations with customers, in which ethical norms upheld by organisations and shared by customers lead to bonds of trust with customers, their satisfaction and, ultimately, loyalty.

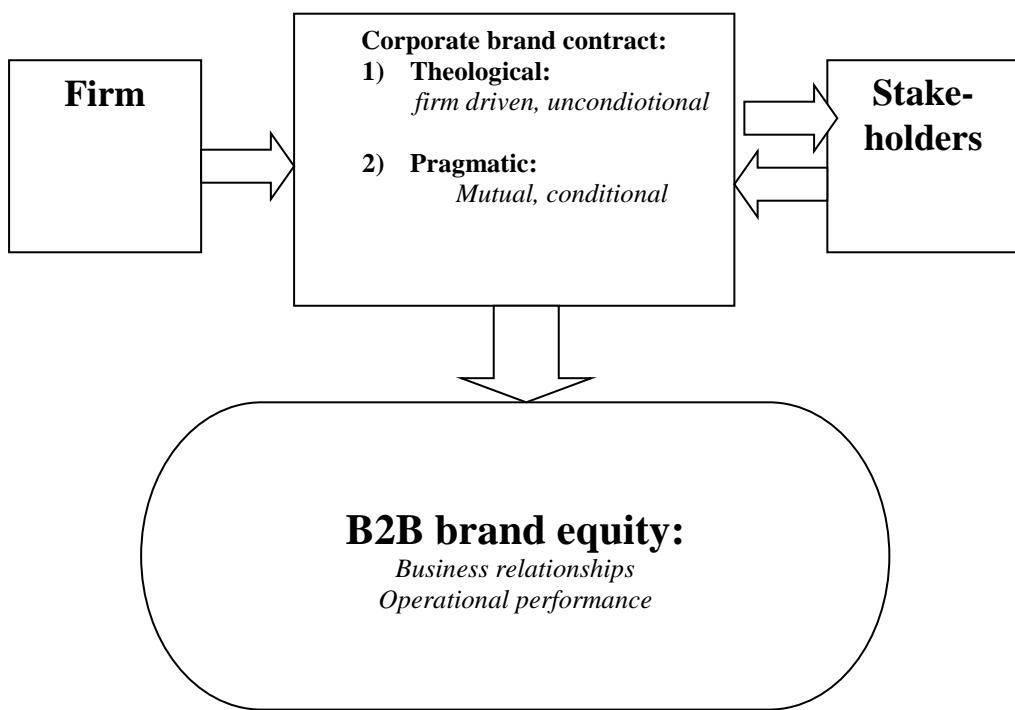
The notion of a social contract adds reciprocity to the concept of brand covenant (Balmer and Greyser, 2003) and it is suggested in this paper as relevant for corporate branding in B2B context. Hence, the central elements of the brand such as vision, core values and value proposition can be used by the organisation to formulate business principles and norms for its industrial relationships. However, the question remains: how do the parties reach a consent about which corporate principles and norms should be accepted?

Some answers can be found in the industrial marketing literature. For example, some authors (Lusch & Brown, 1996) distinguish between normative and relational contracts between channel members and argue that the structure of dependency in the marketing channel has an impact on contracting. They found that a bilateral dependency between a wholesale-distributor and its major supplier led to more reliance on normative contracts and, in its turn, to improved wholesaler performance. Moreover, they showed that when an implicit understanding guides the channel members' behaviors, all partners achieve higher levels of performance. Scholars from IMP Group (Håkansson, 1982) outlined the critical importance of interaction and the social exchange dimensions such as trust and commitment within the marketing relationship. Finally, Liu et al (2009) study of distributor-supplier dyads shows that both transactional (contracts) and relational mechanisms (trust and relational norms) play a role in fostering relationship performance of dyad members. In the next part these ideas are applied to a corporate brand contract.

2.5. Exploring the corporate brand contract in B2B

The model below illustrates the major concepts in the study. The nature of 2 types of contract: theological and pragmatic ones – is defined by 2 sets of characteristics: firm-driven, unconditional and mutual, conditional. The first one suggests the predetermined (by a firm) path of action without any particular verification of the future consequences for stakeholders. The second one suggests a certain agreement between stakeholders and the dependability of the course of action upon the verified outcomes that are considered beneficial for both parties. The outcome in the form of brand equity is chosen as a feature of a successful contract in B2B (Shamma and Hassan, 2009).

Figure 1: The tentative model of corporate brand as a contract between the firm and its stakeholders.



The case study described below is used to provide empirical evidence to one or another type of contracts as interpreted by managers and local stakeholders (suppliers).

3. Method

The exploratory research approach was chosen to facilitate theory building (Eisenhardt, 1989; Ghauri, 2004). The case study method is considered most suitable for generating the rich data on the dynamic organisational activity (Yin, 2003). The case study of IKEA's supplier relationships in Shanghai was conducted in January 2009. On IKEA side, 3 in-depth interviews were conducted with Trading Manager for Central China, IWAY manager and Business Developers responsible for 3 chosen suppliers in Shanghai area of China. On the supplier side, 9 suppliers' representatives were interviewed. Each interview lasted between 1, 5 – 2 hours. Most interviews were conducted in English. The focus was on whether managers used the corporate brand to develop some kind of social contracts with suppliers and, if so, how they used them. It was also important to know how suppliers perceived these contracts and how they responded to them.

In addition to the interviews, multiple sources of secondary data were used to develop the converging lines of inquiry (Yin, 2003). The data included IKEA's corporate brochures, business plans as well as the

factories' business plans, brochures, internal newspapers and web-sites. The use of multiple sources has been carried out with special attention to the different contexts for their triangulation (Ghauri and Firth, 2009). All interviews were transcribed and analysed with the help of NVIVO8 software. The key topics for managers and suppliers were compared and analysed from both theological and pragmatic perspectives. Besides, the overall characters of firm-stakeholder relationships and supplier performance measures were added as signifiers of brand equity. While conducting the study, the approach of a systematic combining of theory and empirical observations was followed (Dubois and Gadde, 2002).

4. The Empirical Case

4.1. IKEA in China: facts

Since 1979, IKEA “*has been in and out of China*” (Trading Manager, Central China) and mainly viewed it as a sourcing market. However, starting from 2000, there has been a strong development on the retail side with 7 stores opened. In the beginning of 2009, approximately 21% of IKEA’s global purchasing was made in China with the ambition to grow more. There were about 350 suppliers with approximately 1, 9 bln euro purchased products. The majority of Chinese suppliers produced for IKEA globally while some suppliers worked only for their respective regions.

4.2. Theological contract between managers and suppliers

Among key topics were brand promise, brand as a cultural contract and trust building with suppliers. All of these aspects were initiated by the firm (managers), activated under their control and checked for supplier implementation. In most cases, there was also no need for an explicit approval on supplier’s behalf.

Sticking to brand promise was a starting point for the brand contract. It is rooted in IKEA’s business idea “to offer a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them” considered a central doctrine for all IKEA markets. A more specific promise to all IKEA suppliers is to “grow and develop with IKEA for the joint low price creation for customers” (corporate documents). The IKEA China respondents explained that there are three essential requirements that every supplier in China has to meet:

“We have always said we need three parts – price, quality and also IWAY¹. That’s like the three checks. We need it to stick to them.” (Trading Manager for Central China)

These requirements brought about a number of radical changes that all suppliers had to introduce into their production processes (discussed further). On the whole, the idea of brand promise was expressed only by managers while suppliers commented that IKEA, indeed, lived up to their expectations by acting as a “caring”, “responsible retailer” and “good partner” in the relationships.

Achieving cultural fit for cooperation was emphasised by managers striving to choose “right” partners for cooperation. Development of long-term relationships with suppliers was referred to as “key success factors of IKEA strategy in China” and linked to the achieved cultural fit between IKEA and suppliers. Managers used IKEA’s core values as reference points and stressed that sharing them was a pre-requisite for a relationship to succeed. For example, it had to be based on the values of openness and willingness to change (the established practices):

“We see if they are willing to share but when we evaluate a new supplier – how open they are and how willing to share is one of the parameters. If you as business developer feel that the supplier is very close it will be your long term bottle neck to deal with them in future.” (Business Developer 1)

¹ Ikea Code of Conduct with suppliers.

The value fit was even regarded more important than suppliers' pricing policy, although cost-efficiency is also one of IKEA core values. Thus, a potential misfit was regarded as a strong reason to stop the relationship:

"We have one supplier who has a very good price, a very competitive price, but actually I think their culture itself is not really matched to what we are asking for. Like we want our supplier to be open, communicate, and to accept new things, willing to change. This supplier is really not up on communicating. They want to put everything behind that to say it's their problems. In most cases, they think that they are quite good; they don't want to change. But if you want them to change, it's getting there very slow. It's more to see if this supplier could really be IKEA partner." (Business Developer 2)

On the whole, managers stressed that it were suppliers who should be ready to change their behaviors in order for two parties to "feel comfortable" with each other (Business Developer 2).

Suppliers never emphasized the importance of "cultural fit"; however, all of them *compared their own cultures* with IKEA's. Thus, Supplier 1 talked about "constantly learning from IKEA culture" for a well-functioning cooperation. Suppliers 2 and 3 mentioned the specific values characterizing their cultures. For example, Supplier 3 spoke about RICE – responsibility, innovation, care, engagement - that characterize their organization. Supplier 2 had deeply rooted values reflecting its brand name SELF and spiritual origin – confidence, constancy, concreteness and creativity. The achieved cultural fit between Supplier 2 and IKEA was considered by the factory's manager as one of the reasons for their successful cooperation:

"From the beginning when we found IKEA, we thought that, maybe, we and IKEA will be good friends? We will be a strategy partner in future, because our culture is similar. We had that feeling." (Deputy Manager, Supplier 2)

Thus, the brand's cultural fit was regarded by suppliers as beneficial but not necessary for the cooperation. However, the suppliers' desire to make culture explicit for partners signaled their appreciation of its role in the relationship.

Trust to implement changes was discussed as a critical factor in IKEA-supplier relationships. This was especially important for IWAY-related changes at suppliers. Among managerial actions were developing a good understanding of suppliers' real situations at factories, showing respect, creating a collaborative climate and acting responsibly (e.g. paying on time). Managers were aware that if they started acting as auditors only, they would never get suppliers' trust:

"I think that the critical thing is that you respect the supplier and create the partnership because we saw a lot of failure in the past through only the auditing approach. It never created trust, it kept playing the mouse-and-cat game, and it does not lead anywhere because for the suppliers because they never think that you as a company sincerely want them to fulfill these demands, it is just the customer demands." (Business Developer 2)

The respondent spoke also about the ways in which suppliers can win their trust:

If you² are not giving real figures to us, it's a big problem with the relationship with us, also the trust for the future. That's the interesting part. So that we really trust the figure we get, whether it's really 100% true. That's the basis we start working (IWAY Manager)

² A supplier.

Suppliers, in their turn, talked about their *commitment* to IKEA as a well-deserved benefit that they used for their own purposes. For example, Supplier 1 talked about commitment as a *source of security* for the factory:

‘I promise you to do this, this, and that.... So inside a committed period of time, you are secured. And inside a secured period of time, you are freer from the worries and you can concentrate on the things you have to do to fulfill IKEA’s requirements’ (Director, Supplier 1).

This supplier was also the most committed of all: “We marry IKEA”. Supplier 2 was the most independent one and used their commitment as a *bargaining power* to negotiate the production terms with IKEA. Supplier 3 managed to re-start the terminated relationship with IKEA due to the owner’s continued commitment and willingness to take risks. On the whole, both manager’s trust-winning and suppliers’ commitment statements reflected the power imbalance between the firm and its suppliers.

4.3. Pragmatic contract between managers and suppliers

The topics below are related to the actual implementation of brand values and norms stated in the brand promise: quality, cost and IWAY. The reasons of including these topics into the pragmatic contract are their expressed conditionality and mutuality, due to both parties’ active involvement.

Bringing quality and cost into focus was one of the key topics in managerial accounts. Since very few suppliers responded to these requirements wholeheartedly, the respondents emphasized the importance of changing their mindsets via education and control. The compliance with quality standards was supervised by IKEA team who visited the respective suppliers up to 2 times a week. As to the cost efficiency, each managerial visit to suppliers included a special check of the waste by IKEA specialists. On the whole, quality and cost issues were considered critical for implementing the company’s overall mission in China.

As far as suppliers were concerned, cost and quality were always discussed as regards their actual *benefits* for factories. For example, Supplier 1 considered cost efficiency beneficial while Supplier 2 looked at it as an obligation: “Every supplier has to do this because IKEA always get the lowest price in all markets”. Suppliers 1 and 3 have completely adapted their production to IKEA’s low cost business idea, while Supplier 2 had only a part of production adapted to IKEA. This supplier often disputed the IKEA’s principle of annual price decrease for existing products. As to quality requirements, all suppliers reported continuous improvements of quality standards at the factories and even boasted their achievements in the factories’ brochures. On the whole, suppliers seemed to perceive IKEA demands of low cost and quality useful only if they were beneficial for their factories, referred to as a “win-win situation”.

Brand norms for socially responsible growth were the highest managerial priority at the time of interviews. IWAY was divided in 2 parts due to the different employment laws and practices in China. Another reason was a need to overcome the established practices at suppliers who often presented false records in order to “pass the tests”. As commented:

“We see a lot of these problems at the suppliers, and this do not really match the IKEA culture and also the purpose of what we are going to do” (Business Developer 1).

In order to deal with suppliers’ opportunistic behaviors, managers introduced more realistic requirements in the form of IWAY part 1 consisting of basic norms as regards child and forced labor, wood origins, environmental and safety regulations. They were referred to as “an entry ticket to IKEA business” and were by the end of 2008 fulfilled by 100% of Chinese IKEA suppliers. IKEA Managers

regularly checked the compliance with its standards: "every time you go to the factory, you should have a quick eye to see – everything should be in accordance with the IWAY norms. If it is not, it should be corrected" (IKEA Business Developer 2).

IWAY part 2 included the additional requirements of working hours (overtime and rest), wages (minimum and overtime) and workers' benefits. Similarly to part 1, managers sought to understand the real situation at suppliers in order to decide what can and what cannot be changed immediately. While some of challenges were realistic to overcome by "focusing on company culture, supplier competences and production efficiencies" (IWAY Manager), others such as the gaps in local laws were more difficult to deal with. Given these results, IKEA managers selected suppliers interested in improvements and used them as "best examples" for other factories. All interested suppliers were offered special training possibilities at Shanghai Trading office, which the interviewed suppliers have also attended. On the whole, IWAY represented a pragmatic contract with suppliers, in both of which managers and suppliers negotiated the conditions and terms of its execution.

As far as suppliers were concerned, IWAY part 1 norms were regarded beneficial for their factories. Thus, Supplier 3 felt that these norms provided *protection from competitors* since "it is not easy for any supplier to meet". Supplier 3 included the strict standards on chemicals in their factory's presentation while Supplier 2 featured the IKEA-related achievements in the factory's magazine. Compliance with IWAY standards was commonly regarded by suppliers as *a reputation booster*. Supplier 2 talked about being among top three suppliers in the industry while Supplier 1 was regarded the biggest flat line producer in China. It has also helped factories to get help from the government, for example, Supplier 2 received the status of a "national high tech enterprise" mostly due to its reputation of a socially responsible company. The cooperation with IKEA has also made factories more attractive for qualified workers.

However, suppliers also talked about IWAY norms as a burden. They admitted difficulties with the implementation of IWAY Part 2, for example, Supplier 3 talked about the difficulties to "balance the working time and the order required". Supplier 2 explained that it was very difficult to increase workers' salary since it will directly influence the product prices. At some suppliers the typical Chinese working mentality prevailed: "you have to sacrifice some of your own time by working to meet the changed plan" (Supplier 3). On the whole, the terms of brand norms' implementation were actively negotiated between managers and suppliers.

5. Results and Discussion

Figure 2 summarises the empirical results from the case. It shows that managers and suppliers have, indeed, perceived the corporate brand as a contract, however, the nature of this contract varied between a more theological promise (demand) made by the firm to its stakeholders and its more pragmatic implementation. Essentially, IKEA's overall brand promise of supplier's growth and development does not explicitly state any conditions for suppliers and thus sounds as a "God's promise to its people". Managers use the brand promise to make a theological pledge, the goal of which is to form and strengthen stakeholder beliefs in the company's vision and mission.

Figure 2: The elements of the corporate brand as a contract between IKEA and its suppliers

Brand contract elements	IKEA managers	Supplier 1	Supplier 2	Supplier 3
Theological contract <i>Brand as a promise</i>	Low price, availability, IWAY, quality. Joint growth for low price creation			
	Achieving a value fit for cooperation:	Learning about IKEA culture for better cooperation	Value comparison: SELF - confidence, constancy, concreteness and creativity	Value comparison: RICE – responsibility, innovation, care, engagement
	Winning suppliers' trust to implement changes			
Pragmatic contract <i>Brand norms for the responsible growth</i>	IWAY 1 as an obligation for all suppliers	IWAY1 for reputation boost. Complied with part 1.	IWAY1 for reputation of socially responsible company, higher status for the government. Complied with part 1	IWAY1 as protection from competition. Complied with part 1.
	IWAY 2 as pilot project for selected suppliers	Proactive with part 2 (quality). Open about problems with salary increase requirements.	Difficulties with part 2	Difficulties with part 2
	"Bringing quality and cost into focus"	Cost-efficient, quality production as beneficial Commitment as a security to fulfill obligations	Cost-efficient production as an obligation, quality beneficial Commitment as the bargaining power	Cost-efficient production and quality as beneficial Commitment as a risk minimizer to restart the relationship
<i>Role of commitment</i>				
<i>Brand equity: relationships, operational results</i>	Long-term relationships, increased revenues, new products	Brand marriage, highest revenue growth	Brand distant partnership, moderate revenue growth	Brand close partnership, high revenue growth

The next element of the theological contract is the cultural fit pursued by managers and corresponding "cultural comparison" by suppliers. The cultural matching is also firm-driven as the firm chooses the "right" and "wrong" partners and takes a decision to either start or finish the relationships. While the roles of organizational culture and core brand values are recognized as important dimensions of a strong corporate brand (De Chernatony, 1999; Hatch and Schultz, 2001, 2003; Urde, 2003), their role in "matching" two companies (brands) has not been explicitly discussed in branding literature. However, the role of shared values in the success of collaborative organisational relationships is broadly acknowledged in relationship marketing (e.g. Jones & George, 1998). Shared values derived from culture are proven to create trust and commitment in the B2B relationships (Morgan & Hunt, 1994). The present study demonstrates that even if the values are not fully shared by partners, suppliers can still make use of them for relationship building by either imitating the brand's values or developing their own values.

An important factor of the theological contract is *building trust* between a focal firm and suppliers. More specifically, managers emphasized trust building while suppliers took it for granted and, instead, spoke about their commitment to the firm. The literature posits that both trust and commitment are central for a well-functioning relationship but trust precedes commitment (Morgan

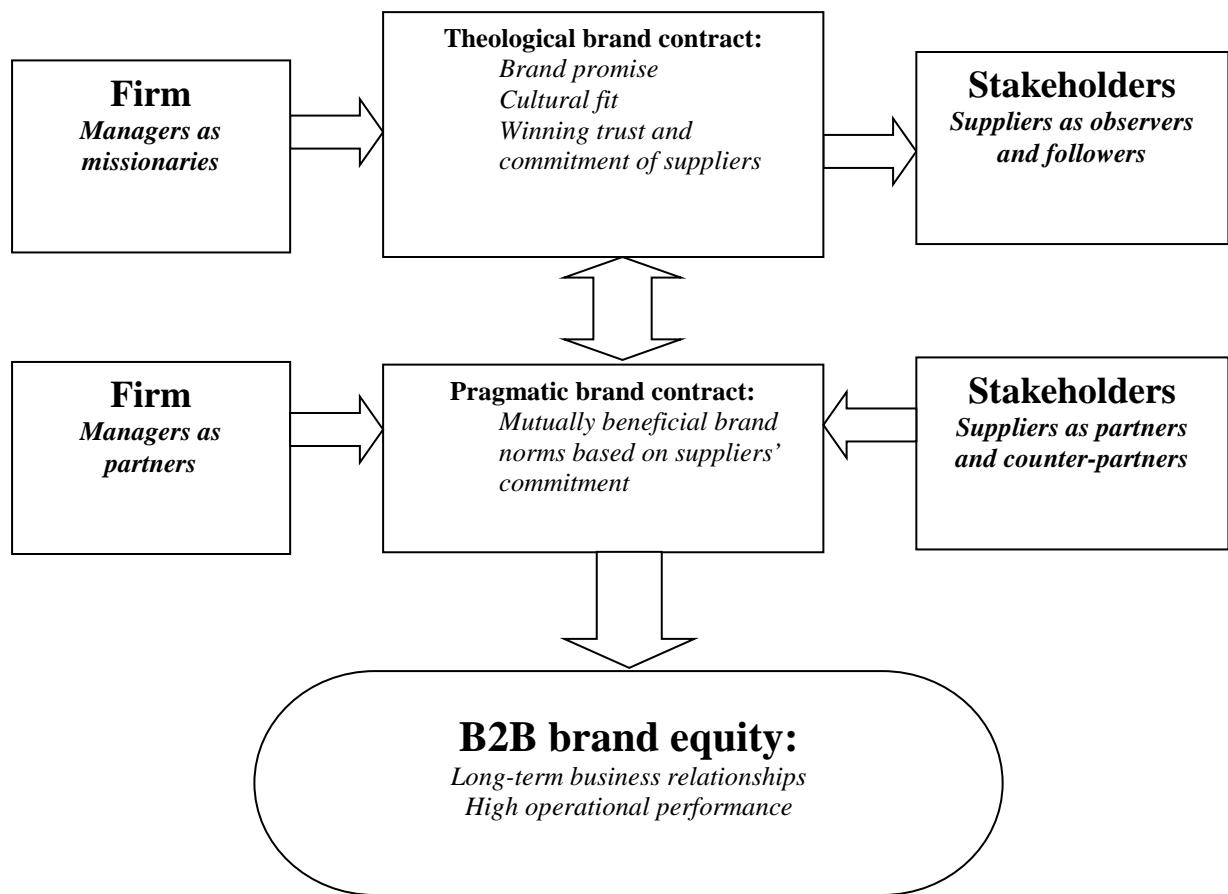
& Hunt, 1994). Thus, by stressing their commitment to the firm, suppliers revealed a more vulnerable position in the relationships. Moreover, by viewing commitment as a social currency for special benefits, suppliers strengthened the asymmetry of the relationships with the firm. Brand trust as an instance of asymmetrical reciprocity is discussed in the consumer literature (e.g. Gustafsson, 2005; Zboja & Voorhees, 2006). In social exchange literature trust is viewed as "mutually constructed, joint state of mind that enables social actors to continue collaboration in the absence of formal contracts" (Calton & Lad, 1995, p. 282), in other words, a symmetrical reciprocity. In addition to that, organizational studies distinguish the conditional and unconditional trust reflecting different structures of relationships (Jones and George, 1995). The present study provides examples of both conditional (suppliers 2, 3) and unconditional (supplier 1) trust and mainly contributes to the asymmetrical view of brand trust as the mediator of the theological contract between the firm and its industrial stakeholders.

As far as *commitment* is concerned, the literature argues that it is action-based and involves financial obligations by both parties (Kumar et al., 1995; McMurrian & Washburn, 2009). In this regard, by being less powerful in the relationship with the global firm, suppliers undertake more risks through their commitments. As exemplified by 3 cases, the most committed relationship (brand marriage) is also the most dependent one as it involves the full adaptation of supplier conditions to the major customer's business model. The least committed relationship (brand distant partnership) is, on the hand, the least dependent as this supplier diversified its production process to meet the demands of different customers. Thus, by committing themselves to the power-asymmetrical relationship, stakeholders tend to rely more on the unilateral brand promise or pledge and, correspondingly, take the passive roles of *observers* and *followers* while managers act as *missionaries* or *brand disciples* preaching in the brand's name.

The pragmatic part of the brand contract is about the actual implementation of the brand values and norms. Its pragmatism stems from its conditionality and active involvement of both parties. As shown by the cases of 3 suppliers, neither of them was blindly following the brand norms but focused on their real benefits for their respective businesses. Literature posits those firms that receive superior benefits from their partnership are most committed to the relationship (Morgan and Hunt, 1994). The role of brand as source of different benefits in the dyad relationship is also recognized (e.g. Glynn et al, 2007). Moreover, it is shown that full utilization of these benefits by industrial actors lead to a of number positive relationship outcomes, including satisfaction and cooperation (*ibid*). The present study shows that brand norms as part of focal brand expertise contribute to well-functioning relationships when they are fully accepted by the less powerful party (suppliers). In this way *mutually beneficial norms* are a key part of the pragmatic brand contract. The parties in this contract might act as either *partners* or *counter-partners*. The pragmatic contract is based on the achieved trust and commitment of local stakeholders, which they might also use for securing the relationship with the firm or negotiating the more beneficial terms of the contract.

Fig. 3 summarises the insights in the conceptual model of a corporate brand as a contract between firm and its stakeholders. A corporate brand is represented by 2 kinds of contracts: a theological contract that is driven by brand promise and aimed at cultural fit and trust-building with suppliers and a pragmatic one that is aimed at mutually beneficial brand norms, based on suppliers' commitment. The pragmatic contract is directly linked to brand's operational results in the form of brand equity. However, it also informs the theological contract as suppliers' commitment to the brand turn them into more dependant brand followers.

Figure 3: The model of corporate brand as a dialectical contract between the firm and its stakeholders



Based on the conceptual model above, the corporate brand contract might be conceptualised as a dual contract between a firm and its stakeholders, in which a firm 1) makes an unconditional pledge of what it stands for and obeys its stakeholders to follow it by cultivating trust 2) makes a pragmatic agreement of how the mutual obligations might benefit both stakeholders and the firm for an increased brand equity. The theological contract precedes the pragmatic one while the pragmatic one informs the former.

The duality of the brand contract constitutes an interesting paradox, which can be illustrated by Hegel's (1969) triad: thesis, antithesis and synthesis. Thus a theological contract is unsatisfactory in itself; it is complemented by its antidote – the pragmatic contract, which is also unsatisfactory on its own. The synthesis of two – a dual contract – emerges as a higher stage of the dialectical process (as it leads to increased brand equity), implying that it cannot be realised with only one part in force. The dialectical nature of brand contract implies its complexity, demonstrated by inherent tensions between its two parts and suggests that any approach based on one of its parts is incomplete.

Thus, it might be argued that by using the analogy of the theological contract for a brand-stakeholder relationship, the existing literature (e.g. Balmer, 2008; Otubanjo et al, 2010) downplays its complexity and conceptualises branding process as a sole monopoly of the most powerful party (firm) at the expense of the less powerful ones (external stakeholders). The present study calls for a broader viewpoint of the branding phenomenon as well as an increased sensitivity to the influence of the dominant discourse in the literature on the firm's practices. On the whole, the improved understanding of the nature of the brand contract contributes to a more critical approach to both branding discourse and corresponding practices, which is still missing in the branding literature while prevailing in the organisational studies (e.g. Alvesson & Spicer, 2011).

6. Contributions and Managerial Recommendations

First, the conceptualisation of a corporate brand as a dialectical contract between a firm and its stakeholders has added to our understanding of the nature of this phenomenon (Balmer and Grey, 2003; Muzellec, 2005; Leitch and Davenport, 2007; Lawer and Know, 2007; Mukherejee and Balmer, 2007; He and Balmer, 2006; Otubanjo et al, 2010). On the whole, applying a dialectic reasoning to major branding theories and concepts might be suggested as a remedy for the field's overall firm-centeredness.

Second, by providing the empirical evidence to the conceptualisation of a dual contract in the B2B context, the study has allowed the subsequent theory building by specifying the nature of both types of contract and the roles of managers and external stakeholders in each of them as well as the importance of their synthesis.

Third, managers are advised to look beyond the purely theological pledge of their brand to its pragmatic side, for example, by negotiating the conditions of brand implementation in the form of norms and allowing a certain deviation from the norms.

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Potential Traps and Pitfalls in BPM Implementation: A Case Study

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Abstract

This paper analyses the case of recent BPM implementation in company in Serbia. The analysis was done through a conceptual BPM model, derived from the literature. The result is a list of potential traps and pitfalls a company might encounter in BPM implementation, divided in categories according to phases of conceptual BPM model. The implications of this research are mainly practical, since the aim was to "warn" practitioners of what they might expect on their way of establishing a BPM system that might hinder their efforts.

Keywords

Business process management, BPM success, case study

1. Introduction

Word “process” (or “business process”; these two words will be equally used throughout the paper) is commonly used in today’s business vocabulary, which suggests that most companies have adopted some form of Business Process Management (BPM) as their management practice (Zairi, 1997). Madison (2005) states that 85% of companies’ problems can be attributed to business processes, and that solving those problems can lead to quality improvements, customer satisfaction improvements, cost and time reductions, etc. BPM has been in development for more than two decades, resulting in its’ own body of knowledge. Although some consider BPM to be a fad and just another buzz word, one cannot deny the potentials that BPM has regarding the improvement of overall business performance.

Although BPM nowadays might be considered a well established management concept, evidence shows that, as is the case with many other business change initiatives, BPM initiatives fail many times for various reasons. Research shows that as much as 80% of BPM initiatives were unsuccessful (Abdolvand, Albadvi & Ferdowsi, 2008; Karim, Somers & Bhattacherjee, 2007; Macintosh & Maclean, 1999). This data is a cause for caution when implementing BPM initiatives, since the implementation itself can be expensive and time consuming. The purpose of this paper is to examine potential traps and pitfalls of BPM application, analyzed through a case study of a recent BPM implementation in a company in Serbia. The BPM implementation will be analyzed through conceptual BPM framework devised from the BPM literature.

The remainder of the paper is organized as follows: after a short literature review from the field of BPM, methodology used in this study will be presented; after that, the results of the study will be presented, as well as conclusions and directions for further research.

2. BPM – A Literature Review

Porter (1985) identified two ways for obtaining competitive advantage: to carry out activities differently from the competition; or to perform similar (or identical) activities as competitors, but in a better way. Companies operating in the same field of business compete with each other by using different resources and capabilities (Peteraf, 1993). Processes are one of main resources of any company, and are difficult to imitate (Biazzo & Bernardi, 2003). Business process can be defined in many ways (Hammer & Champy, 1995; Davenport, 1993). For the purposes of this paper, the process can be defined as a series of activities that are started by an event (or more), whose task is to achieve a certain goal. The process uses resources in achieving a defined goal, is subject to external influences, and it should be managed.

Any organization can be viewed as a processing system, a system that creates a value for the user. Therefore, the processes within an organization can be viewed as part of a network of interdependent entities, where each process has its own role (in creating value, manage the creation of value, or supporting the creation of values). Processes are more than resources. They are elements that constitute a business system, so it can be said that any business system can be managed by managing its processes. Business Process Management represents all of company's efforts to level its processes with strategic goals (Radovic, Tomasevic, Stojanovic & Simeunovic, 2009; Harmon, 2007). It is a structured approach to analyzing, improving and controlling processes of a company (Elzinga, Horak, Lee, Bruner, 1995). Jeston & Nelis (2014) defined BPM as “achievement of organizational objectives, through the improvement, management and control of essential business processes”, and emphasized that the “process management is an integrated part of “normal” management” (p.11). One of the main advantages of process approach is the possibility to monitor the way processes add value as a result of the transformations of inputs into results (Sinclair & Zairi, 1995).

However, BPM implementation is difficult and risky operation, with failure rate far greater than success rate (Chiplunkar, Deshmukh & Chattopadhyay, 2003; Dennis, Carte & Kelly, 2003). This fact might work against convincing company to implement BPM concepts. Because of this, it is very important to start with the BPM project well prepared, with uncluttered goals that are clearly communicated to lower levels of organizational structure, as well as unreserved support from top management. BPM might be considered successful if it continuously meets predetermined goals, both within a single project scope and over a longer period of time (Trkman, 2010). As stated earlier, up to 80% of BPM projects were unsuccessful. the risky nature of BPM has motivated a detailed investigation of its critical success and failure factors (Trkman, 2010; Abdolvand et al., 2008). Some might connect the failure rate of BPM initiatives with the lack of ability of technology to support BPM efforts, but primary aim of BPM is to achieve tangible business outcomes, and with the absence of these results advanced technology deployments will only generate disappointments (Grover, Teng, Segars & Fiedler, 1998; Kettinger, Teng & Guha, 1997; Davenport, 1993).

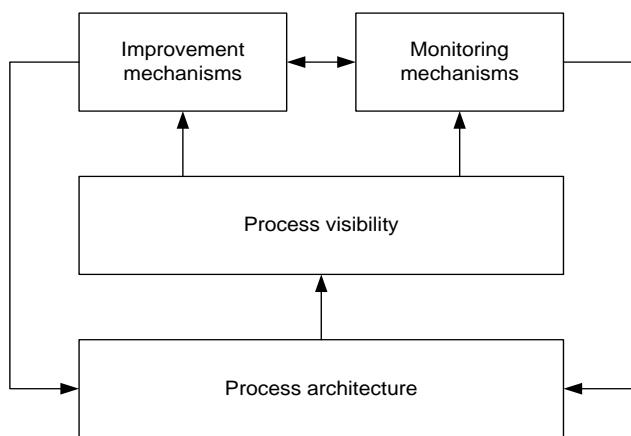
3. Research Methodology

The nature of the research made the choice of exploratory case study method the most appropriate, because contemporary phenomenon within its real life context is being investigated (Yin, 2003). Case study method usually combines data collection methods such as interviews, questionnaires and observations (Eisenhardt, 1989). Case study is usually used in areas that are not fully structured and systematized, tackling issues that are still emerging (Bandara, Gable & Rosemann, 2005; Yin, 2003). The purpose of this case study was not to present a definitive set of pitfalls that one might encounter in a BPM implementation project, but rather connect potential problems with elements of BPM framework in a case specific environment.

The case study examines recent efforts of company Alpha (real name is not given in the paper for security reasons; all other data are real) to establish a system for business process management and optimization. The case study was conducted shortly after the project was finished. Two data collection methods were used. The first was the study of archival sources to analyze the history of the company, mission, culture, values, etc. The second involved semi-structured interviews with top and middle managers, as well as employees from the company. Each of the interviews lasted for approximately 45 minutes to one hour, with answers being written down. Data gathered refer to the period from April to July 2014.

A number of models have been developed for the purpose of managing processes. All of them suggest a series of stages or steps that should be applied in order to establish a BPM system (Radović, Tomašević, Stojanović & Simeunović, 2012; Gardner, 2001; Elzinga et al., 1995; Sinclair & Zairi, 1995). All of them suggest a series of stages or steps that should be applied in order to establish a BPM system. Most models emphasize certain aspects of process management (process measurement, process improvement), and do not give a complete picture of what is to be done in order to establish a system for process control. However, by analyzing these models, a conceptual model can be developed, that includes following aspects of process management (Biazzo & Bernardi, 2003): a) process architecture - includes identification and representation of processes in a comprehensive and systematic manner; b) process visibility – includes structural visibility, i.e. placing processes in existing organizational structure and assigning process owners, and operational visibility, i.e. documenting processes in order to come up with a description of their operation; c) monitoring mechanisms - establishing a system for process performance measurement, which enables systematic monitoring and analysis of process performance indicators; and d) improvement mechanisms - establishing a system for making a series of decisions concerning the selection of processes which will be improved. Graphical representation of the model is given in Figure 1.

Figure 1: Key components of Business Process Management (Biazzo & Bernardi, 2003)



Data collected through case study research will be analyzed against all aspects of Business Process Management, in order to identify potential traps and pitfalls that are specific for each phase.

3. Business Process Management in Company Alpha – Case Study

Company Alpha operates in Serbia in the field of electric power transmission. It is publicly owned, with over 1300 employees. The company is divided in seven organization units, with three of them representing its core business. Organization units are further divided into sectors. The company was formed when electric power transmission was segregated from electric power production, dividing the larger company into two separate parts.

The company is profitable, with it largely due to the fact that they have a monopolistic position on the market. However, the management felt that the company should be more efficient, and have opted for business process mapping and improvement program as an approach that they've felt might bring the desired results. They've engaged external consultants to help them implement BPM concepts. Between the company and the consultants was decided that none of the existing BPM methodologies was to be used. Instead, a new, semi structured approach was devised especially for this case. It was thought that this approach will provide the flexibility needed for the company that has no formal experience with BPM.

Goals of BPM introduction were not clear, and were not communicated well enough to lower level managers. It was not uncommon for lower level managers to ask the consultants what is the main goal of the project. Since goals of the project were not communicated well, room was left for managers to interpret the goals in ways they found appropriate, as they saw the opportunity to use the presence of consultants to solve some problems which were not directly tied to overall goals of the project.

Integrated Management System (IMS) documentation was used as a starting point in process identification. The company was ISO certified recently, and it was presumed that process approach advocated by Quality Management System (QMS) was still fresh in minds of employees. Processes were grouped in five groups: Business management processes, Resource management processes, Product/Service realization processes, IMS sustention and improvement processes, and Sustainability sustention processes. It can be seen that environmental and safety processes were treated separately from quality sustention processes, i.e. were not included in IMS processes. Processes were identified with different level of details and precision, which resulted in end-to-end processes (with customer on both sides) and simple every day job processes being on the same level of process decomposition. Product/Service realization processes were further divided to sub processes, with

strong influence from organizational structure. Identified sub processes are isolated within the organizational units, which led to unnecessary fragmentation of work. This in turn led to organizational units “fighting” over who should be in charge over larger processes, by counting the number of process activities performed within the organizational unit. By dividing the work in this way, sense of the mission and vision of the company were lost. Although mission and vision statements were clear and understandable, there were differences in perception of what might be the main purpose of the company.

Some of the processes were documented earlier, for the purpose of IMS certification. However, the lack of synergy was evident when processes were documented. For example, maintenance of various objects of power transmission system differs in technical parts regarding the actual maintenance job, while preparatory work, as well as the work that follows the maintenance is more or less the same. However, three documents were designed for maintenance purposes, each describing the process with different level of details. During the interviews, it was concluded that many procedures do not reflect the way in which the processes are actually carried out. Also, the documents were not up to date with the current organizational structure. For the purpose of this project, swim lane approach to business process mapping was used. Unclear process mapping goals interfered, since not all employees were satisfied with the chosen method. The chosen method was completely new to the company, and while higher level managers were satisfied with the proposed approach, lower level managers and employees were dissatisfied with the solution, regarding it not instructive enough. One of the main objections was the lack of information flow display. Also, since the project started with translating existing process diagrams to swim lanes, the employees felt that the consultants were not doing anything new, but presenting something they already have in a different manner.

The company operates in the field where, as stated by the managers that were interviewed, effectiveness is much more important than efficiency. With that in mind, it is not surprise that processes were mainly measured from the effectiveness point of view, while efficiency was rarely measured. Annual reports show, for example, the fulfillment of maintenance plan regarding the ratio of planned and executed jobs (that ratio is always around 100%, sometimes even more!?), but not the costs of maintenance or other resource usage. When consultants proposed the new set of parameters to be developed, that will include more efficiency parameters, the management said that they are open to that suggestion, but that maintaining effectiveness will remain their top priority.

IMS certification explicitly required process improvement mechanisms, and improvement steps were called for in many procedures that document processes. However, no evidence of formal process improvement was found. Although technical parameters of operations were regularly reassessed, entire processes were not reviewed regarding activities of processes, people involved in process, handoffs between process participants, communication channels, resources being used, time needed for process to be carried out, process costs, etc. Improvement and monitoring mechanisms were proposed, but not fully implemented, so it is still early to judge this phase of the project.

When employees were asked to assess the success of the BPM implementation project so far, the responses were ambiguous. Top management was mainly satisfied with what was accomplished, although answers differ in terms of what was really accomplished. The satisfaction with project results is biased to a certain extent, since it would be hard to admit failure, because top management had the initiative to implement BPM, but the fact is that they were not well prepared, and didn't have clear goals and expectations in their minds. Lower level managers and employees were reluctant to participate in the project in the first place, since they did not see how project could benefit to their work, and they thought that this project is distracting them from their everyday operations. This is probably why most of them didn't feel satisfaction with the results, or wasn't aware of any kind of results. The results were mainly static in nature (process architecture, process maps, new organizational structure proposal, etc.), without real action and tangible results.

4. Traps and Pitfalls in BPM Implementation – Lessons Learned

As said earlier in the text, we have assessed the BPM introduction project in company Alpha against conceptual BPM framework presented in Chapter 2, in order to identify potential pitfalls in every key BPM component. The analysis shows that problems were encountered in every step of the project, which largely determined the outcome of the project itself.

It was evident from the start that processes were not identified in an adequate manner. Teams were formed for the purpose of process identification, and a team was assigned to a functional unit to try to identify processes that were specific for than unit. This was done mainly in isolation, with insufficient communication between teams. Processes cross functional borders, which is why they can't be identified simply by following organizational structure. This is why some authors suggest that processes must be tied to something that is more tangible, like a customer, or product/service or an outcome of a process and basically identified from end to the beginning (Radović et al., 2012). Process identification is a crucial step in BPM implementation, since process architecture represents the foundation for all subsequent efforts in process improvement. Process identification can make or break BPM implementation.

Process mapping was one of main demands from the company Alpha, i.e. they wanted to make their processes structurally and operationally visible. Process maps can be powerful tool for process analysis, but process mapping is often criticized for being too demanding, often expensive, and without enough tangible results. This is why it is very challenging to find the right "amount" of modeling for the given company. It can be said that the quality of process map is greater if the process map serves its purpose better. However, the purpose of process maps in company Alpha was not clearly defined. Furthermore, it was not clear who were to be users of process maps. Purpose of process maps and process maps users very much determine what modeling methodology is to be used for process mapping. Since both of these categories were unclear, we can't say with certainty why company Alpha opted for methodology that was used (i.e. basic swim lane diagrams). It was also noted that swim lanes were not created in a uniform way throughout the company. As said earlier, IMS documentation was used as a starting point both for process identification and process mapping. Some process documentation should be better than no process documentation, but one should be careful when using existing documentation since it might not be appropriate for purposes beyond the one that it was originally created for. As far as operational visibility goes, some processes were described from operational point of view. However, the documentation was not of equal quality for different processes. Some processes were described with insufficient level of details; some of them were in more details than needed, while many procedures (according to the employees) were not clear and instructive enough. Also, discrepancies were found between process documentation and process execution.

Process measurement was not implemented in a systematic way. The company has a list of KPIs that are measured, and as said earlier in the paper, most of them are measuring effectiveness, with time, cost, productivity and capital regarded as of secondary importance. Some of them were tied directly to a certain process, while others have only implicit connection with processes. Process performance measurement system is fragmentized, with large number of reports being generated independently one from another. It is not uncommon that performance measures gathered at one end of the process are not considered when measuring performance at the other end of the process, or that the same information is needed in a different form. The amount of in-process measures was not sufficient enough. Lack of detailed measurement system might be connected with employee satisfaction, since employees think that their jobs might be jeopardized with the performance measurement system, and that some of them might be seen as underperformers.

Structured approach to process improvement was not evident before the project, although it was envisioned in IMS documentation. One of the goals of the project was to identify opportunities for improvements, and propose mechanisms for those improvements to be implemented. It is not clear how improvement opportunities were identified, since there was no consensus over what part of business should be improvement. Furthermore, improvement opportunities were not prioritized, and the project resulted in a set of improvement opportunities which were treated equally. The idea of the project was to create environment that will encourage the continuation of work on business process improvement, but the decision making system that would facilitate improvement opportunities identification, prioritization and process selection was not established. One of important components of successful business process measurement and improvement system is employees' reward system (praise and financial based benefits), which might motivate employees to take more active role in BPM project. However, reward system was not the part of BPM implementation project in company Alpha.

Having in mind the discussion presented above, potential pitfalls were grouped in five groups: four groups according to elements of conceptual BPM model presented in Chapter 3, and fifth group that deal with organizational issues of BPM implementation in general. List of potential pitfalls is given in Table 1.

Table 1: Potential pitfalls in BPM implementation

Process Architecture	Process Visibility	Measurement Mechanisms	Improvement Mechanisms	Organizational issues
<ul style="list-style-type: none"> • Inadequate process identification; • Process fragmentation; • Silo mentality • Inadequate process owners; • Lack of clear vision of what should be the outcome of the process; • Lack of market orientation; 	<ul style="list-style-type: none"> • Lack of purpose of process maps; • Unclear users of process maps; • Inadequate process mapping methodology; • Lack of process mapping standards; • Wrong "amount" of process mapping; • Discrepancies between process documentation and process execution; 	<ul style="list-style-type: none"> • Unclear connection between process measures and company goals; • Lack of end-to-end process measures; • Lack of in-process measures; • Unsystematic approach to measurement; • Unnecessary process measures and reports; • Insufficient quantification of measures; 	<ul style="list-style-type: none"> • Lack of systematic approach to improvement opportunities identification; • Lack of systematic approach to improvement prioritization; • Lack of systematic approach to process selection; • Lack of "quick wins"; • One-off process improvement efforts; • Inadequate feedback; 	<ul style="list-style-type: none"> • Lack of clear goals, or presence of unrealistic goals; • Lack of governance; • Lack of employee buy-in; • Lack of communication • Insufficient knowledge of BPM; • Lack of methodology; • Skepticism about BPM project outcomes;

The conceptual model shows how process visibility arises from process architecture, and how, together with the architecture creates the basis of process management system. Monitoring mechanisms and improvement mechanisms are leaning on foundations of the system, and are connected between themselves, while feedback loops emphasize evolutionary nature of business system based on processes. As process architecture and process visibility present the foundation of any BPM project, it is very important to try to avoid potential pitfalls that might arise in these phases. These two phases might make the difference between the success of the project and the failure.

Organizational issues were not incorporated into conceptual model presented in the paper, but are very important for the success of the project. Lack of clear goals was evident from the beginning of the project. Even if the goals were clear to top management, they were poorly communicated to lower level managers and employees, which resulted in poor employee buy-in. Besides that, the employees (as well as managers) were insufficiently knowledgeable about the concepts of Business Process Management, which jeopardized the efforts of consultants to overcome the silo mentality, which was really strong in this company. This was not the first improvement project in this company (although this was the first one explicitly connected with business processes), and according to employees, all of the previous efforts had little to no success. This, as well as the fact that employees were not able to identify themselves with the outcomes of the project (backed up with the natural resistance to change), increased the skepticism about the BPM outcome.

5. Conclusions

BPM implementation is a serious effort for any company, and it must be approached systematically and with caution in order to be successful. Since functional organization is still the dominant form of organization in business systems, it is necessary to make additional efforts in order to successfully make their transformation into process oriented company. Although BPM might bring significant improvements in ways that business system operated, mere implementation of BPM concepts doesn't guarantee a success. Potential pitfalls in BPM implementation lurk on every step, and it is of outmost importance for the company to be familiar with them in order to avoid them. In this paper, potential pitfalls in BPM implementation were analyzed through case study of company Alpha, and their efforts to improve their processes. The case was analyzed through conceptual BPM framework, devised from BPM literature. The results show that every phase of BPM implementation has its own set of pitfalls that a company might encounter. Process architecture and process visibility are of special importance to success of BPM efforts, since the output from these phases represents the foundation for establishing process management environment that might bring tangible results for the company.

In addition to BPM specific pitfalls, a fifth group of problems that might arise is identified, that consists of organizational issues that might affect the success of BPM implementation. These issues might be considered general for all improvement efforts that a company might undertake, but they are also very important for process improvement efforts. As said earlier in the text, BPM might be considered successful if it continuously meets predetermined goals, but it is hard to measure success if you don't know what to expect from process improvement initiative, since even the best BPM program cannot offer answers to the question of the proper focus of an organization (Trkman, 2010).

The implications of this paper are more than anything practical in nature. It deals with real problems, encountered in a real life environment. The aim was to "warn" practitioners of what they might expect on their way of establishing a BPM system that might hinder their efforts. The paper has its limitations. Firstly, the list of potential traps and pitfalls was devised on basis of studying just one case, so the list of pitfalls cannot be considered ultimate and final (which was not our intention). Secondly, the research was done post festum, analyzing the things that already occurred. It would be beneficial to test the predictive abilities of identified pitfalls, and present the list to another company trying to implement BPM, and see if the company will be more successful if presented with things of what might go wrong with their efforts.

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Does Ownership of the Means of Production Matter? An Empirical test of the Outcomes for Capital and Labour in the Irish Manufacturing Sector

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Abstract

Debate within the political economy tradition has historically tended to divide into a radical and a revisionist approach to changing or reforming capitalism. The radical perspective views the conflict of interest between capital and labour as a persistent and insoluble feature of a capitalist society. Alternatively the revisionist perspective emphasises the possibility of compromise between capital and labour in capitalist market societies. Using data from the Irish manufacturing sector the absolute and relative gains to capital and labour for the period 1950 to 1992 are examined. Although workers in the manufacturing sector experienced substantial growth in real wages, nevertheless the share of surplus value going to labour declined. Major challenges confront both the radical and revisionist perspectives in the development of viable policy agendas in mature developed democratic societies.

Keywords

Capital, labour, ownership, economic gains

1. Introduction

Throughout the 20th century two perspectives have dominated the discussion regarding the relationship between capital and labour in developed market societies. Political economy stresses the centrality of power and conflict inherent in economic markets. Markets are perceived as social structures in which certain economic agents are able, because of their position, to reap special benefits in and through the market mechanism (Littler, 1993). Power originates from the ownership of property, that is, the means of production that allows capital to dominate and exploit labour. Concepts such as power, control and ownership of the means of production provide the core insights into the relationship between economy and society (Holton, 1992, p. 104). The means of production refers to physical, non-human inputs used in production including factories, machines and tools. More simply it refers to the means that are used to produce goods and services. In contrast neoclassical economics assumes a perfectly competitive economy where there are no conflicts, no power structures and even no firms (Nolan & Marginson, 1990). Power is assumed to be so evenly and thinly spread that its influence can be neglected (Littler, 1993).

Debate within the political economy tradition has historically tended to divide into a radical and a revisionist agenda to replace or reform capitalism. The radical political economy perspective views the conflict of interest between capital and labour as a persistent and fundamentally insoluble feature of a capitalist society. Alternatively the revisionist perspective emphasises the possibility and contingent reality of compromise between capital and labour in capitalist market societies. A market society is one where commodities or services are bought and sold for a monetary price. Depending on the nature of the state, the social, political and economic ideology of the dominant political group and the resultant laws governing labour relations, the power of either capital or labour may be curtailed, enhanced or left to the operation of market forces. Although the radical and revisionist positions have been extensively debated at a theoretical level, there has been little empirical examination of these conflicting views in the Irish context. In this paper, using data from Irish Industry we assess the absolute and relative gains to capital and labour for the period 1950 to 1992. This period is particularly appropriate for an examination of these issues as it covers almost the entire second half of the 20th century.

2. The Radical Tradition

While both perspectives are strongly informed by a Marxist analysis, the radical tradition tends to view the relationship between capital and labour as irreconcilable in a capitalist society. The radical tradition draws more faithfully on the writings of Marx. Marx viewed the interests of capital and labour as irreconcilable since the interests of wage earners in wages and capitalists in profits placed these two classes in a situation of objective conflict due to the general law which determines the rise and fall of wages and profits. According to this law, wages and profits stand in inverse ratio to each other. A rise or fall in capitals share of surplus value (profits) brings about a proportionate fall or rise in labour's share (wages). Thus, the gains of capital are always at the expense of labour. Although Marx acknowledged the possibility of an absolute improvement in the material condition of the working class, he nevertheless maintained that this would not remove the antagonism and conflict of interests between capital and labour, 'even the most favourable situation for the working class, the most rapid possible growth of capital, however much it may improve the material existence of the worker, does not remove the antagonism between his interests and the interests of the bourgeoisie--- profit and wages remain as before in inverse proportions' (Marx, 1952, p. 35).

A constant challenge for the radical perspective however is the relative stability of capitalism over the previous two centuries and in particular the continuity of worker consent under capitalism. Burawoy (1985), one of the more sophisticated proponents of the radical position, argues that the historical stability of a hegemonic regime where workers consent to their own exploitation is based

on a combination of material and ideological factors. Drawing on the work of Gramsci (1971) hegemony is defined as the presentation of the interests of the dominant classes as the interests of all. In order to ensure workers consent, the realisation of workers interests must be perceived by workers to depend on the realisation of the interests of capital. Hegemonic factory regimes are associated with the emergence of large corporations and monopolistic control of markets that insulated businesses from competition from early in the 20th century but especially the period after the 2nd world (Galbraith, 1972; Hobsbawm, 1994). This together with the development of mature welfare systems weakened the dependence of the worker on the employer. On the one hand this separation of the worker from the employer reduced the workers vulnerability to the market, and on the other the centralisation of capital and the emergence of corporate capitalism ensured stability through control of product markets. In short, the economic conditions provided the basis for a compromise between capital and labour as a result of shifts in the dependency relationship and improvements in the material conditions of workers. Labour in a welfare market society was thus partially decommodified. Consequently workers acceptance of a hegemonic regime is due to the historical outcomes of class struggle that have mollified the opposition of interests through the coordination of the interests of capital and labour (Burawoy, 1985, p. 28). Developments in the 20th century have shown that capitalism can, in an absolute sense, be a positive sum game for both classes even if in relative terms it remains negative sum. The absolute conditions of the working class can improve while, at the same time, the proportion of the surplus from production actually going to labour can decline. This can occur in a situation where overall productivity is increasing rapidly resulting in improvements in living standards across all classes.

Yet the distinction between absolute improvements in the condition of workers and the zero sum nature of profits and wages is retained and defined in terms of exchange value and use values. In terms of exchange value, that is, the proportions of surplus value or profits going to labour and capital, the gains of one class can only be at the expense of another (a zero sum game). Alternatively in terms of use values (the commodities that the wage can buy) an expanding surplus allows both classes to gain regardless of the trend in their absolute share of the surplus value. Thus, increases in the commodities that workers can buy, use values, provide a basis for consent in hegemonic regimes and as Burawoy (1985, p. 28) notes 'it is not in exchange-value terms that workers understand their interests and act in the world but in terms of the actual commodities they purchase with their wages'. A hegemonic regime and the securing of consent is possible in an advanced capitalist economy because it can deliver a higher standard of living to workers and simultaneously deliver high levels of profit to capital. Under early capitalism the gains of capital were often at the expense of labour in terms of both use values and exchange values. As capitalism matured a non-zero-sum situation in terms of use values emerged under mass production hegemonic factory regimes.

By increasing efficiency of production, capitalism has been able continuously to increase the standards of living of large sectors of the labour force without threatening its profitability. Nevertheless, Burawoy (1985) argues that despite these developments, the proportions of surplus value going to capital and labour remains a zero sum situation in exchange value terms. Only a proportion of the surplus value will ever go to labour and the relative imbalance of income between the classes becomes a permanent feature reproducing class stratification. Indeed Burawoy (1985, p. 28) claims that the increase in use values, i.e. standard of living and the emergence of democracy and universal suffrage turned into 'means of incorporating the working class into the capitalist order and became a fetter on proletarian consciousness ensuring a form of ideological subordination). Workers concern with use values acts to obscure the fundamental conflict inherent in the zero sum nature of the share out of surplus value and the dependency of wage labour on the reproduction of capital. The substance of Burawoy's explanation of workers consent under capitalism is that once the game is entered workers are compelled to play according to the rules and that the game can only be changed by addressing the ownership of the means of production. In essence this position sits squarely within

the Marxist-Leninist communist tradition that worker emancipation is only fully possible when ownership of the means of production is vested in the proletariat (Brown, 2009, p. 108).

3. The Revisionist Tradition

Revisionism was originally associated with Eduard Bernstein and those whom Lenin labeled as the 'economists' in the late 19th century (Bronner, 2001; Rappaport, 2010). According to Berman (2007, p. 38) revisionism refers to the attempt 'to change the praxis of socialist parties by grounding it in a reevaluation of orthodox Marxism and developing a more suitable socialist theory'. Bernstein refuted Marx's predictions about the imminent demise of capitalism and advocated the attainment of workers interests through the reform of capitalism rather than its destruction. Revisionism marked a shift in emphasis from contesting ownership of the means of production to issues around distribution that was to influence many European social democratic parties. Consequently greater emphasis is placed on distributive issues ('use values') rather than 'exchange values' related to ownership of the means of production. Bernstein believed that control over the process of distribution of a society's wealth was dependent upon the ability to wield legislative power and hence the importance of electoral politics (Bronner, 2001, p. 72). Indeed, Bernstein viewed democracy both as a means or 'weapon' in the 'struggle for socialism' and also the 'form in which socialism will be realised' (quoted in Berman, 2007: 42). Gradualism was to replace revolution using the power of the democratic state to reshape the capitalist system. Essentially it was believed that only democracy could pave the way for socialism (Berman, 2007, p. 53). Arguably the greatest achievement of revisionism is the modern welfare state. By the mid twentieth century even the most conservative political parties in Europe and the US appeared to accept if not embrace an extensive version of state interventionism. Indeed many of the governments elected in Europe after 1945 were of a social democratic persuasion. Temporarily at any rate compared to 19th century capitalism 'capital had lost the right to dominate' (Pagett & Paterson, 1991, p. 12). The two key interlinked elements of the post war settlement were full employment and the growth of the welfare state. Social relations at work underwent a transformation. Several European governments intervened to establish procedural conditions regulating employment relations establishing minimum conditions for rates of pay and health and safety. Gradually the discretion of employers was narrowed as work became increasingly regulated from above and negotiated from below through the action of strengthened labour movements. Tight labour markets, job security and social welfare, providing a level of protection against unemployment ill health and poverty, combined to enhance worker influence. While workers still accepted managerial prerogatives they had a right of reply through trade unions or works councils, which checked the exercise of arbitrary managerial power (Carpenter & Jefferys, 2000, p. 56-95). Thus social welfare, job security and protective legislation modified the treatment of labour as a commodity.

By the early 1980s the 'golden age' of capitalism appeared to be in decline (Kitschelt, et al, 1999). Under the impact of rising unemployment, rampant inflation, a fall in the rate of profits and productivity, the capital labour compromise began to unravel. The economic crisis of the 1970s had effectively undermined the Keynesian policy of demand management and the maintenance of full employment. Many economists typified by the Chicago school of economics argued that the way out of the crisis was to restore the primacy of the market mechanism (Kuttner, 1999, p. 31-33). The market they claimed had been progressively impeded by decades of government intervention and rigidities imposed by trade union power (see Mc Crone et al, 1989). Economic crisis and a revived economic liberalism acted to weaken or undermine regulated markets and welfare regimes. Even some nominally socialist governments in Europe pursued conservative economic strategies of retrenchment, control of public expenditure and restructuring of labour markets (Ferner & Hyman, 1992). Critics of Marxist revisionism argue that it inevitably tends to facilitate an uncritical acceptance of the market (e.g. the third way in the UK) that weakens social democracy and opens it to ideological capture by centrist and populous parties (Bronner, 2001, p. 57).

Nevertheless the revisionist tradition is more sanguine about the possibility of a compromise between capital and labour under capitalism. As Edwards (1986) argues the material interests of workers can be met as effectively under a capitalist mode of production as any other mode of production and, in any case, capitalist exploitation may well be preferable to other modes of production ensuring a certain standard of living for workers.

Although workers must accept profit as an institution, this consent to capitalism is permanently conditional and consent to the existing social relations is always tentative and contingent (Przeworski, 1985). Posteriori consent lies at the foundation of the capitalist social order. Such a compromise is based on a negotiated order that is dependent both on an improvement in wage earners material conditions as a consequence of past exploitation and the continued accumulation of capital. Given the contingent and conditional nature of the relationship between capital and labour it can be expected that labour will also gain where there is an increase in economic activity.

Hypothesis 1: With an expanding surplus both capital and labour will experience real economic gains

Alternatively the radical perspective is pessimistic about the possibilities of workers realising their 'true' interests under hegemonic capitalism. As a result of marginal material gains, workers are ideologically bound to the capitalist system. While in terms of the commodities workers can buy, capitalism has the potential for positive outcomes, the share of the surplus value (and the ownership of capital/ means of production) between capital and labour remains a zero sum contest. While, in terms of use values (the commodities that the wage can buy) an expanding surplus allows both classes to gain regardless of the trend in their absolute share of the surplus value, nevertheless, in terms of exchange value, that is, the proportions of surplus value or profits going to labour and capital, the gains of one class can only be at the expense of another (a zero sum game). Based on Burawoy's analysis the proportion of surplus value or profits going to labour can be predicted to have declined.

Hypothesis 2: In relative or exchange value terms, the proportion of surplus value going to labour will have declined.

In the following sections, using data from the Irish manufacturing sector over a period of forty years we evaluate the outcomes for labour and capital.

4. Data and Measures

Between 1950 and 1990 the volume of goods produced by the manufacturing sector in Ireland increased by more than a factor of 7 (this is the real increase in the amount of goods produced and is calculated by allowing for price increases and inflation). In money values this represented almost a six-fold increase in gross output at constant prices (1953 is the base year). More impressively value added after fixed costs are deducted, increased by more than a factor of ten at constant prices and employment in manufacturing increased by 39%. As we would expect the pattern of change over this period varies considerably. Gross output and value added have been adjusted to constant prices using the Wholesale Price Index which increased by a factor of 10.31. For a more comprehensive discussion of these terms see Kirward and Gilvray (1983). Apart from the average industrial wage, all the measures used here are taken from the annual Census of Industrial Production reports issued by the Irish Central Statistics Office. The two measures of profits or surplus value are the 'crude profit rate' and 'price cost margins'. The **crude profit rate** is calculated by subtracting all labour costs and fixed costs from the annual gross output in the manufacturing sector. Gross output is equivalent to the gross value of goods. Thus the crude profit rate is what remains after all operating costs and labour costs are deducted.

*Crude Profit Rate= $\frac{\text{Gross output} - (\text{Fixed costs} + \text{Labour costs})}{\text{Gross output}}$

However crude profit is a gross overestimate of the actual profit since it omits depreciation costs, taxes and a range of sundry costs (see Henry, 1989). **Price cost margins** are calculated as the ratio of crude profit to gross output and is calculated as the gross output minus fixed costs minus labour costs divided by gross output.

* Price cost margins= $\frac{\text{Gross output} - (\text{Fixed costs} + \text{Labour costs})}{\text{Gross output}}$

Although PCMs are not an unambiguous measure of either accounting or economic profits they have been the basis of considerable research on profits at firm and industry level (Voos & Mishel, 1986; Karier, 1988; for a critical view see, Liebowitz, 1982).

5. Outcomes for Labour and Capital

In terms of absolute improvements in standards of living, that is, the use values of wages quantified by the amount of goods that can be bought there appears to have been considerable real material gains over the period 1953 to 1992 for wage earners. The real weekly gross average industrial wage for manual workers (skilled and unskilled manual) in manufacturing industries increased by a factor of 2.9 (190%). Average weekly employee earnings which includes both manual and non-manual workers increased by a factor of 4.3 (330%) for all workers in manufacturing. During this period there was a reduction in the average number of hours worked in manufacturing from 45 to 40.8 hours per week in 1992. Taking this into account, average real hourly labour costs increased by a factor of 4.8 (377%).

Two measures are used to assess the return on capital invested in manufacturing from 1953 to 1992, the crude profit rate (CPR) and price cost margins (PCM). The aggregate crude profit for companies in manufacturing increased by a factor of 17.9 between 1953 and 1992 at constant values. The largest increase of 143 per cent in the crude profit occurred in the 1980's. PCM increased by a factor of 2.7 from 13 per cent of gross output to 34 per cent by 1992. Again the largest increase occurred in the 1980's and the lowest (8.5%) in the 1970s. It has been argued earlier that the conditions for a class compromise requires that capitalism be a positive sum game, since both the improvement of wage earners material conditions and the continued accumulation of capital must occur. This appears to be the case in manufacturing as average employee earnings (average labour costs) and PCM have followed similar growth trends, particularly since 1970. Overall, the period between 1953 and 1992 has seen absolute improvements for both wage earners and owners of capital confirming *hypothesis 1* that given an expanding surplus both capital and labour will experience real economic gains.

6. Relative Gains between Labour and Capital in Irish Manufacturing, 1953-1992

To assess the relationship between wages and profits two measures are used: value added calculated as gross output minus fixed costs (but includes labour costs) and the crude profit rate (as defined earlier). While the crude profit is not an accurate measure of profitability it is nevertheless a reasonable proxy of the trend in profits over time. Labour costs as a proportion of value added continuously decreased between 1953 and 1992, from an average of 54 per cent in the 1950s to 27 per cent in the 1990s. The largest decline occurred during the 1980's continuing into 1990's. In total, labour costs decreased by 50 per cent as a proportion of value added. Thus the figures from table 3 indicate that wage earners relative share of the crude profit has decreased over time. We can assume with some certainty, therefore, that the relative share of the crude profit accruing to capital has increased over time. Though relative shares for wage earners and capital have shifted there have, as indicated earlier, been absolute material gains also for wage earners. This is possible where labour

productivity is increasing and/or the rate of investment is increasing. Both of these conditions have occurred in manufacturing from 1950 to 1990. In any case in exchange value terms the proportion of the crude profit going to capital has increased confirming *hypothesis 2* that in exchange value terms the proportion of surplus value going to labour will tend to decline. While the increase in investment and labour productivity accounts for much of this shift, it appears that less of the crude profit from manufacturing is being invested and conversely, a higher proportion of profits are being consumed.

7. Conclusion

An analysis of the trends in the manufacturing sector provided considerable support for both hypotheses that with an expanding surplus both capital and labour will experience real economic gains and that in relative or exchange value terms, the proportion of surplus value going to labour is likely to decline. Although workers in the manufacturing sector experienced substantial growth in real wages, nevertheless the share of surplus value going to labour declined in the period under review. Even so it is difficult to accept the argument that workers are unable to realise their 'true' interests under capitalism since they have achieved real material gains (Przeworski, 1980). Yet, undoubtedly workers as a class are also affected by the general share out of profits and wages, that is, the share of the total social product going to different classes. The distribution of wealth in society between the various groups or classes can have the attributes of a zero sum game, and the expansion in the share of one group can only be at the expense of other groups or classes. Even where all groups experience absolute improvements in their standard of living the share of wealth between classes may actually become more unequal. Increasing levels of inequality has been linked to higher levels of social conflict, violence, crime and poor health (see Wilkinson, 1996; Wilkinson & Pickett, 2010). But is ownership of the means of production relevant to issues of inequality and the interests of workers as a class? Does it matter whether the state or private individuals own the means of production? Traditionally social democratic parties in the revisionist mould have sought to socialise the market through state ownership of the commanding heights of the economy combined with distributive policies funded through progressive taxation regimes. Thus most developed industrial states also capture a significant portion of the economy's surplus from both profits and wages. Total annual tax revenue in 2008 in Ireland accounted for 29.3 per cent of Gross Domestic Product (GDP) (Eurostat, 2010). Although far below the EU25 average of 37.5 per cent (Sweden was 47% Of GDP, Denmark 48% and Finland 43%) it still represents a significant share of the surplus value. Sweden, still the archetypical social democratic society, combines a comprehensive welfare system based on high taxes with relatively minor state ownership of enterprises. Apart from the forced temporary nationalization of a large part of the banking sector, Swedish industry is overwhelmingly under private ownership and direction (Berman, 2007, p. 184). Consequently the essence of social democratic strategy was not taking over the ownership of the means of production but rather the regulation of the economy in order to promote economic growth and enhance and protect universal social solidarity.

However the revisionist social democratic model has been under attack from capital and the neo-liberal agenda since the latter part of the 20th century. Neo-liberals espouse a typical package of policies that include low social spending, low taxation, deregulation of financial and labour markets and the privatization of state companies (Pollin, 2003; Harvey, 2005). Paradoxically a BBC World Service global poll in 2009 of over 29,000 adult citizens across 27 countries found that a majority of people in many countries subscribe to a broadly social democratic program rather than a neo-liberal agenda (BBC World Service Poll, 2009). Excluding the 'don't know' 27 per cent of the poll felt that capitalism is fatally flawed and a new economic system is needed while only 13 per cent believed that capitalism worked well and increased regulation would make it less efficient. A majority (60%) adopted a broadly revisionist stance believing that free market capitalism had problems that could be addressed through regulation and reform. Majorities in 15 of the 27 countries would like their government to be more active in owning or directly controlling their country's major industries.

Overall the poll indicated that 67 per cent of respondents would like their governments to take a more active role in distributing wealth more evenly, in the regulation of businesses (56%) and in owning or directly controlling major industries (47%).

A major challenge for the revisionist perspective is to deal with the constraints of capitals hegemony in a market society as a result of the private ownership of the means of production. Experience shows that taxation policy, partial state ownership and welfare regimes can be dismantled particularly as a response to threats of capital disinvestment and flight. As one commentator observes 'no government that willingly works within a capitalist framework can privilege lower classes at the expense of business for long without being reined in or replaced (Gowans, 2009). Consequently any government that works within the context of capitalism must accommodate the profit making interests of business or risk being destabilised. Outcomes for capital and labour are thus contingent on a particular set of political and economic conditions particularly the balance of power between capital and labour. There are considerable differences for example in the extent of income inequality and wealth concentration between Sweden and the US despite both being market or capitalist societies. As Berman (2007: 6) argues social democracy 'was the most successful ideology and movement of the twentieth century' reconciling things that had 'hitherto seemed incompatible – a well-functioning capitalist system, democracy, and social stability'.

A major challenge for the radical perspective and its advocacy of state ownership of the means of production and centralised control of economic activity is to ensure that its agenda is compatible with the exigencies of democracy. The Marxist-Leninist notion of ensuring that both issues of distribution and state ownership of the means of production are realised through the dictatorship of the proletariat is an anachronism in a developed democratic society. Leaving aside the technical and economic difficulties of the radical enterprise its agenda would be subject to regular electoral contests and the possibility that voters will change their minds and opt for a different regime. In developed democratic societies a successful political ideology necessarily requires broad social and class support.

Both the radical and revisionist perspectives therefore must confront significant challenges. Such challenges are not necessarily or entirely insurmountable. Their analytical frameworks can continue to provide agendas and policies that can act to change or at least redefine existing realities. Ultimately these analytical frameworks allow us to confront present suppositions and help people imagine future alternatives to present conditions.

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Shareholder Dilemma: What Stake to Offer to Financial Investors? Reflection Based On Financial Principles

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Abstract

Companies in their growth stage often require sums of money that exceed their operating cash flows. A need for raising funds might be associated with entering new markets, expanding production, acquiring other businesses. Debt and equity are the two main sources of capital available to businesses and each have advantages and limitations.

A sale of ownership stakes to private equity funds and other financial investors is an attractive alternative as far as it does not increase leverage and leads to competitive advantages achieved thanks to expertise and access to capital markets provided by the investor.

Private equity financing requires business owners to find their way solving a number of questions, including a choice between a strategic, financial and operational investor as well as making a decision on a stake offered to him.

Keywords

Private equity, financial investors, stake offered to investors

In the course of its development, a growing company faces a need for external financing for realizing its investment programs.

Various sources of financing are available. Two basic types of funding are debt financing and equity financing. The debt financing options might be limited: bank loans are only available to firms with good credit history and mature sales. Moreover, some business owners feel uncomfortable dealing with banks and deliberately avoid this option. Attracting a financial investor who is eager to provide financing in exchange for a share in business can be considered as a reasonable alternative.

Types of investors

Generally, there are two types of investors distinguished, namely they are financial and strategic investors. The major distinction between them is the following. Strategic investors besides economic viability are concerned with a strategic potential of a purchase and tend to accept offers not less than a controlling interest. By contrast, financial investors supply firms with capital and they are aimed at exiting the business as soon as feasible, usually in 5-7 years earning annually not less than 25% return on invested capital.

Financial investors act as providers of sources both operating expenditures (OPEX) and capital expenditures (CAPEX). Primarily financial investors are focused on getting return on their investments. The most important indication of success for them is the price of their shares. The major driver of investment decisions of financial investor is the expectations of the exponential growth of the business within 3-5 years. Financial investors are motivated by capitalization increase and receiving dividends while holding a share. Usually financial investors require the following company's characteristics: consistent earnings, reasonably high growth rates, effective CEO and management team. They are always on the lookout, searching for willing buyers for their stake. The stock exchange is a common exit strategy.

In its turn a strategic investor is predominantly oriented on long-term investment horizons. They are concerned with a business model itself and its improvement. In the frame of this article we assume that strategic investors do not have speculative intentions and actively participate in managing a business aiming at revenue growth.

Alongside with financial and strategic investors we suggest introducing a notion of operational investors. How can an operational investor contribute to a business? His input may include base of clients, distributors and suppliers with beneficial business conditions, administrative resources. These market players invest in a target company achieving the growth of it as well as the growth of their core businesses. Thus, a target company is an instrument for stimulating growth of the core business that an operational investor holds. However he works on achieving synergy at companies that has aroused his interest.

In this article we describe aspects of business valuation and try to find the way to identify a share that can be offered to a financial investor. Strategic and operational investors are irrelevant for the objectives of this research as far as the owners of fast-growing businesses are often reluctant to attract strategic investors because shareholders are not willing to go out of their business.

Literature review

Attracting a financial investor is an effective tool for increasing business value. Exit strategies have a significant influence on business value and risk to owners of a business. Compared to strategic investors, financial investors are more conservative with respect to the business valuation (Zakharov, 2010). Due to the concentration on achievement of financial goals (high return on investment), and

the possible lack of industry experience financial investors are not aimed at acquiring a controlling interest in business. One of the reasons for that is the risk avoidance. Most likely financial investor will not be able to manage the business as efficiently as acting team of managers or owners. However, as a rule, a financial investor is interested in getting a share is not less than the blocking.

From the risks point of view the group of financial investors is not heterogeneous. Researchers (Weidig & Mathonet, 2004) stays that each type of private equity investment vehicle has a different risk profile. A direct investment has a total loss probability of 30%. A fund or a portfolio of direct investments has a very small probability of total loss. A portfolio of funds has a small probability of any loss.

In our research private equity funds takes a core place as financial investors. Financial mass media calls private equity funds as "new kings of Wall Street". These financial investors deal with a wide range of business entities from startups to large corporations.

Significantly, private equity funds provide not only the initial capitalization for companies, but management and operational advice as well (Black & Gilson, 1998). Almost all private equity funds are set as limited partnerships, with private equity firms operating as a general partner (GP) of the funds, and big institutional investors and wealthy individuals providing capital as limited partners (LPs) or passive investors (Harris, 1998). The structure of the relationship between these investors and their fund managers set the base for potential several for investors to monitor an allocation of their investments. Interests of managers and investors often differ. On the one hand investors require managers to use their expertise to maximize the value of their investments. On the other hand, fund managers intuitively might want to shrink responsibility, and hide information or redirect resources for their own benefits. Thus an agent problem is created.

According to researchers, decisions of private equity funds are based on the market timing theory. Ljungqvist and Richardson (2003) link the timing of funds' investment to exit decisions, and the returns they earn on portfolio companies, to shifts in the demand for private equity. Following this logic, when investment opportunities improve and the demand for capital increases existing funds accelerate their investment flows and earn higher returns. Rises in supply lead to more intense competition for deals, and private equity fund respond by shrinking their investment programs.

Liquidity of securities may be a parameter that researchers associate with private equity decision-making process. Lerner and Schoar (2004) present a model in which a private equity firm chooses the degree of illiquidity of shares to screen for investors with long horizons. The idea of the model is driven by the information asymmetry between inside and outside investors. Illiquidity is approached as a choice variable, which can be influenced by the manager of the fund and allows him to screen for deep-pocket investors. Low liquidity would not scare away long-term investors, but investors who expect to face many liquidity shocks in the future would find these restrictions irrelevant and therefore would avoid investing. The benefits of having liquid investors become apparent once the firm has to go back to the market to raise new capital.

A number of studies are dedicated to an issue of investment attractiveness of a business. Methodology of Valinurova and Kazakova (2005) suggests considering fifty-five parameters characterizing an enterprise. These parameters determine the cumulative investment potential and investment risk and then an integral index of investment attractiveness of the business is calculated. For identifying company's investment attractiveness there has been developed a number of concepts, including the three-factor model (Sizikh, 2012), which allows to evaluate the investment attractiveness with regard to the preferences of investors in three areas: profitability, risk and corporate governance. Sevryugin's Methodology (Sevryugin, 2004) evaluates the following indicators of investment attractiveness of enterprises of different organizational forms: financial

position, corporate governance and market environment. Financial position of a company is considered by some researchers (Kuznetsov et al, 2004; Krylov et al, 2003) as a core of a set company's investment attractiveness factors. Among the factors of investment attractiveness of an enterprise researchers also take into account the corporate governance practices, relations with the regions, and a role in the social division of labor (Doroshin, 2005).

Our experience in dealing with financial investors and the literature review have allowed us to create a test that determines the willingness of financial investors to consider business as an investment target.

A sign, that financial investors may be interested in a company is a positive response to the following three questions:

Question 1. Is an exit strategy clear for an investor?

Analysis of an investment target usually begins with an assessment of prospects for exiting the business (exit strategy). A private equity fund analyzes recent transactions in the industry, paying attention to exit ways of financial investors. Even if there are few or no deals, at the moment of entering the business the fund should clearly see an option for making a success full PO or sale of a share to a strategic investor.

Question 2. Are the business and business model sustainable and scalable?

Revenue model and the model of the company's profits should be understandable. Lack of ability to multiply (being reused in different environment) the business model, even if it is stable; make the business unattractive for financial investors.

Question 3. Is a management team professional, and whether it has a strong motivation for achieving an exponential business growth?

The managing team need not only to prove its willingness to develop and implement a business strategy, but also be able to find new opportunities emerging in the market and launch new projects. However, in our literature review we have not found an answer to the question of how an owner can determine the share offered to investors. Further, on the hypothetical example we consider a situation that often occurs in practice, and suggest recommendations.

What stake to offer?

According to a definition provided by International Private Equity and Venture Capital Valuation Guidelines, a fair value is the price that would be received to sell an asset in transaction between market participants at the measurement date.

In order to identify a share to offer, it is important to understand a need in external financing and identify a fair value of equity at a day of negotiations.

Often business owners include into valuation assessment of future investment projects. However, since there is likelihood that investment projects can be launched later, or not implemented at all, the projects can be viewed as call option out of the money (OTM) and, therefore, they have an extremely low price today. Thus, firstly it is important to valuate the business "As It Is", and then take into account the investment projects.

Business valuation "As It Is" allows us to correctly identify a share offered to an investor while business valuation with projects enables an investor see gains in investment projects implementation.

Business valuation "As It Is"

Suppose you are a food products manufacturer, and in 2013 you received the following financial indicators:

- Revenue – 600 million rubles.,
- profitability EBIT - 8%
- required working capital - 10% of revenue,
- loans and borrowings - 100 million rubles.,
- income tax rate - 20%.

For annual growth of 10-12% you need net investment (capital expenditures minus depreciation) that amount to 4% of the revenue. You expect that by 2018, due to internal improvements the EBIT margin can be increased up to 10%. Then, the cash flow will be as follows (Table 1):

Table 1: Cash flow forecast

Million Rubles	2013	2014	2015	2016	2017	2018
Revenue	600,0	660,0	726,0	798,6	878,5	966,3
<i>Growth rate</i>		10%	10%	10%	10%	10%
EBIT	48,0	55,2	63,5	73,0	84,0	96,6
<i>Profitability EBIT</i>	8,0%	8,4%	8,7%	9,1%	9,6%	10,0%
EBIT after tax		44,2	50,8	58,4	67,2	77,3
Required working capital	60,0	66,0	72,6	79,9	87,8	96,6
Changes in required working capital		-6,0	-6,6	-7,3	-8,0	-8,8
Investments	-26,4	-29,0	-31,9	-35,1	-38,7	
Free Cash Flow	11,8	15,2	19,2	24,1	29,9	

If the weighted average cost of capital (WACC) equals 18% and exit multiple is 7x EBIT, then the value of the business is 384 million rubles, the cost of equity is estimated as 284 million rubles (Table 2).

Table 2: Calculating the cost of equity

Discount factor	0,92	0,78	0,66	0,56	0,47
Discounted FCFF	10,8	11,8	12,7	13,5	14,2
Terminal value					676,4
Discounted terminal value					321,2
Equity value (EV)	384,2				
Loans and borrowings	-100,0				
Cost of equity	284,2				

Business valuation with investment projects

Suppose the market provides good growth prospects. If the net investment in business the next two years will amount to 200 million rubles, then from 2016 to 2018, we can expect an annual revenue growth of 45%, and by 2018, EBIT margin of 12% with a projected 8.7 % in 2015. Then the company's cash flow will be following (Table 3):

Table 3: Cash flows forecast with investment projects

Million Rubles	2013	2014	2015	2016	2017	2018
Revenue	600,0	660,0	726,0	1052,7	1526,4	2213,3
<i>Growth rate</i>		10%	10%	45%	45%	45%
EBIT	48,0	55,2	63,5	102,3	164,8	265,6
<i>Profitability EBIT</i>	8,00%	8,37%	8,75%	9,72%	10,80%	12,00%
EBIT after tax		44,2	50,8	81,9	131,9	212,5
Required working capital	60,0	66,0	72,6	105,3	152,6	221,3
Changes in required working capital		-6,0	-6,6	-32,7	-47,4	-68,7
Investments		-126,4	-129,0	-42,1	-61,1	-88,5
Free cash flow to the firm (FCFF)	-88,2	-84,8	7,1	23,4	55,3	

Using the described valuation assumptions (WACC=18%, exit multiple=7), then the business value will be 779 million rubles, and cost of equity will be 679 million, i.e. implementation of the investment program will increase the value of the business by 395 million rubles (Table 4).

Table 4: Calculating the cost of equity with investment projects

Discount factor	0,92	0,78	0,66	0,56	0,47
Discounted FCFF	-81,2	-66,2	4,7	13,1	26,2
Terminal value					1859,2
Discounted terminal value					882,8
Equity value (EV)	779,4				
Loans and borrowings	-100,0				
Cost of equity	679,4				

What minority stake to offer to an investor?

In practice, share will be determined at the negotiations and will largely depend on the balance of forces during them, but if we approach financial investors with an offer of 29% (the necessary investments, divided by the cost of equity with investment projects), such an offer be rejected immediately. The main reason for that is the following. The cost of equity of 679 million rubles we get if a financial investor invests 200 million rubles. Without 100% investment equity share will worth 284 million rubles. Thus, the financial investor should be offered a stake of 41% (the necessary investments, divided by the sum of the cost of equity and the investments required).

As far as the value of a privately held company is subjective category, a share offered to a financial investor (assuming that the forecasted free cash flows accepted by an investor) depends on two factors: risk assessment (WACC) and the exit multiple.

A sensitivity analysis shows the following. If a financial investor believes that the risks in the business are higher than we describe, therefore value the company, using WACC of 20% and the exit multiple of 5 times EBIT in 2018, he will begin negotiations with the controlling stake, namely 54%, as shown in the table below (Table 5). In such scenario, an investor evaluates 100% of the equity without investment projects as 173 million rubles.

Table 5

		Exit multiple				
		5	6	7	8	9
WACC	16%	48%	43%	39%	36%	33%
	17%	50%	44%	40%	37%	34%
	18%	51%	46%	41%	38%	35%
	19%	52%	47%	42%	39%	36%
	20%	54%	48%	44%	40%	37%

Conclusion

Both debt and equity financing are important sources of capital for business enabling it to fund its operations. Deciding which to use or increase depends on the long-term goals of the business and the amount of control shareholders willing to maintain. Private equity financing and financial investors are the center of attention of this research paper. In this article, we have described types and motives of investors while acquiring equity interests in a business and proposed solely financial argumentation for calculating the share offered to investors. Major result of the presented research is the concept for finding a size of a share offered the on the basis of financial calculations. This brings us to a recommendation to offer investors a share based not on “feeling”, but on a solid basis of a particular method built on financial principles.

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Communication and Reflection in Teaching Master Students in Management: Two Sides of the Same Coin or Unity and Struggle of Opposites?

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Abstract

Modern society needs competitive managers, able to promptly react to changing life situations, think creatively, focus their activity on achieving the set goals, take ideas from people and resources and be able to work in a team.

This article argues that well developed intellectual (reflection) and generic (communication) skills can make master students autonomous learners, motivated for life-long learning and benefit their professional competence.

Reflection here plays the role of means (reflective models, reflective techniques), aim of teaching and learning (developed reflective competence). Communication is used as the bases for the relations of all participants in the educational process and fundamental ability to receive necessary knowledge and skills from resources available.

The authors present a framework for concurrent step-by-step development of reflective and communication skills in psychologically favorable learning environment and provide evidence of positive impact of the taught elective course on Master students in Management.

Keywords

Masters in management, communication skills, reflective competence, learner autonomy, expected learning outcomes

1. Introduction

It goes without saying that a successful manager should be an efficient communicator. Communication skills make managers able to pass a message to subordinates, explain task aims, make a presentation in front of directors, etc. But at the same time much of a manager's time is spent solving problems, so, the ability to think critically is one of the top skills managers need. Critical (reflective) thinking allow managers evaluating and analyzing problems to come up with effective solutions.

Both international educational standards like *The framework for qualifications of the European Higher Education Area* and draft Russian standards for professional higher education include well developed communication and reflective skills as desired graduate attributes.

The Russian educational standards for master students in Management (2013) state critical thinking (reflective) skills of analysis, synthesis, evaluation and readiness to adequate behavior in non-standard situation alongside with the skills of oral and written communication in everyday situations and professional contexts as general competences and expected learning outcomes.

How can these seemingly opposite attributes – being reflective and communicative be developed within the framework of the master course in Management?

The suggested solution is based on the idea that education in contrast to training, is focused on integration of the knowledge of different subjects and separate skills received in the classroom course or in on-work training. One of the critical goals of modern education is to make student a life-long learner and an efficient professional able to deal with problems and changing situations both personal and professional.

So, in order to prepare managers-to be for working in today's climate of continual change and innovation, education should develop not only their managerial competences like leading teams or designing corporate strategy, but firstly, their capacity for self-direction, autonomy, responsibility, communication and reflection.

2. Aim

The purpose of the article is to prove that communication and reflective skills as necessary attributes for graduates from master course in Management though are believed to be very different can complement each other being developed concurrently.

The authors of the article present an elective course providing conditions for specially organized activities aimed at communication and reflective competences development and argue that it benefits for developing a professional competence of a master graduate with a degree in Management.

3. Theoretical Background

Both communication and reflection have a long history of research by experts in psychology, sociology. In our paper we focus on the perspective of educational science.

3.1. Reflection in education

The traditional understanding of *reflection* is as "a form of mental processing ...that we use to fulfill a purpose or to achieve some anticipated outcome." (Moon, 1999). In this article under *reflection* in

education we mean three interrelated concepts: reflective knowledge, reflective skills or abilities and reflective techniques or technologies. Michael Wallas considers (1997) reflection being 'deep processing' of new knowledge in which the learner develops understanding of the essential underlying meaning of it.' According to John Dewey (1933), *reflection* is not only thinking, but knowledge and attitude to what we are doing in learning, making specific realization in action. But, as defined by Schön, the concept of reflection also includes *activity* as a stimulus and result of reflection. In our context it is learning and subsequent professional activity. Also, reflection in education can be defined in terms of a student's capacity to reflect on their own strengths and weaknesses, to learn from constructive criticism and to practice critical reflection by monitoring their own work performance and interpersonal interactions.

In this paper we consider *reflective competence* as an ability and wholesome attribute of teachers and learners to realize their reflective skills, attitude to getting knowledge and components of learning through their activity in educational process which can lead to the successful result. In the ECBE level descriptors the following reflective skills are stated as attributes of Master students:

- ability to *self evaluation* is presented as being reflective on own and others' functioning in order to improve practice; critical thinking skills;
- *autonomy* as an independent and self critical learner, guiding the learning of others and managing own requirements for continuing professional development.

Critical thinking skills are presented as:

- Analysis: with critical awareness can undertake analysis of complex, incomplete or contradictory areas of knowledge communicating the outcome effectively
- Synthesis: with critical awareness, can synthesise information in a manner that may be innovative, utilising knowledge or processes from the forefront of the discipline / practice
- Evaluation: has a level of conceptual understanding that will allow her/him critically to evaluate research, advanced scholarship and methodologies and argue alternative approaches
- Application: can demonstrate initiative and originality in problem solving. Can act autonomously in planning and implementing tasks at a professional or equivalent level, making decisions in complex and unpredictable situations.

Analyses of Russian sources on reflection in education and our own research allowed us identifying three types of reflective skills to be developed in the course for master students in Management (Almabekova, 2011).

1. Reflective skills presenting master student's ability of self-management in education, including life-long learning (LLL) comprise goal-setting, planning, self-control and self-correction in learning. In order to make a learner being able to treat teacher's goals as their own, a teacher should provide a life or professional context in the beginning. It can make good conditions for internal motivation. And gradually students learn to become more autonomous to set goals themselves. Final reflection at the end of the lesson helps to evaluate if the set goals are achieved.

Planning as a skill can be developed as strategic planning of building a career or short-term (for doing a task). The focus is on making a student aware of the right choice of the steps of the task fulfillment and student ability to explain his choice to the teacher or to a peer student. Another helpful reflective ability is being aware of one's own strengths and weaknesses. It makes learning more efficient in terms of time and results.

2. Reflection as a means of knowledge construction is based on step-by-step development of critical thinking. A student gradually rises his conceptual skills from the awareness s of a certain issue in management theory to the ability to transform information into a different form or evaluation of a certain problem 's solution presented by the author and creative transferring of the idea to another context

3. Reflection is usually considered as taking place individually, but it is not quite right. In its communicative function reflection is realized in reflective communicative skills (Almabekova, 2011).

An ability to play different roles and to look upon the situation (life or professional) through your partner's eyes, find the solution evaluating options together with peers are among them. These skills bridge communication and reflection.

3.2. Communication in education

The methodology underlying communication competence development is given in the works of Russian and foreign experts in psychology and sociology: Porygin (1999), Schedrovitsky (2003), Nikiforova (2011), Collins (2012), Drucker (2012) are similar in classifying communication skills into generic and special. Generic communicative competence comprises a group of communication skills and abilities to communicate in a variety of life contexts. Special communication competence is profession-specific. Thus, a manager should have an ability of set a purpose for a contact, choose an appropriate strategy of communication interaction, ways of the set goal achievement and realizing the result from the contact.

The issue of communication competence development was investigated in the works of J. Frances, M. Woodcock (1991), C. Hollyford (2003), I. Hoffmann (2007), etc. In particular, J. Frances, M. Woodcock, British researchers and practitioners in management focused on development of the leader's potential in communicative process. They consider that efficient communication model comprises a mechanism of a manager's personal and [professional development.

In this paper we follow the definition of Petrovskaya (2006), who defined communication competence as a bank of skills for development of efficient communicative action in a certain life or professional context of inter-personal interaction.

Both academics and practitioners agree that communication skills are one of the most important competences managers need to be effective. Managers must possess the ability to get their point across to employees, co-workers and customers. Effective communications ensures that everyone is on the same page and know what is expected of them.

Among communication skills named in level descriptors for master students by ECBE are the ability to engage confidently in academic and professional communication with others, reporting on action clearly, autonomously and competently and ability to work effectively with a group as leader or member, clarifying tasks and making use of the capacities of group members, negotiate and handle conflict with confidence and , guide the learning of others and managing own requirements for continuing professional development.

Communication inside and outside the classroom (via information technologies, using other people as resources) has become an efficient and effective means of teaching and learning. Students are treated as individuals with their personal life and work experience and have equal rights to speak pit their ideas. Thus, the efficiency of communication in teaching and learning depend on successful subject-subject relation between a teacher and students. (Wells, 1986).

3.3. Communication plus reflection

The methodology grounds for concurrent development of communication and reflection is in the theory of step-by-step development of mental actions by Vygotsky, Galperin and Talyzina. The main idea behind the hypothesis for the benefit of concurrent development of communication and

reflection is the idea of the critical relation between an individual's internal and external human behavior. According to this theory, mental development as well as knowledge and skills' acquisition takes place when being interiorized, that is being gradually transferred from external (material) activity into internal mental perspective.

As a result of this transfer external actions are transformed into mental, thus being interiorized. During this process they are being processed, verbalized, consolidated, being ready to be transferred to another context. Our addition to this theory is inclusion of the activity stage when students can use the developed skill into another context to their choice.

In accordance with interconnection of reflection and communication any idea becomes meaningful for a person if and when it helps to construct new knowledge or to, skills, if students can demonstrate their understanding of new information and are able to apply new skills in communication with partners. Thus, communication and reflective competencies are developed in a complex of a master student in management's professional competence.

Concurrent development of communication and reflective skills facilitates developing abilities to look upon partners in communication from their perspective, to treat a problem in another way, find the solution in a reflective dialogue or polylogue. These skills are helpful in proper building of relations in learning and in future managerial contexts, in professional and cross-cultural communication.

From the point of view of didactics, teacher's role is in gradual transfer of responsibility for a specific reflective or communication skill development as well the whole learning process management from oneself to a student. For the teacher this process starts with interpretation of his activity and students activity with the consequent methodic support. Gradually this support takes a latent form, then a teacher stops it (Khmelidze, 2009).The teacher's role is that of facilitator, advisor, learning process organizer. At the same time students taking responsibility for their learning become more autonomous and active agents of learning, responsible for its results.

Other methodological concepts underlying concurrent development of communication and reflection is the Multiple Intelligence Theory and learning and learner oriented approaches which promote individualisation in teaching and learning with a variety of task formats.

The teacher considers learner's and own experiences in applying knowledge to practice. By the beginning of the course master students have already got a bank of special knowledge in Business and Management courses delivered at the stage of their baccalaureate training. So, they have a good opportunity to build new knowledge on the available information comparing and evaluating "former" and "new" knowledge, Russian business reality and business environment. Students are not given the right answers but encouraged to express their own opinions based on one's life and work experience and knowledge from related courses. Thus, in the process of learning new knowledge is being constructed alongside with developing critical thinking skills – analysis, synthesis, evaluation, transferring knowledge and skills across disciplines and cultures.

Reflective skills positively influence communication skills development as they provide favourable conditions for sharing ideas and solving problems in interaction, enhance students' responsibility of a group member for the whole group results when performing a task.

A good example of integration of communication and reflective skills is cooperative learning of R. Slavin, R and D . Johnson, E. Polat. They treat cooperation of learners and teachers as equal partners with different roles and one goal to re-discover knowledge, built learning results together. Reaching learning results and new knowledge construction takes place in communication

A teacher as a more experienced partner motivates students to creative process participation in reflective knowledge acquisition and skills development. Playing a role of a learning process manager a teacher provides students with instructions for task performance, helps them to develop criteria of task assessment within a group discussion, builds a verbal and non-verbal feedback of control and assessment.

Becoming active agents of communication students develop communicative and reflective skills as well as re-discover professional knowledge coming across a new information. When formulating new ideas in their own words they process new information thus integrating new knowledge with already known (Wells 1986).

Thus, communication facilitates developing critical thinking (reflective) skills of analyses, evaluation, transformation. Teaching and learning practice have shown that it is not only easier and more interesting to study together, but also more productive (Polat, 2000). Not only academic results achieved are higher but intellectual development is also more productive.

4. Method

As the analyses of teaching methods and assessment of their efficiency have shown, the best from technological point of view and most effective for communication and reflection development from the perspective of learner-centered approach have proved to be interactive teaching methods. (Bagdasaryan, 2010)

Active and interactive modes of teaching/learning including seminars in a dialogue regime, psychological workshops, group discussions, business and role games make favorable environment for involving a future manager into communication in classes. Interactive technologies are mostly aimed at building a wider environment of students interrelation not only with a teacher but with each other and on a leading role of students' activity in training, thus developing their communication skills.

Interactive technologies address a background subjective experience of a learner and help them to acquire their own ways of discovering their social experience. L.N. Kulikova notes the following positive aspects of interactive technologies: the subjects of the educational process acting in the same content environment; joint plunging into the problem field of the task under solution, i. e. inclusion into integral creative environment; concordance in choice of means and techniques of the task solution; joint coming into close emotional state (Kulikova, 2002)

The problem with teaching materials development and employment for the purpose of creative productive environment for communication and reflective skills development is in the choice of a good balance of tasks aimed at reflection and communication development. In our opinion there are two ways of developing master students' reflective competence concurrently with communication skills: by integrating a reflective component into interactive tasks and step-by-step developing students' reflective skills in communication.

Unfortunately, there are not so many courses in the curriculum of Master students in Management in Siberian Federal University, providing conditions for interactive methods employment. Concurrent development of reflection and communication competences demands specially organized learning environment (Almabekova, 2011)

Such an environment was organized within the framework of an elective course *Business across cultures*. The course was considered useful as it provides master students in Management not only

with conditions of reflective and communication development but with additional knowledge in cultural awareness necessary for managers in globalization age (Almabekova, 2013).

5. Materials

The idea to develop an interdisciplinary course *Business across Cultures* was inspired with the book written by Laura M. English and Sarah Lynn and supported by the Institute authorities as it was believed that the course could be of multiple benefits for master students. First, it addresses the issues of ethics and corporate culture in global business environment, and creates a supportive environment where students communicate on business issues at the same time developing and practicing their reflective skills of critical thinking and self-management in simulated real-life contexts.

The choice of themes for the course aim to meet the needs of masters in Management in the era of global economy.

1. The course outline is the following:
2. First contacts across cultures
3. Cultural stereotypes and business
4. Management across cultures
5. Marketing across cultures
6. Negotiation styles across cultures
7. Working internationally
8. Globalization: impact on business

Business across Cultures is delivered in a series of interactive lectures and seminars; modes of interaction include individual, pair and group work, discussions,.

The framework involves four steps: firstly, providing students with a clear instruction for the activity; secondly, facilitating students' reflective practice by including problem tasks, thirdly, organizing communication to practice group communication on professional issues addressed in the course, and creating structures and algorithms to help students to think and do tasks individually; and fourthly, using criterion referenced assessment to encourage student feedback and reflective peer assessment, by providing students with favorable environment and time for their reflection.

The roles of a teacher and learners are those of partners working on the students' progress in the field. Teacher is a facilitator helping students in constructing new knowledge smoothly as they can first be guided by a teacher scaffolding frameworks. The choice of tasks and activities are based on the above considered methodology. Problem-solving tasks, individual and group reflection, active learning and interactive tasks are in the tool of kits of a teacher conducting classes.

Gradually, students learn not only work on the course individually and in group but also how to assess their own and the groupmate's performance. Moreover, tasks are written with the aim to help students in developing their self-management techniques. For example, by expressing their view on the lesson's objective or planning a home task step-by-step or participating in a project work students are encouraged to develop their organisational and planning skills.

Thus, professional management skills are developed concurrently with communicative skills and reflection.

Cross-cultural differences are in the focus at all stages of the course. And provides a food for comparison and analysis both in business and outside business contexts. Special focus is on reflection and discussion of real-life situations from everyday life and business where cross cultural differences

and misunderstandings can make barriers to productive communication. A list of recommended texts for independent reading, specially selected for each theme of the course and a list of internet sites make an integral part of the course.

The final product is a presentation where master students are to cover all issues included in the course structure in reference to a particular business culture and a country. Students are to substantiate their choice of the country under consideration. Presentations are assessed both by a teacher and peer students against preselected criteria. Student are supposed to make notes filling-in tables where the issues in question are stated as table headings, so that useful information can easily be derived and used by the learners when necessary.

6. Results

Experimental teaching took place in the Institute of Business Process Management and Economics in 2 groups of master students in Management (an experimental and a control) and have proved the hypothesis that concurrent communication and reflection development positively influences both competencies development. After the experiment students of experimental group assessed themselves as being more confident in communication (4.10 against 3.53 points out of 5) on professional topics. The control group results were negative.

The data of expert assessment by teachers, who observed classes have shown positive dependence of reflective competence and communicative skills levels on each other after learning the course in question. The share of students with a well developed level of communication skills increased by ha 11% and advanced level of reflective competence increased by ha 18%.

Qualitative research methods – interviews with students, questionnaires and peer observations proved multiple benefits for master students: critical thinking and self-management abilities being developed in communication can make a synergy effect of improving skills of business communication and reflection alongside with cross-cultural knowledge.

On the base of experimental data on the control stage the authors came to the conclusion of the positive interdependence of reflective competence and communicative skills development in a specially organized learning environment/ Moreover, at the final presentation student demonstrated high level of knowledge of management problems in international context than students of a control group who had traditional lectures on similar themes.

7. Conclusion

Education of master students in Management can be optimized on condition of involving them into concurrent development of communication skills and reflection competence. Specially organized educational environment can help master students in Management in the process of constructing their professional identity by discussing topics of professional in reflection and communication. Thus, answering the question put in the title of the article we consider communication and reflection being two sides of the same coin – two interrelated and positively interconnected competences within a master course in Management

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Competition-Related Factor Analysis in Baltic States

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Abstract

The year 2014 and the accession to the eurozone mark a new milestone in the history of Latvia. Though the economic development has been noted by the major business and competitiveness related indexes, the survey of nearly 250 companies carried out by the authors revealed a need in a detailed competition-related factor analysis. Therefore, there was carried out a comparative analysis of the statistical data of Latvia and the other two Baltic States in the context of the Common Market integration with a special focus on competition related factors. The present paper summarizes the research results on selected industries to provide an insight on the historic and current trends in the three countries, which can serve the entrepreneurs for strategic planning needs, as well as a basis for further in-depth studies on the subject.

Keywords

Business administration, competition, labour force, Baltic States, investments

Introduction

The year 2014 and the accession to the eurozone mark a new milestone in the history of Latvia, with two major previous ones being regaining of independence in 1991 and the accession to the European Union in 2004. While the first period marked the transition from planned to open-market economy, the second dealt with the integration into the Common Market. Recently there has been plenty of research on various aspects of business environment in Latvia, showing that it is not only developing fast, but also managing quite successfully, due to attainment of EU funds, to adapt to ever increasing requirements of the European Union. The business activity registration has improved dramatically over the last 5 years with now only 3 days and much less effort and investment needed because of online service (Janovs & Zarina, 2013). As well, the national competitiveness has been gradually increasing due to improvements in infrastructure, especially transportation and optical internet provision, but also high quality basic and technology-related education, low inflation and good access to finance (Bruksle & Zarina, 2014). On micro-economic scale, the entrepreneurial intelligence has grown dramatically, and now there are applied successfully most of both the financial management and the strategic management tools (Zarina et al., 2014).

The economic development has been noted by the major business and competitiveness related indexes. In 2013-2014 Global Competitiveness Report, Latvia is ranked number 52 (out of 148 economies) by the Global Competitiveness Index, compared with the 55th place in the previous year. With maximum points being 7, Latvia has received the best scores for health and primary education (6) and for macroeconomic environment (5.6), while the worst scores are for the market size and for innovation (both 3.2). World Competitiveness scoreboard in 2014 ranked Latvia number 35 out of 60 economies covered by the IMD's World Competitiveness Yearbook, compared with the 41st place in the previous year. On the other hand, Latvia has been rated as only a moderately free country (rank 42 out of 178 economies) in 2014 Index of Economic Freedom by The Heritage Foundation. Despite the gradual improvement on almost all scores, the index highlights a particular need to strengthen the independence of the judiciary and to eradicate corruption. Meanwhile, the Doing Business index ranked Latvia number 24 (out of 189 economies), awarding high ranks for getting credit (rank 3), trading across borders (17), enforcing contracts (21), registering property (33), resolving insolvency (rank 43), paying taxes (49), starting a business (57), protecting investors (68) and dealing with construction permits (79).

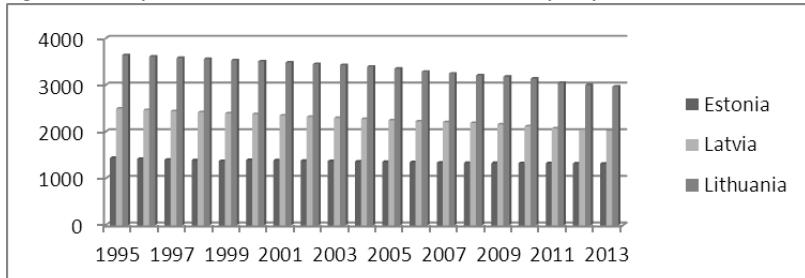
Though both the country's economic situation and business environment are clearly improving, the survey of nearly 250 companies carried out by the authors revealed a need in a detailed competition-related factor analysis. The focus group discussions with the owners and managers of the companies highlighted that despite having in-depth knowledge of their industry within the domestic market, there was very little understanding of the general trends and regularities in the country. As well, there were quite often mentioned particular success cases from the neighboring countries – Lithuania and Estonia, yet no substantiation or explanation could be provided on the factors having made the companies in question to succeed. Therefore, there was carried out a comparative analysis of the statistical data of Latvia and the other two Baltic States in the context of the Common Market integration with a special focus on competition related factors. The present paper summarizes the research results on selected industries to provide an insight on the historic and current trends in the three countries, which can serve the entrepreneurs for strategic planning needs, as well as a basis for further in-depth studies on the subject.

National Economic Development Trends

All three Baltic States are small countries – both by geographical size and by number of inhabitants. Their geographical location by the Baltic Sea and on the eastern border of the European Union forms one of the best competitive advantages a small country could wish for: being a significant transit

point between East and West for everything – from raw materials to ready-made goods. Yet, their inhabitants are a much more important factor for competitiveness both at macro-economic and micro-economic scale as they represent both the domestic consumer market and the labour force. As it can be seen in Figure 1, the number of inhabitants in all three countries shows a downward trend of on average 0.99% per year, which over the two decades constitutes the decrease by 128 thousand people in the less populated Estonia, 477 thousand people in Latvia, and 671 thousand people in the more populated Lithuania. The downward trend depends on two factors: during the first decade – the decrease in natural growth of population, and in the second decade – due to the immigration towards the EU.

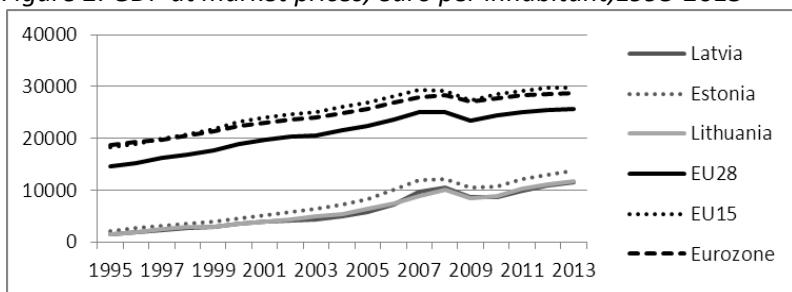
Figure 1: Population in the Baltic States, 1000 people, 1995-2013



Source: Eurostat

In terms of population decrease, the recent economic crisis has influenced the trend only in Lithuania, where the population decrease changed from 0.99% to 1% in 2008 and all subsequent years. None of the Baltic States shows recovery signs, not even Estonia, where the decrease percentage was 0.97 and 0.98 in 2011 and 2012 respectively, but fell back to 0.99% in 2013. It is notable, that migration takes place also between the Baltic States – in 2013 in Estonia there lived about 2 thousand Latvians and 1.4 thousand Lithuanians, but in Latvia – about 3 thousand Lithuanians and 0.7 thousand Estonians. Politically sensitive is the issue of recognized non-residents – mostly Soviet time immigrants who have not applied for the citizenship of their country of residence, nor their country of origin. In 2013, the number of persons with non-citizen passports constituted 267.5 thousand people in Latvia and 90 thousand in Estonia (no data are available for Lithuania). Although they are granted the same rights as citizens at the national level, the non-residents cannot enjoy the same freedoms of free travel and work within the EU as the EU citizens. Thus, this part of population cannot be used as workforce for service provision within the Common Market.

Figure 2: GDP at market prices, euro per inhabitant, 1995-2013

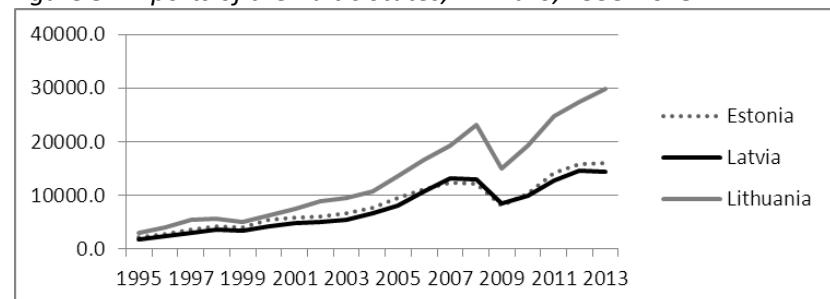


Source: Eurostat

The three Baltic States tend to be praised for their rapid economic development, which indeed has been significant – the GDP at market prices in 2013 in all three countries was more than 6 times larger than in 1995. In 2013, the GDP of Estonia reached 1.84 billion Euros, Latvia – 2.33 billion Euros, Lithuania – 3.46 billion Euros. At the same time, GDP per inhabitant allows for cross-country comparison. As it can be seen in Figure 2, the GDP per inhabitant growth rate in all three Baltic States follow the same trend with a substantial increase from 2004 (accession to the EU), then a dramatic

fall after the economic crisis in 2008 and gradual recovery afterwards. In 2013, all three Baltic States had managed to surpass the level of 2008. Yet, the following issues should be highlighted. Firstly, even after a decade of EU fully fledged membership none of the Baltic States has managed to reach even the level that the older EU members (EU-15) had 20 years ago. Secondly, the trend shows that at the current growth rate the Baltic States may be able to reach the EU-28 average only after some 20-30 years. And finally, though a lower GDP means a less developed economy and consequently cheaper labour force, at the same time it also means that the qualified labour force may keep leaving the country looking for a higher standard of life. Thus, there forms a vicious cycle – any entrepreneur should choose between producing low-price goods for the domestic market or higher-price goods for international market (while paying higher salaries or even importing the labour force).

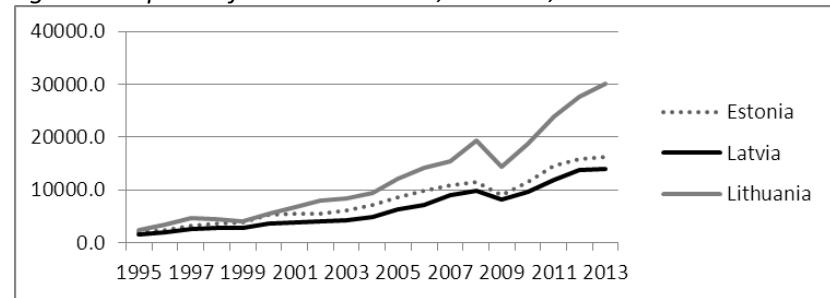
Figure 3: Imports of the Baltic States, mil Euro, 1995-2013



Source: Eurostat

In terms of consumer market, the three Baltic States together form a market of 59.5 billion Euros (2013), with corresponding figures for Estonia – 13.2 billion Euros (71.6% of GDP), Latvia – 18.5 billion Euros (79% of GDP) and Lithuania – 27.9 billion Euros (80.6% of GDP). Being open market economies, the three countries trade extensively. As it can be seen in Figure 3, the imports of all three states follow the same trend, correlating closely with the number of inhabitants for Latvia and Lithuania. It is notable, that it took only two years to recover after the sharp drop due to economic crisis in 2008. In 2013, the imports of goods and services of Lithuania reached 29.7 billion Euros (87% goods), Estonia – 16.1 billion Euros (79.5% goods), and Latvia – 14.4 billion Euros (84.9% goods).

Figure 4: Exports of the Baltic States, mil Euro, 1995-2013



Source: Eurostat

At the same time, the exports have been barely surpassing the import levels (see Figure 4). In 2013, the exports of goods and services of Lithuania reached 30 billion Euros (82.1% goods), Estonia – 16.2 billion Euros (72.9% goods), and Latvia – 13.9 billion Euros (72.5% goods). It is notable, that Lithuania has been able to establish positive import/export ratio only for the last five years and Estonia – only for the last two years, while Latvian external trade balance still remains negative. On the other hand, the trend shows that all three countries have started counterbalancing the imported goods with exported services, which have a higher value added margin.

Competition in Selected Industries

For the review in the present paper four branches of industry were selected: manufacture of food products and beverages (corresponding to NACE 2.red. C10 and C11), textiles (C13), wood and wood products (C16) and furniture (C31), and computer, electronic and optical products (C26). Several indicators were compared: the share of each industry in GDP, the number of market players, their average turnover, degree of specialization, number of employees and employment growth rate, average personnel costs and gross value added per employee. As a special indicator there was reviewed the foreign ownership of the companies, which is quite large in the Baltic States. In 2011, in Estonia 247 manufacturing companies were controlled by the owners from EU-27 with the total of 4.4 billion euro turnover, and 52 were controlled by the owners outside EU-27 with the total turnover of about 1 billion Euros. In Latvia, 243 manufacturing companies were controlled by the owners from EU-27, and 109 were controlled by the owners outside EU-27. In Lithuania, 300 manufacturing companies were controlled by the owners from EU-27 with the total of 8 billion euro turnover, and 127 were controlled by the owners outside EU-27 with the total turnover of about 2.4 billion Euros. While there are no Eurostat data available on the turnover of foreign control companies for Latvia, the share should be near the same figures of the other two countries. Another significant indicator is the degree of specialization of the companies, i.e. the share of the principal activity in the turnover, where the margin between the core activity turnover and the total turnover allows for flexibility both in production diversification and in innovation to increase the competitiveness.

The manufacture of food products for the domestic market is one of the key indicators of the economic situation in a state, as it directly responds to the increase and decrease in demand. The manufacture of beverages is to be regarded as complementary indicator, as beverages as goods are somewhat more luxurious, therefore this indicator may fluctuate more when the economic situation is improving or deteriorating, or on the contrary – less as the ready products are not for immediate consumption and both production and distribution may be adapted to the demand. The number of food production companies decreased dramatically in 2008 and 2009, and did not regain the level of 2005 even in 2012. The exact number of food production companies (in 2012: 405 in Estonia, 766 in Latvia, and 1229 in Lithuania) correlates proportionally with the number of inhabitants and fluctuations in GDP per capita. The same refers to the number of beverage producers, where in 2012 there were 32 companies in Estonia, 72 in Latvia and 98 in Lithuania. The food/beverage production form substantial part of GDP in all three countries, with total share of GDP in 2011 reaching 14.8% in Estonia, 20.1% in Lithuania and 23.1% in Latvia. In food production, the average turnover per company for the same year reached 3.3 million Euros in Estonia, 1.9 million Euros in Latvia and 2.7 million Euros in Lithuania. For the beverages industry, the corresponding figures are much higher: 7.8 million Euros in Estonia, 4.8 million Euros in Latvia and 4.7 million Euros in Lithuania. In food production, the degree of specialization is increasing, with average share of principal activity in 2011 in Estonia being 84.7%, Latvia – 86.2% and Lithuania – 70.6%. In beverage production, the degree of specialization is even higher, with the corresponding figures for Estonia – 69.4%, Latvia – 79.1% and 74.1%. In Estonia in 2011, 5 of food production companies were controlled by the owners outside EU-27, and 14 - by the owners from EU-27. The number of foreign control companies has decreased from 25 companies in 2008 to 19 in 2011 and Latvia and Lithuania each had one controlled company in Estonia. The foreign control in beverage production in Estonia is even smaller – only 6 companies had foreign ownership in 2011, one of them – from Latvia. Foreign control is more pronounced in Latvia and Lithuania where, in 2011, 34 and 32 food production companies were under foreign control, of which 23 and 20 were controlled by the owners inside EU-27. Only two Latvian companies were controlled by the Baltic neighbors (one each), while in Lithuania 3 companies had Latvian control. In beverage industry, 5 Latvian and 6 Lithuanian companies were under foreign control, one of Lithuanian companies being controlled by Estonians.

In 2011, the food production industry in Estonia employed 12.5 thousand people, with the employment growth rate becoming positive for the first time after the sharp drop of -9.6% in 2009 and -3.4% in 2010. Both the average personnel costs per employee and gross value added per employee have been increasing steadily. The average personnel costs have risen from 6.9 thousand Euros in 2005 to 11 thousand Euros in 2011, but the gross value added from 9.8 thousand Euros in 2005 to 17.3 thousand Euros in 2011. In 2011, the food production industry in Latvia employed 22.9 thousand people, with the employment growth rate still being negative at -0.4% in 2011. The average personnel costs have risen from 7.4 thousand Euros in 2008 to 6.9 thousand Euros in 2011, but the gross value added has decreased from 12.5 thousand Euros in 2008 to 10.9 thousand Euros in 2011. In 2011, the food production industry in Lithuania employed 38 thousand people, with the employment growth rate still being negative at -1.4% in 2011. The average personnel costs have risen from 4.4 thousand Euros in 2005 to 7.5 thousand Euros in 2011, but the gross value added from 7.6 thousand Euros in 2005 to 13.9 thousand Euros in 2011. In 2011, the beverage production industry in Estonia employed 1.3 thousand people, with the employment growth rate still being negative at -13% in 2011. The average personnel costs have risen from 11 thousand Euros in 2005 to 18 thousand Euros in 2011, but the gross value added from 25.9 thousand Euros in 2005 to 42.8 thousand Euros in 2011. In 2011, the beverage production industry in Latvia employed 2.3 thousand people, with the employment growth rate still being negative at -0.5% in 2011. The average personnel costs have risen from 13.2 thousand Euros in 2008 to 12.4 thousand Euros in 2011, but the gross value added had decreased from 25.5 thousand Euros in 2008 to 15.1 thousand Euros in 2011. In 2011, the beverage production industry in Lithuania employed 3.4 thousand people, with the employment growth rate still being negative at -6.3% in 2011. The average personnel costs have risen from 7.6 thousand Euros in 2005 to 12.3 thousand Euros in 2011, but the gross value added from 22.2 thousand Euros in 2005 to 25.4 thousand Euros in 2011.

The number of textiles producers has been growing steadily in all three Baltic States, with a decrease in Latvia and Estonia in 2008, but in Lithuania – in 2009. The number of companies also reflects the topicality of the industry for national economy. In 2012, the number of textile companies reached 209 in Estonia, 410 in Latvia, and 573 in Lithuania. Nevertheless, the share of textiles industry in total GDP is quite small: in 2011 it was only 1.2% in Latvia, 1.7% in Lithuania and 2.4% in Estonia. The average turnover per company for the same year was 0.2 million Euros in Latvia, 0.5 million in Lithuania, and 1.4 million Euros in Estonia. In textiles production, the degree of specialization is gradually decreasing. In Estonia, the share of principal activity increased from 85.9% in 2010 to 89.7% in 2011. In Latvia the corresponding figures were 87.5% and 88.8%, but in Lithuania – 66.8% and 71.2%. In the textile industry the foreign ownership has remained at the same level in Lithuania and Estonia, but decreased in Latvia. In 2011, 19 Estonian companies were under foreign control, 18 of which were controlled by the owners from the EU-27, but none of them by the Baltic neighbors. The same year, only 5 of Latvian companies were under foreign control, 4 of which were controlled by the owners from the EU-27, but none of them by the Baltic neighbors. In 2011, 29 Lithuanian companies were under foreign control, 24 of which were controlled by the owners from the EU-27, but none of them by the Baltic neighbors. Though there had been some Latvian and Estonian ownership in Lithuanian textile companies in the previous years, it may be concluded that Baltic State investors have lost interest in the industry.

In 2011, the textile production industry in Estonia employed 3.9 thousand people, with the employment growth rate still being negative at -12.2% in 2011. The average personnel costs have raised from 5.8 thousand Euros in 2005 to 9.8 thousand Euros in 2011, but the gross value added from 8 thousand Euros in 2005 to 16.2 thousand Euros in 2011. In 2011, the textile production industry in Latvia employed 2.3 thousand people, with the employment growth rate becoming positive for the first time at 1% in 2011. The average personnel costs have risen from 7 thousand Euros in 2008 to 6.5 thousand Euros in 2011, but the gross value added from 9.5 thousand Euros in 2008 to 10.7 thousand Euros in 2011. In 2011, the textile production industry in Lithuania employed

7.2 thousand people, with the employment growth rate becoming positive for the first time at 4.4% 2011. The average personnel costs have raised from 4.6 thousand Euros in 2005 to 7.5 thousand Euros in 2011, but the gross value added from 6.7 thousand Euros in 2005 to 13.2 thousand Euros in 2011.

The number of the wood and wooden product producers kept decreasing in the period 2008-2010, and is still recovering slowly in 2011 and 2012. The number of companies in the Baltic States (in 2012: 1005 in Estonia, 1690 in Latvia and 3058 in Lithuania) is expected to regain the pre-crisis level within next 5 years. The related manufacture of furniture has had different trends. In Estonia, the figures show that the economic crisis has barely influenced the furniture producer number, where the number has kept growing gradually from 414 companies in 2005 to 609 in 2012, with only a slight drop in 2011. In Latvia, the number of producers had a downward trend dropping from 689 in 2008 to 565 in 2011, with a slight recovery to 586 in 2012. In Lithuania, the number grew steadily from 864 in 2005 to 1159 in 2007, then rocketed to 1310 in 2008, and fell back dramatically to average 1145 in the next years. The share of wood/furniture industries in the GDP is quite significant in all the Baltic States: in 2011 it was 10.1% in Lithuania, 17.6% in Estonia, and 25.7% in Latvia. In wood production, the average turnover per company for the same year was higher in Estonia (1.4 million Euros) and Latvia (1.0 million Euros), and lower in Lithuania (0.3 million Euros). In furniture production, the average turnover per company for the same year was higher in Estonia (0.7 million Euros) and Lithuania (0.8 million Euros), but lower in Latvia (0.3 million Euros). In wood production, the degree of specialization has remained the same. The figures in 2011 for Estonia were 86.8% and Latvia – 88.8%. At the same time, the degree of specialization has been decreasing rapidly in Lithuania, the share of principal activity rising from 65.6% in 2009 to 71.2% in 2011. In manufacture of furniture, the degree of specialization has been increasing slightly in Lithuania with the share of principal activity falling from 83.9% in 2010 to 79.9% in 2011. At the same time the degree of specialization has been decreasing in Estonia and Latvia, the corresponding figures for 2010 and 2011 for Estonia were 82.8% and 87.1% and for Latvia – 86.3% and 88.8%. In 2011, in Estonia 29 wood production and 19 furniture production companies were under foreign control, 23 and 15 of which, correspondingly, were controlled by the owners from the EU-27, but none of them by the Baltic neighbors. The same year, in Latvia 52 wood production and 11 furniture production companies were under foreign control, 37 and 8 of which, correspondingly, were controlled by the owners from the EU-27, and each of the Baltic neighbors had control in 3 Latvian companies. In 2011, in Lithuania 56 wood production and 38 furniture production companies were under foreign control, 42 and 24 of which, correspondingly, were controlled by the owners from the EU-27, and the Baltic neighbors had control in 1 Lithuanian company each.

In 2011, the wood production industry in Estonia employed 14 thousand people, with the employment growth rate increasing dramatically by 10% in 2011. The average personnel costs have raised from 7 thousand Euros in 2005 to 12.2 thousand Euros in 2011, but the gross value added from 11.9 thousand Euros in 2005 to 23.4 thousand Euros in 2011. In 2011, the furniture production industry in Estonia employed 7.3 thousand people, with the employment growth rate recovering steadily by 1.2 in 2011. The average personnel costs have risen from 6.7 thousand Euros in 2005 to 10.7 thousand Euros in 2011, but the gross value added from 9 thousand Euros in 2005 to 14 thousand Euros in 2011. In 2011, the wood production industry in Latvia employed 22.1 thousand people, with the employment growth rate increasing by 6.1% in 2011. The average personnel costs have fallen from 6.9 thousand Euros in 2008 to 6.8 thousand Euros in 2011, but the gross value added has increased from 11.8 thousand Euros in 2008 to 18 thousand Euros in 2011. In 2011, the furniture production industry in Latvia employed 5.5 thousand people, with the employment growth rate still being negative at -3.9% in 2011. The average personnel costs have fallen from 6.1 thousand Euros in 2008 to 5.6 thousand Euros in 2011, but the gross value added has risen from 7.7 thousand Euros in 2008 to 8.1 thousand Euros in 2011. In 2011, the wood production industry in Lithuania employed 19.5 thousand people, with the employment growth rate becoming positive for the first

time at 5.6% in 2011. The average personnel costs have risen from 3.7 thousand Euros in 2005 to 6.2 thousand Euros in 2011, but the gross value added from 6.3 thousand Euros in 2005 to 10.2 thousand Euros in 2011. In 2011, the furniture production industry in Lithuania employed 21 thousand people, with the employment growth rate increasing dramatically by 10.4% in 2011. The average personnel costs have raised from 4.5 thousand Euros in 2005 to 7.6 thousand Euros in 2011, but the gross value added from 6.1 thousand Euros in 2005 to 11.8 thousand Euros in 2011.

The number of companies manufacturing computer, electronic and optical products was the largest in 2006 in Estonia (125 companies) and in 2005 in Lithuania (159 companies), and has been decreasing steadily in both countries reaching 104 in Estonia and 131 in Lithuania in 2012. The trend is quite opposite for Latvia. Despite lack of data availability for the period 2005-2007, the number has been increasing gradually from 87 companies in 2008 to 128 companies in 2012. Yet, the importance of the industry in national GDP in the Baltic States is quite different: in 2011 the share in GDP was only 1.3% in Lithuania and 1.8% in Latvia, but 16.6% in Estonia. Estonian companies are also much larger than in other Baltic States – the average turnover per company in 2011 was 16.3 million Euros, while the corresponding figures for Latvia and Lithuania were 1.1 and 1.7 million Euros. It should be noted, that the average turnover has remained quite the same in Latvia and Lithuania over the period 2005-2012, but in Estonia there has been a gradual growth from 2.8 million Euros in 2005 to 3.7 million Euros in 2009, and then a sharp increase to 8.6 million Euros in 2010, and further to 16.3 and 16.8 million Euros in 2011 and 2012. In computer, electronic and optical product production, the trends for the three countries are different. In Estonia, the degree of specialization has been decreasing with the share of principal activity rising from 54.5% in 2008 to 87.5% in 2011. In Latvia, the degree of specialization decreased as the share of the principal activity rose from 89.7% in 2008 to 98.1% in 2009, but further remained stable at about 98% and 97%. In Lithuania, on contrary, the degree of specialization has been increasing, as the share of principal activity decreased from 83.3% in 2009 to 63% in 2011. In 2011, in Estonia 22 companies were under foreign control, 19 of which were controlled by the owners from the EU-27, with Latvia having control in 1 company. The same year, in Latvia 10 companies were under foreign control, 6 of which were controlled by the owners from the EU-27, but none of them by Baltic neighbors. In 2011, in Lithuania 13 companies were under foreign control, 8 of which were controlled by the owners from the EU-27, with Estonia having control in 1 company.

In 2011, the computer, electronic and optical product manufacturing industry in Estonia employed 5.8 thousand people, with the employment growth rate recovering slowly by 1.2% in 2011. The average personnel costs have risen from 5.8 thousand Euros in 2005 to 9.8 thousand Euros in 2011, but the gross value added from 8 thousand Euros in 2005 to 16.2 thousand Euros in 2011. In 2011, the industry in Latvia employed 1.2 thousand people, with the employment growth rate becoming positive for the first time at 0.5% in 2011. The average personnel costs have risen from 5.8 thousand euro in 2005 to 9.8 thousand euro in 2011, but the gross value added from 8 thousand Euros in 2005 to 16.2 thousand Euros in 2011. In 2011, the industry in Lithuania employed 3.3 thousand people, with the employment growth rate still being negative at -7.4% in 2011. The average personnel costs have risen from 5.8 thousand euro in 2005 to 9.8 thousand Euros in 2011, but the gross value added from 8 thousand euro in 2005 to 16.2 thousand Euros in 2011.

Conclusion

The research results show that for the Baltic States the decreasing number of population has become a vital factor. There is an increasing need and consequently competition among companies for qualified labour force. The situation is worsened by the fact that the qualified labour force opt for better work prospects and remuneration in other, economically more developed countries. Though the results have not shown correlation between the redundancy of on average 24% in the surveyed industries in 2008 and the emigration of the labour force, it may still be concluded that more

efficient financial forecasting and risk planning is needed, as the 5 to 10 year period to regain the pre-crisis employment may be too long for the former employees to be retained in the industry. On the other hand, decreasing number of population provide no guarantee for substitution of qualified labour force. As the national labour markets are becoming more integrated in the Common Market, the average personnel costs are growing. As businesses try to maintain large margin between the average personnel costs and gross value added per person, they increase the risk of labour dissatisfaction and consequently – possible loss in labour force and decrease in productivity. The research findings show that, disregarding the industry or country, the higher remuneration leads to higher productivity. On the macroeconomic scale, the retention of low salaries does not stimulate the domestic market which consists of the same labour force, nor provides competitive advantage which could be attained by increasing the qualification of the existing labour force or attracting more qualified labour force. The entering of foreign capital (researched in form of foreign control of companies) marks the currently most prospective industries – production of beverages and manufacturing of computer, electronic and optical products, where the competition takes place between fewer and larger companies. Nevertheless, more research should be devoted to the particularities of textiles industry, which has shown very low results.

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Narcissism

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Abstract

Is narcissism beneficial or detrimental to creativity and productivity? The consensus view of the effects of CEOs' narcissism on corporate financial policies is negative. We reinvestigate this question in the art market because of the one-to-one mapping from artists' creativity and productivity to the market performance of artworks. Using a unique auction dataset from artinfo.com, we find that narcissism measured by the signatures of artists is positively associated with the market performance of artworks. The artworks of more narcissistic artists have higher market prices, higher estimates from auction houses, and higher returns compared to the art-market index. More narcissistic artists have greater number of solo and group exhibitions, more museums and galleries holdings, and higher art-history rankings. More narcissistic artists also make larger paintings and date their works more frequently. Our results indicate that narcissism is beneficial to creativity and productivity when narcissists' performances can be individually identified and evaluated.

Keywords

Narcissism, art market, human capital

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The Effects of Integrating Design Thinking in Entrepreneurship Education

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Abstract

Entrepreneurship as a source of value creation and economic growth has already become an important part of teaching practice at various levels of education. However, recent studies indicate that teaching entrepreneurship is often ineffective and without satisfactory results. In both theory and practice frequent discussions about new and innovative methods emerged and the Design thinking methodology as a problem-based methodology for learning entrepreneurship has been put forward as one of the most promising approaches. This research paper analyzes the effects of the design thinking methodology as a contemporary method of teaching entrepreneurship, which is rooted in industry practices and has recently attracted the interest of both educators and the scientific-research community. The design thinking process has its own characteristic flow and promotes the designerly way of thinking and acting which can be applied to solving any problem. With empirical study we analyze the effects of implementation of design thinking at the undergraduate level at the University of Ljubljana. The results are promising and show that the method has most of the intended effects. While increasing the awareness of the importance of the design thinking process, prototyping, defining a problem, understanding user needs and working in a multidisciplinary team it also increases creative confidence in student's own creative abilities.

Keywords

Problem based learning, skills, mindsets, prototyping, user centered design

1. Introduction

Entrepreneurship education has been receiving a re-assessment at higher institutions over the past decade. Several problems have been identified in the delivery and contents of current entrepreneurship courses, and therefore both scholars and practitioners have called for a redesign of educational methods (Gibb, 2002; Kuratko, 2005). Included in its criticisms are that the methods taught seldom support what entrepreneurs actually need to know and do (Collins, Hannon, & Smith, 2004), that educators should be teaching methods through their practice rather than solely in theory (Neck & Greene, 2011), that the programs do not have the intended effect and sometimes even lower entrepreneurial intentions of students (Oosterbeek, van Praag, & IJsselstein, 2010; Piperopoulos, 2012), that the programs do not improve students' cognitive entrepreneurial skills (Huber, Sloof, & Van Praag, 2012), and that entrepreneurship courses have no impact on graduates' new venture performance (Chrisman, McMullan, Ring, & Holt, 2012). Moreover, entrepreneurship education still fails to recognize the role of teams (Laukkanen, 2000) and a multidisciplinary approach (Pretorius, 2008), does not sufficiently emphasize developing right-brain creative capabilities (Kirby, 2004), uses obsolete methods (Hytti & O'Gorman, 2004) which support learning about entrepreneurship and not its practice, and often fails to recognize the individuality of each entrepreneur (Kirby, 2004).

Design Thinking, which was recently identified as one of the most promising alternative methodologies for teaching entrepreneurial skills and mindsets, has in recent years acquired pedagogical (Winograd, 2008) and research dynamism (Meinel & Leifer, 2011). It is based on methods that have been developed in practice and in this context "Design" is understood very broadly, as a process of developing new products and services, business models, places, experiences and concepts. Some of the world's leading universities identified it as a promising method for teaching innovativeness, creativity, new product development and problem solving (Brown, 2008) across campus. Studies of designers who are able to operate in unpredictable environments and solve complex situations have shown that they have a way of thinking and acting, which can be termed as a "designerly way of thinking" or Design Thinking (Buxton & Buxton, 2007; Cross, 2001). Roger Martin, dean of the Rotman School of Management and one of the ideological fathers of the application of Design Thinking in business, defined it as the willingness and capability to build better solutions than already exist (Martin, 2004). The methodology basically consists of five phases of design and three circles of design. In addition to the methodology, a Design Thinker must internalize certain mindsets that enable the development of innovative solutions. As traditional entrepreneurship programs are mostly based on acquiring business knowledge and skills, the Design Thinking approach would theoretically complement the existing curriculum with skills and mindsets that are needed to develop successful products and function in today's fast changing business and societal landscape.

In this paper we discuss the effects of the Design Thinking methodology as a promising new method of teaching neglected knowledge, skills and mindsets important for an entrepreneurship career. We present the effects of a problem- and action-based teaching of entrepreneurship based on the Design Thinking methodology, which has its foundation in business reality (Brown, 2008) and is on track to become one of the most prevalent methodologies in teaching creativity, problem solving and entrepreneurial thinking.

We present the first working prototype solution to the research question of What are the effects of a problem-based course developing entrepreneurial skills and mindsets based on the design thinking methodology?. We are contributing to the growing body of knowledge in the field of Design Thinking by elaborating on effects of the Design thinking methodology used to develop skills and mindsets tailored to entrepreneurship education. Our work can serve as a model for teachers of

entrepreneurship or related disciplines at all educational levels and as a call for further research in this novel but important field.

2. Methodology

The employed methodology is an exploratory case study using open qualitative surveys as a source of data. Research included 38 undergraduate students of entrepreneurship enrolled in a 6-week 40-hour course called "Developing entrepreneurial opportunities". The surveys were administered before and after the course and included open questions which were used to assess the effect of design thinking on creative problem solving skills of students. Data was analyzed using nVivo software.

Using design thinking as a teaching methodology should lead to a change of mindsets and increased confidence in creative abilities within students. On the basis of the main characteristics of design thinking (Brown, 2008; Dunne & Martin, 2006; Rauth, Köppen, Jobst, & Meinel, 2010)six major themes emerge which arealso the key to effective entrepreneurial education (Hytti & O'Gorman, 2004; Matlay, 2008):

- a) Focus on the user and his needs
- b) The importance of defining the problem
- c) The application of rapid prototyping and experimentation
- d) d)Bias toward action
- e) e)Collaboration and team diversity
- f) f) The role of creativity

To elaborate on these themes we formulated them as six theory based hypotheses.Due to the small sample of respondents the hypotheses will not be statistically tested at this point. We will draw conclusions based on the content analysis of open questions and will conduct rigorous statistical analysis when we have more responses.

Observing people provides key information about their thinking and being and assists in recognizing what people need (Plattner, Meinel, & Leifer, 2012). Design thinking is geared precisely to focus on the needs of users and their behavior, which in turn allows for creative problem solving (Rauth et al., 2010). The best innovation is derived precisely from deliberate response to observations, which have been identified through empathy with the observed person and his context. People are a source of inspiration and direction for design based problem solving (Carroll et al., 2010) therefore the hypotheses 1a:

Hypothesis A: Design thinking increases the awareness about the importance of understanding user needs.

During the problem solving process, which can be chaotic at moments, one must always keep in mind the sequence of steps needed to effectively solve the problem (Rauth et al., 2010). This helps in keeping the entire team on the same page and ensures a greater probability of coming to a successful solution. In order to create innovative solutions one must understand the challenge and create a clear vision of the project (Plattner, Meinel, & Weinberg, 2009). Defining a problem and laying out a plan of solving the problem is an essential ingredient in problem solving process (Shamiyeh, 2010).

Hypothesis B: Design thinking increases an individual's awareness of the importance of a precise definition of the problem prior to solving it.

One of the core principles of design thinking is visualization of solutions through prototyping and experimentation. Prototyping is not just a way of validating an idea, but it is an integral part of the innovation process which assists in the acquisition of new information. Prototyping as an integral part of design thinking increases the problem solving performance of the individual (Carroll et al., 2010; Plattner et al., 2009; Rauth et al., 2010). Getting comments and embarking on a path of continuous improvement is only possible by testing prototypes (Rauth et al., 2010). The prototype needs to go through the hands of users, which not only improves quality of the solution, but allows for better understanding of user needs (Beckman & Barry, 2007). Product development cycle should be based on letting users experience the prototypes and giving feedback to the designer.

Hypothesis C: Design thinking helps individuals to understand and use prototyping as an integral step in developing the final solution.

Focusing on results is essential to the success, as it directs goal oriented behavior. Without action, opportunities fade very quickly, and challenges remain ignored. Design thinking embraces the importance of immediate action in effective problem solving (Gerber & Carroll, 2012; Rauth et al., 2010).

Hypothesis D: Design thinking increases an individual's propensity to act.

With the acquisition of knowledge from different fields and disciplines, diverse perspectives are encouraged which can be combined into a meaningful whole in an original, creative way (Hassi & Laakso, 2011). Therefore, the development of multidisciplinary culture and mentality, which is one of the core principles of design thinking (Rauth et al., 2010), would lead to better innovation.

Hypothesis E: Design thinking improves an individual's understanding of the importance of different skills and cooperation between the various disciplines.

By experiencing the process of design thinking people develop confidence in their creative abilities, which is the key in successful problem solving (Jobst et al., 2012; Kelley & Kelley, 2013).

Hypothesis F: Design thinking increases one's confidence in his/hers creative abilities.

3. Results

The main objective of using the design thinking methodology is to find creative solutions to any problem one might encounter. In the core of the design thinking process is the user, who will benefit from the solution and must therefore be in the center of activities. The solution itself must be usable, technologically feasible and viable from the business perspective (Brown, 2008). To achieve these results, the design thinker must use the core principles of the design thinking methodology we explained in the previous chapter. In this chapter we elaborate on the results of the survey administered to students before and after the course. In doing so we will compare answers to several questions which were aimed at understanding the development of design thinking mindsets among students.

3.1. Focus on the user and his needs

Putting people at the center of design process leads to the fact that designers deepen the understanding of the user's behavior. Analysis of student responses showed that the majority of students before and after the course state that the customer determines the usefulness of the product. However, the answers to a question "Why is it important to understand the customer" significantly changed as 9 (after) instead of 3 (before) stated that the product is actually an answer to

a certain problem the customer has and that knowing the customer needs is the only way to develop a useful solution (4 instead of 1 student).

When asked “what information about the customer would you gather” the responses significantly changed as the two most common answers before the course were “willingness to pay” and “demographic characteristics” however after the course the most common answer was “lifestyle, beliefs, values”. When asked “what is the most effective way to gather information about the customer” the most common answer before the course was “questionnaires” however after the course the most common answer changed to “interviews” and the percentage of students mentioning questionnaires dropped from 45% to 10%. Three answers emerged that were not mentioned before the course: observation, testing prototypes, empathy.

Analyzing the differences between responses “before” and “after” one can conclude that the perception of students about the importance of understanding the customers changed and that they would employ more in-depth methods with the goal of understanding customer’s values and beliefs. This indicates an increase in awareness of the importance of customer orientation and towards the use of more effective ways of collecting information about the customer.

3.2. The importance of defining the problem

Students were asked to identify the steps needed to solve a problem. Before the course, most students focused on market research, including analyzing the competition and customers. However, after the course, the responses were completely different as the majority of students answered with a structured definition of the design thinking process, including all phases needed to come up with a creative solution. They listed observation, understanding, defining a problem, brainstorming, prototyping and testing as steps needed to solve a problem. Taking this into account, we can conclude that the design thinking methodology increases an individual's awareness of the importance of a precise definition of the problem prior to finding solutions.

3.3. The application of rapid prototyping and experimentation

The purpose of the prototype is to examine the concepts and ideas, which can range from simple looks, to functionality, and to a real-like mock up of the final product. Students were asked “if you had a prototype, who would you show it to?” and the majority of students answered that they would show it to their superior. After the course, the majority of students responded they would show it to customers to test it and only later to their superior, once the idea has been verified with the users. Additionally, we asked if it was possible to prototype a service besides prototyping a product. Before the course, the majority of students were not aware that prototyping a service is possible. However, after the course a full 76% of students described a process of prototyping a service besides only a product. Looking at these changes, the student’s understanding of the role of prototyping increased and they will arguably be more likely to use it as a way of developing the final solution.

3.4. Bias toward action

Design thinking encourages the use of models for obtaining feedback, promotes visual thinking and culture of storytelling (Coughlan, Jane Fulton, & Canales, 2007). Design thinking encourages students to go persist when they feel that they are stuck, encourages all participants to constantly innovate and iterate and encourages self-initiative. Based on our study we cannot safely conclude that design thinking encourages action as hardly any answers showed any tendency of changed opinions when comparing answers before and after the course. The only question with significant differences between answers before and after the course was “what would you do with results of the tests”.

47% compared to 27% of students replied they would focus on immediate improvements of the prototype.

Therefore we cannot confirm that the design thinking method increases an individual's propensity to act as results did not show noticeable differences between the responses before and after experiencing design thinking.

3.5. Collaboration and team diversity

The design thinking methodology emphasizes the importance of nurturing individual competencies while stressing the importance of having a multidisciplinary team with a diverse set of knowledge, skills and mindsets. To this end, an effective design thinking team would always include individuals from different backgrounds and with diverse experiences and education(Anderson, 2012). Collaborative approaches and multidisciplinary nature of the design thinking process are the key to developing innovative user-centered solutions. This involves not only the composition of the team, but also the inclusion of all stakeholders, such as end users, in the process. We asked the students to propose team members they would choose if they were faced with the task of solving a complex problem. Before the course students mostly listed their friends and family as people they wish to have on their team. However, after the course the answers completely changed as they listed a far more diverse groups of people, consisting of psychologists, ethnographers, and others. Looking at the results of the surveys, it is evident that students realized that is extremely important to include people with diverse knowledge and skills in the process of designing a solution to a complex problem.

3.6. The role of creativity

The process of design thinking should lead to the emergence of creative confidence among students which includes belief in their own creativity and awareness of the importance of creative skills when designing a new solution (Kelley & Kelley, 2013). During the design thinking process students are exposed to various situations where they practice and develop creativity. They are faced with creative tasks and their solutions are judged by their peers and the teaching team. Thinking out of the box and without boundaries is highly encouraged.

Before the course the survey results showed that most students think that creativity is inborn and only a few believed it can be developed. In line with this, about 40% of students rated themselves low on the creativity scale. After the course the answers are entirely different, the number of students rating themselves low on the creativity scale is halved while on the other hand the majority of students now believe that creativity can be developed to a certain extent and that it is not a completely inherited or inborn characteristic. With this we can conclude that developing design thinking mindsets increases confidence in student's creative abilities.

When students are handed a set of tools in design thinking, this in turn should result in increased knowledge, a more diverse set of skills and an entrepreneurial mindset. Through real-life tasks students are developing their creative confidence and a belief that they are capable of more than just analytical thinking. Through experiential learning, they develop self-efficacy and are capable of solving real-life complex and unstructured problems in a novel way, producing solutions which are usable, feasible and viable.

4. Conclusion

Educating according to the Design Thinking methodology contains a sequence of steps. Through these steps, students are developing specific knowledge, a range of skills and mindsets. The development of creativity reaches its peak with the acquisition of trust in the creative abilities of the

individual, which in this case means that students believe in their ability to create solutions to complex problems. Several authors have described the practical application of the design thinking methodology in different pedagogical contexts, from primary education (Carroll et al., 2010; Likar, Cankar, & Zupan, 2014) to the university level (Beckman & Barry, 2007). Until now, the effects of the application of this methodology have not yet been empirically measured. Since there are no measurement scales developed to measure the effects of Design Thinking, we used an experimental approach and developed techniques to analyze the effects by comparing student surveys before and after the course. It is a pilot implementation for measuring the effects on a single generation of students and it will need to be checked on a larger sample.

The results show that the key effects of this method on the mentality of students are (1) increasing awareness about the importance of understanding user needs, (2) awareness of the importance of a precise definition of the problem before thinking about the solution, (3) that individuals understand and use prototyping as a way of developing a solution and the importance of experiential approach and (4) it that improves an individual's understanding of the importance of different skills and cooperation between the various disciplines. Finally, the survey also showed that design thinking with its approach increases the confidence of individuals in their creative abilities.

The work may serve as a confirmation that the application of design thinking as a pedagogical methodology delivers the expected effects and that its use in entrepreneurship education makes sense. Moreover, this pedagogical methodology is flexible enough to be used in a wide range of environments, from pre-school to university level. This research confirms the positive effects of this teaching method which calls for an appeal to the interested public and policy makers for a broader inclusion of problem and action-oriented methods in pedagogy and more specifically the use of design thinking. By doing so we may encourage innovation and creativity, which are the basic building blocks of a successful and development-oriented society.

In Slovenia, design thinking has mainly been used in the field of entrepreneurship education. Therefore, the results are limited to the effects in the context of entrepreneurship education and cannot be generalized to other educational contexts in which design thinking can also be applied. At the same time, it is difficult to study the effects of the method among students who were exposed to it only for a short period of time. Moreover, the literature does not provide any reliable questionnaires that would examine the effects of design thinking in a methodologically rigorous way. Currently, all researchers and authors studying the effects of design thinking use qualitative approaches based on interviews or open written surveys.

For further research we propose a comparative study of one course being taught using different pedagogical approaches, for instance a comparison between the traditional business planning approach and the use of design thinking. For confirming the universality of Design thinking as a pedagogical methodology its applications in different educational environments will need to be further explored. Based on the complexity of this pedagogical approach the question remains what should be the quality of the teacher or teaching team to effectively deliver the methodology and its promised effects. Using design thinking as a teaching methodology requires an extremely broad set knowledge, skills and mindsets within the teacher or among the teaching team.

To conclude, it is essential to emphasize that the importance of creative problem solving skills is not limited to entrepreneurs but is used throughout the economy. Even the largest corporations, for instance Procter& Gamble are completely changing the way people work by including design thinking methodology across all levels and all departments within the company. They have realized that the today's competitive environment values people and companies who can solve complex, undefined problems and deliver creative solutions based on understanding user needs.

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