8th Annual Conference of the

EuroMed Academy of Business

Innovation, Entrepreneurship and Sustainable Value Chain in a Dynamic Environment

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Published by: EuroMed Press

8th EuroMed Conference of the EuroMed Academy of Business

CONFERENCE READINGS BOOK PROCEEDINGS

September 16-18, 2015

Verona, Italy

Innovation, Entrepreneurship and Sustainable Value Chain in a Dynamic Environment

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All full papers and abstracts submitted to the EMRBI Conference are subject to a peer reviewing process, using subject specialists selected because of their expert knowledge in the specific areas.

ISBN: 978-9963-711-37-6 Published by: EuroMed Press

FOREWORD

The Annual Conference of the EuroMed Academy of Business aims to provide a unique international forum to facilitate the exchange of cutting-edge information through multidisciplinary presentations on examining and building new theory and business models for success through management innovation.

It is acknowledged that the conference has established itself as one of the major conferences of its kind in the EuroMed region, in terms of size, quality of content, and standing of attendees. Many of the papers presented contribute significantly to the business knowledge base.

The conference attracts hundreds of leading scholars from leading universities and principal executives and politicians from all over the world with the participation or intervention of Presidents, Prime Ministers, Ministers, Company CEOs, Presidents of Chambers, and other leading figures.

This year the conference attracted about 300 people from over 70 different countries. Academics, practitioners, researchers and Doctoral students throughout the world submitted original papers for conference presentation and for publication in this Book. All papers and abstracts were double blind reviewed. The result of these efforts produced empirical, conceptual and methodological papers and abstracts involving all functional areas of business.

ACKNOWLEDGEMENT

Many people and organizations are responsible for the successful outcome of the 7th Annual Conference of the EuroMed Academy of Business.

Special thanks go to the Conference Chair Professor Diego Begalli, the Conference Organising Committee and the University of Verona, in Italy, for accomplishing an excellent job.

It is acknowledged that a successful conference could not be possible without the special co-operation and care of the Track Chairs and Reviewers for reviewing the many papers that were submitted to this conference. Special thanks to the Session Chairs and Paper Discussants for taking the extra time to make this conference a real success.

The last but not the least important acknowledgment goes to all those who submitted and presented their work at the conference. Their valuable research has highly contributed to the continuous success of the conference.

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ABSTRACT

The present work defines Tourist Destination Management, where the destination is a complex product composed of different elements, which should be organized in the sustainability perspective. We propose an interdisciplinary paper that is built following both a managerial and organizational approach. The purpose of work is to analyze the tourist Destination in a sustainability perspective through a case study: "Tourist KIT". The approach is the resource-based view theory and at the concept of capabilities. The method used is the desk analysis spread in two phases: review of the literature on the main topics, destination management and coordination system; presentation of a case study. The findings of work is verify that a sustainable tourist destination is possible if we start from definition of tourist destination as integrated and multilevel, where all main actors of territory aim to sustainable development. The "Kit del Turista" confirms that a project of touristic destination must be developed around the resources involved, particularly, at the level of moral and pragmatic legitimacy. The main research limitations are the field analysis. The main managerial implications are the opportunity to observe and present a touristic destination management in sustainable perspective that not is only sustainability of environment but economic, cultural and political also. This study presents the main characteristics for a developed a Country Destination. The originality and the value of paper are to verify theory and studied previously of different authors through an integrated work.

Keywords: *tourist destination; destination management; sustainability; complex product; coordination system; tourist kit; PosteItaliane.*

INTRODUCTION

This work aims to analyze how a territory can become a Tourist Sustainable Destination. In the first phase, we consider the Tourist Destination Management (TDM) (Mezei, 2009) and its sustainability conditions, and we analyzed the managerial implication. In second phase, we define the governance for

a Tourist Destination (TD), and its organizational implication. Thus, the paper has a sustainability perspective and involves the concept of sustainable tourist destination and the managerial and organizational implication. In the final part, we present a case study: "Kit del Turista" (Tourist Kit) of PosteItaliane S.p.a. (Group of Italian Office Postal).

The future of tourist destination competitiveness (Mazanec, Wöber, & Zins, 2007), must involve a sustainable view; thus, this work shows that the destination management should be able to start from the sustainable development concept and how it should be the focal point of tourist destination management.

Sustainable development is a main objective in many social, political and economic areas. The Brundtland Report by the World Commission on Environment and Development (United Nations) in 1987 and the United Nations' Conference on Environment and Development (the Earth Summit, 1992) held in Rio de Janeiro in an attempt to consolidate a worldwide strategy based on sustainable development models had create the platform for sustainable development, but only in 1997 the Tourism adopt the objective of sustainable development; after the Special Assembly of the United Nations known as ''RìoPlusFive''.

Despite, at the global level this topic is very fundamental for territorial actors, entrepreneurs, public administrators, associations and others, in literature nobody propose a common definition of sustainable tourism.

Actually, in tourism, the World Tourism Organization (WTO) is very accredited and with high reputation that for more time its studies are considered from scientific community. The WTO proposed defines sustainable tourism as that which «meets the needs of tourists and host regions, while at the same time it protects and improves opportunities for the future. It focuses on the management of all the resources in such a way that all economic, social, and aesthetic needs are met while cultural integrity, key ecological processes, biodiversity, and life support systems are respected» (World Tourism Organization, 1993).

Only to complete the sustainable tourism concept we consider, in according to Blancas, Gonzàlez, Lozano-Oyola and Pérez (2010, pp. 484–492), the three groups of set of sustainable tourism indicators:

- Key indicators of sustainable tourism: which are basic information needed for the management of sustainable tourism in any destination (i.e. tourism intensity, seasonality of demand, and effects of tourism on the local community and management of the waste generated).
- Specific site indicators: which evaluate important issues regarding the management of the

tourism destination that are not taken into account by the key and specific ecosystem indicators, and that can only be defined for the destination under study.

- Complementary indicators for specific ecosystems: which evaluate core factors shaped by the specific characteristics of a given destination (i.e., coastal areas, islands, mountain destinations).

This concept of sustainable tourism and these indicators show that the consumer how tourist responsible is fundamental; thus, in the light of the decisive role of the consumer in the process of destination governance, we must structure the content of tourism business whose quality thread and contact points between the characteristics of the territory act as the lever of sustainability and indicators of its value. The indicators and the attributes of sustainability show that the development process for a territory must consider all its elements and all stakeholders (present and future), and this, for a touristic destination, requires multilevel management and involvement of all actors (public and private). In line with the discussion, we take into consideration integrate and multilevel concept for destination tourism in a sustainable perspective (Haugland, Bjørn-Ove Grønseth & Aarstad, 2011).

TOURIST DESTINATION MANAGEMENT FROM A SUSTAINABILITY PERSPECTIVE

The tourism product is, therefore, the result of multiple services (information, booking, accommodation, catering, transportation, guides, entertainment, leisure, safety) which should be enhanced and integrated in order to reinforce the conditions of local attraction and competitiveness. This concept puts in evidence that tourism is a complex product (Palmer & Bejou, 1995), for this reason it require different alliance and coordination between different organizations. The Organizations that operate in a tourism destination have to design and build a model of socio-economic growth of the area related to the environment and the market changes. This collaborative and cooperative development is based on sustainability logic in order to create synergies in the territory and to express a specific offer that correlates with trends in demand. The competitiveness of a destination requires an integrated approach to manage all the instruments that compose the tourism product so that it can coordinate the strategic decisions and enhance synergies between natural components and services, stimulating relationships between public actors and private actors (von Friedrichs Grängsjö & Gummesson, 2006).

The destination management should collaborate with the territory governance in the process of resources integration to ensure sustainability. In this perspective, the governance of a touristic destination must carry out integrated and territorial tourism programs to capture the market. The systems integration of the territory could be built in an integrated tourist product. Starting from the sustainability concept, the needs of touristic destination is a focal point for the development of a

territory, in which must consider the balance between "temporary" citizens and the economic, social and environmental conditions of destinations.

Literature Review

In the literature, several definitions of destination management are proposed; Gretzel, Fesenmaier, Formica and O'Leary defined the Destination Management Organization (DMO) as destination marketing and management organization (2006); Sheehan and Ritchie defined it as destination management organization (2005). Moreover, the destination management is, at times, developed from public agencies and financed by public means, often in combination with private funding also (Pike, 2004). Elbe, Hallén, & Axelsson had shown that the Destination Management Organizations (DMOs) need to develop both pragmatic and moral legitimacy in order to develop integrated destination marketing; the authors considered that the DMOs would be able to become integrated destination marketing (2009).

In the overview of DMO as destination-management organization, some authors proposed a model of the integrative destination-marketing process (Elbe, Hallén & Axelsson, 2009, pp. 289). It is composed of activities, actors and resources of territory. The activities are performed by the DMO in order to build up legitimacy and foster cooperation; the actors forming alliances and destination integration; resources involved the level of moral and pragmatic legitimacy.

In the literature, some analysis has shown that a region with governance oriented to tourism development can have two configurations: corporate and community (Franch, Martini & Buffa, 2010). The corporate is oriented to logic-business, like the holiday village; the community is oriented to a relational network model that define the offer through the interaction between the different nodes that comprise it.

In this work the community is considered more for its performance in sustainable development than as a tourist destination. Therefore, the community is a configuration that requires approaches to aggregation, identifying strategic processes and actions to manage the factors of attraction and tourist services, in order to affect the market demand and to place the target in competitive environments depending on the characteristics of the territory.

The different components of tourism (natural, historical, archaeological, cultural, traditional manufacturing, hospitality facilities, connecting infrastructure, and mobility) require synergic integration with the customer, taking into account that the tourism product is an integrated complex product with tangible and intangible elements. This product needs appropriate organizational solutions and collaborative marketing strategies (Wang & Xiang, 2007).

COORDINATION SYSTEM FOR A DEVELOPMENT OF A SUSTAINABLE TOURIST DESTINATION

In the first part of this work we analyzed the destination management and its necessity for the future of tourist destination competitiveness in a sustainable view. This part of the work aims to demonstrate that the Sustainable Tourist Destination must be addressed to actions which are not restricted to market communication only. A Sustainable Tourist Destination must have an organizational form where all actors within the territory can be connected. Through the different co-operative arrangements, it could also influence product development and formulation as well as pricing and distribution.

Tourism destinations is a complex network that involve a large number of co-producing actors providing a range of products and services (Haugland, Bjørn-Ove Grønseth & Aarstad, 2011; Gunn, 1994; Pearce, 1989; Hu & Brent Ritchie, 1993; Ramirez, 1999; Buhalis, 2000; Murphy, Pritchard, & Smith, 2000; Silkoset, 2004). Linking this, we analyze the coordination system of Sustainable Tourism Destination. Earlier to argue on organizational aspects for a Sustainable Tourism Destination we should start from the elements that allow development towards it. Haugland, Bjørn-Ove Grønseth & Aarstad have suggested three specific areas impacting destination development (2011, pp. 270). They are destination capabilities, coordination at the destination level, and inter-destination bridge ties. The work analyses the area "coordination at the destination level". The areas have a «direct impact on destination development, and furthermore, the areas are interrelated and there by impact destination development indirectly» (Haugland, Bjørn-Ove Grønseth & Aarstad, 2011, pp. 268-271), thus the coordination system must consider this aspect.

Different studies consider the destination as a whole is highly beneficial (Ioannides, Nielsen, & Billing, 2006; Prokkola, 2010).

Blasco, Guia & Prats show that the development of tourism networks and the identification of main elements that foster the consolidation of shared tourism governance structures are very important for touristic destination (2014, pp. 159–173).

The case study of Maramures Romania (Turnock, 2002), has shown that the business of touristic destination, for sustainable rural cultural tourism, is under local control through rural tourist associations, operating at regional and national levels. The author considered the area's need for greater cohesion to connect local networks with those operating at the regional and national levels within Romania and also in neighboring countries.

A tourism initiative would be «well-established on a modest scale with local control of a business which clearly projects a living culture; thereby meeting one of the key criteria for sustainability»

(Turnock, 2002, pp. 87). The network can permit, in the interest of a long-term development, an accessibility involving regional airports and telecommunications as well as road and rail. Through this work we want go to the next step: the accessibility involves informative systems of payment, shipment of goods, others services. We can see this step in the "Tourist Kit" case study. The work of Turnock pointed out that the local industry needs to be fully integrated with a national product that might create confidence between the companies as well as tourists.

The study, that we analyzed previously, has shown the necessity for the competitiveness of a touristic destination to start from «an integration process, initiatives to encourage cooperation and integration among the actors. (…) The aim of these meetings and programs was for actors to meet and get to know each other and, most importantly, to identify co-operative business opportunities» (Elbe, Hallén, & Axelsson, 2009, pp. 293).

Literature Review

The opportunity for a region to propose a competitive offer depends on the coordination of the different actors, which operate in autonomy, contributing to generate a proposal through the control of certain resources and the performance (Morrison & Teixeira, 2004) of different activities. For competitiveness it is fundamental to identify the possible forms of coordination which transform the territories in competitive tourist destinations (Bonca, Morar & Câmpean, 2014; Clergeau, 2013; Botti & Peypoch, 2013; Ivanov & Webster, 2013; Meliàn-Gonzàlez & Garcìa-Falcòn, 2003).

The need for coordination in a destination is proportional to the variety of demand, and it is less relevant when it focuses on a specific activity that requires minimal support services (Candela & Figini, 2012). From this perspective, a destination should be able to create the condition to present an offer characterized by variety, flexibility and integration in order to give innovative proposals that meet the different needs of tourists.

In the literature, the development of destination requires an integrated multilevel project that can be realized through a coordination system. According to a study (Haugland, Bjørn-Ove Grønseth & Aarstad, 2011) the actors of a destination allow the success of destination through their success; we can derive from this that the system of coordination should be developed between the actors involved: structure and mechanism. These are the core of the system and must be accepted, shared and acknowledge by the actors.

Moreover the literature shows, that different forms of co-operation can be observed within the same tourist destinations. «Co-operation can include different levels of complexity, requiring different degrees of commitment among the participating actors. In more complex forms, the need for resource

commitment is greater. It may also be necessary to make adaptations in the actors' activity structures. In order to co-ordinate cooperation, the creation of more formalized structures, alliances, might be needed. Alliances may have different forms depending on the tasks that are to be performed and on the size and importance of the participating actors» (Elbe, Hallén & Axelsson, 2009, pp. 295).

The integrated destination can be achieved through the co-operation among the destination stakeholders, crucial for this is the legitimacy – which we mentioned in the first part of the work – to develop such legitimacy, the DMO has to develop and maintain relationships with others.

TOURIST KIT OF POSTEITALIANE

Projects like this one create meeting points where different actors can meet each other and also discover new business opportunities.

The "Kit del Turista" is a project of PosteItaliane S.p.a. (Italian Post Office) that through a card "Postepay NewGift", a tourist has a pass to the city where there is the project (at this moment Matera only). The main advantages are:

1. Having access to a selected cultural circuit that includes the most prestigious museum of the city.

2. Discounts in shops of the city affiliated with "BancoPosta" discounts, including hotels, restaurants, shops of crafts and local food and wine, as well as service stations and others.

This project includes some digital services, as a postcard JPA "Greetings & Photo", through downloading of the free application on "App Store" and on "Google Play" the tourist can send real postcards of photos of his or her holiday. The "Kit del Turista" included a coupon of 10% discount on shipping service "Paccoweb". The kit allows 25% of discount to a culturally integrated selected offer. Recently, this project has been carried out in Matera (http://www.basilicataturistica.com/news/poste-italiane-parte-da-matera-il-lancio-del-kit-del-turista) and it will be later carried out in Lecce. PosteItaliane has developed this project based on two elements: legitimacy of the city as culture of Italy and Made in Italy; integration between political, economic and scientific levels of Italian territory, where the logic thread is the Italian culture. The choice of city depends on the main cultural attributes that characterize the city; indeed, both Matera and Lecce are candidates for Cultural Capital 2019 (Matera, World Heritage Site UNESCO pa is winner of this event).

The initiative group of the Italian Post Office aims to create new synergies to enhance the "Italian system" in tourism. The "Kit del Turista" in Matera was made possible by the support of local

institutions of the Basilicata Region, the Regional Promotion Agency, City Council and Chamber of Commerce of Matera. The "Kit del Turista" was created to support the development of the Italian economy through an integrated approach between accommodation services, cultural heritage, ICT and entrepreneurship and through the provision of technology assets, financial and logistics groups.

The structure is the Integrated Information System of PosteItaliane through a card linked to a cultural, commercial and logistic circuit; the Kit supports the tourist in all phases of the holiday from choice of buying a return to your original destination.
Italian Poste has also involved the Association of Italian Heritage UNESCO World Heritage in the project, which deals with the functions of planning, coordination and implementation of activities directed towards the protection and enhancement of natural and cultural assets recognized in Italy by the UN, with which it is developing initiatives for the exploitation of Italian sites under the auspices of UNESCO.

The project aims to create an "Italy store", that is based on sustainable tourist destinations and the coordination system between the different actors involved. Institutions, companies and territories work together and in terms of coordination and integration to ensure the foreign tourists who travel to Italy welcome ever higher services before, during and after the trip, with the aim of providing incentives to tourists and turn it into a consumer habit of original products made in Italy.

Since a destination offers products and services which are delivered by more than one actor, some degree of coordination between the actors is required. The coordination of actors and resources is one facet of the multilevel characteristic, and we will analyze this with reference to the alliance literature addressing governance and coordination issues.

Methodology

From a methodological perspective, we acquire the resource-based view theory (Denicolai, Cioccarelli, & Zucchella, 2010; Foss, 1997; Barney, 1996, 1991; Peteraf, 1993; Wernerfelt, 1984), and at the concept of capabilities (Haugland, Bjørn-Ove Grønseth & Aarstad, 2011; Rodríguez-Díaz & Espino-Rodríguez, 2007; Winter, 2003; Eisenhardt & Martin, 2000; Teece, Pisano, & Schuen, 1997), indeed, consider the key element of destination of the actors, because they have the resources and «the ability to configure, reconfigure, and develop these resources in the production of products and services are crucial for destination development» (Haugland, Bjørn-Ove Grønseth & Aarstad, 2011, pp. 271).

To observe with the aim of the paper, the case of the "Kit del Turista" in Italy; the "Kit del Turista" in Matera and in Lecce were studied for desk and field analysis, for motivation to sustainable touristic

destination management and coordination system in Matera we were able to answer the questions of sustainable touristic destination management, because is activated and completed.

The studies of touristic destination management have been developed but the sustainable perspective is still a new area of study.

As specified in the introduction, there is still very little knowledge about the emergence of a tourism destination coordination system and the resources of legitimacy the destination. Therefore an exploratory approach is adopted with the purpose of gaining insights about the topic (Blasco, Guia & Prats, 2014; McNabb, 2010). Inductive analytical methods are thus employed to interpret the data and information gathered and find out the underlying structure of the processes under research (Heath & Cowley, 2004).

The study on Matera employed desk analysis, through the analysis of documents on projects, of web sites on the touristic kit developed in Matera and of relations at the conference to launch the project (with participation at a political and administrative level; managerial level and scientific level).

The study on Lecce employed field analysis; data collection was carried out through in-depth interviews with relevant stakeholders. Some supplementary data were also collected from destination brochures, reports and other sources of secondary data about the area. Interviews were semi-structured with questions concerning the motivation and modality which are utilized for building and realizing the project. The interviews were held in Lecce and lasted between one and three hours, as work tables in which all actors involved participated. The researcher has involved around work table as scientific support to development of project, he is active part (Kensing & Blomberg, 1998). The role of the interviewer was to allow and facilitate the interviewee to answer specific questions openly, thereby gathering rich data about new aspects of the phenomenon under study (Emerald & Martin, 2013). After accomplishment of an acceptable overload argument, the final sample was composed of all managers that participated in the project (managers, association of category and entrepreneurs involved in projects), which was enough to brighten the multifaceted topics covered in the case of study (Wesley & Pforr, 2010).

Inside the constructivist hypothesis, data must be analyzed through a process of induction, where the researcher constructs meaning from the data relative to the research questions (Tobin & Begley, 2004). Methods such as story analysis, and thematic analysis were thus selected as methods to interpret the data. Thematic analysis, also known as inductive content analysis (Bendassolli, 2013), was then employed to analyze the interview transcripts.

This analytical method is inductive, content-driven, compensates better consideration to the qualitative aspects of the material analyzed, and examines for subjects within textual data. Thematic analysis and grounded theory are «methodologically similar analytic frameworks that attempt to represent a view of reality via systematically working through text to identify topics that are progressively integrated into higher order themes, via processes of de-contextualization and re-contextualization» (Blasco, Guia & Prats, 2014, pp. 163). Thus, an inductive approach to thematic analysis allows themes to emerge from the data, rather than searching for pre-defined themes. Coding was done following the prescribed procedure for thematic analysis, which involved the iterative organization of data into categories on the basis of themes, concepts and similar features (Jennings, 2001).

Conclusion, Theoretical and Managerial Implications

The main result is that, in a same tourist destinations can be different forms of co-operation; this depends from the complexity level. This is defined from the typology of stakeholders of destination (publics, private, voluntary, and others). The relationship between them is fundamental for foster or hinder the realization of the destination model.

At second level we can consider that the alliances can facilitate the development of destination model. Thus, at theoretical level, the study has put in evidence how the coordination system has a vital role for a development of a Tourist Destination. Particularly, the stakeholders of destination must be legitimated to develop and maintain relationships with others into an overview of destination.

From desk analysis of case study we can prove that a sustainable tourist destination is possible if we start from definition of tourist destination as integrated and multilevel, where all main actors of territory aim to sustainable development. The "Kit del Turista" verifies that a project of touristic destination must be developed around the resources involved, particularly, at the level of moral and pragmatic legitimacy.

Moreover, effectively, the Group of PosteItaliane has involved, starting from these resources, the main institutional and political actors (as Local Chambers of commerce; Region; Province and Municipality). We can affirm that the resources identified from Elbe, Hallén & Axelsson particularly the legitimacy (2009), they are fundamental for start-up of territorial network for the "Kit del Turista" project. From field analysis of case study we verified that it is essential, in the development of tourist destination, there are unique driver, as that cultural. The project analyzed considers cultural resources the main cause for involve the territory.

The interviews to main actors of project have confirmed that destination management requires a coordination system that is based on territorial networks, and relationships formerly built (Gummesson, 2002).

In brief, the findings of work are that the sustainable tourism destination must be integrated and multilevel, where a coordination system would base on legitimacy and confidence, previously exposed. The focal resources are moral and pragmatic legitimacy developed on key factor of territory, as cultural resource, enterprises with social responsibility.

The main managerial implications are the opportunity to observe and present a touristic destination management in sustainable perspective that not is only sustainability of environment but economic and political also. This study presents the main characteristics for a developed a Country Destination.

In this overview, the integration capacity of stakeholders through an integrated informative system of payment could push the enterprises to an organizational coordination system efficiently because it is integrated and can be to consider an access key for the integrated of value chain of destination system.

The enterprises could be activated new and stronger relationships between them through formal or informal network, which is based on integrated information system of payment.

This study presents the main characteristics for a developed a Country Destination. The originality and the value of paper are to verify theory and studied previously of different authors through an integrated work.

The main research limitations are the field analysis, which we would build for a comparative analysis between Matera e Lecce; indeed we had the need to utilize two different analysis methods, because the projects are in two different phases. This will be developed in a future work.

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SOCIALLY RESPONSIBLE CONSUMPTION IN EMERGING MARKETS: DO CULTURAL VALUES AND RELIGIOSITY MATTER?

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ABSTRACT

This paper aims to investigate the effect of some cultural variables on socially responsible consumption (SRC). We focus on two cultural values, collectivism and long term orientation (LTO) at the individual level, and religiosity. A qualitative exploratory study is conducted in order to understand Tunisian consumer's beliefs, opinions and attitudes toward the SRC. Then, a quantitative study is conducted to test the effect of religiosity and the cultural values (collectivism and LTO) on socially responsible consumption. The SRC is measured with the François-Lecompte and Roberts five dimensions scale. Results show that religiosity has a significant effect on four of the five dimensions of socially responsible consumption i.e. "Firm's behavior", "Consumption volume", "Cause-related products", and "Small businesses". Collectivism has a significant and positive effect on "Geographic origin" SRC dimension. Finally, results reveal that the "Long term orientation" variable influences significantly three of the SRC dimensions "Firm's behavior", "Consumption volume" and "Small businesses".

Keywords: *Socially responsible consumption, Religiosity, Cultural values, Collectivism, Long term orientation, emerging countries, Tunisia, Islamic countries.*

INTRODUCTION

Hunger, poverty, global warming, pollution, environmental problems are today some of the numerous threats that world is facing. The Commission on Environment and Development (WCED) recognized 20 years ago that the environment, economic and social issues are interlinked. The population growth is likely to explain the rising of world's natural resources consumption over the last three decades. The consumer has a important role to play in encouraging companies to respect their engagements toward society and environment by purchasing their "healthy" and "environment friendly" products or by boycotting unethical companies.

Literature on consumer social responsibility is conducted mainly in developing countries context (Giesler and Veresiu, 2014). However, some research studies has show that the SRC concept may be different across cultural settings (Yan and She, 2011; Maignan and Ferrell 2003, Ramasamy et al.,

2010). The interest in the influence of culture on consumer behavior has increased and broadened considerably, spurred by the globalization of markets and diversification of consumer segments (Ramasamy et *al.*, 2010). Lodge (1990) for example differentiates between individualist (e.g., USA, Great Britan) and communitarian (e.g, Egypt, Morocco) ideologies. Individualisms emphasizes the short term improvement of the person, while communitarianism values community well-being and consensus decision making. Emerging countries may present some cultural specificity regarding consumption behavior and companies' practices (Becker-Olsen *et al.*, 2011; Mokhlis, 2010).

In this research study we attempt to examine the effect of cultural factors at individual level on socially responsible consumption behavior in Tunisia, an emerging, Islamic country. Regarding the complexity of the concept we have limited our choice to two cultural factors: religiosity and cultural values orientation, specifically collectivism and long-term orientation (LTO). Therefore, we propose to answer the following questions:

How do cultural value orientations at the individual level (collectivism and long-term orientation) influence the socially responsible consumption behavior of the Tunisian consumer? And how does religiosity affect the socially responsible consumption behavior of this consumer?

LITERATURE REVIEW AND HYPOTHESIS

Socially Responsible Consumption: SRC

Over 35 years, studies on responsible social consumption has been growing especially with the rise of ethical concerns and the boycotting phenomena. Numerous studies have been conducted to investigate this phenomenon from its different facets, environmental, social, and ethical (Autio *et al*, 2009; Finney, 2014).

It is obviously not easy to find a consensus about a definition of social conscious consumer. Academicians propose their definitions based on different approaches "assessments and distinctions tend to be subjective and complicated by circumstances" (Bray *et al.* 2011).

The first attempt to define the socially responsible consumer has been proposed by Webster (1975). He defines the socially conscious consumer as « a consumer who take into account the public consequences of his or her private consumption or who attempts to use his or her purchasing consumption or who attempts to use his or her purchasing power to bring about social change » (p.188).

Roberts (1993) defines the socially responsible consumer as 'one who purchases products and services perceived to have a positive (or less negative) influence on the environment or who patronizes that attempt to effect related positive social change' (p.140).

This definition proposed by Roberts (1993) is based on two dimensions: the environmental issues and the social concerns.

Further, François-Lecompte and Valette-Florence (2006) define SCR as" the fact of purchasing products and services which are perceived to have positive (or less negative) impact on one's environment and/or the use of one's purchasing power to express social and environmental concern".

Measuring SRC challenged researchers because of the complexity of its meaning and the diversity of the definitions. Roberts (1995) developed in an American context a global widely used scale including two dimensions of SRC, an environmental factor and a social factor. Later, Francois-Lecompte and Roberts (2006) developed in a French context a five dimensions scale, focusing on more specific social, environmental and ethical consumer behavior. The five dimensions are "Firm's behavior", "Country of Origin" (preference for buying domestic products), "Small Businesses" (supporting small business), purchasing "Cause-related products" and "Consumption volume".

Cultural values

Hofstede (1980, p19) described values as 'a broad tendency to prefer certain states of affairs over others'. The cultural values represent the implicitly or explicitly shared abstract ideas about what is good, right, and desirable in a society (Williams, 1970). Smith and Schwartz (1997) distinguish cultural values from individual ones.

Accordingly, they claimed that the difference between individual- and culture-level value dimensions lies in the unit of analysis. Indeed, the unit analysis applied at the culture-level is the society or the cultural group. However, the individual represents the unit of analysis at individual level (Hofstede, 1980 ; Schwartz, 1994).

Hofstede's cultural dimensions theory (1980, 2001) is considered as the first fundamental theoretical framework for cultural values classification, besides it has been applied in various contexts.

Hofstede (2001) identified five dimensions that characterize national culture:

- Power Distance: degree to which members of a society accept as legitimate that power in institutions and organizations are unequally distributed.
- Avoiding uncertainty: degree to which members of a society are uncomfortable with uncertainty and ambiguity.
- Masculinity versus Feminity: The masculinity side of this dimension represents a preference in society for achievement, heroism, assertiveness and material reward for success
- Individualism versus Collectivism: A preference for accomplishment, heroism, severity and material success as opposed to a preference for relationships, modesty, attention to the weak and quality of life.
- Long-term orientation: The long-term orientation dimension can be interpreted as dealing with society's search for virtue. Societies with a short-term orientation generally have a strong concern with

establishing the absolute Truth. They are normative in their thinking and focus on achieving quick results.

Long term orientation (LTO)

Gul (2013) investigated the relation between long term orientation and environmentally conscious consumer behavior in Turkey. She concluded that long term orientation has a positive effect on environmental consciousness. Sarigollu (2009) explored the relation between cultural orientation including LTO and environmental attitudes in two different cultures (Turkey and Canada). Findings reported that individuals with LTO are more likely to develop positive attitudes toward the protection of the natural environment.

In addition, Joreiman, *et al.* (2004), indicated in their study, that future oriented cultures are long-term oriented and tend to protect the natural environment. Furthermore, Samarasinghe (2012) investigated the effect of LTO in an emerging market, "Sri Lanka"; results revealed that individuals' long-term orientation is a good predictor for the development of positive environmental attitude. Considering François-Lecompte and Roberts (2006) five dimensions measure of the socially responsible consumption (SRC), we suggest the following hypothesis:

H1: Individual long term orientation (LTO) positively affects the SRC behavior of the consumer.

H1a: Long term orientation positively affects the "Firm's behavior" SRC dimension.

H1b Long term orientation positively affects the "Cause-related products" SRC dimension.

H1c: Long term orientation positively affects the "Consumption volume" SRC dimension.

H1d: Long term orientation positively affects the "Geographic origin" SRC dimension.

H1e: Long term orientation positively affects the "Small businesses" SRC dimension.

Collectivism

Triandis (1995, 2001) argued that individualistic and collectivistic tendencies can be found within any given culture at different levels. Collectivism seems to influence positively different aspects of socially responsible consumption. Results indicate positive relationship between collectivism and beliefs about the importance of recycling which has a direct influence on recycling behavior (McCarty and Shrum, 1994).

Leonidou *et al.* (2010) argued that the collectivist consumer tend to have pro-environmental attitude. Therefore, this attitude affects different aspects of consumer behavior, like green purchasing and general pro-environmental actions.

Recently, a study conducted by Samarasinghe (2012) in an emerging country 'Siri Lanka' found that both of collectivism and long-term orientation were good predictors for environmental attitude

formation. Collectivism appeared to influence positively individuals' tendency to buy green products, only through their positive beliefs about self-efficacy. (Kim and Choi, 2005).

We can therefore postulate that:

H2: Individual collectivism positively affects the SRC behavior of the consumer.

H2a: Collectivism positively affects the "Firm's behavior" SRC dimension.

H2b: Collectivism positively affects the "Cause-related products" SRC dimension.

H2c: Collectivism positively affects the "Consumption volume" SRC dimension.

H2d: Collectivism positively affects the "Geographic origin" SRC dimension.

H2e: Collectivism positively affects the "Small businesses" SRC dimension.

Religiosity

So far, the review of the literature revealed limited empirical evidence on the role of religiosity in predicting socially conscious behavior. Berkowitz and Lutterman (1968) are the first who have studied the role of religiosity in order to determine a profile of socially conscious consumer. Their investigation into the characteristics of the socially conscious consumer has concluded that individual who scoring high on Social responsibility scale tend to be religious and conservative in USA.

Brammer *et al*. (2007), conducted a study on over than 17,000 individuals from 20 countries with different religious affiliation in order to explore the relationship between attitudes and religious denomination. Their research concluded that Buddhists tend to hold broader conceptions of corporate social responsibilities than non-religious individuals.

For Muslim consumers, religiosity could be considered as a predictor of socially responsible consumption. Indeed, Islamic religion provides its adherents with a of behaviors that guides their daily activities. Likewise, Kabasakal and Bodur (2002) mentioned that Islam has influenced different social values, social practices and legal systems of the Arabic countries.

Besides, the Islamic rules are vigorous about protecting the environment, extravagance of natural resource and over-consumption. Islamic teaching encourages charity such as feeding poor and looking after the orphans.

Few studies have been devoted to investigate the relation between Muslim religiosity and socially responsible consumption.

Brammer *et al.* (2007) reported that Muslims are supportive of responsible companies or addressing poverty and charity. Lau and Tan (2009) conducted a study in Malaysia on the effect of religiosity on consumer's attitude towards green product, they found that intrinsic religiosity (religion is seen as an end in itself) is a significant predictor. Lau (2010) reported significant positive relation between religiosity and the three dimensions of socially responsible consumption developed by Webb et *al.*

(2008): CSR performance, Consumer recycling behavior and environmental impact purchase and use criteria. We can therefore propose the following hypotheses:

H3: Religiosity positively affects the SRC behavior of the consumer.

H3a: Religiosity positively affects the "Firm's behavior" SRC dimension.

H3b Religiosity positively affects the "Cause-related products" SRC dimension.

H3c: Religiosity positively affects the "Consumption volume" SRC dimension.

H3d: Religiosity positively affects the "Geographic origin" SRC dimension.

H3e: Religiosity positively affects the "Small businesses" SRC dimension.

The research model is presented in Figure 1:

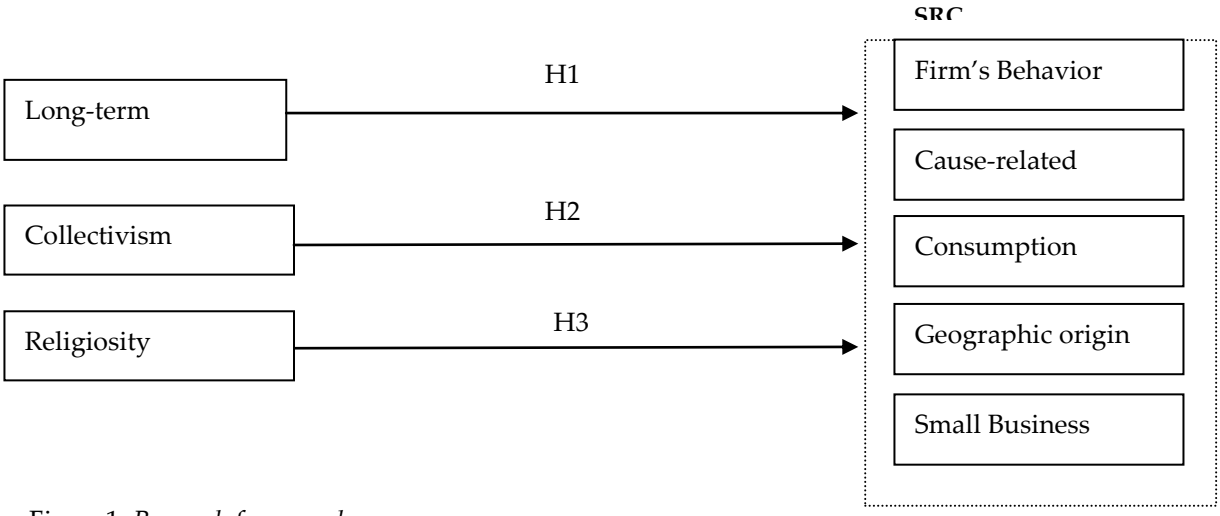

Figure1. *Research framework*

METHODOLOGY AND RESULTS

In-depth Interviews

The first research method used for the empirical part of this study is the semi-structered in-depth interview. In fact, the in-depth interviewing is a qualitative research technique that is based on conducting individual interviews in order to investigate the respondents' idea, perception, and attitudes. The interviews guide (exhibit 1) seeks to explore Tunisian participants' knowledge of socially responsible behavior and ethical consumption. Three themes were investigated: consumer awareness of environmental and social problems, the Tunisian socially responsible consumer and perceived consumer effectiveness of responsible behavior. Fourteen (14) consumers were interviewed of different age, gender, and occupation (exhibit 2). Interviews lasted between 25 and 45 minutes. We entirely recorded and transcribed the interviews and we used a thematic content analysis technique to analyze the results. Main results are presented in table1.

Organizing Theme	Basic Theme
Thematic 1: Consumer awareness of environmental and social problems The major social and environment problems that threats our societies	Poverty and Inequality / Price inflation / Jobless Pollution / Natural resource degradation / Water rarity/ Over consumption
Thematic 2: The Tunisian socially responsible consumer How the Tunisian consumer perceives the responsible consumption?	Buying domestic products Avoid over consumption Punish irresponsible corporate behavior Environment preservation
Thematic 3: Consumer motivations and impediments toward adopting a responsible behavior	Religiosity-Altruism Consumer knowledge of responsible products High price Cultural background barriers (CSR is an unusual behavior in Tunisia)

Table 1- ***In-depth interview thematic analysis results***

The quantitative empirical survey: test of the hypothesis

In order to test the effect of the cultural variables on the SRC Tunisian consumer behavior, we conducted a questionnaire survey administered to 257 individuals, using the quota sampling method. Participants are inhabitant of Tunis City, the capital of Tunisia. The questionnaire was tested on 25 students before its administration.

Variables measures

The constructs are measured with Likert 5-point scales, all borrowed from the literature. Factorial analysis and reliability test led on scales showed acceptable results. The Socially responsible consumption was measured using François-Lecompte and Roberts scale (2006) (20 items, 5 dimensions). Factorial analysis led on each of the five dimensions revealed a unidimensional structure (alpha varying from 0.621 to 0.784). You and Donthu (2011) four items scale was used to measure Long term orientation (four items, one dimension, α=0.716), and Collectivism (Yoo and *al.*, 2011, three items, one dimension, α=0.665). We used the Worthington *et al*. (2003) scale to measure religiosity. Factor analysis results showed a two dimension structure (three items for spiritual religiosity, α=0.718 and four items for religious practices, α=0.813).

Results

To test the effect of collectivism, LTO and religiosity on the SRC dimensions, we led multiple regression analysis. The results of tolerance and VIF analysis indicate the absence of multi-colinearity problems with a tolerance rate of more than 0.1 and VIF <10 for all the variables in the different regression analysis (Hair *et al.* ,1998).

The results of the five multiple regression analysis (one for each SRC dimension) presented in Table 2 indicate that the higher goodness of fit (R^2) relates to the "Firm's behavior" and "Small business" regression models. For each of these SRC dimension models, four of the three independent variables considered have a significant effect, and explain more than 20% of the SRC dimension considered. However, preference for domestic products ("Geographic origin") SCR dimension seems weakly predicted by the independent cultural variables tested (standardized R^2=0.052). Besides, results show significant and positive effect of individual Long term orientation (LTO) on Firm's behavior (beta=0.202), consumption volume (beta=0.136) and small businesses (beta=0.136). Collectivism at the individual level has a significant and positive effect on the preference for domestic products (Geographic origin) SRC dimension (beta=0.231), whereas it has a significant but negative effect on the Firm's behavior and the cause related products SRC dimensions. Spiritual religiosity influences positively all the SRC dimensions except the preference for national products (Geographic origin). Religious practices commitment affects positively two SRC dimensions (Cause related products and Small business). Table 3 presents the hypothesis test results.

Dependant variables	Independent Variables						
	LTO (Beta*)	Collectivism (Beta*)	S-Religious (Beta*)	P-Religious (Beta*)	R^2	F	Sig*
Firm's behavior	0.202	-0.151	0.356	NS (p=0.508)	0.243	17.799	0.000
Cause-related products	NS* (p=0.247)	-0.172	0.173	0.165	0.136	8.727	0.000
Consumption volume	0.136	NS (p=0.314)	0.231	NS (p=0.393)	0.087	6.387	0.000
Geographic origin	NS (p=0.304)	0.231	NS (p=0.413)	NS (p=0.120)	0.052	3.036	0.034
Small businesses	0.136	NS (p=0.430)	0.253	0.307	0.229	17.779	0.000

Table 2. *Multiple regression results*

No	Hypotheses	Hypotheses Finding
H1a	Long term orientation positively affects the "Firm's behavior" SRC dimension	Supported
H1b	Long term orientation positively affects the "Cause-related products" SRC dimension	Not supported
H1c	Long term orientation positively affects the "Consumption volume" SRC dimension	Supported
H1d	Long term orientation positively affects the "Geographic origin" SRC dimension.	Not supported
H1e	Long term orientation positively affects the "Small businesses" SRC dimension.	Supported
H2a	Collectivism positively affects the "Firm's behavior" SRC dimension	Not supported
H2b	Collectivism positively affects the "Cause-related products" SRC dimension	Not supported
H2c	Collectivism positively affects the "Consumption volume" SRC dimension	Not supported
H2d	Collectivism positively affects the "Geographic origin" SRC dimension	Supported
H2e	Collectivism positively affects the "Small businesses" SRC dimension	Not supported
H3a	Religiosity positively affects the "Firm's behavior" SRC dimension.	Partially supported
H3b	Religiosity positively affects the "Cause-related products" SRC dimension.	Partially supported
H3c	Religiosity positively affects the "Consumption volume" SRC dimension.	Partially supported
H3d	Religiosity positively affects the "Geographic origin" SRC dimension.	Partially supported
H3e	Religiosity positively affects the "Small businesses" SRC dimension.	Partially supported

Table 3. *Hypothesis test summary*

A form of collectivism at the country level is patriotism. Patriotism refers to love for and a sense of pride in one's own country, a sacrificial devotion to it, respect and loyalty to its people, and protection of it against out-groups (Barnes and Curlette, 1985)

Therefore, collectivist consumers might feel obliged to buy domestic products in order protect the welfare of the group (the group refers in this case to the country of origin).

According to the results, long term oriented consumers tend to pay attention to Firm behavior dimension and that's may boycott unethical companies. Also, long term oriented consumers tend to reduce their consumption volume and to buy from small businesses. Thus, long term orientation has a positive impact on three dimensions of SRC which are: firm's behavior, consumption volume and geographic origin of products.

According to Hofstede, long term orientated individuals tend to believe that truth depends very much on situation, context and time. Also, they show an ability to adapt traditions to changed conditions, a strong propensity to save and invest thriftiness, and perseverance in achieving result. However, individuals with short-term orientation generally have a strong concern with establishing the absolute truth.

Long term oriented consumers tend to reduce their consumption volume because they are future oriented consumers. Indeed, reducing consumption contributes to invest thriftiness.

Also boycotting unethical companies and buying from small business can be explained by the fact that long term orientation consumers are committed about achieving results and they focus on both future and past in their actions.

For Religiosity, the results indicated a positive relationship between spiritual religiosity and Firm's behavior. High religious consumers avoid buying products from unethical companies (use child labor, pollute environment…).

This finding is consistent with Brammer *et al.* (2007) results' that indicate that Muslims are supportive of responsible companies concerned by poverty and charity. Besides, Lau and Tan (2009) reported a significant relationship between religiosity and CSR performance (purchasing based on firms' corporate social responsibility), and Ramasamy et *al*. (2010) found that religiosity is a significant determinant of consumer support for corporate social responsibility among consumers in both Hong and Singapore.

Otherwise, Tunisian consumers with high degree of religiosity are likely to purchase cause-related products. This is in line with the Islamic teachings, which appreciate charity like feeding poor and looking after the orphans.

Moreover, high spiritual religious consumers tend to reduce their consumption volume and to buy from Small business. This finding could be explained also from an Islamic perspective. Indeed, Islamic teachings are vigorous about the extravagance. In the in-depth interview conducted, the world "Haram" (not allowed) which is a religious world, had been mentioned several times by in the interviewees when we had discussed the over-consumption issue.

Helping small businesses for high spiritual religious could be explained by the concept of solidarity between Muslims "Takaful" (solididarity). In Muslim and Arab societies, individuals tend to buy from neighbors, relatives who possess small business (small store or small project). However, no significant relationship had been found between Geographic origin of products dimension and the degree of spiritual religiosity.

This can be explained by the fact that buying local products is not related to religiosity, it can be linked to other personal variables such individual level of nationalism, or that religious consumers are not aware that buying Tunisian products can represent an expression of solidarity between Tunisians.

For the second dimension of religiosity which is religious practices commitment, only two dimensions of SRC (cause-related products and small business) interact positively with high religious practices commitment consumers.

This result is congruent with Lau and Tan (2009) results about the effect of religiosity on consumer's attitude towards green product in Malaysia. They reported that only intrinsic religiosity (religion is seen as an end in itself) is a significant predictor. However, there is no significant effect of extrinsic

religiosity (religion is seen like a mean in itself). High religious practices committed consumers tend to see religion as a set of behaviors, however spiritual religious consumers tend to deal with religion as set of beliefs than as a behavior.

Another result is that high collectivist consumers tend to buy domestic products and to purchase from small businesses. Long term oriented consumers tend to avoid unethical companies. Besides, they are favorable to buy cause-related products and to reduce their consumption volume. In terms of importance of cultural antecedent variables, spiritual religious commitment is the most important factor in shaping socially responsible consumption.

THEORETICAL AND MANAGERIAL IMPLICATIONS

The present study allows concluding that Religiosity, Collectivism and LTO can be considered as fundamental factors that impact different aspects of SRC.

Therefore, this research provides insights to the limited literature review that investigated the role of cultural factors in affecting different aspects of socially responsible consumption. Moreover, this research contributes to draw a profile of socially responsible consumer based on his individual-cultural values orientation and his degree of religiosity. Besides, very little attention has been given to the area of consumers' green consciousness in the Middle East (Abdul-Muhmin, 2007; Mostafa, 2007). This study can contribute to enrich this literature.

At the managerial level, this study contributes to offer some guidelines for ethical marketing in an emerging country and Muslim culture context. Indeed, results provide managers with cultural specificities of socially, responsible Tunisian consumers that might be used to target this market. Marketers and strategists can adapt their marketing mix policy especially for communication in order to be close to these consumers and differentiate from competitors. Finally, findings of this research provide government policy planners with information about the social responsible consumer in order to arrange their public awareness campaigns.

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EXHIBITS

Exhibit 1: semi structured interview guide

Theme1: Consumer awareness of environmental and social problems.

- What are the most common environmental problems in Tunisia?
- What are the most common social problems in Tunisia?
- What are the most serious problems that you considered as major threats in Tunisia?

Theme 2: The Tunisian socially responsible consumer:

- How would you describe a responsible consumer?
- What will be his main responsibilities

Theme3: Perceived consumer effectiveness of responsible consuming behaviour

- What are the factors that can motivate you to buy responsible products?
- In your daily purchasing, did you ever buy a responsible products such ecological products or that support philanthropist activities?

Exhibit 2: Socio-demographic characteristic of the interviewees

Participants	Gender	Age	Occupation
Participant 1	Male	35	Employee
Participant 2	Male	58	Retired
Participant 3	Female	22	Student
Participant 4	Male	28	Employee
Participant 5	Female	45	Professor
Participant 6	Female	32	Doctor
Participant 7	Male	24	Employee
Participant 8	Female	23	Student
Participant 9	Female	30	House Wife
Participant 10	Male	28	Unemployed
Participant 11	Male	26	Employee
Participant 12	Male	30	Trader
Participant 13	Female	32	Unemployed
Participant 14	Female	25	Employee

BEING MORE THAN A BRAND: WHERE IS BRAND LOVE ROOTED?

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ABSTRACT

The aim of this research is to explore the roots of brand love and determine brand and consumer related factors affecting the love relationship. In the study, 750 entries of consumer statements about their lovemarks were analyzed via inductive thematic analysis and a brand love relationship model was proposed. It is found that brand-related factors (functional congruity, satisfaction, brand trust, brand passion, sensory experiences), and consumer-related factors (self-congruity, and personalized experience) positively affect brand love. And brand love has a positive impact on WOM, brand loyalty, willingness to pay higher, intention to buy extended brands, and brand engagement.

Keywords: *Brand love, Brand characteristics, Consumer characteristics, Outcomes of brand love*

INTRODUCTION

Brand love is a recent marketing construct attracting a steadily growing interest among academicians and practitioners. During the past decade, studies established that consumers develop and maintain strong relationships with brands (Fournier, 1998), and "love" exists from a consumer's perspective when the loved object is a possession or a brand (Albert *et al.*, 2008). Drawing on seminal work by Shimp and Madden (1988) and Ahuvia (1993), there is a substantial amount of academic research on brand love and related constructs. Among practitioners, the book *Lovemarks: The Future Beyond Brands* by Roberts (2004) drew attention that brands become ubiquitous and commoditized because of continuous improvements across quality dimensions in manufacturing, distribution, service, price, and promotion. Therefore, deep emotional connection between brands and consumers arose as a new territory for differentiation and brand loyalty (Roberts, 2015), and the concept of brand love is highly used in advertising (Bauer *et al*., 2009).

In general, studies on brand love tend to focus on its conceptualization (Ahuvia, 1993; Albert *et al*. 2008) and measurement (Carroll and Ahuvia, 2006; Batra *et al.*, 2012; Albert and Valette-Florence, 2010; Rossiter, 2012). But even as brand love has emerged as an important consumer-brand relationship construct, we still know little about what generates a love relationship and what its behavioral consequences may be (Albert and Merunka, 2013). Since brand love is a relational construct, few

studies have explored consumer-brand relationship constructs as antecedents and consequences of brand love (Albert and Merunka, 2013). It is found that brand love is associated with positive word of mouth (WOM), brand loyalty (Carroll and Ahuvia 2006; Fournier 1998; Thomson *et al*., 2005), increased willingness to pay a price premium (Thomson et al., 2009), forgiveness of brand failures (Bauer *et al.*, 2009), brand identification (Bergkvist and Bech-Larsen 2010; Albert and Merunka, 2013), commitment, and trust (Bergkvist and Bech-Larsen 2010; Albert and Merunka, 2013).

Specifically, this research seeks to answer: Where is brand love rooted: in the brand, in the consumer or in the relationship between the partners? By doing so, this research offers several contributions. First of all, based on 750 entries of consumer statements about their lovemarks, this research proposes a higher-end love relationship model. Secondly, this research put forwards the possible antecedents and consequences of brand love. And finally, this study extends the literature by responding Albert and Merunka's (2013) further research concern on the roots of brand love.

THEORETICAL FOUNDATIONS

Love is a predominant concept in consumption as it was the second most commonly listed emotion, superseded only by happiness, when asked to list feelings that were experienced for an emotionally attached object (Schultz *et al*., 1989). The people, and things that we love have a strong influence on our sense of who we are. (Ahuvia, 2005). Caroll and Ahuvia (2006, p. 5) defined brand love as "the degree of passionate emotional attachment that a person has for a particular trade name."

Shimp and Madden (1988), based on the Sternberg's (1986) triangular theory of love, highlight similarities between interpersonal love and consumer love towards objects. Sternberg's (1986) theory of love employs three fundamental components of love: intimacy, passion, and decision/commitment. Various instantiations of these three components lead to eight different types of love: nonlove, liking/friendship, infatuated love, empty love, romantic love, companionate love, fatuous love, and consummate love. Based on that Shimp and Madden (1988) defined eight types of consumer-object relations: nonliking, liking, infatuation, functionalism, inhibited desire, utilitarianism, succumbed desire, and loyalty. Ahuvia (1993) adapted the self-inclusion theory of love (Aron and Aron, 1986), which puts forward that in order to feel loved, people need to become part of the other. In reviewing brand loyalty Fournier (1998) identified six possible relationship types: love and passion, self-connection, commitment, inter-dependence, intimacy, and brand partner quality. Carroll and Ahuvia (2006) proposed that brand love is a meaningful mode of consumer satisfaction and hedonic products and/or self-expressive brands tend to be more loved. Albert et al. (2008) identify seven first-order dimensions of brand love (duration, idealization, intimacy, pleasure, dream, memories, unicity) that

constitute two second-order dimensions (passion and affection). Finally, Batra *et al*. (2012) establish that consumers' love for a brand consists of seven dimensions: perceived functional quality; self-related cognitions; positive affect; negative affect; satisfaction; attitude strength; and loyalty.

There are several studies that explored consumer-brand relationship constructs as antecedents and consequences of brand love. The results demonstrate relationships between brand love and sense of community (Bergkvist and Bech-Larsen 2010) brand trust, and brand identification (Albert and Merunka, 2013; Bergkvist and Bech-Larsen 2010) as antecedents, and brand commitment, (Albert and Merunka, 2013) positive WOM (Albert and Merunka, 2013; Batra *et al*., 2012; Carroll and Ahuvia 2006; Fournier 1998; Thomson *et al*., 2005), propensity to pay a higher price (Albert and Merunka, 2013; Thomson *et al*., 2009); resistance to negative information (Batra *et al*., 2012), brand loyalty (Batra et al., 2012; Bergkvist and Bech-Larsen 2010), and active engagement (Bergkvist and Bech-Larsen 2010) as consequences. In general, these studies used convenience sampling, and collected data via in-dept interviews or self-administered questionnaires.

The aim of this research is to undertake an in-depth analysis to put forward the roots of brand love and answer the impacts of the brand-specific features and the consumer-specific characteristics on the relationship between them. Within that scope, the research produces a higher-end love relationship model including the possible antecedents and consequences of brand love. The research questions are specified as follows:

(1) What are the brand-related roots of brand love? (2) What are the consumer-related roots of brand love? (3)What are the outcomes of brand love?

RESEARCH METHODOLOGY

In the study, as a research methodology, netnography in the form of non-participant observation is used to explore statements of consumers about their lovemarks. Netnography provides access to web-based communication. The collection of data as a kind of self-reporting from the web increases "the external validity and generalizability of research findings beyond the experimental setting of the self probe method or survey research common in literature" (Gupta, 2009: 6).

There are five basic criteria in deciding which virtual community to choose (Kozinets 2002): First of all, the chosen virtual community should have a more focused segment related with the research question. Secondly, the traffic of the postings should be higher. Thirdly, the virtual community should have larger numbers of discrete message posters. Fourthly, it should contain detailed and rich data. And finally, the member interaction related with the research subject should be more. Therefore, *lovemarks.com* is chosen as subject to research. *Lovemarks.com* is established by Saatchi&Saatchi and

includes the conversations and shares of consumers' lovemark stories. The members can also nominate a brand as a lovemark, post comments, stories, share videos and vote for brands.

In the study, the consumers' statements and stories about six brands (Apple, Google, Starbucks, Coca Cola, Toyota and Nike) were downloaded on 5-8 February 2015, and totally 750 entries were analyzed. These brands are chosen because not only they are from different product categories, but also they are on the list of the most valuable brands, have global operations, and have higher postings on the *lovemarks.com* website.

In the research, thematic analysis is used. It is a widely used qualitative analytic method to identify, analyze, and report patterns (themes) within a data set (Braun and Clarke, 2006). It helps to describe the data set in rich and thick details. It also interprets various aspects of the research topic (Boyatzis, 1998). An inductive approach is implemented in coding. Inductive approach is data-driven and includes "a process of coding the data *without* trying to fit it into a pre-existing coding frame, or the researcher's analytic preconceptions (Braun and Clarke, 2006, p. 12).

RESEARCH FINDINGS

Inductive thematic analysis generated second-order and first-order thematic codes and as a result of the study, a love relationship model is proposed (Figure 1).

The Antecedents of Brand Love

The antecedents of brand love are clustered under two main groups: brand-related factors and consumer-related factors.

Brand-related Factors

A brand is formed by different functions, concepts, and characteristics that are named as brand assets from the consumers' perspective (Park *et al*., 2013). The appreciation of the instrumental role of brands in achieving one's goals creates personal connection and emotional bond to these brands (Park *et al*., 2006). Brand love is not an unconditional love, and in that sense, it differs from interpersonal love. In this study, five brand-related features are defined as affecting brand love: *functional congruity, satisfaction, brand trust, brand passion and sensory experiences.*

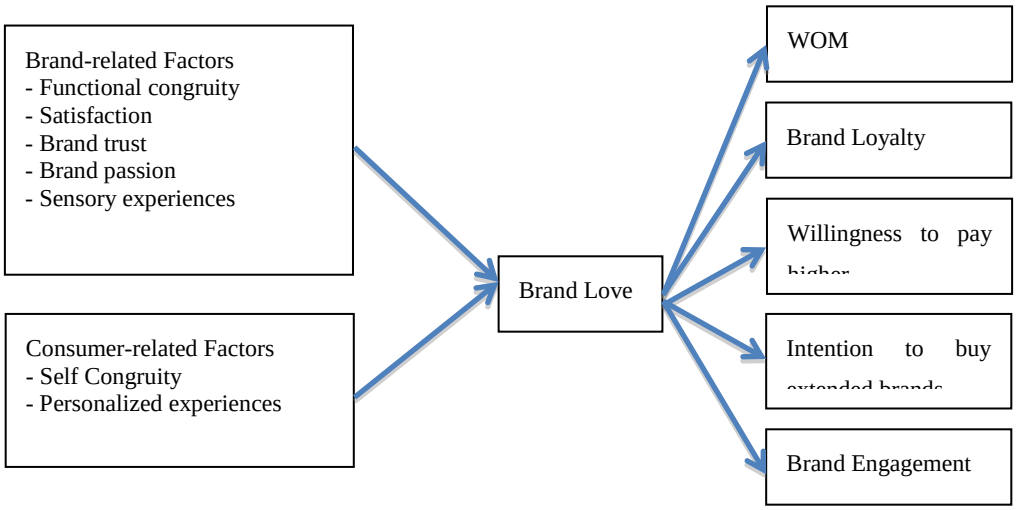

Figure 1: The Proposed Brand Love Model

Functional congruity: Functional congruity is defined as "the match between the consumer's beliefs about brand utilitarian attributes (performance) and the consumer's referent attributes" (Sirgy and Johar, 1999 p.252). The referent attributes are used as criteria to evaluate the actual performance of the brand.

In this study, love statements in relation with six different brands highlighted that, consumers impressed by the functional features of the brands. These brands are described as *high quality, make life easier, comfortable, taste great, user-friendly, functions well, run smoothly, long-lasting*, in sum, *best and great*. Park *et al.* (2013) state that attachment occurs if and when a brand can serve the consumers' needs effectively through reliable functional performance. Since the consumers see these brands as being beyond their expectations, it was proposed:

P1: Functional congruity positively affects brand love.

Satisfaction: Satisfaction is a major outcome of marketing activities and serves to link purchase and consumption with post-purchase phenomena such as attitude change, repurchase, and brand loyalty (Churchill and Surprenant, 1982). It is conceptualized within the context of relationship marketing rather than transactional marketing (Sheth and Parvatiyar, 1994; Hennig-Thurau and Klee, 1997). Consumers declared that they are satisfied with their beloved brands:

To my lovely iPhone, my expectations of you are as high as a star but you still satisfied me. Thank you for being a really good friend to me. I am impressed!

Apple, is by far my Lovemark. I have never been disappointed with their products from my Macbook to my iPhone. ....Not only are they dedicated to innovation, but they also make a large effort to excel in customer satisfaction. .....Nothing beats a company that wants their consumers to have a positive experience all around!

Nike is an outstanding brand with excellent shoes. I can fly when I'm wearing Nike shoes. If somebody asks me why I am doing so well in sport, I say it is all because of my Nikes.

Therefore it was proposed: P2: Satisfaction positively affects brand love.

Brand trust: Brand trust is composed of affective perceptions about the brand (Elliott and Yannopoulou, 2007) as well as cognitive beliefs (Delgado-Ballester *et al.*, 2003). Cognitive brand trust beliefs include expectations of brand reliability, consistency, competence, and/or predictability of performance. The emotional elements leading to brand trust include expectations of brand integrity, honesty, and/or benevolence (Becerra and Korgaonkar, 2011; Delgado-Ballester *et al*., 2003). In general, the consumers think those brands are reliable, and trustworthy, and they are never disappointed by them.

Love can disappoint you, but Apple will never let you down.

I have owned three Camry's, the first two were totalled in major accidents. The first with no major injuries it held fast with strong engineering, the second as well. Even though I was severely injured it was easy for them to open the doors. I will never own another brand but Toyota. I literally trust them with my life.

I trust Nike for all my sport activity. I love it.

So that, it was stated: P3: Brand trust positively affects brand love.

Brand passion: Brand passion is an intense feeling of consumers toward the brand (Bauer *et al*., 2007; Thomson *et al*., 2005). Brand passion encompasses two components: the presence of the brand in the consumer's mind and the idealization of the brand (Albert *et al*., 2008). Within that context, it is a psychological construct that comprised of excitation, infatuation, and obsession for a brand (Albert *et al*., 2013). In this study, consumers' statements displayed that those brands became a part of their life; they could not think how they can live without them, because without them, they feel incomplete, and anxious.

Oh my God, this computer [Macbook Air] is a piece of art. I can't think of using something else. I feel that it's soooo sexy and soooo attractive. The way you hold everything in - it is soo attractive.

My Baby is old now. Arthritis has worked her spine for a while, but she is still going strong. Her memory is remarkably good considering all the strange things I have introduced her to, and how powerful some of those are too. She hardly ever crashes or freezes, or anything like that, even when I ask her to take care of two or three complicated tasks at once. I love my Baby. There has been others before her I'm not denying that.

When you buy coffee from Starbucks, you are not only buying an ordinary beverage but also experiencing the passion, loyalty, and personality of the brand.

Google is the most important thing in my life. I can't live without it. Google means everything to me.

Therefore, it was proposed: P4: Brand passion positively affects brand love.

Sensory experiences: Any combination of sensory experiences (i.e. visual, auditory, gustatory, tactile, olfactory, thermal, equilabratory, and/or kinesthetic) can deliver pleasure and alter mood (Park *et al*., 2013). Consumer-brand engagement is derived from hedonic elements as multi-sensory contact, astonishment, amusement and aesthetic pleasure (Hirschman and Holbrook 1982). Consumers explain their love relationship is developed on the multi-sensory experiences and pleasure.

The 2005 Camry LE especially spells driving pleasure behind wheels, leather upholstery, sleek dashboard and comfy interior et al gives you a breathless experience as you waltz through a blaze of air. What a piece of machine!

Cozy, classy and calming are the things I am looking for in a coffee place. Starbucks has it all! It is the place I want to be; it is my comfort zone. The smell of coffee relaxes and inspires me every time.

Starbucks is the place I go to for a 5-minute vacation from a hectic day.

.....Managing and working with Windows was what I did back then, and to come home and sit in front of my Mac was a pure pleasure, and it still is....

Hence, it was suggested: P5: Sensory experiences positively affect brand love.

Consumer-related Factors

In this study, two main consumer-related characteristics are defined as affecting brand love relationship: *self-congruity and personalized experiences*.

Self-congruity: Self-concept is the sum of characteristics, traits, and memberships that cognitively represent an individual in memory (Greenwald and Pratkanis, 1984). An attachment object becomes connected to the self when it is included as part of the consumer's self-concept (Park *et al*., 2013). Research demonstrates that individuals use products to create and communicate their self-concepts (Belk, 1988; Wallendorf and Arnould, 1988). Self- congruity is a psychological process in which the consumer focuses on the brand user image and compares this image to his/her self-concept.

Nike is not just a sports brand, Nike is a life-style. To me, Nike means personal achievement and self-improvement.

.....I have tried many shoes but I think Nike is the best. I feel very cool everytime I wear Nike shoes.

....I'm a proud owner of a Macbook Pro and I can only say that I had never fallen in love with a computer.

Therefore, it was suggested: P6: Self-congruity positively affects brand love.

Personalized experience is derived from three resources: parental influence, usage duration, and trying once. Consumers, especially for Toyota, Coca Cola and Apple, grown up by seeing their parents use them. That evokes past experiences, and memories. Moreover, some of the consumers stated they use those brand for a long time, like a marriage, those brands became a part of their everyday life. And they claim that once you try, you get addicted.

Apple has been in my home for over 20 years. When Macs first came out, my mom had one. And I still remember the lady's voice that would shout random comments. ....The day I owned a Mac of my own, I felt like I could take over the world.

Coca-Cola means more than a drink. It symbolizes a reason to spend few great moments with your friend(s). Why? It is simple: because wherever you be you can count on it. Even in the smallest village in the African`s desert or the most distant Eskimo`s igloo in the north. And, please be serious! Coca Cola is a pleasure, not a typical medicine. Coca Cola fixes the spirit.

TOYOTA STARLET 1000cc, that was my first family car. I really loved driving in it, and it made us all feel so happy. My family just loves Toyota, from generation to generation.

So that, it was proposed: P7: Personalized experiences positively affect brand love.

The Outcomes of Brand Love

The consumers' love relationship with brands produces several outcomes. Batra *et al.*, (2012) put forward that brand loyalty, word of mouth, and resistance to negative information as consequences of brand love. Albert and Merunka (2013) found positive affect between brand love and its consequences- brand commitment, positive word of mouth, and propensity to pay a higher price for the brand. Bergkvist and Bech-Larsen (2010), concluded brand love is positively related to brand loyalty and active engagement. In this study, it was found that brand love generates five outcomes, which are strongly and positively related with the love relationship. Almost every consumer declares one of these consequences. These are coded as *WOM, brand loyalty, willingness to pay higher, intention to buy extended brands, and brand engagement.*

WOM: Word-of-mouth plays a major role for customers' buying decisions (Richins and Root-Shaffer, 1988). WOM refers to informal communication between private parties in relation with their experiences and evaluations of products. It may be positive, neutral or negative.

I had my first relationship with an Apple object 23 years ago, when I bought a used Apple II. ....I always show my Apple objects to my friends and share my enthusiasm with anyone who will listen. I have converted many non-believers to Apple fans and raised my children to be devotees.

I really recommend that all athletes to wear Body Combat Pro. It has the dry fit system and it is really stylish. For any bodybuilders, your bodyshape will look the best in this gear. Thank you Nike for this amazing product!

Therefore, it was stated: P8: Brand love positively affects WOM.

Brand Loyalty: Brand loyalty is "a function of psychological (decision-making, evaluative) processes exhibited over time" (Jacoby and Chestnut, 1978). In the study, consumers stated that their beloved brands have no substitute, they are addicted/hooked, and they will never change that brand. Within the loyalty context, it should be highlighted that there is a negative long-term commitment for the competitors.

I heart Apple! I really like Apple products especially the computers, because they have sophisticated features that are suitable to my needs in graphic design. Besides, they are user friendly and have a nice look. I definitely have no interest in using other brands.

I can't go a day without my Starbucks; call it a drug because I'm addicted.

Starbucks coffee is an inseparable part of my every day, either as an entertainment when I am bored, a comfort when I am sad, or just as an award after a long, long day. Praise the Starbucks!

Always Coca-Cola. Now and forever, number one soda in this whole universe. Once you drink Coca-Cola, you can never change to another soda. When you drink a soda, it must be Coca-Cola, not the other.

I must say Google is my assistant and my best friend. I always have Google as my first bookmark. I believe Google is the complete search engine. I never trust results from other search engines.

Hence, it was proposed: P9: Brand love positively affects brand loyalty.

Willingness to pay higher: Several studies demonstrated that brand love influences consumers' willingness to continue to buy the brand, even after price increases (Albert and Merunka, 2013; Thomson *et al*., 2005). This study also confirms that consumer think those brand worth that price, and they save money to have them.

I like that fact that Starbucks has high quality coffee and a good ambience for studying and hanging out with friends. Even though the price is expensive it is worth it for the quality that they offer.

I 'm so in love with Apple's product. Apple is my soulmate. Every year I spend all my savings on the latest Apple products. The first one is iPod classic, and then iPhone, Macbook Pro, iPod Touch and now an iPad.

So that, it was stated: P10: Brand love positively affects willingness to pay higher.

Intention to buy extended brands: Branding growth consists of two extension strategies: brand extension and line extension. Brand extension is "the use of an established brand name to enter a new product category" (Aaker and Keller, 1993 p. 27). While, line extensions expand the parent brand's market

coverage, provide variety, and renew consumer interest in the brand (Aaker, 1996; Keller, 1998). Consumers expressed that they bought most of the product offered by the brand, and happy for their decision.

I don't care if people shout at me "You're Insane!" I have no idea that I bought all Apple's product, I just love it. I will love you forever Apple!

I am a nikecoholic. I have Nike handbags, sport bags, backpacks, sneakers, jackets, t-shirts, singlets, polo shirts, trackpants, sandals, hats, caps, wallets and watches. I love the brand, make and style. I just can't live without my Nike. Go ahead. Just Do It.

....Currently there are several Toyota cars in my house, from a Toyota Corolla 1979, to a Toyota Kijang Super, Toyota Kijang Grand Extra, and a Toyota Kijang LGX. Thank you Toyota for providing the best for me and my family.

So that, it was proposed: P11: Brand love positively affects intention to buy extended brands.

Brand engagement: Hollebeek (2011, p.790) defined brand engagement as "the level of an individual customer's motivational, brand-related and context-dependent state of mind characterized by specific levels of cognitive, emotional and behavioral activity in direct brand interactions". It is a customer's behavioral manifestation that has a brand or firm focus, beyond purchase, resulting from motivational drivers" (van Doorn *et al*., 2010, p. 254). It is a kind of emotional attachment that customers have with a brand.

I had a Toyota Corolla since 2006 in Turkey. I don't even want to categorize it under transportation because he is kind of a real person for me. He has a very special place in my heart. .....But it was also so difficult for me to say goodbye to my Toyota too. I still miss him. We shared a lot together. We listened to music together, danced together, gone wild together, broke the law together, went out together, studied together, talked and laughed together. He has met every friend of mine and every family member. He always listened, cared and carried me. ....He was the best boyfriend I've ever had.

Therefore, it was suggested: P12: Brand love positively affects brand engagement.

CONCLUSION AND DISCUSSION

The objective of this study was to explore the antecedents and consequences of brand love. 750 entries of consumer statements about their lovemarks (Apple, Starbucks, Coca Cola, Nike, Toyota and Google) were analyzed via inductive thematic analysis and a brand love relationship model was proposed.

The antecedents of brand love are clustered under two main groups: brand-related factors and consumer-related factors. Brand –related factors are *functional congruity, satisfaction, brand trust, brand passion and sensory experiences,* and positively affect brand love.

The first brand-related factor influencing brand love is functional congruity. Brand love is not an unconditional love like some forms of interpersonal love. Instead, loved brands were praised for having best features (Batra *et al*., 2012). Consistent with the findings of Batra *et al*., (2012), in the statements not a single consumer made an unconditional love claim. Those loved brands are described as being the "best" and "great". Consumers perceive congruence between their performance specifications and brands' performances. Therefore functional congruity is proposed as affecting brand love.

The second brand-related factor is satisfaction. Satisfaction is defined in the context of disconfirmation experience, where disconfirmation is related to the person's initial expectations. Consumers declare obviously their satisfaction. Carroll and Ahuvia (2006) defined brand love "as the degree of passionate emotional attachment a satisfied consumer has for a particular trade name". Moreover, the duration of the relationship suggests the existence of a feeling of satisfaction (Albert *et al*., 2008). Consumers mention their long-lasting relationship with these brands, and they claim they will never change that brand- that also indicates brand loyalty.

The third brand-related factor is brand trust. Trust is an important antecedent of commitment in relational marketing because trust is involved in highly valued relationships (Albert *et al*., 2013). Consumer express that those brands "never let them down" or "never disappoint them".

The fourth brand-related factor is brand passion. Brown (1998, p. 794) suggests consumers do fall "[...] truly, madly, deeply in love with products and services. They have to have them; they are passionate about them; they get a quasi-erotic charge from examining, exhibiting and expending money on them". In consumer behavior literature, brand passion is conceptualized as a part of brand love (Batra *et al*., 2012; Albert *et al*., 2008; Thomson *et al*., 2005). The analysis in the study put forward that consumers not only feel love towards brands but passion also. They stated that they cannot live without that brand. Consumers mention those brands as "him/her", and use "my" to declare possession, and express their lifetime attachment. Those brands are not just brands, but their soul mates.

The fifth brand-related factor is sensory experiences. People do not desire products but satisfying experiences (Holbrook, 1994). Albert *et al*., (2008) put forward that love is linked to positive emotions, including pleasure. This study also confirms that brand love is derived from multi-sensory experiences and pleasure.

There are not only brand-related factors but also consumer-related factors affecting brand love relationship. These are grouped under two: *self-congruity and personalized experiences.*

Brands help consumers to attain self- and social-oriented goals (Fournier, 1998), and that derives strong attachment between the brand and the consumer (Grisaffe and Nguyen, 2011). In other words, consumers purchase products not only for the utilitarian benefits but also for self-expressive benefits (Park *et al*., 1986). In this study the analysis displayed that consumers perceive beloved brands are cool and prestigious, and they express that they feel confident, stylish, high class, prestigious, and sophisticated. They also stated that they are proud owners.

In the love statements it is also seen that consumers have personalized experiences. Those brands are also used by their parents and make them remember their childhood (especially for Apple, Toyota and Coca Cola). In addition to that, consumers themselves have some memories in relation with those brands. They are using them for a long time and they describe them as a life partner with whom they shared good times and get through bad times.

The consequences of brand love are *WOM, brand loyalty, willingness to pay higher, intention to buy extended brands, and brand engagement.* Consistent with the literature WOM, brand loyalty, willingness to pay higher and brand engagement are found as positively affected by brand love. Distinctively, in this study, it was found that consumers bought extended products of those brands. And they are eagerly waiting for the next/new products. Hence, brand love should also be considered in the brand and line extension literature.

As a consequence, this study generates a higher-order brand love relationship model based on the consumers' statements about their beloved brands and contributes to the literature by defining brand and consumer-related roots of brand love. This study has several limitations. The main limitation of the study is that the findings rely upon the love statements written by consumers online in relation with six brands. For further research, including other brands and product categories could enable to make comparisons and it is believed that would provide thick and deeper insights on brand love. Moreover, in the study the propositions stated in relation with the inductive thematic analysis and should be tested quantitatively for further generalizability.

ACKNOWLEDGMENTS

The author thanks to Galatasaray University Scientific Research Projects Commission for the support provided (Research Project No. 13.102.003).

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BANDWAGON CONSUMPTION AND VALUE PERCEPTIONS OF GLOBAL BRANDS IN AN EMERGING MARKET

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ABSTRACT

This paper develops a conceptual model of bandwagon consumption and value perceptions of global brand in emerging market. Recognizing the effect of bandwagon consumption and value perceptions for luxury products, the purpose of this study is to explore the effects of bandwagon consumption and value perceptions on the purchase intention and willingness to pay more for global brands in an emerging market. Data was collected via face-to-face questionnaire from a sample of 458 university student on May 2014 in Turkey and SEM (Structural Equation Modelling) was used to test the research hypothesis. As a result it was found that bandwagon consumption and value perceptions positively affect purchase intention and willingness to pay more for global brands in an emerging market.

Keywords: *Bandwagon consumption, Social value, Conspicuous value, Emerging markets, Global brands*

INTRODUCTION

Globalization lead to challenges and opportunities for international marketers (Wang and Chen, 2004), and in today's marketplace, consumers face with a choice between global and local brands (Ozsomer, 2012). It is important for marketers to understand underlying psychological motives and derives of purchasing global vs. local brands, especially in emerging markets.

Emerging markets, by their highly competitive and dynamic environment, provide attractive marketing opportunities for both local and international brands and represent an extremely fertile investment habitat. The four largest emerging and developing economies are the BRIC countries (Brazil, Russia, India, China) and the next four largest markets are MIKT (Mexico, Indonesia, South Korea and Turkey). Over the last two decades, emerging markets have become a dominant presence in the world economy. The growth performance of emerging markets is remarkable. As a group, the emerging markets experienced "far greater cumulative growth since 1960 than other developing countries and advanced economies" (Kose, and Prasad, 2011 p.1). According to the World Bank, the

world's population will rise to nine billion by 2030, and 90% of the population will be living in emerging market nations (Kim and Heere, 2012).

The literature proposes that consumers in emerging markets prefer foreign brands to local products. Global brands are associated to higher esteem (Johansson and Ronkainen, 2005), brand quality and prestige (Steenkamp *et al.,* 2003), and having the ability of enhancing the consumer's self-image as being cosmopolitan, sophisticated and modern (Thompson and Tambyah, 1999). Global brands are also perceived as symbols of global identity (Holt *et al.*, 2004). Even some of these brands have attained the status of global icons, and created their own cultural systems (Merino and Gonzales, 2008). Researchers agree that status display is more important in developing countries (Batra *et al.*, 2000), and consumers in emerging markets prefer foreign brands in order to obtain social status, social conformity, and to express wealth (Alden *et al.*, 1999; Batra *et al.*, 2000; Ger *et al.*, 1993).

Global brands are perceived as having higher level of quality and prestige, and they provide a way to become a global culture (Steenkamp *et al.*, 2003; Ponte and Gibbon, 2005; Wang et al., 2012; Wang and Chen, 2004). They are higher in aspirational value and are associated with status, modernity, cosmopolitan sophistication, and technology (Ozsomer, 2012), in other words, they are perceived as more valuable than the local brands.

Another important concept in consumer behavior is "value perception". The concept of "consumer value" is accepted as a fundamental issue to be addressed in every marketing activity (Holbrook, 1994, 1999). It is one of the important factors for gaining competitive advantage as an important indicator of repurchase intention, brand loyalty intention, and consumer satisfaction (Woodruff, 1997; Petrick, 2002; Sirohi *et al.*, 1998; Chapman and Wahlers, 1999; McDougall *et al.*, 2000).

In light of the above discussion, the purpose of this study is to explore the effects of bandwagon consumption and value perceptions on the purchase intention and willingness to pay more for global brands in an emerging market setting. Since there is lack of studies supporting the relationship between status consumption, value perception, and purchase of global brands, consequently, this study aims to fulfil those gaps and contribute to further understanding on global brands in an emerging market, Turkey. In recent years, Turkey has become an attractive, competitive, and fast growing market for global companies in the world. Turkey, similar to China is ranked as the most important markets with growing market size as well as consumer wealth and sophistication (Kaynak and Kara, 2002 p.930).

CONCEPTUAL FRAMEWORK AND HYPOTHESES

Global brands

Global brands are defined as brands that "consumers can find under the same name in multiple countries with generally standardized and centrally coordinated marketing strategies" (Ozsomer, 2012 p.72). From the consumer's viewpoint, a brand is perceived as global whilst marketed and recognized in multiple countries. There are two main sources of that perception (Merino and Gonzales, 2008): (1) corporate marketing communications, and (2) external-based communication, i.e. media exposure, word-of-mouth.

In general, the consumption of global brands creates several advantages, since the consumers think that global brands have more value either physical through better quality or affective through self-perception and self-esteem. The key features of global brands are not only wide availability and recognition but also to belong to a global community (Alden *et al.*, 1999; Kapferer, 1997), prestige (Steenkamp *et. al.*, 2003), esteem (Johansson and Ronkainen, 2005), quality and social responsibility (Holt *et al.*, 2004).

For the global brands, emerging countries are important markets because of their potential for economic growth and population. The multinational corporations (MNCs) are bringing their global brands to emerging markets to succeed and get benefit from the opportunities (Ozsomer, 2012). Emerging markets present significant socioeconomic, demographic, cultural, and regulative differences from Western countries (Burgess and Steenkamp, 2006), and experience a rapid change in socio-political and economic environment (Steenkamp and Burgess, 2002). Therefore there is a need to conduct more research in emerging markets (Burgess and Steenkamp, 2006).

Bandwagon consumption

The consumer behavior literature highlights that the products and brands are not only purchased for utilitarian reasons but also non-utilitarian reasons such as symbolic acquisitions and status that has its roots in the concept of conspicuous consumption, which states that "people with adequate means tend to consume highly visible goods to display their wealth and gain social status" (Truong and McColl, 2011 p.556).

Veblen (1899) was first to note that, as wealth increases and spread over society, some individuals tend to consume conspicuously. Veblen (1899) distinguished between two motives for consuming conspicuous goods: (1) "invidious comparison" and (2) "pecuniary emulation." Invidious comparison refers to "situations in which a member of a higher class consumes conspicuously to distinguish himself from members of a lower class", while pecuniary emulation occurs "when a member of a

lower class consumes conspicuously so that he will be thought of as a member of a higher class" (Bagwell and Bernheim, 1996 p. 350).

Leibenstein (1950) provides insights that the demand for goods and services may be classified according to motivation and defines two types of demand in general: (1) functional demand, and (2) nonfunctional demand. Functional demand is a function of qualities inherent in the commodity itself, whilst nonfunctional demand is a function of external effects on utility. That is, "the utility derived from the commodity is enhanced or decreased owing to the fact that others are purchasing and consuming the same commodity, or owing to the fact that the commodity bears a higher rather than a lower price tag" (Leibenstein, 1950 p. 189). External effects on utility are derived from three motives: (1) Veblen effect, (2) snob effect, and (3) bandwagon effect. *Veblen effect* is the phenomenon of conspicuous consumption; therefore the demand for goods and services is increased because it bears a higher rather than a lower price. *Snob effect* represents the desire of people to be exclusive, and to dissociate themselves from the "common herd." In that case the demand for a consumers' good is *decreased* owing to the fact that others are also consuming the same commodity. The difference between the snob and the Veblen effect is that the former is a function of the consumption of others, whilst the latter is a function of price. *Bandwagon effect*, represents the desire of people to purchase a commodity in order to get into "the swim of things"; in order to conform with the people they wish to be associated with; in order to be fashionable or stylish; or, in order to appear to be "one of the boys" and therefore the demand for a commodity is increased due to the fact that others are also consuming the same commodity (Leibenstein, 1950 p. 189). Bandwagon purchasing is primarily driven by a desire to secure horizontal (within group) rather than vertical (between group) status gains" (Mason, 1992 p.49). Extant research on bandwagon consumption is mostly from economics (Bagwell and Bernheim, 1996; Corneo and Jeanne, 1997; Katz and Shapiro, 1985; Leibenstein, 1950), luxury branding (Chaudhuri and Majumdar, 2006; Husic and Cicic, 2009; Kastanakis and Balabanis, 2012; Tsai *et al.*, 2013; Tynan *et al.*, 2010; Vigneron and Johnson, 1999), and fashion marketing (Coelho and Mcclure, 1993).

In developing countries, income disparities and status mobility are high, and the interpersonal relations are important, thus status symbols are important (Batra *et al.*, 2000). Consumers in developing countries emulate the Western consumption practices and lifestyles and purchase the brands they are exposed to through mass media or personal channels- such as worth-of-mouth, weblogs and travel. From that standpoint, it can be concluded that consumers in developing countries choose global brands for conspicuous consumption or aspirational reasons (Batra *et. al.*, 2000; Holt *et al.,* 2004). Aspirational consumers mostly imitate the buying behavior of reference groups to which they would like to belong (Dholakia and Talukdar, 2004).

Besides the aspirational motives, globalization created a global consumer culture. A shared "world culture" is emerged as a result of the "increasing interconnectedness of varied local cultures as well as through the development of cultures without a clear anchorage in any one territory." (Hannerz, 1990 p. 237). The acculturation of consumers in emerging markets caused consumers to acquire and internalize the symbolic meanings of global brands. The diffusion of images through "mediaspaces" and "ethnospaces" cause consumers to desire to be a part of the consumer culture and thus, certain product categories become signs of global cosmopolitanism and modernity (Alden *et al.*, 1999). It is therefore hypothesized that:

H1: Bandwagon consumption affects (a) purchasing intention and (b) willingness to pay more for global brands in emerging markets.

Value perceptions

In customer value research, buyers' perceptions of value "represent a trade-off between the quality or benefits they perceive in the product relative to the sacrifice they perceive by paying the price" (Monroe and Chapman, 1987 p. 193). Zeithaml (1988, p. 14) defined perceived value as "the consumer's overall assessment of the utility of a product based on perceptions of what is received and what is given." Dodds, Monroe, and Grewal (1991) suggested that while forming perceptions of value, consumers use extrinsic cues (i.e., price, brand name, and store name) to form perceptions of product quality and monetary sacrifice. Teas and Agarwal (2000) expanded the Dodds *et al.* (1991) model by including country-of-origin effect as another extrinsic cue. Definitions considering perceived value as a trade-off between quality and price represent a one-dimensional value-for-money conceptualization (Sweeney and Soutar, 2001).

Holbrook (1994) developed a complementary view on value and postulated that consumption experiences most likely involve more than one type of value simultaneously. Holbrook (1994) explained the basis of his thoughts as people do not desire products but satisfying experiences and defined customer value as "an interactive relativistic preference experience" (Holbrook, 1994 p.27) In other words, customer value involves an interaction between an object (e.g., a product) and a subject (e.g., a consumer). "This object–subject interaction is relativistic in at least three senses (comparative, personal, situational) –"first, involving a comparison among objects; second, varying from one person to another; and, third, depending on the situation in which the evaluation occurs" (Holbrook, 2006 p.715). Perceived value is operationalized in marketing literature with a single-item scale in measuring customer perceived value in terms of "value for money" or functional value. That approach is criticized since the single items cannot address the concept of perceived value (Al-Sabbahy *et al.*, 2004). Sheth *et al.*, 1991 developed a broader theoretical framework and determined multiple

consumption value dimensions for different choice situations. They suggested five value dimensions (*social, emotional, functional, epistemic, and conditional*) in relation to the perceived utility of choice and decision levels (buy level, product level, and brand level). In this context, Sweeney and Soutar (2001) suggested a four-dimensional perceived value model: (1) *Functional value (price/value for money),* (2) *Functional value (performance/quality),* (3) *Emotional value,* and (4) *Social value.*

Social value is the utility derived from a product's ability to enhance social self-concept (Sweeney and Soutar, 2001, p.211). It is the perceived utility of an alternative resulting from its image and symbolism in association, or disassociation, with demographic, socio-economic and cultural-ethnic reference groups (Sheth *et al*., 1991). Therefore, social value perceptions are in general outer-directed consumption preferences and they are related to the instrumental aspect of impression management (Shukla, 2012). The aspiration to gain status or social prestige from the acquisition and consumption of goods is one of the important motivating forces influencing a wide range of consumer behavior (Belk, 1988)

Conspicuous value is "derived from the consumption process which is solely focused on the display of wealth" (Shukla, 2012 p. 578). Consumer preferences for many products that are purchased or consumed in the public are shaped by conspicuous consumption (Wiedmann *et al.,* 2009). Vigneron and Johnson (1999) defined the motivation relying under the conspicuous value as *Veblenian*, whilst for the social value as *Bandwagon*. The consumption of prestige brands is viewed as a signal of status and wealth, and whose price, expensive by normal standards, enhances the value of such a signal and therefore, is a result of perceived conspicuous value. However, the role-playing aspects and the social value of prestige brands can be instrumental in the decision to buy (perceived social value). Consumers believe that global brands connote better quality, provide status and prestige, and a way to become part of global consumer culture (Steenkamp *et al.,* 2003). The empirical evidence generally suggests that foreign brands are associated with a higher level of quality and status than domestic brands (Chen *et al.,* 2013; Ponte and Gibbon, 2005; Wang *et al.,* 2004). It is therefore hypothesized that:

H2: Conspicuous value perception affects (a) purchasing intention and (b) willingness to pay more for global brands in emerging markets.

H3: Social value perception affects (a) purchasing intention and (b) willingness to pay more for global brands in emerging markets.

Figure 1 displays the hypothesized relationships in relation with the literature.

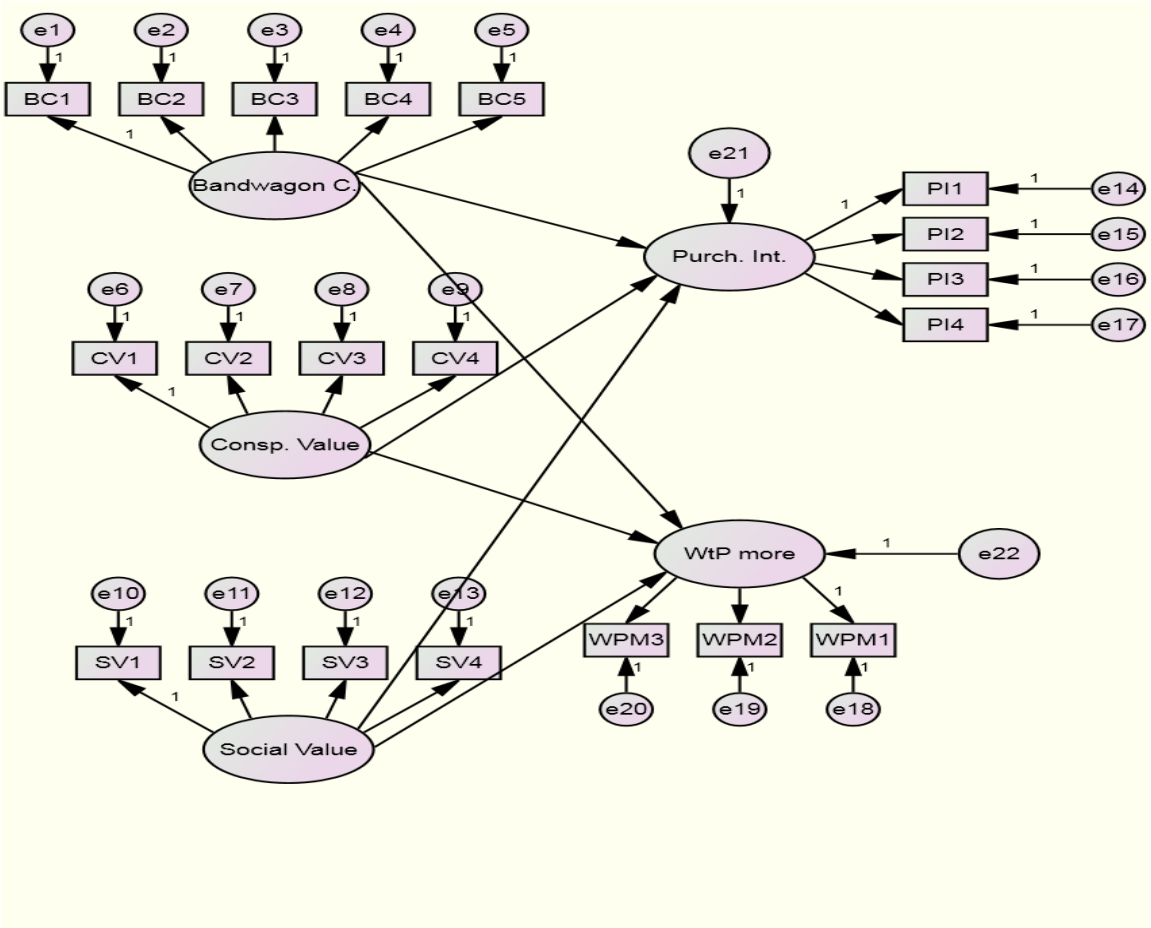

Figure- 1: Model of Hypothesized Relationships

METHOD

Sampling and Measurement

Data were collected with the face-to-face survey method from university students in the largest city of Turkey, Istanbul over a two week period of May 2014. To ensure that the questionnaire is well understood, it was tested on 30 respondents to detect the existence of misinterpretation as well as any spelling and grammatical errors. The suggestions were subsequently incorporated into the final questionnaire. A total of 458 valid and complete responses were included in the final analysis. In the marketing literature, youth has been held up as the prototypical example of a global segment (Kjeldgaard and Askegaard, 2006). Youth culture emerges from the development of Western modernity and they are more exposed to a growing usage of media and other communication channels (Appadurai, 1990). Because a student sample is used, a global sneaker brand was chosen as a subject to the study.

Established scales were used to measure the constructs. Social value was measured with Sweeney and Soutar's (2001) scale, conspicuous value was measured with Shukla (2012) scale, bandwagon consumption was measured with Kastanakis and Balabanis's (2012) scale, purchase intention was measured with Dodds *et al.*'s (1991) scale, and willingness to pay more was measured with Miller and Mills's (2012) scale. The questionnaire was pre-tested for clarity of questions and to identify the average completion time. The size of the pre-test sample is not fixed, although long, complex instruments seem to require larger pre-test samples compared to short, simple instruments (Hunt *et al.*, 1982). In this study, the questionnaire was pre-tested on respondents. After the necessary improvements and simplifications, the questionnaire was applied, and 458 useful questionnaires were obtained.

The demographic and socio-economic variables of the respondents indicate that they are from both gender (with 53.3 % being female while 46.7 % being male), and they have an age of 21-23 (64,4 %). The majority of the sample has income level of 1500 Euro (34.9 %) and four people family size (44.8 %).

FINDINGS

The Reliability Analysis

The reliability of the scales tested by using Cronbach's Alpha. The lower limit of acceptability for the Cronbach's alpha is .70. Because no single item is a perfect measure of a concept, more than one item was used. Increasing the number of items increases the reliability value (Hair *et al.*, 1998). The results of the reliability analysis displayed in the Table 1, are higher than .70, indicate internal consistency.

Table- 1: The Results of Validity and Reliability Analyses

Scales	**Number of Variable**	**Alfa Coefficients (Reliability Analysis)**
Bandwagon consumption	5	.785
Conspicuous value	4	.845
Social value	4	.883
Purchase intention	4	.928
Willingness to pay more	3	.869

Structural Model Testing

The overall fit measures of the structural model indicate an adequate fit of the model to the data (Chi-square/df=3,527; CFI=.925; TLI=.912; IFI=.926; GFI=.890; RMSEA=.07). The results provide strong support for the conceptual model displayed in Figure 1, and Table 2 presents a summary of the hypotheses tests.

Table- 2: Regression Weights

			Estimate	S.E	C.R.	P	
Purch. Int.	<--	Bandwagon C.	,709	,119	5,937	***	**H1a supported**
Purch. Int.	<--	Consp. Value	,317	,102	3,099	,002	**H2a supported**
Purch. Int.	<--	Social Value	,263	,093	2,847	,004	**H3a supported**
WtP more	<--	Bandwagon C.	,382	,099	3,851	***	**H1b supported**
WtP more	<--	Consp. Value	,297	,093	3,186	,001	**H2b supported**
WtP more	<--	Social Value	,317	,085	3,737	***	**H3b supported**

Purchase Intention R^2 = .335, WtPmore R^2 =.344

R^2 values represent the explanatory power of the dependent variables and the overall adequacy of the model. It displays the explained percentage of endogenous latent construct by exogenous latent variables (Sirohi *et al.,* 1998). For purchase intention R^2 value is .335 and for willingness to pay more is .344. This is not a high value but there are numerous other variables affecting purchase intention and willingness to pay more for global brands and this study only examined bandwagon consumption and value perceptions.

CONCLUSION AND DISCUSSION

In literature, there is evidence that bandwagon effects occur in luxury consumption. In addition, perceived value - conspicuous and social value - is a critical factor that determines consumer behavior in luxury markets. A gap exists related with these concepts for global brands especially in emerging markets. Thus, in this article bandwagon effects and value perceptions effects on buying behavior of global brands in emerging markets are proposed as a conceptual model. This paper examines the effects of bandwagon consumption and value perceptions - social and conspicuous value - on purchase intention and willingness to pay more. In order to determine effects of bandwagon consumption, social value and conspicuous value on purchase intention and willingness to pay more,

a survey was administered to 458 university students in Istanbul, Turkey. The sample well fits with the subject chosen, which a global sneaker brand is. While, research hypotheses are fully supported, the findings show that bandwagon consumption, social value and conspicuous value have clear impacts on purchase intention and willingness to pay more.

Bandwagon consumption explains most of the variance in purchase intention and willingness to pay more for global brands compared to effects of social and conspicuous value on purchase intention and willingness to pay more. Bandwagon consumption can be explained by how the customer in emerging markets intend to buy the global products in order to be associated with their aspirational group.

In addition, social value is an important determinant of willingness to pay more for global brands, which supports the positive correlation between products' social value and customer's buying behavior. If the products, provides high social value, status and social prestige; the consumers are willing to pay more. In addition, social value perceptions influence also the purchasing intention. It supports the theory of impression management that consumers purchase the products in order to express themselves.

Besides, the effect of conspicuous value on purchase intention and willingness to pay more for global brands turned out to play a significant role. A positive relation between the conspicuous value and willingness to purchase more is found. The consumption of global brands is viewed as a signal of status and wealth that enhances the purchasing intention and willing to pay more for especially the customers willing to belong high status groups in emerging markets.

To sum up, an important theoretical implication of the research is that bandwagon consumption and value perceptions effect purchase intention and willingness to pay more for global brands in an emerging market. Factors that affect purchase intention of global brands in emerging markets can be counted as bandwagon consumption, conspicuous value and social value. The effect on willingness to pay more is affected by sequentially bandwagon consumption, social value and conspicuous value.

The managerial implications of the study are for global marketers that they should seriously consider the impact of bandwagon consumption and value perceptions on purchasing intention and willingness to pay more. Global companies should understand the customer's values and their consumption behavior while entering into the new markets. By understanding the cues that customers consider in purchasing behavior, companies can initiate activities aimed at enhancing their standing with customers. Thus, this research provides companies key factors for gaining purchase intention and willingness to pay more by facilitating bandwagon consumption and social and conspicuous value. In order to achieve in the emerging markets, bandwagon consumption is a key factor.

Customers in emerging markets mostly make their purchase decision based on bandwagon effect, value perceptions come next.

As is the case with any research, the study presented exhibit limitations that should be considered. First, the study is limited to the identified variables simply because the focus of the investigation is on bandwagon consumption, social value and conspicuous value effects on purchasing intention and willingness to pay more. Second, the findings may be limited to the sample and the brand investigated in this research. In this study, university students are surveyed and a major global sneaker brand is taken. Further research can verify whether these findings hold for other samples and other companies in different industries.

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DOING INTERNATIONAL BUSINESS RESEARCH IN EMERGING COUNTRIES: A REFLEXIVE APPROACH TO RE-EVALUATE THE WESTERN INSTITUTIONAL ETHICAL CODES

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ABSTRACT

International business research in emerging countries has grown rapidly over the past few decades due to globalisation and an increase in business opportunities. Therefore, the western institutions are placing more emphasis on conducting research in emerging countries. More importantly, each institution has its own approved ethical guidelines for research. Ethical guidelines are frequently embedded within western value systems and are unable to address ethical dilemmas when conducting research, particularly in emerging countries. The authors' experiences of conducting research in four emerging countries are used to demonstrate some of these unexpected ethical dilemmas. This paper attempts to provide a conceptual framework for managing ethical challenges. A reflexive methodology is used to show how researchers can navigate around ethical dilemmas. We further provide implications for how reflexivity and ethical pluralism can complement existing institutional ethical guidelines.

Keywords: *Ethical Dilemmas, Marketing Research, Reflexivity, Ethical Guidelines, Data Collection, Emerging Markets, Ethical Framework*

INTRODUCTION

Ethical guidelines are becoming more important for international business researchers and institutions undertaking fieldwork. The call for a more transparent ethical framework is echoed by several authors (e.g. Brownlie et al., 1998; Carrigan et al., 2005; Palmer et al., 2014). Ethical guidelines serve as principles for what is morally acceptable and what is not. International business research fieldwork can present researchers with ethical dilemmas not foreseen by western ethical guidelines. Thus, the researcher faces the issue of overcoming personal and methodological challenges (e.g. access to research sites, dealing with issues of anonymity, negotiating with participants and compromised relationships with participants). To support researchers' undertaking fieldwork, we provide an insight

into the reflexive experiences of three PhD international business researchers who amongst them, undertook research in four emerging countries (ECs): Bangladesh, China, Egypt and Libya. The stance taken in this paper is that the reflexive experiences of the researchers facilitates the requirement for western institutions to incorporate ethical pluralism (Macklin, 1999) that takes into consideration the cultural practices and forms of networking, which are integral to gather data in ECs. The importance of reflexivity has been largely neglected by scholars publishing academic papers across business and management and its sub-fields (Clark, 2012). This is probably due to word limit constraints, keeping in the scope of the paper, journal requirements and also matters of confidentiality. In particular, reflexive accounts of ethical dilemmas have received limited attention; a similar point alluded to by Alvesson and Skoldberg (2009).

There is evidence to suggest that international business research in ECs has grown in popularity in recent years (e.g. Akbar and Samii, 2005; Hossain et al., 2015; Millar et al., 2008; Nguyen et al., 2013). Traditionally, international business phenomena and theories are derived from research carried out in high income, industrialised and developed markets and may not be applicable to ECs (Burgess and Steenkamp, 2006). In this paper, an unusual but novel reflexive methodology is applied to demonstrate how the researchers' coped with ethical issues whilst in the field. The main contributions of this paper are to provide reflexive accounts from personal experiences in the field, the ethical challenges involved in collecting data and also the provision of a conceptual framework (adapted from Michailova et al., 2014) for navigating around ethical dilemmas. Furthermore, by using a reflexive methodology, we contend that the theorising process is enriched by leaving a trail of reflexivity; a point that will be returned to later in the paper. With these contributions in mind, our objectives for the paper are as follows:

1) To highlight the limitations of standardised ethical guidelines prescribed by western institutions and explain how reflexivity can enable researchers to manage ethical constraints in ECs.

2) To provide a conceptual framework to help researchers navigate around ethical dilemmas in international business research.

In order to avoid confusion, reflection is used synonymously in cases where references to reflexivity are made. To simplify the terms further, the definition used by Alvesson and Skoldberg is followed. In their words 'reflection is the interpretation of interpretation' (2009: p.9). Since reflection is grounded within reflexivity, we henceforth only use the term *reflexivity*. As this paper is reflexive in nature and in lieu of a literature review, the purpose of the next section is to present the background to this paper.

BACKGROUND

To uphold proper ethical conduct, international business research carried out by academics and consultants must follow certain professional standards (e.g. ethical guidelines from institutions/organisations. The rationale behind this paper is that reflexivity is an important feature for managing ethical dilemmas. When conducting fieldwork, researchers are required to acknowledge the values and traditions of others as well as their own. Therefore, ethical issues in international business research are a key requisite. Korac- Kakabadse et al. identify ethics or a theory of values as 'a third pillar of research philosophy' (2002: p.106) for carrying out a research.

Ethical guidelines, known as procedural ethics, provided by western higher education institutions or public and private funding agencies (such as the Economic and Social Research Council-ESRC) are sufficient for meeting committee requirements, doing research with human subjects (Lindorff, 2007) and ensuring the researcher has abided by a logical series of steps. The aims of such ethical guidelines broadly attempt to describe the responsibilities of the researcher/s and safeguard the rights of participants. However, ethical guidelines can become insufficient, difficult to follow and are unable to predict unforeseen circumstances and ethical obstacles that may come forward during data collection (De Laine, 2000). There are few universal guidelines that inform the researcher precisely what to do in such contexts, other than the vague and generic *'do no harm'* (Ellis, 2007: p.5) to participants. Considering the scope of human interactions in the social sciences and the lack of adequate guidelines to encounter ethical dilemmas, Ellis (2007) further suggests to incorporate relational ethics that highlight the statement 'What should I do now?' rather than the question 'This is what you should do now' (Bergum, 1998). Relational ethics values the relationship between researchers and researched, and requires researchers to initiate and maintain conversations (Reason, 1993; Tierney, 1993). As a part of relational ethics, we seek to shed light on how to manage research relationships and overcome ethical dilemmas.

It is not within the scope of this paper to discuss institutional ethical guidelines beyond introductory parameters. Moreover, a key concern is that such ethical guidelines are rooted in the western value system and may contradict ethical issues in ECs. For example, gift giving is common whilst doing research amongst Chinese subjects (Steidlmeier, 1999; Tynan et al., 2010), yet according to western ethical guidelines, this cultural practice would seem to compromise the research.

Existing ethical guidelines even make it difficult to track what researchers do during the fieldwork (Herrera, 2009). Therefore, it is difficult for organisations to monitor to what extent these guidelines are followed by researchers while conducting fieldwork in ECs. Therefore, some social scientists argue

that decisions pertaining to ethical problems ought to be left to the conscience of individual researchers (Schneider, 2006). On the other hand, critics of this view argue that if the proposed research fails to fulfil western ethical guidelines, then it should not be conducted in a developing country. A supporting stance is taken by Macklin who proposed a universal view to conducting research across the globe: 'If it is unethical to carry out a type of research in a developed country, it is unethical to that same research in a developing country' (1999: p.60). Ethical decision making and researcher behaviour are also influenced by various factors such as personality (e.g. gender, education, family), organisational culture (e.g. professional codes of ethics, corporate policies), relationship management (e.g. the nature of relationships, proximity) and societal issues (e.g. society's ethical perceptions, government intervention, media coverage and disclosure) (Korac-Kakabadse et al., 2002; Jordan et al., 2013). Researchers in ECs experience diverse ethical constraints compared to Western countries and such complexities give rise to ethical dilemmas. In the next section, the reflexive methodology is discussed.

METHODOLOGY

It is imperative to note that there is no uniform prescribed approach or methodological technique. Some misconceptions about reflexive methodologies can arise when this is the case (Alvesson et al., 2008). Rather, a reflexive methodology operates within a framework that encourages an interplay between producing interpretations and challenging them. Likewise, a reflexive methodology cannot be mapped out sequentially in a series of methodological steps (e.g. 1, 2, and 3). Rather, it is guided by the methodology the researcher chooses. For instance, case 1 involved a mixed methods design whilst cases 2, 3, 4 entailed a grounded theory methodology using semi-structured interviews. In each case, a reflexive methodology is compatible. In simple terms, reflexivity is the function that helps close the loop between the approach taken to carry out the research (i.e. methodological technique), the research findings and the contributions to knowledge. The advantages of using a reflexive methodology are that researchers can narrate a trail of their data collection journey and they can also avoid naivety associated with a belief that data will automatically uncover reality (Alvesson, 2003). Hence, in our conceptual framework, we argue in favour of using reflexivity as a means for augmenting theorising; and moving closer to the unearthing of reality. Of course, philosophical underpinnings will influence the reflexive methodology to a certain degree, but ultimately, it is the actions of the researcher that determine the trajectory of the research.

In the context of this paper, the four cases illustrate how the researchers constantly analysed their experiences at each stage of the data collection process. A key component of a reflexive methodology

entails reconsidering assumptions and not only allows for personal reflection but also acknowledges that other extenuating factors influence the reflexive process (Alvesson, 2003). In this way, ethical dilemmas are documented both on the part of the researcher but also the participants of the research. Subsequently, the proposed ethical framework attempts to encompass these factors and demonstrates how researchers conducting international fieldwork can manage unexpected ethical dilemmas that may arise. Consequently, the usefulness of a reflexive methodology is increased as reflexivity opens the way for a plurality of meanings (Alvesson and Deetz, 2000). One researcher's own reflexive experience in the field may seem somewhat insignificant. However, when reflexive experiences from four different countries are shared together (in the case of this paper), then the reflexive methodology becomes more interesting and of greater validity, relevance and provides richer theoretical abstraction (Alvesson, 1996). Thus, the outcome is a more significant contribution (Weick, 2002). According to the former explanations, without being reflexive, researchers are confined to working within objective ethical guidelines. On the contrary, we argue that a reflexive methodology helps to move a step further than just following abstract ethical guidelines and procedures. In other words, there is a shift from abiding by objective ethical guidelines towards advocating greater subjectivity. In the next section, the proposed ethical framework is presented.

ETHICAL FRAMEWORK

Constructing an ethical framework is necessary because of the paucity of existing ethical frameworks. Our framework is adapted from a seminal article by Michailova et al. (2014) published in the Academy of Management Review. The premise of their original framework captured the notion of exiting fieldwork and posited how researchers coped with post data collection. By extension, we have attempted to show the process before the exiting of fieldwork and that of actually being in the field. Within the framework, there are a number of concepts that must be addressed such as reflexivity and the bracketing out of one's own assumptions, axiological values, emotions and ethical identity. Bracketing out attempts to reflexively acknowledge one's own personal biases. Axiological values pertain to the extent that one's personal values affect ethical decision making. Emotions connote the degree to which researchers' own personal agenda, relationships and affiliations impact the ethical process. Finally, ethical identity entails the extent to which researchers are consciously or unconsciously aware of ethical issues at play. The value of the ethical framework (figure 1) demonstrates how researchers manage ethical dilemmas whilst in the field and it is argued that reflexivity serves as an important component of the theorising process. Ethical issues are still apparent when returning from fieldwork (but not necessarily exiting the field) which is why there are pressing

issues such as the management of relationships (with participants), data and the extent to which reflexivity is used in scholarly writing.

Due to word limit constraints, the following cases have been simplified. In essence, an effort is made to reflexively disseminate the three researchers' own data collection experiences in four ECs: Bangladesh, China, Egypt and Libya. The empirical results from the four case studies are neither of primary relevance, nor are the foci of these researches. On the other hand, emphasis is placed on narrating the key ethical dilemmas that were faced during the researchers' time in the field.

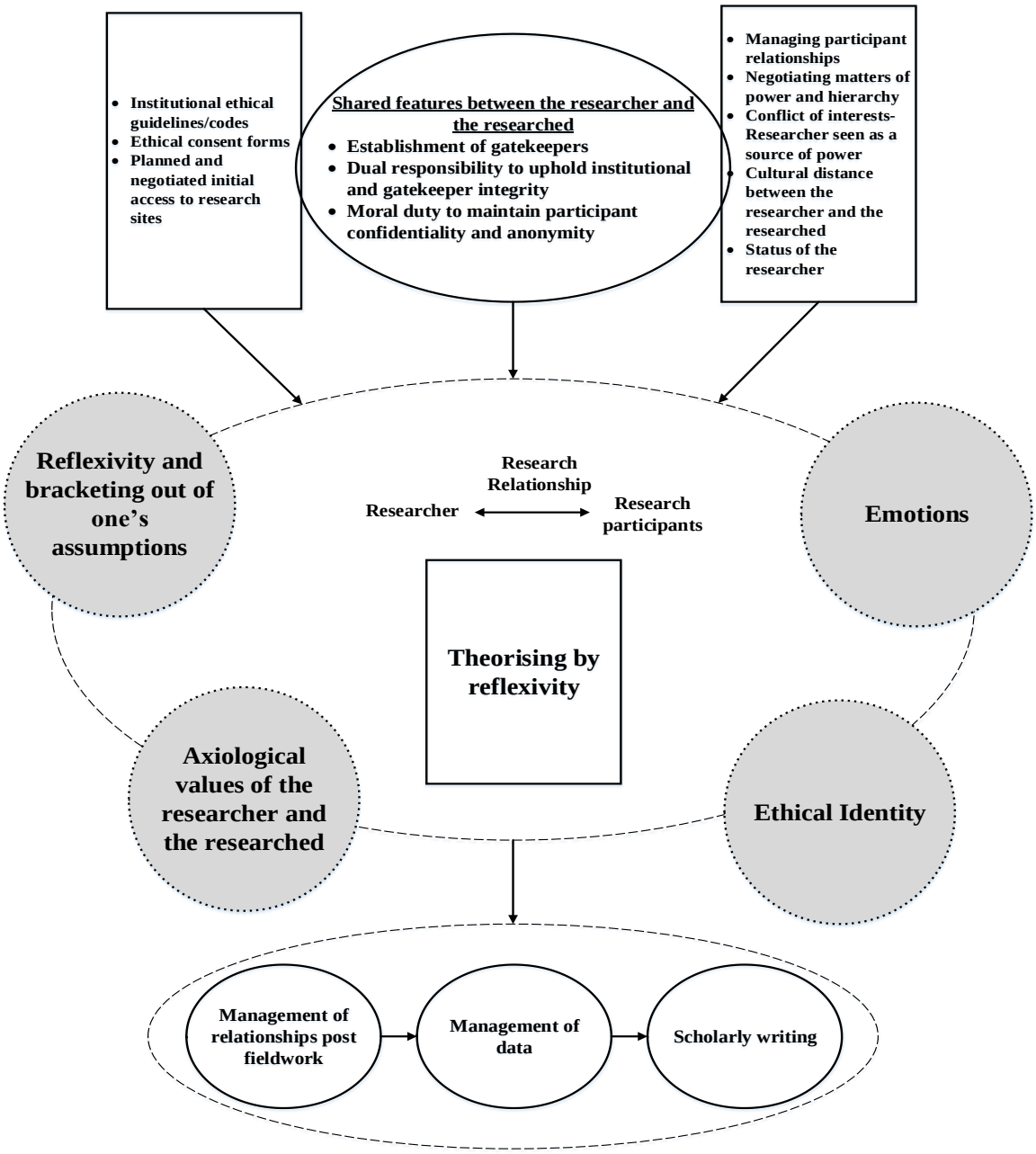

Figure 1: Ethical framework adapted from Michailova et al. (2014).

CASE STUDIES (BANGLADESH, CHINA, EGYPT AND LIBYA)

Case 1: Bangladesh

A gatekeeper plays a significant role in obtaining access for collecting data from western multinationals operating in Bangladesh. When the researcher attempted to contact different multinationals by sending emails, none of those organisations responded. Moreover, designated officials from multinationals showed their reluctance to respond to the researcher's phone calls. Finding a gatekeeper enabled the researcher to connect with the designated officials who were inaccessible beforehand. Some managers did not allow the researcher to use the voice recorder due to their organisational policies. It indicates that trust and organisational policies may work either as a facilitator or inhibiter while conducting interviews.

At times, a gatekeeper can create a bridge of trust between a researcher and the participant (see figure 2). Hence, the scope of collecting data from multinationals is influenced by many other key factors such as corporate policies, professional codes of ethics or proximity (Jordan et al., 2013; Korac-Kakabadse et al., 2002). For instance, institutional regulations under codes of ethics often constrain employees from expressing their own opinions (Long, and Driscoll, 2008). In the absence of guidelines from the macro level (government), multinationals focus on their internal policies to decide 'the extent of information disclosure', 'to whom' and 'how to disclose it' (Bodolica and Spraggon 2013).

Egypt Case focus: Changes in consumption practices before, during and after the Arab revolutions. Research methods: Semi-Structured Interviews Sample size: 26 participants Main ethical issues: Access and rapport, high political sensitivity, safety and security during the revolutions, researcher cultural background, access and rapport. Strategies for overcoming ethical issues: Use of a recruitment gatekeeper, avoided direct references to political members, bracketing out pre-conceived ideas and listening to participants, interviews conducted in a secure university setting, fluent in Arabic and familiar with local customs/traditions.	Libya Case focus: Changes in consumption practices before, during and after the Arab revolutions. Research methods: Semi-Structured Interviews Sample size: 16 participants Main ethical issues: Access and rapport, high political sensitivity, safety and security during the revolutions, researcher cultural background, access and rapport. Strategies for overcoming ethical issues: Use of a recruitment gatekeeper, avoided direct references to political members, bracketing out pre-conceived ideas and listening to participants, Skype interviews conducted due to insecurity in Libya, fluent in Arabic and familiar with local customs/traditions.
China Case focus: Social entrepreneurship Research methods: Semi-Structured Interviews Sample size: 13 participants Main ethical issues: Lack of trust, benefit focused, access and Rapport Strategies for overcoming ethical issues: Build a strong relationship with gatekeepers, recruit participants via snowball sampling and provide valuable incentives.	Bangladesh Case focus: CSR communication Research methods: Quantitative survey and semi-structured interviews (Mixed method) Sample size: Phase 1=20 participants, phase 2=204 respondents, phase 3=24 participants Main ethical issues: Access and Rapport, Organizational policies Strategies for overcoming ethical issues: Use of gatekeeper, develop a relationship with the respondent and ensure the privacy of the data. Respect organisational policies in order to safeguard the interests of respondents.

Figure 2: Overview of the cases and ethical issues.

Case 2: China

Whilst trying to obtain access in social entrepreneurship organisations, email correspondence proved ineffective as participants preferred to be contacted by mobile phone because they could store numbers directly into their mobile device. The use of a gatekeeper was essential because it was through their referral that access was granted. Similarly, the gatekeeper had to be mentioned and verified in all correspondence with the organisations. For instance, the researcher encountered a scenario where one participant disregarded all written ethical approval and wished to speak to the gatekeeper over the telephone before commencing the interview.

Participants tended to pay special attention to the benefits of the study for their organisation. If the benefit is considered to be weak, the less likely it is that participants would give an interview. Moreover, if the perceived benefits are too low, the more likely it is that participants would not provide in-depth answers to interview questions. Even though the research was authenticated by a gatekeeper, the trust between the researcher and the participants in the opening stages was weak. This circumstance can be explained by the role of Guanxi in China. Guanxi is broadly defined as 'the existence of a relationship between people who share a group status or who are related to a common person' (Bian, 1994: p.974). Without a high degree of trust, participants would have been reluctant to open up unless the interviewer had established a link with the group or familiar people affiliated with the participants (Su and Littlefield, 2001). Participants also expected mutual favours in exchange for providing information (Wong, 1998). Subsequently, the researcher had to take part in gift giving (Steidlmeier, 1999; Tynan et al., 2010), which is an antecedent of guanxi (Crombie, 2011).

Case 3: Egypt

Locating participants in the Middle East presented some ethical dilemmas due to political restraints, legal factors, a lack of contact and system information (organisational ignorance), cultural differences, technical assistance (e.g. restrictions on navigating around the research site) and also an atmosphere of fear and distrust (Cohen and Arieli, 2011; Fujii, 2010). Clark (2006) identified that political sensitivity and the restrictions on speaking freely hindered participant responses. Contradicting Clark's claims, the researcher found that participants were willing to tell their own narrative without being prompted to do so.

Access to the participants was granted via a gatekeeper (graduate research director). The Egyptian University (research site) had originally requested monetary incentives. However, on arrival, the need for any incentive was considered an offence as participants wanted to take part voluntarily.

Participants were happy that interviews and not surveys were conducted because they wanted to talk at length about their own experiences. Doing survey's in the Middle East can be considered discourteous and rude (Tessler and Jamal, 2006). The researcher was able to communicate in their native language (Arabic) but was still seen as an 'outsider' because of accent differences and variations in local customs. A long 'social chat' helped to build a relaxed and trusting atmosphere and the notion of being an 'outsider' shifted more towards being an 'insider'. The practice of 'wasta' (Hutchings and Weir, 2006) is common in the Middle East and was apparent as participants viewed the researcher as a status symbol and someone who could help them access power (e.g. job promotion) within their own university.

Case 4: Libya

Due to the ongoing political turmoil at the time of data collection, Skype interviews were conducted for Libyan participants. Access to the participants was achieved via a gatekeeper and further referrals were made by snowball sampling. Alike with Egypt, the researcher could not verify the integrity of the referrals. The same rapport building steps used for Egypt were also used for Libyan participants. Intermittent internet disconnections distorted the rapport building to a certain extent. However, the less contravening nature of Skype interviewing placed the participants in a more comfortable and less intimidating position.

To maintain ethical consistency, specifics of the study as well as a consent form were sent to online Libyan participants before starting each interview. An unavoidable ethical issue was the difficulty for the researcher in interpreting facial expressions and gestures, an issue which was less evident in the face to face interviews (Egypt). Unlike Egypt, the researcher was not seen as a status symbol, perhaps because of the physical distance between the researcher and the participant.

DISCUSSION AND CONCLUSION

There are some commonalities across the four cases: First, the researchers had to apply for data access via gatekeepers, without whom, the data collection would not have been possible. For instance, whilst researching social enterprises in China, prospective participants disregarded written documents (e.g. an ethical letter of approval from the researchers 'institution) and were suspicious to provide information to strangers without verifying the gatekeeper first. This finding is consistent with forms of networking such as 'Guanxi' in China and 'Wasta' in Egypt and Libya (Hutchings and Weir, 2006; Shaalan et al., 2013). In the case of Bangladesh, an equivalent term to describe forms of networking does not exist. Second, rapport developing and trust-building are a common and important feature of

researching ECs because of sensitive cultural grounds. Therefore, the shared cultural backgrounds between the researchers and the population being studied resulted in establishing better relationships and convenient data access. Another common ethical issue across the four cases was that the researchers were seen as 'status symbols' or persons who had 'access to power' within the institution. Third, in cases 3 and 4, the researcher was caught in a predicament and took responsibility for participants re-living their experiences of the revolutions, something which caused relived trauma and distress for some. Such predicaments had personal consequences for the researcher, became an issue of ethical integrity and could not be anticipated by institutional ethical processes in advance. Fourth, procedural ethics followed by the western institutions often fails to address such practical and relational issues, which subsequently create an ethical dilemma for novice researchers. For instance, ethical guidelines used by the University of Hull do not encompass key ethical issues on employing gatekeepers or offering gifts and these issues are almost seen as prerequisites to obtaining data in ECs and building a strong rapport with participants. The ethical challenges demonstrate the importance of reflexivity and highlight the problems with merely following institutional ethical approval guidelines.

We recommend that ethical pluralism accompanied by relational ethics should be adopted in order to stand a greater chance of obtaining access to data. To further achieve this, we argue that reflexivity is important to the understanding of what happens during the different phases of fieldwork. Through the use of reflexivity, the following are understood: the role of the researcher in relation to the participants, the connections between them as well as the post fieldwork relationships that follow; a similar point echoed by Alvesson et al. (2008). Reflexivity opens up new perspectives of perceiving ethical dilemmas in a subjective manner and guides researchers for future research endeavours. The researchers are then in a greater position to be able to anticipate potential ethical dilemmas that may arise. To this end, our framework has provided a platform which can be used by researchers for conducting international business fieldwork. This aids them to remain informed and aware of potential ethical pitfalls that can impede data collection. Our framework is consistent with advancing the notion of reflexivity as it does not follow rigid ethical guidelines that conform to a functional approach (i.e. objective approach). Rather, the contributory value of the framework is increased by enabling researchers to find contingency solutions to ethical dilemmas whilst in the field; something that falls short with the strict following of institutional ethical guidelines (Alvesson, 1996).

Carrying out research in ECs is just as challenging as research conducted in developed countries. However, we contend that with the application of a reflexive methodology, researchers are better able to navigate around ethical obstacles, particular in the absence or incompatibility of western institutional ethical guidelines. Moreover, external examiners for doctoral students are encouraged to

assess the validity of data within PhD theses. One implication of this study contends that by being reflexive, threats to validity are reduced. Furthermore, by being reflexive researchers can challenge questions pertaining to rigour and relevance of the research. Being reflexive does not compromise institutional ethical approval processes. On the contrary, it strengthens the ethical integrity of the research undertaken. A further implication of this study is that the conceptual ethical framework can be positioned and integrated within around institutional ethical approval processes. This will better inform institutions and also their researchers of not only how to gain ethical approval and uphold the basic ethical promises (e.g. do no harm, uphold confidentiality and anonymity) (De Laine, 2000) but also enable them to overcome the obstacles that arise during the fieldwork. Further work is required to examine how institutions can integrate reflexivity within their own ethical guidelines.

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DIVERSITY AMONG ITALIAN BOARDROOMS: DOES A QUOTA OF WOMEN IMPROVE CORPORATE GIVING?

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ABSTRACT

The aim of this study is to analyze the relationship between female presence on boardrooms and corporate social responsibility. The under-representation of women on boardrooms is a heavy discussed topic, not only in Italy. Based on a critical mass theory and with 628 observations taken from a sample of Italian listed companies, from 2011 to 2013, we evidence that a higher percentage of female members in boardrooms tends to have higher level of corporate giving (considered as a form of corporate philanthropy).

Keywords*: gender diversity, csr, corporate philanthropy, corporate giving, female directors, firm reputation, board structure, csr strategy.*

INTRODUCTION AND THEORETICAL FRAMEWORK

In recent years, the number of women who serve in corporate boards of directors has increasing, consequently, with this study we examines whether female presence and its increase on corporate boards, in a sample of listed companies on the Italian stock exchange, exert some influence on the level of firm's involvement in activities related to corporate social responsibility and also if they generate some measurable outcomes in the area of CP over a three-year period.

THEORETICAL FRAMEWORK

The changing role of the enterprise, from economic actor in a social institution, involves the identification of a new model of business management oriented to the production of a "common value" and the adoption of ethical and social responsibility tools.

Corporate Social Responsibility (CSR)

CSR is a widely known concept on how firms should contribute back to society. In other words, CSR refers to the responsibility taken by organizations and the impact of their activities on customers, employees, shareholders, communities and the environment in all aspects of their operations (Khatun,

2015). Until now, it is difficult to define CSR, because it touches many little yet important aspects of social cohesion (Nor & Asutay, 2011). CSR is also known to some as corporate responsibility, corporate citizenship, corporate philanthropy, responsible businesses and many more. Despite different names given, this concept is geared with one objective to conduct firms' business in an economically, socially, environmentally and in sustainable manner whilst balancing the interests of a diverse range of stakeholders (e.g., gender policies, women's rights, employees' rights, being environmental friendly, charity, helping the poor and transparency in management). In the developed countries, it is expected by the society that multinational organizations should adopt the strategies which must contain a process of value addition for the societies and environment not just for gaining financial benefits (Asghar, 2013). The organizations adopt social responsibility approach for actively participation in the welfare programs and adding this approach to their long term strategies (Clemenger, 1998). In particular, the European Commission (Green Paper, 2001) defines CSR as the voluntary integration of social and environmental concerns of businesses into their business operations and in their interaction with their stakeholders. In fact, CSR is that attitude that knows how to keep together: 1) the business logic of profit; 2) the logic of the environment and of his defense; 3) the logic of the community in which the company operates. So, being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing more in human capital, environment and relations with stakeholders. As a "tool" to build a CSR strategy, the Corporate Giving (CG) is a form of donation used trying to integrate business objectives and social objectives of the enterprise.

Corporate Giving (CG)

Specifically, the CG is a philanthropy form that extends beyond the limits of the donation to become an instrument of social networks, to create a system with the territory and offer concrete solutions to the problem of social disadvantage. The companies consider the CG as a way to improve the community, promote CSR and show that the profit is not their only purpose (Burlingame, 2002). In this sense, the CG is a strategic tool that allows the company to promote active social behaviour and contribute to social welfare on the one hand, and pursue, at the same time, business purposes. According to Burlingame, the CG "recognizes multiple forms of giving by companies as vehicles for both business goals and social goals": one of these forms is the Corporate Philanthropy (CP).

Corporate Philanthropy (CP)

Strictly speaking, for CP means a donation of pure charity from a company, generally in favor of a non profit organization, performed without any purpose for the enterprise (Ireland & Johnson, 1970). Today the donation made by a company, in most cases, is an integral part of a broader corporate strategy and

the company's goal is to balance "with altruistic giving strategic donation" (Weld, 1998). To identify this new field of CP, were introduced terms such as Strategic Corporate Philanthropy or Global Corporate Philanthropy (Collins, 1993).

CSR, CG, CP, performance and gender diversity

The adoption of techniques of CSR, forms of CG and campaigns of CP, is growing, considering the numerous studies that indicate, at least for developed countries, a positive correlation between a "social and environmental oriented" business strategy and the financial performance (Hansen, Dunford, Boss, Boss, & Angermeier, 2011; Ruf, Muralidhar, Brown, Janney, & Paul, 2001; Waddock & Graves, 1997), while, in emerging countries, the results are not unique; some report a positive relationship (Wang & Qian, 2011), others a negative one (Zhang & Jia, 2012). But what are the factors that can make a company more or less inclined to adopt a CSR strategy through a more or less intense activity of CP?

Among the kind of parameters be investigated, many researches suggest that this tendency also depends on the board's composition, analyzable in terms of gender diversity, age, ethnicity, nationality, educational background, industrial experience and organizational membership (Campbell & Mínguez-Vera, 2008). A number of studies have outlined the benefits of board diversity (Arfken et al., 2004; Carter et al., 2003) and in particular, some notice that boards with a higher percentage of women have tangible positive effects on a company's social responsibility (Bernardi & Threadgill, 2010), while others argue that board gender diversity has significant impact on the negative social practices (Boulouta, 2013). The importance of diversity in corporate boards and particularly, the presence of female members, has been demonstrated in terms of concrete effects on the corporate social responsibility strategy of the organization. According to the agency theory and the resource-based theory, both individuals characteristics and cultural and socioeconomic factors, can influence the ability to monitor and advise the inside directors and provide outside connections, as well CSR effectiveness and environmental issues. Much of empirical research on gender diversity has focused on its effects on performance measures, though with mixed evidence. While some authors find a positive relationship between gender (and ethnic) diversity and Tobin's Q or accounting measures of performance (Carter et al., 2003; Adams & Ferreira, 2009; Bohren & Strom, 2010), others found a positive linear relationship (Campbell & Minguez-Vera, 2008; Bear, Rahman & Post, 2010). There are also studies providing no evidence that firms with gender diversity have better firm performance (Carter et al., 2010; Bosh, 2014). The impact of diversity varies with firm characteristics: it may be beneficial in some but detrimental in others. Viewing the impact of women on board through gender lens may also help to explain surprising findings found in existent literature. According to the International Labour Organization (ILO) (2006), out of the world's 2,9 billion workers, 40 per cent were women. However, the increasing

involvement of women in the work force is not synonymous with their representation at senior management levels. The proportion of women on boardrooms has remained relatively small pointing to the existence of discriminatory barriers to entry to senior management positions which has been termed the "glass ceiling" (Maume, 2004). The glass ceiling has been described as an invisible barrier akin to a concrete ceiling that is impenetrable and prevents the accession of women to senior levels of management (Kiaye & Singh, 2013). Becoming conscious of these facts, many governmental entities began to act and, as a result, the role of women on boards is getting increased attention (Vinnicombe et al., 2008). In a recent report, the Organization for Economic Co-operation and Development (OECD) estimates that achieving gender parity in labour-force participation rates will lay a foundation for economic prosperity and would increase GDP by 12 percent in developed countries over the next 20 years (OECD Council, 2011), while the Global Gender Gap Report 2014 by the World Economic Forum concludes that it will take another 81 years for the world to close the economic gender gap and realize the resulting growth benefits. The European Commission (2012) aims for equal representation of women and men in economic decision-making processes and in particular more women on boards of directors. In 2020 they want 40 percent of the board members to be female. Not only the EU calls for representation of females in boardrooms, but there are also many governments that make guidelines or regulations for the minimum of female board members. For example, some European governments, such as those of Norway (the first European country that imposed a law in 2003, requiring public-limited companies to fill at least 40 percent of board positions with women by 2008), Spain, Sweden, France, Italy and Belgium, have set legally binding quotas for the proportion of women sitting on corporate boards or introduced corporate governance codes and /or voluntary disclosure requirements. Costs and benefits arising from (female) quotas are difficult to identify. On the one hand, the increase of female representation induced by gender quotas may have potential positive effects as shown by the literature. On the other hand, the selection of new directors is not free of risks if either not enough experienced women are available or inadequate selection process leads to reduced board quality. Female directors appointed in Norway as a consequence of the new law provisions are found to be younger, less experienced and more stakeholder-oriented (Ahern & Dittmar, 2010; Matsa & Miller, 2010). As the Global Gender Gap Index (first introduced by the World Economic Forum in 2006 and now at the 9th edition, 2014) shows, Italy is one of the lowest-ranking countries in the EU as for the size of the gender inequality gap, and its rank deteriorates further over the last year. The percentage of female employees in Italian private companies is among the lowest (30%), with only India, Japan, Turkey and Austria performing worst. A study conducted on 2011 by CONSOB (the public authority responsible for regulating the Italian financial markets) investigated the state of the art of women representation in Italian corporate boards, trying also to assess its determinants. They found that

female presence still concerns the minority of companies and a small number of women. Moreover, female directorship is associated to some characteristics of firms and of women themselves, depending in particular on whether they are related (through family links) to the controlling agent. Two very different models emerged. On the one hand, family-affiliated women are more present in smaller companies, with a concentrated ownership operating in the consumers sector. On the other hand, not-affiliated women are more common in widely held companies or in firms owned by a foreign shareholder, in the IT/telecommunication sector, and in companies with younger and more independent boards. In both models the presence of institutional investors and board size positively affect female representation. Other evidence are the not significant correlation between gender diversity and firm performance and the negative relationship with some "good governance" proxies. From the descriptive statistics emerge that the number of female directors and that of companies where at least one board member is a woman, have continuously increased from 2004 to 2009.

RESEARCH QUESTION

Prior academic research from a variety of disciplines argues that board diversity is not solely an economic concern, but a matter that also may appeal to various social factors, recognising that firms participate not only in capital markets but also in society as a whole (Hafsi and Turgurt, 2013) with some important effects on charitable giving (Post et al. 2011; Siciliano, 1996) and in ethical activities (Ibrahim et al., 1994). Diversity in the board of directors allows members to make better decisions and to limit the myopia of decision-making process that may result in "unhealthy and possibly unethical decisions" (Arfken et al., 2004) if the board is only male composed. We expect that female presence on boards (gender diversity) is associable with some assumptions:

1. Boards will be more philanthropic in decision-making. Charitable donations are altruistic and we expect that higher proportion of women increase socially responsible behaviour of firms and contribute significantly more to charitable causes than their male counterparts (Hillmann et al., 2002; Williams, 2003; Wang & Coffey, 1992).

2. Female directors (and outsider directors) are oriented with long-term outcomes, while men (and insiders) are more preoccupied with short-term economic utilities (they might be more concerned about preserving firm profits and might resist giving away firm's earning).

3. Philanthropic giving is consistent with long-term economic and social outcomes.

4. Gender and board diversity – in terms of age (Hafsi & Turgut, 2013), tenure, nationality, board size, average age, nationality, etc. - create more sensitive environment for corporate

sustainability and increase decision-making effectiveness (Wang & Coffey, 1992); prior studies have observed that more ideas, information and resources are available when the company's board has access to different people and perspective. This is grounded on the fact that diverse people may have different backgrounds and bring different viewpoints to board oversight (Anderson et al., 2009; Adams and Funk, 2012). Being generally excluded from old-boys networks, female directors might enhance board independence of thought and monitoring functions (Adams and Ferreira, 2009).

5. Female presence on boardrooms is different depending on the type of company (Fernandez-Fejjoo et al., 2012). Prior research found that many other variables affect CSR, not only cultural characteristics, but also industry (such as company size, company age, location and some economic indicators).

RQ: Does gender diversity in boards affect the corporate giving attitude of Italian listed firms?

Thus, the following hypothesis is consistent with gender diversity thesis:

H1: companies with higher percentage of female members in boardrooms (almost 3 women, the "critical mass"), will have higher level of corporate giving.

H2: the higher the age diversity of directors, the better CSR. A mixture of board directors variables can predict the relationship with CSR.

H3: female presence on boardrooms is different depending on the kind of company.

METHODOLOGY

In order to test the research question and the abovementioned hypothesis, inside the theoretical framework and according to the existing literature, we developed a multiple linear regression model using 628 observations taken from a sample of Italian listed companies.

Data and Sample

The data collected refers to three years: from 2011 to 2013 (207 companies for 2011, 209 for 2012 and 2012 for 2013). Banks, insurance companies and financial companies are not included, as their rules are quite different from all the other sectors (i.e. banking and insurance sectors presents some specific aspects that make them "unique". Moreover, their accounting systems and business decisions are deeply affected not only by specific laws but also by the presence of regulators, both at national and international levels). The number of companies changes slightly in the three examined years for the

new IPO and for some missing data. Table 1 shows the distribution in different sectors of the companies examined.

Sector	2011	2012	2013
Petroleum, energy and natural gas	4%	4%	4%
Chemical and raw materials	1%	1%	1%
Industrial products and services	26%	25%	25%
Consumer goods	29%	28%	28%
Health care	3%	3%	3%
Consumer services	15%	15%	15%
Telecommunication	3%	3%	3%
Public utilities	9%	9%	9%
Technologies	10%	11%	11%
TOTAL	100%	100%	100%

Table 1. *Sample Sectors Distribution*

The data have been collected from different sources: AIDA database of Bureau van Dijk, mainly for financial information and some corporate governance variables; Borsa Italiana (official Italian Stock Exchange) website; company's websites; hand-collected data from a specific survey in order to gain information specifically about the amounts of donations and sponsorships.

Variables and regression model

The research method we used is a statistical multi-regression analysis to test whether or not boards with more women tends to give more money in terms of donations and sponsorships. This analysis was conducted with the total amount of donations as dependent variables and board characteristics (plus other control variables) as independent variables. For this purpose, we used the following equation:

$$Y_{i,t} = \beta_0 + \beta_1 \cdot F_{i,t} + \beta_2 \cdot B_{i,t} + \beta_3 \cdot C_{i,t} + \beta_4 \cdot GEO_i + \varepsilon_t$$

where:

- , is the vector of the dependent variable (the total yearly amount of donations and sponsorships)
- , represents the percentage amount of women in the Board of Directors (BoD)
- , is a vector of variables that controls for other characteristics of the BoD
- , is a vector of variables that controls for other financial characteristics of the company
- is a dummy variable that controls for location effects

- ε_t is the vector in terms of error.

The vector , controls for other Board characteristics (Board size, average age of the Directors, Nationality of Directors) that may also affect the decisions of the Board itself. With , we control for other characteristic of the company, using mainly financial accounting measures, such as the company size (log of total assets), ROA, Leverage (Total Assets over Net Equity) and Company age (number of years since its establishment). Finally, the vector GEO controls for location effects, due to the big structural socio-economical differences that still exists in the north of Italy to the south.

Table 2 provides more details and more specific definitions of the variables used in the regression model.

Variable	Description
Donation	Amount of donations (sponsorship, donations,…)
F - Female	% of female members on total Board members
BSize - Board Size	Number of members in the Board
BAge - Board Age	Average Board members age
BNation - Board Nationality	% of foreign Directors on total Board members
CSize - Company Size	Log of Total Assets
ROA	Net income on Total Assets
Leverage	Total Assets over Net equity
CAge - Company Age	Years from the company foundation
GEO	Location of company's headquarter in North vs. South of Italy

Table 2. *Definition of variables used*

Finally, we assume that the variable $Y_{i,t}$ is influenced by a stochastic error with the following assumptions:

$EE(\varepsilon_t) = 0$ $\forall\, t$

$E(\varepsilon_t\, \varepsilon_s) = 0,$ $\forall\, t \neq s$ (absence of correlation)

$E(\varepsilon_t^2) = \sigma^2,$ $\forall\, t$ (constancy of the variance)

In Table 3 summary statistics for all the variables used in the regression model are reported for each year considered. Only for the GEO variables (that is a dummy variable equal to 0 if the company is located in the north of Italy, 1 if the company headquarter is in the south or in Sicilia or Sardegna) there are no statistics as they will be useless.

		Don.	F	BSize	BAge	BNation	CSize	ROA	Leverage	Cage
Unity of Measure		Eur th.	%	N.	Years	%	Log			Years
Mean	2011	10.799	18,60%	14,47	55,56	8,50%	5,70	2,45	5,38	34,98
	2012	13.852	18,49%	14,50	56,23	8,48%	5,72	2,42	7,08	35,83
	2013	32.503	18,72%	14,45	56,19	8,54%	5,72	2,57	5,88	36,70
Median	2011	2.202	18,75%	14	54,94	7,14%	5,57	2,27	2,37	27
	2012	2.585	18,75%	14	54,94	7,14%	5,60	2,20	2,57	28
	2013	4.291	18,90%	14	54,93	7,14%	5,60	2,23	2,55	29
St. Dev.	2011	37.282	9,51%	5,13	11,16	4,55%	0,76	8,13	24,68	27,08
	2012	70.512	9,49%	5,12	14,82	4,53%	0,74	6,16	28,41	27,02
	2013	131.286	9,53%	5,14	14,73	4,58%	0,73	7,43	24,73	26,86
Min	2011	61	0%	3	39,36	3,85%	3,27	-60,43	-67,46	1
	2012	35	0%	3	39,36	3,85%	3,75	-19,95	1,16	1
	2013	41	0%	3	39,36	3,85%	4,01	-18,52	1,15	1
Max	2011	337.506	42,86%	26	197,38	33,33%	7,95	26,85	246,83	146
	2012	716.769	42,86%	26	197,38	33,33%	7,92	26,94	251,06	147
	2013	984.949	42,86%	26	197,38	33,33%	7,92	36,51	255,06	148

Table 3. *Summary statistics of the dependent and independent variables*

MAJOR FINDINGS

We tested our hypothesis regarding the RQ using the abovementioned multi-regression model. The regression statistics are reported in Table 4. The R^2 is equal to 0,38 providing an acceptable level of the "explanatory" power of the regression model as it represents the fraction of the variation in the dependent variable (amount of donations) that can be explained by the regression and its regressors.

Regression Statistics	
Multiple R	0,61
R Square	0,38
Adjusted R Square	0,37
Standard Error	65.437,02
Observations	628

Table 4. *Regression Statistics*

The regression analysis has been developed at 95% confidence and the the F-test of the analysis of variance (ANOVA) shows that at least one of the parameter is linearly related to the dependent variable. Detailed results of the analysis of variance (ANOVA) are reported in Table 5.

	df	SS	MS	F	Significance F
Regression	9	1,59488E+12	1,77209E+11	4,14E+01	7,64723E-58

Residual	618	2,64628E+12	4,28E+09
Total	627	4,24115E+12	

	Coeff.	St. Error	t-Stat	p-value	
Intercept	-551.850,35	116.293,98	-4,75	0,00	
F	79.284,07	35.437,63	2,24	0,03	**
BSize	-20.104,76	6.059,64	-3,32	0,00	***
BAge	-3.009,06	732,90	-4,11	0,00	***
BNation	5.315,66	123.721,49	0,04	0,97	
CSize	93.320,87	15.658,10	5,96	0,00	***
ROA	-396,21	1.401,94	-0,28	0,78	
Leverage	229,72	394,47	0,58	0,56	
CAge (years)	564,77	124,57	4,53	0,00	***
Geo	28.768,54	26.013,09	1,11	0,27	

***, **. * *indicate significance at the 1%, 5% and 10% level, respectively.*

Table 5. *Analisys of Variance (ANOVA) of the Regression*

As it can be seen from Table 5, we find that the coefficient of the F variable (% of women in the BoD) is significant and is POSITIVE, confirming H1 that companies with a higher percentage of female members in boardrooms tends to have higher level of corporate giving. Regarding the other independent variables, we find a significant and positive coefficient (at 95% confidence) for Company Size (the "bigger" the Company, the higher the amount of donations) and Company Age (the "older" the Company, the higher the amount of donations). On the other hand, rejecting H2, we find significant but negative coefficient both for Board Size (the "bigger" the Board of Directors, the lower is the amount of donations) and Board Age (the "older" is the average age of the Directors, the lower is the amount of donations). Finally, we find no statistical significance (at 95%) for Board Nationality, ROA, leverage and geographical location.

DISCUSSION, CONCLUSIONS AND FURTHER DEVELOPMENT

According to the results of the regression model on our sample of Italian listed companies, we can answer positively to the RQ, stating that there is empirical evidence that gender diversity in boards may affect the corporate giving attitude. Woman presence in Italian listed companies BoDs is quite low, with an average percentage of woman directors below 20% and a maximum value of 43%. The average age of the Directors is around 56 years old and each board has an average of 14-15 directors. Moreover, we provide evidence that companies with a higher percentage of female members in boardrooms have higher level of corporate giving. This empirical evidence is also consistent with the theoretical framework and previous similar studies on gender diversity, corporate governance and corporate giving. While accepting H1, we have to reject H2 regarding the relationship between the amount of donations and Board size and Age. This may be explained with increasing difficulties of the Boards with lots of members to find convergence on specific projects to be funded or even an agreement on a

shared "corporate giving managerial attitude". Major limitations and further development and improvement of this research may be reconducted to the following points:

1. Instead of using the total amount of donations in Euro, the regression model may be tested using the percentage of donations over total revenues. On the other hand this solution may led to problems of heteroskedasticity with other regressors.

2. The variable GEO controls for geographical location, but it only considers the headquarters locations. This solution may be improved considering not the location of the giver but the beneficiary's one, as some sponsorships may be given by donor conmpanies with headquarter in the north to entities or projects located in the south. In other words, even if it is much more difficult to obtain information, it should be better to measure the destination of the sponsorship rather than the location of the headquarter.

3. The analysis may be extended to larger period of time, considering longer trend instead of medium-short period changes and catching structural evolution that do not depend on the specific economic situation.

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THE IMPLICATIONS OF FINANCIAL REGULATION FOR KUWAIT'S FINANCIAL SECTOR

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ABSTRACT

Financial services are significant to a country's economy and embody a broad area of economic activities internationally. It can be argued that the protection of the financial industry is one of the core responsibilities and functions of a developed country. However, financial institutions in Kuwait do not assess the effectiveness of their own services against other institutions around the world. This poses a problem given that the stability of Kuwait's financial system is directly associated to the development of financial customer services and protective measures for investors.

The primary objective of regulation is to have a general and integrated financial supervisory authority responsible for the conduct of prudent financial activities. The regulatory authority power relies on focused decision-making according to specific risks for each financial institution. The disclosure, reliability and transparency requirements are also essential factors that will complement the delivery of proficient financial services.

Keywords: *Investors; financial institutions; financial regulation; Capital Markets Authority (CMA); transparency; disclosure.*

INTRODUCTION

The development of Kuwait's financial industry cultivates economic growth by offering a diverse set of investment vehicles for individuals to sustainably invest their savings. Lately, the financial services industry in Kuwait has gone through a period of modernization brought on by the emergence and evolution of a number of financial instruments.

In light of the global economic crisis of 2008 and its consequences on the economy, it is imperative, for the strength of Kuwait's financial sector that prudent oversight of financial institutions is to put in place.

The economic crisis of 2008 exposed a number of weaknesses in the financial system of Kuwait. Commenting on the situation, the financial editor of one of Kuwait's major newspapers Al-Qabas (2010: 45) summed it up as follows: "We have warned about CEOs, managing directors, board members and executives taking sole decisions for their own advantage, neglecting shareholders. We

have warned about the lack of corporate governance, and clarified its purpose and function. We have warned about the lack of transparency and appropriate disclosure. And we have warned about bogus transactions between related companies that deceived and ambushed investors."

With the downturn in the private sector of Kuwait following the economic crisis, there exists a demand amongst many investors to see the issues of regulation, transparency, and disclosure addressed. According to research by Al-Shammari and Al-Sultan (2010) "results indicate the need to improve Kuwaiti market transparency through additional constraints on corporate governance characteristics. It is believed that this result will prove useful to regulators, preparers of financial statements and investors." These are issues that, although related to the relationship between the firm and the private investor, are within the political oversight reach of the Kuwaiti Capital Markets Authority (CMA).

Given the lack of an actual debate on the function of the CMA in relation to its top priority, specifically to provide a prudent, open and fair financial environment to improve customer satisfaction and firm adherence to rules regulating investment finance activities, this article will attempt to state what are the existing well established guidelines for creating a sound sustainable financial environment, and subsequently compare them with current policies of the CMA.

Such a comparison may be a way to start the debate of how the CMA can improve the financial sector sustainably, by rigorously assessing its practices against a set of sound financial market principles in other international financial centers that have proven successful in establishing well-functioning financial markets.

INVESTMENT STANDARDS

Financial regulatory principles:

- *Prudential regulation*

Regulation involves mainly two characteristics. The first one corresponds to the investor protection and awareness, with emphasis on conflicts of interest (Ascentum, 2013). The emphasis is on improving this protection, by having an independent sustainable body that applies and strengthens regulation and supervision on financial trading. Regulation is enforced by having rules that evolve and identify acts that attempt to alleviate conflicts of interest. According to Crockett (2011), "it is in the long-term interest of both the financial services sector, and the wider economy which it serves, to find ways of neutralizing potential conflicts of interest."

The second characteristic of regulation addresses systemic stability; the impartiality of systemic stability is necessary for the economy; its significance enhances and preserves the economy, making it efficient and effective (Kawai and Pomerleano, 2010). Bernanke (2011) advised that "the financial crisis

demonstrated clearly that supervisory and regulatory practices must consider overall financial stability."

The recent changes in the financial world have stressed the importance of the auditors' role, where the necessity of diligent financial reports is understood to guide corporate governance, and to sustain investors trust. Such practices are supposed to present to investors essential and relevant data and elucidate the vagueness of groups or individuals involved in the exchange of private and confidential financial information. Kawai (2009) has provided guidelines for how this is possible when he states that "the better regulation initiatives have focused on: Optimal combination of rules-based and principles-based supervisory approaches; timely recognition of priority issues and effective response; greater emphasis on financial firms' voluntary efforts; and improvement of transparency and predictability of regulatory actions."

In the case of Kuwait, Al-Wasmi (2011) stated that "mandatory disclosure regulations are important to attain the investor confidence in the capital market." Therefore, for effective financial regulation, the CMA has to provide investors with adequate information, which is often difficult to obtain. Given this, the CMA's role is to enhance the overall transparency and disclosure standards, resulting in a greater interest by investors.

To achieve transparency and disclosure, it is essential to learn from the history of financial reporting regulation. From this history, the CMA can determine the main drivers of the financial system and the dynamics of the regulatory response to financial development. The international regulatory system has experimented with a considerable amount of rules and regulations for various problems within the financial markets, thus provides useful guidance for the CMA to consider.

- *The need for financial market regulating principles and oversight in Kuwait*

Kuwait's economic development and the economic future of many, if not most of its people, are dependent on the financial services industry. Quintyn (2007) stated that "financial institutions play a key role in attaining and preserving a country's financial stability, generally accepted as an important public good." Hence, any disruption to this system has dire consequences not only for capital gains but also to investors' confidence.

This psychological effect to investors has ramifications for economic stabilization, in particular, for the integrity of the financial market, where it is essential to promote and enforce transparency and disclosure. Organization for Economic Co-operation and Development (OECD) (2012) reasoned that the "promotion of transparency and disclosure remains a key prerequisite for exchanges, considering their interest to attract investors and the need to assure them of market integrity." The fundamental objectives of transparency and disclosure are to improve the investor's understanding of financial

information on the products or services provided by the financial institution for a better and informed decision, with the aim of protecting the investor. However, in Kuwait there is a lack of transparency, and this is because of the deficiency in corporate governance and the non-compliance to the standards of disclosure, even when policy makers and researchers like Boot, Dezelan, and Milbourn (2000) think that "the common feature for the regulation of transition and other emerging economies should be increased disclosure and transparency." Yet, Saidi (2004) assures that "disclosure and transparency can be used as a powerful tool to influence companies and protect investors."

Cox (2008) brings up yet another point for the need of regulation making the claim that "voluntary regulation does not work." This means that when financial firms are left alone in a deregulated environment they will not adhere to the utilitarian of regulatory rules in the absence of a regulatory agency. And in the case of Kuwait, Al-Wasmi (2011) believes that "Kuwait should complete the legal and financial regulatory development after producing the capital market law and … ensure company management discipline and the proper protection of shareholders in Kuwait." Here the case for the need of financial oversight is stated in terms of the difficulty in establishing a set of sound market based principles in an effort to avoid unregulated, predatory free market capitalism.

In order to encourage investors to enter what is the oldest market in the Gulf, MEED (2010) recognized that "weak regulation is regularly blamed for the price manipulation and lack of transparency that undermines local savers' confidence in the Kuwait Stock Exchange and deters many foreign institutions from buying stock on one of the oldest bourses in the region." Moreover, Al-Wasmi (2011) affirmed that "the regulatory environment in Kuwait suffers from the weaknesses and the outdated nature of the current law and regulations." Consequently, having the enforcement tools readily available for the regulatory authority will help impede operations of risky practices and products. Whilst the regulatory authorities identify faults, the use of many informal and strict supervisory tools enables them to take quick decisions and enforce compliance.

- *International principles of regulation and the establishment of an efficient financial market in Kuwait*

According to the IMF (2009), "prudential regulation typically aims at ensuring the safety and soundness of the financial system by minimizing risks of failure by institutions … that are viewed as critical for financial stability." In other words, institutions that are too big to fail (TBTFs), since their collapse can potentially create a wide-range of financial instability and economic disorder.

Essentially, prudent regulation creates a financial environment through policies that promote transparency and disclosure, and monitors the market against fraud in order to diminish systemic risk. Brady and Markeloff (2013) have argued that "the health and stability of major financial

institutions bears directly on systemic risk to the financial system. Traditionally, regulators monitor the soundness of financial institutions through routine prudential activities."

Furthermore, Beecher (2008) acknowledged that "the prudent regulator knowingly and authentically embodies all of these virtues - dedication to public service, obligation to the public interest, intellectual curiosity, personal humility, political independence, judicial demeanor, and commitment to ethics - as well as an understanding and appreciation of why they matter fundamentally to the institution." Therefore, according to Bailey, Breeden, and Stevens (2012) "it is the responsibility of each firm's board and management to manage their firm prudently, consistent with safety and soundness, [for] the stability of the financial system."

According to a report by the World Bank (1989: 5) published on Financial Systems and Developments, it was stated that "countries…need to create appropriate financial institutions, develop better systems of prudential regulation and supervision, improve the flow of financial information, develop human skills for managing complex financial operations, and promote good financial habits" in response to causes of the global financial crisis.

For Kuwait to be financially developed in a relatively strong international context, it must have (and comply with) the rules of best international standard practices. Kaufman (2008) affirmed that "in crafting new approaches to financial regulation we must acknowledge the international dimension of leading institutions and markets, and strive to harmonize accounting standards, disclosure and trading practices across national boundaries."

Primarily, prudential regulation affects institutional sustainability by enabling the regulatory body to carry out its duties in a prudent manner, by mapping the investors' maneuverings, and by encouraging financial institutions to observe the value of the regulatory process through an ethical behavior, including the disclosure of pertinent financial information. Prudential regulation also contributes in the soundness and safety of financial institutions, guiding them to reduce risks that can affect the stability of Kuwait's financial sector while protecting investors by enforcing rules aligned with the international best practices.

However, Capital Standards (2010) confirmed that in Kuwait "the current legal transparency and disclosure provisions and standards do not comply with the international best practices." It is therefore recommended, for the improvement of the Kuwaiti economy, that prudential regulation and supervision of financial service providers align more to the frameworks of successful international standards.

The enforcement of sustainable regulatory rules and objectives is what investors want to see here in Kuwait; it can be accomplished by having information disclosure that is accessible to the public,

whereby the CMA can diminish any informational asymmetries, making investment actions more understandable and easier to interpret.

The situation in Kuwait

- *Regulation and the need for transparency and disclosure*

Transparency is defined by Milo (2002) as "the availability of accurate, complete, timely, and relevant information about the financial group to regulators and other interested parties." Therefore, transparency is indispensable for market discipline. Governments may not be able to strictly impose market discipline, but they can enhance the effectiveness of the market by promoting transparency.

In essence, transparency reduces ambiguity and thereby facilitates market stability. Mendonca and Filho (2008) explain that "high degrees of transparency reduce uncertainty." The foremost intention of any regulatory body begins with rules that encourage the transparency of a financial service provider's activities.

Similar to transparency, disclosure is another key aspect to regulation. Choi (1973) referred to disclosure as "the publication of any economic information relating to a business enterprise, quantitative or otherwise, which facilitates the making of investment decisions." The effectiveness of regulation relies on the relationship between transparency and disclosure. Disclosure cannot have an effective role without transparency given that transparency is an indispensable aspect of the financial industry's regulation. As Saidi (2004) stated "weak disclosure and non-transparent practices can contribute to unethical behavior and to a loss of market integrity at great cost, not just to the company and its shareholders but also to the economy as a whole."

Bushee and Noe (2000) argue that "the importance of corporate disclosure practices to institutional investors depends on their investment horizons, information gathering capabilities, and governance activities." Therefore, when financial institutions contribute to the disclosure of financial information and adhere to corporate governance guidelines, only then will disclosure be a standard that controls the publication of a company's relevant economic information. Bhasin (2008) stated that "appropriate corporate disclosure systems means that a good company is able to impress the markets with its integrity."

The use of disclosure is an influential method that can be used to improve investors' protection. Therefore, if disclosure is not adhered to, it will allow offenders to take advantage of inexperienced investors. Shahar and Schneider (2011) agree that "mandated disclosure is the appropriate regulatory method;" and that "financial disclosures stretch to every domain of consumer protection." Furthermore, Shahar and Schneider (2011) recognize that "it aspires to improve decisions people make in their economic and social relationships and particularly to protect the naïve from the sophisticated.

The technique requires "the discloser" to give "the disclosee" information which the disclosee may use to make better decisions and to keep the discloser from abusing its superior position."

Al-Wasmi (2011) confirms that mature "investors will take into consideration the disclosure practice by the company when they decide whether to invest or not." Fundamentally, disclosure in the financial industry is considered a persuasive mode of financial regulation. It increases the availability of information to the public, resulting in more informed decisions that improve the financial sector's efficiency.

Moreover, disclosure obliterates any insider advantages and helps create more market stability by not limiting from public view any information relative to financial services or products, all the while favoring discipline and preventing fraud (Avgouleas, 2009).

- *The stability for Kuwait economy*

It is crucial to have objectives to protect Kuwait's financial system against risks of financial institution failure. However, the degree of protection to a financial institution is to have sustainable prudential regulation that is designed to protect the financial sector against any excessive risks taken by financial institutions.

The solidity, consistency, transparency and efficiency of the financial sector are the objectives that enhance the purposes of regulation and supervision, in order to reduce systemic risks and support the prevention of any abuse to the financial sector. Thus, protecting the investors' financial resources, and thereby supporting the stability of Kuwait's financial system.

Eventually, the supervision of the regulatory authority of financial operations pursuant to laws and internationally standardized principles will work explicitly and transparently, and can relate to the principle of effective supervision. Therefore, the objective of the regulatory body is to monitor and protect the interests of investors, the transparency of market activities and the efficient operations of financial services.

Establishment, objectives and function of Kuwait's Capital Markets Authority (CMA)

- *The inception of the CMA*

On February 2010, Kuwait's Parliament passed new legislation that established an independent authority to supervise and regulate Kuwait's stock market (Kholaif, 2011). The establishment of the new law called for the configuration of an independent, five-member committee whose responsibility and purpose would be to increase and ensure adherence to transparency, to promote efficiency and fairness, and to prevent manipulative trading and other illegal practices, in the expectation that it would protect investors interests, enhance the financial market performance and encourage foreign

capital investments. The mandate also called for the formation of a particular court concerning legal disputes determined by statutes established particularly for financial infringement and specifying stringent terms and immense fines for violators.

The establishment of the CMA in effect promotes Kuwait as a rewarding and modern market, one that could attract foreign investors by ensuring them that there is a regulatory body in place to hold firms accountable to international standards.

➢ *The objectives of the CMA*

Kuwait's Capital Markets Authority (2013) has been mandated with the following objectives:

- Regulate all financial activities in a fair, competitive and transparent method
- Promote the public awareness on what benefits them and the potential risks or liabilities associated with their investments
- Protect all financial service providers and brokers
- Prevent or reduce risks that might occur during the transactions of all financial products conducted in Kuwait markets
- Enforce disclosure to prevent conflicts of interest and the exploitation of insider trading
- Ensure compliance to regulations of the financial markets

COMPARISON AND SOLUTIONS

➢ *How ought the regulatory body (the Kuwaiti CMA) function?*

According to Mwenda (2006), "the Supervisory Authority … operates pursuant to legislation and the internationally recognized principles relating to financial supervision, and shall act openly and transparently, and apply the principles of sound administration."

The regulatory authority must have a comprehensive understanding of all financial activities to not only issue strict guidelines and procedures regarding issues of transparency and disclosure, but also to enforce those rules and regulations on all financial institutions.

Primarily, the regulatory body needs to have the capability to respond to emerging risks to the system as a whole. As Roper (2009) claims, the "regulatory authority could and should be given responsibility for quickly identifying any such [fraudulent, reckless, non-transparent] activities and assigning them to their appropriate place within the regulatory system." Hence, a responsible regulatory practice according to Williams (2009) "requires that regulators critically assess their regulatory approaches, especially during good times, to ensure that they are aware of potential regulatory blind spots."

Fundamentally, the regulatory authority should encourage policymakers to recognize investors' need of increased financial disclosures. These policies should be consistent with global standards of conduct within a universal regulatory framework. This consistency will assist in compliance and will reduce the difficulty of conforming to the law. Furthermore, Singh (2010) recognized that "globally the importance of regulatory bodies have increased, driven by the need to keep track of more complex financial instruments issued by the financial institutions. This would provide better transparency and accountability for the activities of these institutions."

GUIDELINES FOR PRUDENT FINANCIAL INSTITUTIONS

Many theories exist as to how to set up a competitive, transparent, adequately disclosed, and accountable financial marketplace, which varies by each country. However, there are regulatory policies and principles that seem to transcend borders and maintain their efficacy on a global scale, and which can assist the CMA in its effort to create a solid financial market conducive for the relationship between investor and financial firm. Such general set of guidelines for prudent financial oversight include:

- *Unobstructed transparency and disclosure:*
    - Transparency and disclosure are defined and implemented by having laws that allow any individual the right to request or access any information or document relative to the importance of his/ her investment. However, the given right is subject to predefined limitations, exceptions or exemptions of information disclosure (Frederick, 2000); (Robbins and Austin, 1986).

- *Concrete set of rules codified, distributed and impartially enforced:*
    - Effectively and explicitly practicing financial rules that are impartial and within the interest of financial systemic stability in accordance to international standards. The rules ought to maintain a rigorous and regular oversight on the performance of financial institutions for the services or investments they provide.
    - The codified rules of prudent financial services in accordance to international financial principles will improve efficiency, and ensure fair financial practices that will further enforce the codes and make them adequately prudent, whilst sustaining the mechanism that puts these rules in place in order to provide beneficial guidance to investors (Beecher, 2008); Bailey, Breeden, and Stevens (2012).

- *Globally coordinated regulation; exchange of successful strategies between countries:*
    - This involves the coordination to endorse and to establish in Kuwait high quality international standard financial regulation and prudential strategies through edification, consultation and information in an effort to establish global values of business competences, business integrity, social development and economic success. Having such international coordination of regulation and administration practices leads to a progressively more stable financial market (Kawai, 2009); (Banaei, 2008).

- *Oversight and mediation of internal conflict of interests:*
    - Avoiding any potential conflicts of interest that are beneficial or give an advantage to the institution over the investor. The investor should be aware of the impacts of certain conflicts of interest when involved parties have differing opinions or decisions. It is therefore important to have oversight and mediation of internal conflicts of interest in order to accomplish and improve the impartiality to the investor.
    - It is imperative that the potential damage from conflicts of interest be avoided or reduced by clear disclosure of the conflicts to investors. Fundamentally, regulations can deal with the conflicts of interest and/ possible biases created by them in any given recommendation by the institution.
    - It must be noted that, conflicts of interest can and will give way to fraud and therefore it is indispensable for the institution to manage conflicts of interest, because of practical and ethical implications for the financial sector.
    - Financial institutions must be sufficiently determined in pursuing their oversight obligations, by putting in place rules that necessitate full disclosure, and pay particular attention to exposure of conflicts of interest, evading any situation that can have opposing concerns or objectives that prejudice impartiality for the investor or the institution (Demski, 2003); (Angel and McCabe, 2013); (Mehran and Stulz, 2006).

- *Promoting and enforcing the adherence to regulatory rules:*
    - Well-written and designed regulatory rules are effective in providing adherence to consistent and fair financial practices and procedures. Adherence to rules helps prevent potential risks that financial institutions might expose investors in.
    - Financial institutions have to commit to implementing all financial standards issued and enforced by the regulatory authority while disclosing their methods of adherence. It is the responsibility of the regulatory body to promote the adherence to any and all regulations

concerning professional conduct in Kuwait's financial sector (Kganyago, Momoniat, and Tshidi, 2013); (Hoenig, 1999).

HOW CMA CAN ALIGN WITH INTERNATIONAL STANDARDS?

The alignment of international standards of regulation will add flexibility and capability to the baseline rules of sustainable regulation, while still taking a broad view of all of the modern financial conglomerates that participate in Kuwait financial industry.

It is important to consider coordination with other countries' regulatory bodies, as this can help to enhance cooperation with international authorities to reduce systemic risk, to conserve and enhance capital wealth and to further invite foreign capital investments. Therefore, in order to attract investors into Kuwait financial industry, it is important to assure the safety and soundness of Kuwait's financial institutions, which can be achieved by strong financial disclosure practices that allow investors to make informed decisions based on the disclosed preferences.

As such, if CMA implements regulatory and supervisory reforms, it can identify risky regulatory gaps in Kuwait financial sector, avoiding potential risks for the investor and the sector. Essentially, the competency of CMA allows it to implement and develop a wide variety of regulatory and supervisory methods to remain vigilant of troubled institutions that play an integral role in systemic risk. Having sound economic policies helps CMA to counteract any systemic vulnerability. This can be achieved by ensuring oversight and strong international financial regulation with prompt coordination in order to prevent possible crises. The management and resolution teams of the CMA can achieve this by controlling how the CMA performs its mandates.

Eventually, the alignment of regulation on financial services in Kuwait with international standards will enhance supervision, which, in turn, will improve Kuwait's economy for the many reasons discussed above. Currently, the legal requirements and standards of transparency and disclosure in Kuwait do not conform to international best practices. Henceforth, having laws and regulations that protect the investors' interests that are clarified by additional policies and guiding principles will help the regulatory authority to endorse its role.

RECOMMENDATIONS

This article focused on the issues of regulation and transparency of financial services in Kuwait, taking into account the role and authority of the CMA for a sustainable economic growth.

It is therefore recommended that when comparing the guidelines of the CMA with other developed sustainable financial markets in different parts of the world, that the CMA associates its guidelines to

be aligned with the developed international frameworks of regulatory and supervisory standards and to identify systemic risks to the economy in general and to the investor in particular.

Furthermore, the application of the guidelines that have been discussed through this article will provide the CMA the sustainable strategies to implement prudential regulation and enforcement on financial institutions. Nevertheless, the goal of regulating Kuwait's financial sector is to have best practices supporting the principles that help strengthen transparency and responsibility. This will stimulate a sound regulation of Kuwait's financial industry to align with international standards of financial regulation.

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IMPACT OF EUROPEAN EXPATRIATES' GENDER ON THEIR ADAPTABILITY TO ARAB CULTURE

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ABSTRACT

This study examines the relationship between gender and Arab culture adaptability for European female and male expatriates currently working in Jordan. Quantitative comparative and correlational empirical methods are employed to test the impact of European expatriates' gender on their ability to adapt to the Arab culture of Jordan. The pertinent data was collected through an online survey of 87 European expatriates of both genders currently posted in Jordan. The findings indicate presence of a significant relationship between gender and adaptability to the Arab culture among European expatriates. More specifically, European female expatriates are less likely to adapt to the Arab culture than their male European counterparts. The results yielded by this study reinforce those reported in extant research in this field, suggesting that gender has significant influence on expatriates' adaptability to different cultures. The limitations of this study stem from the small number of participants and Jordan as the only expatriation location investigated which doesn't allow for generalizing the findings. Thus, future research may replicate this study using a large number of expatriates working across different Arab countries. Future research should also investigate the reasons why female European expatriates are facing difficulties in adapting to Arab culture.

Keywords: *Gender and Culture; European Expatriates; Arab Culture; Jordan Culture; Adaptability to Arab Culture; Cultural Training; Female Expatriates; Male Expatriates.*

INTRODUCTION

Cross-cultural differences are the main obstacle for international managers and expatriates who are posted in a country where prevalent culture is markedly different from their own. While they face many challenges, some are gender-specific. As different cultures perceive gender differently, it is becoming critically important to understand its impact on the expatriates' adjustment ability, owing to the increasingly globalized world and greater workforce mobility. In particular, for Western expatriates posted in countries with Arab culture, adapting to local way of life can be a challenge due

to the many differences in the treatment of women. While previous research has investigated gender impact on cultural adjustment, there is evident paucity of studies specifically addressing of the effect that European expatriates' gender has on their adaptability to Arab culture. Thus, in order to bridge this gap in the extant knowledge, the present study aims to examine the relationship between gender of European expatriates posted in Jordan and their ability to adapt to the Arab culture. Comparative exploratory correlational approach is employed in order to reveal any differences in the way female and male European expatriates adapt to local culture.

RELATED LITERATURE

According to the Hofstede's Center of cultural dimension (Hofstede, 2015), the masculinity score of Jordan (45) is lower than that pertaining to Germany (66) and Italy (70). This discrepancy indicates the Jordanian society is less driven by competition and achievement than those of the other countries studied. Moreover, compared to German or Italian, Jordanian society is less feminine and this gender discrimination makes the country less desirable in terms of quality of life.

In a quantitative study, Ramalu *et al.* (2010) investigated the effect of personality on expatriates' adjustment in Malaysia. The authors collected information from 332 expatriates working in Malaysia and statistically tested the impact of their personality on their level of adjustment to the local culture, while controlling for gender, previous expatriation experience, experience of the Malaysian culture, and knowledge of local language. The authors found significant influence of gender on cross-cultural adjustment in the Malaysian culture. The study also indicated presence of a positive relationship between emotional stability and psychological aspects of general adjustment, interaction adjustment, and work adjustment.

Budaev (1999) researched the sex differences in the Big Five personality factors, namely extraversion, neuroticism, emotional stability, agreeableness, and intellect. To test the variance in expatriates' emotional stability among males and females, the author placed both groups into one coordinate system and conducted covariance matrices. Two-way ANOVA results indicated that females had higher score on low emotional stability than males, thus confirming that gender has significant impact on adaptability.

In a more recent study, Peltokorpi (2008) examined the work related and non-work related determinants of expatriates' adjustment to the Japanese culture. The author hypothesized that gender and emotional stability are among several other factors that influence both work related and non-work related cultural adjustment in Japan. A hierarchical regression of 110 expatriates was conducted

to test the correlations among all variables. The author's findings indicated presence of a positive relationship between gender and both adjustment types.

Caligiuri (2000) reviewed several extant studies exploring the impact of gender on the success of international assignment. The study attempted to verify the assumption that males are better suited for expatriate positions than females, and are thus more likely to be hired for such posts. On the other hand, the author reported significant evidence of the effect of personality traits on expatriate performance, suggesting that this phenomenon is much more complex. Data reported by Florkowski and Fogel (1995) indicated that, two decades ago, only 11 percent of expatriates in the world were females. Caligiuri (2000) also examined the success rate of women versus men in international assignments, finding little evidence of gender impact.

More recently, Harrison and Michailova (2012) conducted a study to evaluate the level of adjustment and strength of social ties of Western female expatriates in the Arab culture. The data collection instrument was a survey that was distributed to 86 female expatriates working in the United Arab Emirates. The sampled population included women from Australia, New Zealand, UK, and the USA. In addition, the authors conducted 28 interviews with study participants. Their findings revealed that Western female expatriates working in the UAE are not having any difficulty in adjusting to the business environment. However, the authors indicated that all survey respondents worked in global organizations and thus had no need to interact with the local Arab population, as all their work colleagues were Westerners. This is a notable limitation of this study, as its findings cannot be generalized to other work settings. Cross-cultural training of non-Arab expatriates in the UAE was also found critically important for improving expatriates' level of integration within the Arab society (Aljbour *et al.*, 2013).

Stalker and Mavin (2011) investigated the level of female expatriates' adjustment in the Islamic society by conducting a survey in the UAE. The authors focused on the expatriates that were self-employed, as these women did not receive any training or support from any organization. The findings this study yielded indicated that, in Arab society, women expatriates are considered as a third gender because the local people viewed them as expatriates first then women second. The study participants also indicated that their gender affected their ability to conduct business, while also making integration into the local society difficult.

Arab culture represents a challenging environment for non-Arab expatriates. As stated by Aljbour and Hanson (2015), "level of task complexity in Arab markets is higher than other markets and that has significant influence on non-Arab managerial expatriates' performance". In another article, Hofbauer

and Fischlmayr (2004) explained "the notion of international assignments as a social practice that is embedded in gendered relations of power, it aims to explain why women entering the domain of international management may turn out to be the conquerors of empty castles".

HYPOTHESIS

As the literature review revealed absence of studies that investigated the impact of European expatriates' gender on their ability to adapt to the work and private life in Jordan, this research was conducted in order to fill this gap in the extant knowledge. Moreover, majority of extant studies on gender effects on expatriate adaptability were conducted in the United Arab Emirates, where the society is highly influenced by Western culture. Thus, most European expatriates do not have sufficient opportunities to interact with Arab culture (Harrison and Michailova, 2012; Stalker and Mavin, 2011). On the other hand, studies conducted in other countries, such as Malaysia (Ramalu *et al.* 2010) and Japan (Peltokorpi, 2008) revealed that gender is a significant factor in the Western expatriates' adjustment to the local culture. Those findings highlighted the need to explore the impact of gender on European expatriates' adjustment to the Arab culture in Jordan. The following hypothesis is tested in this study:

H1: European expatriates' gender significantly impacts their ability to adapt to the Arab culture.

SAMPLE AND PROCEDURES

In order to test the aforementioned hypotheses, 87 European expatriates who are currently working in Jordan were recruited for this study. They came from United Kingdom, Hungary, Bulgaria, Ireland, France, Italy, and Germany. Due to the small size of the Jordanian market, the number of European expatriates who are currently working in Jordan is not identified, but is assumed small. Thus, this sample size is deemed acceptable and the participants representative of the population of interest.

The data was collected via an online survey distributed by email, whereby a link to the website was sent to 300 expatriates' email addresses. To filter the responses, a demographic section was included, allowing the nationality and gender of the participants to be determined. In order to increase the response rate and protect the respondents, the participants were assured of confidentiality and anonymity. Two weeks after sending the initial email, a reminder email was sent to encourage more participants to contribute to the study. As three weeks after the first invitation email 137 responses were received, the survey was closed. However, after filtering the completed surveys by respondent's

nationality, 87 participants remained, corresponding to 29 percent response rate. These 87 surveys were stored in a secured file for further analysis.

METHODOLOGY

This research is a comparative exploratory correlational study, aiming to examine the relationship between European expatriates' gender, as independent variable, and their ability to adjust to the Arab culture of Jordan, as dependent variable. A two-part questionnaire was used to measure variables related to gender and the level of adaptability of European expatriates to the Jordanian. The first part of the questionnaire sought to obtain demographic information and included items pertaining to the respondent's nationality and gender which was used to filter responses and analysis. The second part of the questionnaire was adapted from the study conducted by Aljbour (2011), in which the author explored the impact of culture on European expatriates. This section attempted to identify the level of adaptability to Arab culture by asking the participants to respond to a set of 10 questions using a Likert-type scale to indicate their level of agreement/disagreement with a particular statement. Thus, the coding scheme for the second section was 1 = Very Low, 2 = Low, 3 = High, and 4 = Very High. More specifically, the 10 questions were related to the ability to adapt to the host culture, family adaptability, human relations, understanding the host culture, knowledge of the Arabic language, communication skills, emotional stability, openness to others, self-confidence, and trust in the local employees.

Based on the responses given to these questions, it was possible to measure and compare the adaptability of European female and male expatriates using Pearson Chi-square. The difference between the adaptability levels of the two groups was analyzed, with $p \leq 0.05$ chosen as an indicator of statistical significance. Correlation analysis for the significance level was then employed to test the correlation between gender and adaptability to Arab culture. To test Hypothesis 1, European expatriates' gender significantly impacts their ability to adapt to the Arab culture, skewness and kurtosis tests were adapted to examine whether the data was normally distributed. To test the variance between the two groups, the author conducted a simple histogram test for each of the groups' data. In addition, cross-tabulation regression analysis using residual statistical test was employed.

RESULTS

The study examined the relationship between the European expatriates' gender and their ability to adapt to Arab culture in Jordan. The data used for this analysis was sourced from survey responses

provided by 87 European expatriates, of whom 31% were female and 69% were male, as shown in Table 1.

	U.K.	Hungary	Bulgaria	Ireland	France	Italy	Germany	Total
Participants	14	6	6	8	17	14	22	87 (100%)
Female	3	1	2	1	5	7	8	27 (31%)
Male	11	5	4	7	12	7	14	60 (69%)

Table 1. *Frequency Distribution of Demographic Characteristics*

Pearson Chi-square of 11.681 was obtained, based on the analysis with three degrees of freedom, which is higher than the critical value of 7.81. In addition, Asymptotic Significance value is .009, which is less than the alpha value of 0.05. Based on the standardized residuals, most values are within the level of significance of -1.96 and +1.96 which indicates significant influence of different gender on adaptability to Arab culture. However, the results are affected by the low adaptability of some female respondents to Arab culture. Finally, based on the minimum expected count of 87 and the sample size requirement for the chi-square test, the independence is satisfied (See Table 2).

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	11.681[a]	3	.009
Likelihood Ratio	11.520	3	.009
Linear-by-Linear Association	2.950	1	.086
N of Valid Cases	87		

Table 2. *Chi-Square Tests*

The skewness and kurtosis differed between genders, whereby -.847 and -.020 were calculated for the female participants, while .123 and -1.191 were obtained for males. The negative result for females indicates that the data distribution is negatively skewed and platykurtic while for males shows a positively skewed distribution. Nonetheless, in both cases, the data is normally distributed. Moreover, simple histograms reveal a considerable variation in the ability to adapt to Arab culture between females and males (See Figure 1 and 2).

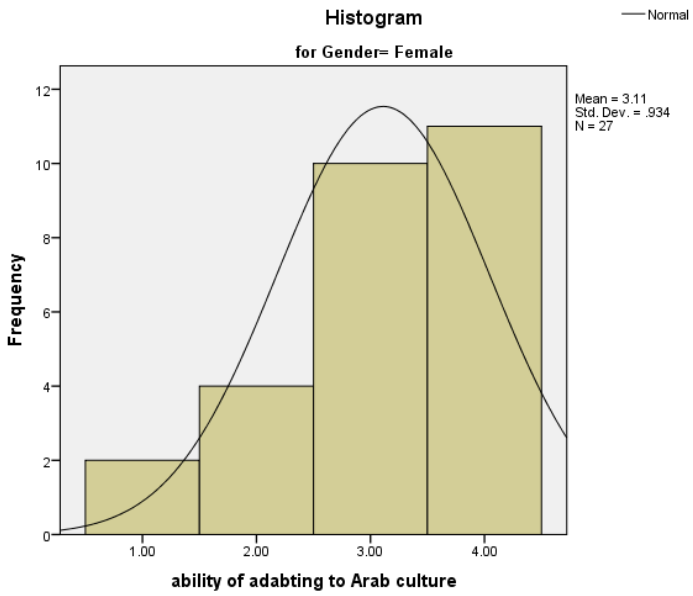

Figure 1. *Female European Expatriates' Ability to Adapt to Arab Culture*

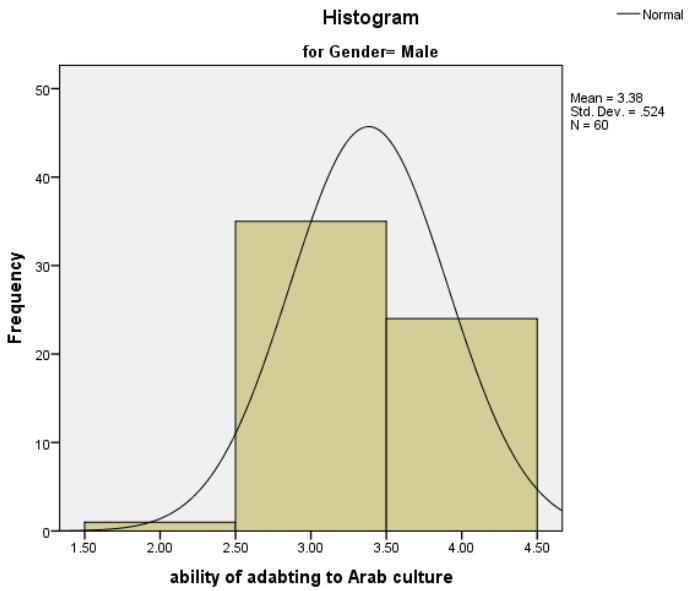

Figure 2. *Male European Expatriates' Ability to Adapt to Arab Culture*

As can be seen in Table 3, a large number of male respondents (59=98%) feel that they are highly or very highly adapted to Arab culture, while only fewer female respondents (21=78%) provided this response. On the other hand, only two women indicated that they failed to adapt to Jordanian way of life.

			Gender		Total
			Female	Male	
ability of adapting to Arab culture	Very Low	Count	2	0	2
		Expected Count	.6	1.4	2.0
		Residual	1.4	-1.4	
		Std. Residual	1.8	-1.2	
	Low	Count	4	1	5
		Expected Count	1.6	3.4	5.0
		Residual	2.4	-2.4	
		Std. Residual	2.0	-1.3	
	High	Count	10	35	45
		Expected Count	14.0	31.0	45.0
		Residual	-4.0	4.0	
		Std. Residual	-1.1	.7	
	Very High	Count	11	24	35
		Expected Count	10.9	24.1	35.0
		Residual	.1	-.1	
		Std. Residual	.0	.0	
Total		Count	27	60	87
		Expected Count	27.0	60.0	87.0

Table 3. *Cross-tabulation of the Ability to Adapt to Arab Culture based on Gender*

As the responses were rated from 1 = Very Low to 4 = Very High, the average adaptability of female and male respondents, 3.11 (SD = 0.933) and 3.38 (SD = 0.523), respectively, indicates that genders factor predict the ability to adapt favorably. The median ability of adapting to Arab culture is 3, and is the same for both genders. Table 4 provides the adaptability scores of male and female study participants.

Sex of Participant	N	Mean	Std. Deviation
Female	27	3.1111	.93370
Male	60	3.3833	.52373
Total	87	3.2989	.68395

Table 4. *Standard Deviation of the Ability to Adapt to Arab Culture*

The results indicate that the European expatriates' gender strongly predicts their ability to adapt to Arab culture and, therefore, Hypothesis 1 is supported.

CONCLUSION

This study aimed to increase the current understanding of the role gender plays in the European expatriates' ability to adapt to the Arab culture in Jordan. Based on the survey responses provided by 87 study participants of both genders, where they rated various aspects of adaptability as Very Low, Low, High, or Very High, it could be concluded that males were better adapted than their female counterparts. Thus, it is evident that gender influences the ability of European expatriates to adapt to Arab culture. The impact of gender on cultural adaptability has been supported by several studies

(Ramalu *et al.*, 2010; Budaev, 1999; Peltokorpi, 2008; Caligiuri, 2000). This study found a difference in the ability to adapt to Arab culture between European male and female participants. Based on these findings, Hypothesis 1 of "European expatriates' gender significantly impacts their ability to adapt to the Arab culture" is supported. Thus, this study provided further confirmation for the extant findings indicating that gender plays a significant role in expatriates' cultural adaptability. The limitation of this study is the small sample size, which is partly driven by selecting Jordan as a sole study location. Hence, the potential for generalizing the findings to all other markets in the Arab culture is limited. Thus, future research may replicate this study in other Arab markets with larger presence of European expatriates. The author also recommends investigating the reasons why female European expatriates are facing difficulties when adapting to Arab culture.

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INNOVATIVE FINANCE FOR SUSTAINABLE DEVELOPMENT OF THE TERRITORY

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ABSTRACT

The energy from renewable sources is an issue that is closely linked to sustainable development and it is a challenge to be managed with new approaches, with an integrated public policies as well as to develop and support a new culture, boost economic growth and create new jobs in areas related to energy efficiency. Given that the way to follow is to invest in renewable energy sources in order to ensure energy and environmental sustainability, an objective of the present work is to verify the use of financial instruments to support in necessary vestments. In fact, Directive 27 asks the government for finding efficient energy solution in order to build, renovate and manage the buildings, to train citizens to the efficient use of energy and inform them of the savings opportunities linked to it.

Keywords: *Energy, Sustainable development, Renewable Energy, Innovative finance, Public-Private partnership, Project Finance, Leasing contract.*

INTRODUCTION

In recent years has greatly increased the attention of Western countries to the issue of energy production from renewable sources for both environmental pollution problems in order to limit the climate change, and the opportunities related to the diversification of energy sources, due to a progressive depletion of the traditional ones, to reduce dependence on imported energy[1] and to reduce emissions of carbon[2]. Starting from the Kyoto Protocol of 1997 it has been followed the

[1] To 2012, 82% of the Italian energy requirement is covered by net imports. Italian Action Plan for Energy Efficiency (EEAP) 2014 approved by the Minister of Economic Development in consultation with the Minister of the Environment, Land and Sea July 17, 2014.

[2] The Communication Energy Roadmap 2050 (COMM / 2011/885 final), published in December 2011, confirms the ambition to decarbonise 80-95% of the European economy by 2050 compared to 1990 levels, while strengthening the competitiveness of 'Europe and the availability of supplies.

agreements, protocols and interventions of the European Union; specifically in Directive 2009/28 / EC on the promotion of the use of energy from renewable sources, it has been established that by the year 2020 the greenhouse gas emissions should be reduced by 20% compared to 1990, and be covered by renewable sources the 17% of final energy consumption in the fields of electricity, heating and cooling, and transport. Even more stringent are constraints imposed by the European Directive 2012/27 / EU on energy efficiency which establishes the need for an integrated approach to address all aspects of supply and demand of energy for smart, sustainable and inclusive. Energy from renewable sources is a subject which is closely linked to sustainable development and configurations. It is a challenge to manage with new approaches, with an Integrated Public Policies aimed at developing and supporting a new culture, boosting economic growth and create new jobs in sectors related to energy efficiency .

Providing that the direction to follow is to invest in renewable sources to ensure a sustainable energy and environmental, the present work's objective is to check the use of financial instruments in support of the Investment CIO needed; indeed, the Directive 27 imposes on authorities to find solution for energy-efficient in order to build, restructure and manage the buildings as well as to educate citizens on an efficient use and saving of energy.

SUSTAINABLE TERRITORIAL DEVELOPMENT: OPPORTUNITIES AND CRITICAL ASPECTS

The concept of "sustainable development" was defined by the World Commission on Environment and Development in the Bruntland Report as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (WCED, 1988).

It is necessary therefore to pursue new sustainable development goals on which to converge the action of individuals, public and private, which operate in the use and transformation of the territory, according to the principles of subsidiarity and institutional cooperation.

In a world as complex as the current, a territorial policy is possible only if there is a territorial project known and shared by the largest possible number of subjects. Given that in a democratic system are many actors, a large part of the process planning is the difficult and dialectical construction of the project, which can be fully supported only if combined with the fairness and credibility of the analytical methods, the participation of those on territory they live and work.

Today there is a great opportunity: the simultaneous preparation of several planning tools for the region, the Territorial Plan (PTR, also with valence of Landscape Plan), the Province, the Provincial Territorial Coordination Plan (TCP) and the plan of suburban traffic (PTVE), for municipalities, the Plans of Government of the Territory; all to be subjected to Strategic Environmental Assessment (SEA).

In the face of the technologies currently in use, in addition, it is often emphasized the high cost and low performance of appliances available, showing that, due to the high incidence of fixed costs of the plant and the amount of energy produced from alternative energy sources, there is little convenience to invest in renewable energy in the absence of public incentives. The same government, which is assigned the task of initiating effective and incisive information campaigns to citizenship for energy saving and rational use of resources, often shows technical limits and thunderstorms that do not allow to launch an effective policy in the long run that goes beyond the constraints of the mandate assigned. The new legislative package promoted by the European Commission aims at making it more flexible and operative the market for alternative energy technologies and services. We rely on market mechanisms to point to an efficient allocation of costs and maximize economic and social benefits. The prices, in fact, should come from an encounter between demand and supply of technology and low-carbon energy services through trade on the markets for emission certificates and trade of renewable energy (D'Orazio, 2008). The achievement of the objectives set by the European Commission will, on the one hand, make possible to remedy the climate change and, on the other hand, to ensure the competitiveness of the production system through cost-effective solutions, ensuring, through the policies put in security of supply and stability in the long run, the reference scenario in order to reduce its impact on the cost of the investment, but also to create new jobs. The solutions proposed by the Commission are to (GSE, Activity Report, 2013):

- the adoption of a binding target for the reduction of greenhouse gases by 40% compared to 1990 levels, with a redefinition of the mode of operation of the system of emissions trading to mitigate the problem of excess CO2 quotas through the establishment of a reserve for market stability;
- setting a binding target on renewable energy, global for the entire European Union, 27%, for the attainment of which is left to the individual Member States the flexibility to transform its energy system in the most appropriate depending on the needs national;
- the definition of a role for energy efficiency to be established at the basis of the evaluation of the action plans to be developed by the end of 2014.

Through a series of indicators it will be evaluated the progress made including price differentials energy dependence from abroad, the development of interconnections.
In order to realize it the local governments will have to build a new governance based on national plans for more competitive safe and sustainable energy, and of course to devise ways to reach them.
The technical, commercial and bureaucratic barriers for the dissemination of energy models focused on the use of renewable sources, are still high, and this leads to reduce their competitiveness on the market; the opportunity to produce energy able to minimize the polluting emissions and exceed the limit of exhaustibility sources still collides with a series of objective limits, including intermittent flow

of solar radiation and the difficulty of storage, as well as the lower density and the irradiation energy of the wind, which results to be much lower than that of oil and carbon. In addition, the collection and transformation of energy from renewable resources requires tools that are much more cumbersome and expensive compared to those used for oil and coal (Bartolazzi, 2006). The creation of wind farms or the installation of photovoltaic panels (except where they target surfaces of buildings) requires significant extension of spaces it the intention is to reach a total power generation that exceeds the minimum threshold of self-sufficiency. This leads, in many cases, a profound modification of the landscape, going to alter the original habitats and natural balance of the microenvironment in which these technologies are implanted. It is also necessary to consider the difficulty in programming and storing the energy produced from renewable sources, partially overcome by the possibility of giving the network the energy produced in excess of that used on site. Regarding the technologies currently in use, in addition, it is often emphasized that the cost is high and performance of appliances available low, showing that, due to the high incidence of fixed costs of the plant and the uncertainty of the energy amount produced from alternative energy sources, it is less convenient to invest in renewable energy in the absence of public incentives (Amatucci, Dress, 2009, p. 17). The scenarios developed by ENEA show how the shift of the energy system to a lower greenhouse gas emissions has a direct impact on all cost components: investment in production facilities, energy transformation and in end-use technologies; fuel costs and net imports (import-export) of energy; operating costs (Enea, 2013).

It appears, then, today even more urgent is to develop a comprehensive and long-term strategy for the redevelopment of the Italian real estate, public and private, that is able to restart the economy of the sector and make it mandatory, through effective mechanisms controls and sanctions, the energy certifications, measurements of consumption before and after surgery. By replacing obsolete infrastructures will reduce waste and inefficiency so to point to the increase of electricity production, the distribution of which can be improved through the implementation of interconnections, smart grid and energy storage systems of various kinds. Moreover, in the impact assessments carried out by the European Commission on low carbon scenarios, it is highlighted the benefits in terms of life quality, human and environmental health as well as the economic development opportunities offered by these evolutionary paths (Enea, 2013 p. 65). However, it is important to point out that the share of energy from sources renewable is considerably grown in 2013; Italy is at less than 0.5 percentage points from the lens of 2020, even if it is still distant from countries that have shares of energy from sources renewable very high like Sweden (52.1) or Finland (36.8), as showed in the below tables.

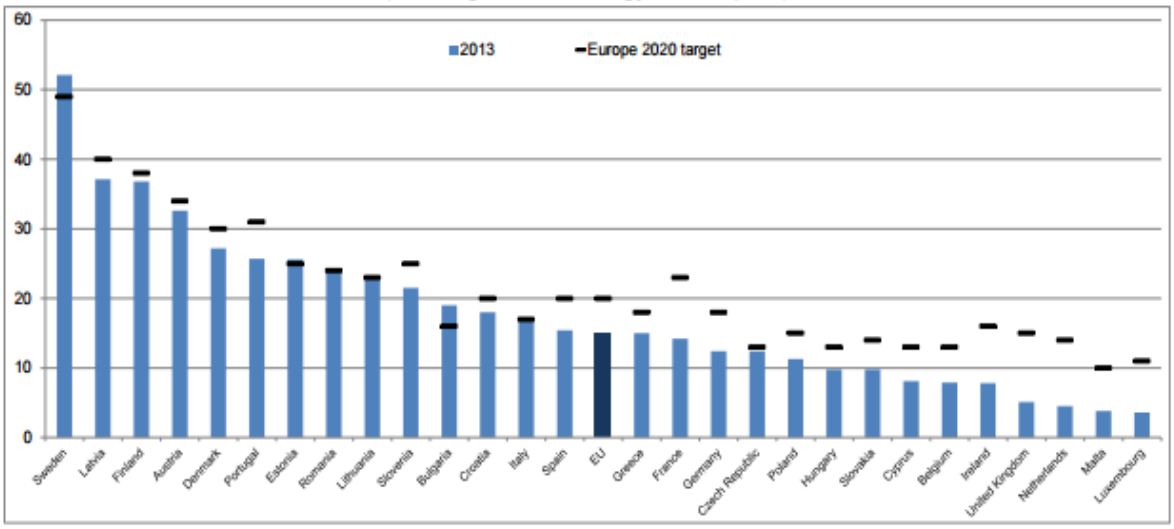
Share of energy from renewable sources[6]
(in % of gross final energy consumption)

	2004	2010	2011	2012	2013	2020 target[5]
EU	**8.3**	**12.5**	**12.9**	**14.3**	**15.0**	**20**
Belgium	1.9	5.7	6.1	7.4	7.9	13
Bulgaria	9.5	14.1	14.3	16.0	19.0	16
Czech Republic	5.9	9.5	9.5	11.4	12.4	13
Denmark	14.5	22.0	23.4	25.6	27.2	30
Germany	5.8	10.4	11.4	12.1	12.4	18
Estonia	18.4	24.6	25.5	25.8	25.6	25
Ireland	2.4	5.6	6.6	7.3	7.8	16
Greece	6.9	9.8	10.9	13.4	15.0	18
Spain	8.3	13.8	13.2	14.3	15.4	20
France	9.4	12.8	11.2	13.6	14.2	23
Croatia	13.2	14.3	15.4	16.8	18.0	20
Italy	5.6	10.5	12.1	15.4	16.7	17
Cyprus	3.1	6.0	6.0	6.8	8.1	13
Latvia	32.8	30.4	33.5	35.8	37.1	40
Lithuania	17.2	19.8	20.2	21.7	23.0	23
Luxembourg	0.9	2.9	2.9	3.1	3.6*	11
Hungary	4.4	8.6	9.1	9.5	9.8	13
Malta	0.1	1.0	1.4	2.7	3.8	10
Netherlands	1.9	3.7	4.3	4.5	4.5	14
Austria	22.7	30.8	30.9	32.1	32.6	34
Poland	6.9	9.2	10.3	10.9	11.3	15
Portugal	19.2	24.2	24.7	25.0	25.7	31
Romania	17.0	23.4	21.4	22.8	23.9	24
Slovenia	16.1	19.3	19.4	20.2	21.5	25
Slovakia	5.7	9.0	10.3	10.4	9.8	14
Finland	29.2	32.5	32.9	34.5	36.8	38
Sweden	38.7	47.2	48.9	51.1	52.1	49
United Kingdom	1.2	3.3	3.8	4.2	5.1	15
Norway	58.1	61.2	64.7	65.9	65.5	67.5

* Eurostat estimates based on the national data transmission under Regulation (EC) No 1099/2008 on energy statistics.

Source: Eurostat, Energy Statistics

Share of energy from renewable sources in the EU Member States, 2013
(in % of gross final energy consumption)



Source: Eurostat, Energy statistics

These important results have been achieved for several reasons: for the significant growth in recent years of the renewable energy in the electricity sector (especially photovoltaics, followed by wind and

bioenergy), for the significant contribution of renewable heat sector (attributable in particular to biomass and heat pumps), as well as for the decrease of the total energy consumption that affected Italy from 2005 onwards (GSE, activity Report 2013, p. 15). The presence of highly specialized companies in the various sectors of energy production from renewable sources and centres of research and development in the field of alternative energy, together with the favourable climatic conditions of Italy undoubtedly conducive to the use of renewable resources for energy production clean, especially those related to the sun (photovoltaic and solar thermal), depending on the potential radiation and wind index of the national territory, represents the factors strategically important to pursue the goal of achieving high rates of renewable energy use. It is crucial to promote public-private partnerships and innovative financial instruments to attract new capital and boost the competitiveness of the production system.

INNOVATIVE SOURCES OF FINANCING TO SUPPORT SUSTAINABLE TERRITORIAL DEVELOPMENT

The need, increased in recent years, of public authorities to promote the sustainable development of the social and economic context of reference collides increasingly with the limited availability of public money, which pushes the government to resort to alternative means of funding and innovative compared to those typical of traditional finance. The term "innovative finance" was born in the 80s, initially in the private enterprise system and subsequently expanded in the public sector. By using this definition it is identified a series of instruments that raise funds through different forms of debt: from the Venture Capital operations to more sophisticated forms of public-private partnership such as financial *leasing* and project *financing*. With the innovative finance are born new ways of disbursement of funds, investors, in these cases, grant trust to a project or an idea for making at the same time, not only money but also the experiences of professional, technical and managerial skills. It is possible, in fact, to benefit from advantages that the traditional channels hardly would offer: more favourable terms than those related to the ordinary mode of financing; choice of duration and repayment conditions of the loan, finding resources to benefit projects of considerable size and tax benefits. However it should be emphasized that the use of innovative financial instruments also implies higher risks related to the actual cost-effectiveness of the operation, which generally requires the support of specialized subjects in the field, which will have to start the operation and constantly monitor identifying trends from time to time additions or corrections to be made aimed at reducing risk.

Instruments

The intervention of private capital in the construction of public works and in the public services management is a worldwide phenomenon that gains every year more and more importance. In the Green Paper on Public-Private Partnerships, published in April 2004 by the European Commission, it is provided a classification of Partnerships and makes explicit reference to the partnership contract, in which a person assumes responsibility for the design, financing, construction and management of 'public initiative, taking particularly into account the economic and financial risk of itself (Epec 2010).
The elements common to such forms of partnership can be summarized as follows:

- Long-term loans (25-30 years on average), including the design, financing, operation and maintenance of the work, usually without the transfer of ownership to private, which remains an option only for certain contracts;
- Construction and management, through a company formed *ad hoc* (SPV, Special pourpose Vehicle) by private investors, with the possibility of autonomous action to the financial market;
- Financing totally or partially secured by individuals and their sponsors and guaranteed by a mechanism of non-recourse loans, with debt leveraging rather pushed (70-80% of the investment);
- Mechanism of return on investment during the management assured by the cash flows generated from the sale of services to citizens (user charges) or by the public, still tied to the services provided by the operator;
- Economic and financial risk-taking by the private initiative.
- Below we analyse two of the main instruments of innovative finance: the leasing contract and project financing

The leasing contract

Finance leasing means the operations of leases of real or personal property purchased or built by the lessor, of choice and indication of the conductor, who assumes all risks and with the right for the latter to become owner of the property leased at the end of the lease, on payment of a fixed price. The term "public leasing" indicates precisely the case of finance leases in which the individual user of the asset is a public body or a non-economic public body that relates to an instrumental good to the public interest pursued by the body (UTFP, 2008).

The financing project

The project financing is characterized by being a technique of financing alternative compared to traditional forms of financing business, in fact:

- The bank centralizes its attention solely on the quality of the project that is proposed in order to verify the ability to repay the loan granted;
- There is the diversification of risk, resulting from the project, through a summation of the individual contracts.

In the provision of infrastructure in Italy the financing project is associated to the award of the concession to build and operate (Gentile, 2009). The procedure used is that most art.153 of Legislative Decree n. 163/2006 which allows private citizens to present itself to the construction and operation of public works, under concession for the design, construction and management, with resources "totally or partially borne by the promoters themselves" (Vecchi, 2008).

Availability contract

The contract of availability is a new form of PPP available to public clients, aimed at allowing in particular the provision of real estate assets of private property in perfect working for long periods without taking significant risks by the customer. What is decisive, therefore, is the obligation to ensure a comprehensive technical management, without exception, which can have as a first result a general rise in the quality of the projects (Ifel, 2014).

With regard to the profiles of return mandated party, the current rules provide for three forms of compensation: a fee of availability, the recognition (if any) of a contribution in the course of work; a transfer price (if any).

Securitization

Securitization is a technique by which complex financial assets and deferred liquidity are converted, through their sale, to a person skilled in financial products represented by securities and placement markets (Cuccurullo, La Gioia, 2007).

The process by which it implements the securitization is divided into three distinct phases :

- Identification of the goods you plan to securitize;
- Transfer of assets to the transferee company (SPV) ;
- Issue and placement of securities representative of the property sold .

CONCLUSION

Among the key elements of the strategic framework for 2030 on energy policy, established by the European Commission, renewable energy plays a crucial role in a sustainable Energy sytem, safe and competitive. To achieve the objectives set at EU level, translated into National targets, it is necessary to stimulate continued investments in technology in the industry for the benefit of businesses, consumers

and the environment. The role of government is crucial to achieve energy efficiency targets, the functions of planning and programming assume strategic importance, and are strictly subject to management decisions and technological solutions. In particular, we are moving towards greater integration between urban planning tools and financial transactions with public-private partnership for the rehabilitation and development of urban areas (Stanghellini, 1995; Borgonovi, Marsilio, Musi, 2006). There is a tendency on the part of the Public Administration to prefer project finance as financing technique, with the ability to share risks with the private players, acquire *know-how* and, overall, greater efficiency planning and management. Of course, for local authorities, the challenge is to operate according to a new culture, which combines economic growth, local development and attention to the ecosystem. This translates into policies and development of alternative sources of energy saving integrated, through the adoption of different actions (Amatucci, Dress, 2009, p. 67):

- Encouraging the presence of solar thermal and photovoltaic facilities in municipal building (schools, hospitals, offices, libraries);
- Endorsing or promoting building regulations that encourage the use of renewable energy sources, energy conservation and green building;
- Performing continuous awareness actions against citizens, through policies of environmental education, providing them with a greater sense of personal responsibility that can help promote positive changes in daily behaviour of the community;
- Providing for allocation of funds to encourage the use of sources;
- Establishing information desks for citizens and businesses;
- Directly promoting production plants to renewable energy (solar, photovoltaic, wind).

Especially in this last area, municipalities can carry out public-private partnership (project financing, establishment of joint ventures), which may represent one of the few avenues for such investment.

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FROM SATISFACTION TO TRUST: TOWARDS THE INCLUSION OF ITALIAN CHAMBERS OF COMMERCE CUSTOMERS.

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ABSTRACT

The turbulent environment of last decades generated a need of continuous renewal for all the actors in the competitive scenario through innovations in their activities, processes and perspectives. Also the Public Administration (PA) has adopted suitable managerial and organizational solutions moving to a new and more citizen centric viewpoint.

Thus, the focus shifted to the citizen and his/her needs; the goal seems to be the involvement of citizens in decision-making processes in a way that they co-design and co-produce public services. To such an extent, it is essential to assess the perceived quality of the public services, through customer satisfaction surveys.

This study is focused on Italian Chambers of Commerce and it is centered on an analysis of customer satisfaction based on a 'modified' SERQUAL questionnaire. With the aim to investigate the relationship between satisfaction and trust this paper identifies which area(s) of satisfaction or item(s) of the questionnaire have a relationship with trust in public administration. The challenge of this research is finalized to find the drivers – if any – that increase satisfaction and trust and finally involve citizens in an active role of public life.

The paper advances the literature by focusing on the evolution of the relationship between the citizen and the PA through the concept of trust. On the one hand, it can appear almost anachronistic, but, on the other hand, it can be viewed as a strong change driver that governments should use to foster a new relationship with citizens, also improving consensus and satisfaction.

Keywords: customer satisfaction, trust, coproduction, government, public management, dynamic environment, citizen satisfaction

INTRODUCTION

Over the last years, the Public Administration (PA) has been moving toward a citizen-centric direction and has adopted suitable managerial and organizational solutions to meet the increasingly strong

demands for effectiveness, efficiency and transparency, also in order to promote the consensus of the community to the public sector. This has required the consolidation of a trust-based relationship between the citizen and the PAs, thus justifying a new legitimacy of public action. In Italy, however, especially following the corruption scandals occurred in the early 1990s, there has been a loss of confidence in the government and in the PA that also has became the starting point for the process of gradual evolution of the PA. This firstly resulted in a new view of the overall public sector. Secondly, the involvement of the citizen to be 'included' in order to generate a pro-active behavior that can support the PA's management. To such an extent, it is essential to assess the perceived quality of the services provided by the PA, including customer satisfaction surveys.

The core of this research is to investigate the relationship between satisfaction and trust with the aim to identify the drivers able to increase trust and involve more and more citizens in an active role of public life. The analysis was focused on the case of Italian Chambers of Commerce (CCIAAs). This was made using a 'modified' SERVQUAL questionnaire which was adapted for the CCIAAs, adding some items, without performing the gap analysis, since respondents were not asked about the ideal CCIAA. Then, in order to identify the drivers of trust, four ratios were calculated. Thus, in order to test if and how these ratios could be considered as drivers of trust, we performed four different regressions by relating the satisfaction items with each of the four dimensions of trust (i.e. ratios).

1. LITERATURE REVIEW

1.1 Customer Satisfaction in Public Administrations

Customer satisfaction and its evaluation is a typical concerns of private sector organizations, since firms have to care about customers in order not to be excluded from the global competitive arena. In the last decades also public administrations have started to moving from the simple supply of service (production for the public sector) to a more customer centric approach (Osborne et al., 2013). Management standards, typically adopted by private sector firms, are progressively influencing the Italian public sector whose action is permeated by an accountability approach. This aims at letting citizens be part of the decision making process consistently with a prosumption approach (Cova & Cova, 2012) and show the results previously projected (Paletta, 2005). Starting from an approach consisting in an idea of "closeness" to the citizen that seems like a passive actor in the process, it gradually becomes a relationship that involves the citizen/customer in an way that develops his/her inclusion in a process of active co-production of public services (Bovaird, 2007).

Fig 1: evolution of the citizen role in public administration

In other terms, in a first step of this evolution, Public Administration looks for a "closeness" with the citizen that now has a passive role. He/she is then asked to participate in the public life, but only in the final step the citizen plays an active role in public administration developing an inclusion and a co-production of public services does exist. (see Fig. 1)

There is a substantial literature within the public administration and public management field concerning "coproduction" in the implementation of public policy and the design and delivery of public services (Alford, 2009; Bason, 2010; Brudney & England, 1983; Frederickson, 1996; Ostrom, 1972; Parks et al., 1981; Pestoff et al., 2012). Thus, it discusses the ways in which user involvement can be "added into" the operational process of service delivery (and as opposed to the upstream, strategic, level of policy making). The debate about coproduction goes to the heart both of effective public services delivery and of the role of public services in achieving other societal ends, such as social inclusion or citizen engagement (Osborne et al., 2013).

While organizations may stimulate customers to co-produce a service through price incentives or by making user-friendly technology readily available, customers may decide to co-produce from a consumption value perspective, i.e. to obtain a utilitarian or hedonistic utility. According to consumption value literature, hedonic and utilitarian components drive consumers' usage decisions, as both components play a key role in predicting future behavior (Babin et al., 1994). As Venkatesh and Brown (2001), Childers, Carr, Peck and Carson (2001) and Hartman, Shim, Barber and O'Brien (2006) all show, the distinction between hedonic and utilitarian consumption holds. One can describe the utilitarian consumption as rational as it involves a deliberate striving for efficient task completion. Hedonic tasks focuses more on potential entertainment and emotional worth than on task completion (Babin et al., 1994). Finally, the question now is not how to "add-in" coproduction to public services but rather how to manage and work with its implications for effective public service delivery. Normann (1991) encapsulates such coproduction as "the moment of truth" of services delivery. Service organizations can only "promise" a certain process or experience: the actuality is dependent upon such coproduction.

1.2 From customer satisfaction to trust in Public Administrations.

In public administrations, satisfaction is based on the gap between customer expectations and perception of service quality (Ekinci, 2004; Cronin and Taylor, 1992; Sigala, 2004a, b).

Therefore, customer satisfaction is closely related to the quality of services provided, which has become the focus for several researchers. In particular, knowing how customers perceive the quality of services and how those perceptions affect their purchasing decisions are among the important issues for management executives also for public administrations.

The interrelation is given by the customer involvement in the production process that the service literature has widely investigated from the service operation point of view (Schmenner, 1986; Orsingher, 1999). Moreover, customer inputs and their co-production performance considerably affect productivity, added value (Lovelock and Young, 1979) and efficiency (Xue and Harker, 2002) of the provider.

There are various dimensions of service quality stated in previous studies. Parasuraman et al. (1988) identified 5 important dimensions of service quality: empathy, assurance, reliability, responsiveness and tangibility.

These dimensions could be measured by an indicator system that should be able to reveal more qualitative and less quantitative aspects (Mazzara, 2003). Parasuraman et al. (1985) developed the "gap model of service quality" and proposed the SERVQUAL methodology that is composed by a 22 items questionnaire useful to compare perceptions and expectations. Moreover, the 22 items are divided into the above discussed five areas that identify the dimensions characterizing the quality of the service and respond to the need to explore the components considered relevant in the quality measurement and investigate them. Thus, SERVQUAL gap could also be significantly reduced by increasing citizens' trust in the public administration (Wang & Wart, 2007).

Almost all the "Western" countries in recent decades are experiencing a decline in trust in the public administrations and, therefore, in governments. This may be at least partly attributable to poorly performing public entities for which citizens pay taxes (Marlowe, 2004). In this context, the loss of confidence can be understood as related to the lack of public satisfaction with the efficiency and performance of the system (Frier et al., 2009).

In fact, the concept of trust may be connected to (or generated by) that of satisfaction. Trust is considered more as a psychological state of counting on someone to do the right thing, whereas satisfaction is an output reaction to the quality of goods or services. There is a tendency to have a higher trust in local governments and its services than in central government and/or institutions (Mizrahi et al., 2009; Marlowe, 2004) perhaps because of the proximity of the public service provider

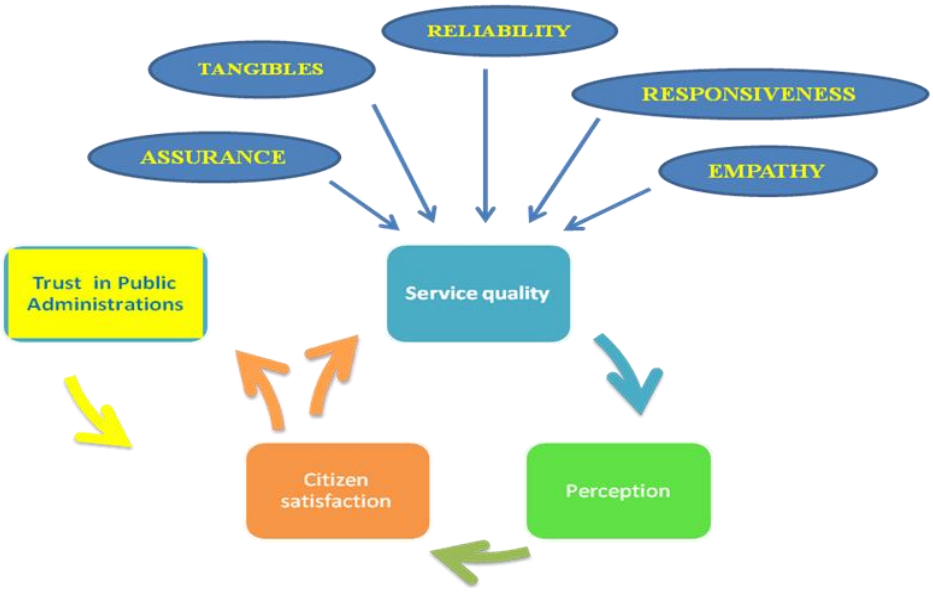
to the user. At the level of local authorities citizens' satisfaction has the closest interconnection with the trust level: the more satisfied are citizens with the work of the local authority the higher the trust level (Seimuskane & Vorslava, 2013).

Participation and co-production in decision making processes may strengthen the sense of belonging to a community and to an organization (Bouckaert et al., 2002). Communication with service users fosters their engagement in the service co-production process, the evaluation of the service experience and effectiveness, in order to improve public services delivery in the future (McLaughlin et al., 2009).

Contrarily, it has also been argued that interpersonal trust between the citizen and the public service provider may have positive effects on satisfaction, thus resulting in a cyclical and reciprocally reinforcing relation satisfaction-trust-satisfaction (Thom et al., 2004; Safran et al., 1998). So, the relationship before argued between service quality, perception and customer satisfaction can now include also the trust.

Finally, it is possible define this theoretical framework design:

Figure 2: Theoretical framework design



2. EVIDENCE FROM ITALIAN CHAMBERS OF COMMERCE

In Italy it seems rather anachronistic to deal with trust in public administration, especially following the scandals occurred in the early 90s (i.e. Tangentopoli), but also in more recent times with the recent scandals related to illegality occurred in the procedures of public procurement and public works (e.g. Mafia Capitale in Rome, MOSE in Venice, EXPO 2015 in Milan). However, in this scenario it is

perhaps more important to show the other face of the Public Administration that works for the needs of the community and the involvement of citizens in the management of government activities.

In this sense, it is particularly important the role played by the Chambers of Commerce, whose institutional mission is to provide a point of connection between two universes sometimes still very different and far: (1) public administration and (2) citizens (mostly composed by companies and/or specialized professionals offering services to firms).

It is clear that this role of "bridge" between two so different worlds that have often expressed opposite points of view is not always easy because the government was seen for too long as a source of time-energy-money demanding red tape that hindered the development of the firms, rather than as a driver of development.

The modern Chamber of Commerce, however, aims at very strongly emphasizing its role becoming an entity capable of overcoming the threshold of the border between these two worlds in a systemic way. In order to do so, CCIAA offers a range of services that have profoundly evolved over time, adding to the traditional ones those that could be named "last generation" that provide real activities of support to businesses. Consistently with this analysis perspective, it emerges quite clearly how important is for the CCIAA to take care and maintain lifelong relationships with its users that generate trust (Mascarenhas et al., 2004). It has to be a continuous process of communication and satisfying the needs aimed at consolidating customer confidence with the provider that delivers the service. In this context, it becomes crucial to investigate the degree of customer satisfaction in the CCIAA.

CCIAAs use to deal with complex and different customers, mostly composed by firms, but also by professionals, as well as by other entities (e.g. municipalities). If properly examined and used, survey results arising from the implementation of customer satisfaction can be extremely useful to strategically refocus the CCIAA particularly in case of significant deviations from the expectations of users. Furthermore, the results of these investigations have a fundamental importance for the strategic control of the CCIAA. Also the Decree 150/2009 and various ANAC (Italian AntiCorruption Authority) resolutions have stressed about the management action of the Chamber of Commerce must be user-oriented. In other terms, the CCIAA must become more customer centric. Thus, satisfaction surveys, included in the system of quality management (where existing and properly implemented), can provide the elements to determine different drivers: those that cause satisfaction and dissatisfaction, those that influence the behaviors and those that permit to generate the organization's performance indicators.

3. RESEARCH HYPOTHESES DEVELOPMENT

As the aim of this paper is to investigate whether customer satisfaction could be considered as a driver of trust, we started from the SERVQUAL structure which is composed by 5 dimensions as above discussed: tangibles, reliability, responsiveness, assurance, empathy (22 items). In order to develop our hypotheses, 4 additional items were added to the classical SERVQUAL questionnaire. This was done on the basis of the assumption that such further 'trust' items could be considered as proxy of trust, thus then generating four indexes that we used as dependent variables. The additional items then generated the following four indexes (ratios): TRUST 1 (Overall Satisfaction Index), TRUST 2 (Performance Trend Index), TRUST 3 (Loyalty Intention Index), and TRUST 4 (Chamber Promoter Score).

We then decided to split the assessment of satisfaction into 2 steps: firstly respondents answered the 22 SERVQUAL questions and secondly they answered the 4 TRUST questions.

According to Liljander & Strandvik (1995), the overall customer satisfaction is a robust predictor of intentions to repeat the purchase on the basis of a trust relationship. This means that the overall customer satisfaction could be supposed to be a driver of trust. In the light of this, the first question of the TRUST group is the *Overall Satisfaction* question which was set as follows:

Considering the CCIAA whole services offering delivered through different channels, which is your overall opinion? (1 = poor ➔ 7 = excellent)

$$\textbf{TRUST 1} = \frac{\text{positive opinions } (5 \rightarrow 7)}{\text{total respondents to the question}}$$

Thus, moving from the discussed relationship between satisfaction and trust, we developed our first hypothesis:

H1: the higher the customer satisfaction, the better the opinion about the CCIAA overall services offering.

We then focused on the past evolution of the perceived service quality, as it can generate satisfaction because the customer could perceive the difference between his/her (relatively recent) past experience and the last one. In case of improvement, this could generate trust in the future and the CCIAA could be seen as a reliable service provider which is able to properly satisfy customer's needs and solve his/her problems. In other words, given the positive trend in perceived service quality over the last 12 months, on the basis of a trust relationship the customer is supposed to be confident that there will be a further improvement in the future.

In the light of this, the second additional item generated the *Performance Trend* question:

If you used any of CCIAA services over the last 12 months, you think that the service quality is… (1 = strongly worsen ➔ 7 = strongly improved)

$$\textbf{TRUST 2} = \frac{\text{improved service quality (5 ➔ 7) - worsen service quality (1 ➔ 4)}}{\text{total respondents to the question}}$$

This enabled us to build the second hypothesis that we stated as follows:

H2: the higher the customer satisfaction, the higher the perceived improvement of service quality over the last 12 months.

At this point, our attention shifted to the loyalty intentions of CCIAA's customers. We started from the well known literature (Fornell, 1992) on the basis of which customer satisfaction can lead to lower advertising and transaction costs because it is cheaper to retain and serve a loyal customer than to acquire new customers. Of course, loyalty could be a consequence of trust, because customers tend to be loyal when they feel satisfied and when they trust the service provider. Thus, the third additional item of our modified SERVQUAL questionnaire was the *Loyalty Intention* question:

If not forced by law, would you join again CCIAA's initiatives? (1 = surely NO ➔ 7 = surely YES)

$$\textbf{TRUST 3} = \frac{\text{positive answers (5 ➔ 7)}}{\text{total respondents to the question}}$$

Using this third additional item, we were able to develop our third hypothesis:

H3: the higher the customer satisfaction, the higher the loyalty intention of the customer.

Trust is a quite complex construct as discussed above. It may be dependent on customer satisfaction and on other factors and it is at the basis of a possible recommendation that the customer could make to colleagues or friends. Going over the loyalty intention discussed above, if a customer trusts the CCIAA he/she would be willing to recommend its services to colleagues and/or friends. To do this, we used the well known Net Promoter Score (Reichheld, 2006) and we turned it into CCIAA Promoter Score. Thus, the fourth additional question of our questionnaire was the CCIAA Promoter Score:

If not compulsory under the law, would you recommend CCIAA to colleagues and friends as public entity able to meet their needs, similar to yours?

(0 = I surely would not recommend CCIAA ➔ 10 = I surely would recommend CCIAA)

$$\textbf{TRUST 4} = \frac{\text{promoters (8 ➔ 10) - detractors (0 ➔ 5)}}{\text{total respondents to the question}}$$

On the basis of this last item, we were able to develop our last hypothesis as follows:

H4: the higher the customer satisfaction, the more the customer is willing to promote the CCIAA.

4. METHODOLOGY

In this study, a 'modified' SERVQUAL questionnaire was adapted for the CCIAAs, adding four items. Unlike the 'classical' SERVQUAL questionnaire stated by Parasuraman et al. (1985), here we don't investigate the gap between expectations (E) and perceptions (P). We neglected the expectation side of the problem, thus concentrating on the perception and its attitude to be considered as a driver of trust: respondents were not asked about their expectations.

Hence, the empirical analysis is based on secondary data provided by a national association of Italian CCIAAs that led a customer satisfaction survey over a 6 months period of time in 2014. 51 CCIAAs, on a voluntary basis, adopted a standardized questionnaire which was proposed at national level and 10.621 questionnaires were collected. A 1-7 Likert scale was used for the first 25 items, while for the last question (CCIAA Promoter Score) the respondent had the opportunity to rate his/her answer on a 0-10 scale basis, consistently with Net Promoter Score main literature (Reichheld, 2006). We then did not reduce results for such last item to a 1-7 scale, because we used a ratio (0 to 1) as dependent variable and not directly the results of the last item. In sum, we had two parts of the questionnaire: (1) 22 SERVQUAL items and (2) 4 TRUST items.

Thus, moving from the trust items, were calculated four ratios in order to identify the drivers of trust in the CCIAA: (1) Overall Satisfaction Index, (2) Performance Trend Index , (3) Loyalty Intention Index, (4) Chamber Promoter Scores.

We than performed four different regressions considering the 22 SERVQUAL items as independent variables and each of the 4 indexes generated from the TRUST items as dependent variables using the package Rcmdr (R Commander) in R Console. Consistently with Merlo et al. (2006), we used the backward elimination method for each of the 4 regressions performed, given the relatively high number (22) of potential predictors.

5. DISCUSSION OF FINDINGS

The results of regression performed show that all our four research hypotheses are confirmed, since the *null* ones have to be rejected mainly because of *beta* values. Moreover, the values of multiple R-squared and adjusted R-squared are high enough to positively assess the goodness of the estimated models.

Table 1: regressions results

	TRUST 1 $R^2 = 0.7744$ *adj* $R^2 = 0.7096$	**TRUST 2** $R^2 = 0.9322$ *adj* $R^2 = 0.9193$	**TRUST 3** $R^2 = 0.7815$ *adj* $R^2 = 0.7199$	**TRUST 4** $R^2 = 0.7371$ *adj* $R^2 = 0.6714$
tangibles1		0.05302 **		0.07091 .
tangibles2	0.04175 **			0.04220 *
tangibles3	0.04798 **			0.04476 *
tangibles4	0.03112 *			
reliability1			0.03600 *	
reliability2				
reliability3		0.05346 ***	0.09181 ***	
reliability4	0.03483 *			0.03343 .
reliability5		0.02411 *	0.04898 **	
responsiveness1		0.04382 **	0.06216 **	0.05738 *
responsiveness2			0.02689 *	0.04921 **
responsiveness3	0.06238 **	0.02688 **	0.07647 ***	
responsiveness4	0.09970 ***		0.06958 ***	0.05779 *
assurance1	0.08111 **		0.05440 *	
assurance2	0.03489 *			0.06302 ***
assurance3				
assurance4			0.05964 **	0.05241 .
empathy1	0.06478 **	0.01890 .	0.09944 ***	
empathy2	0.05358 *			
empathy3		0.06237 ***		
empathy4				
empathy5	0.20225 ***	0.22741 ***	0.13967 ***	0.12344 **

*Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1*

In the light of the results obtained, it is interesting to go on towards a more in depth analysis of the regression outputs. In particular, even if all our four hypotheses are validated, we now analyze the regression results in order to understand the predictive value of SERVQUAL items on each TRUST variable.

Looking at 'TRUST 1' regression output, 'Empathy 5' is largely the best predictor either in terms of the *beta* coefficient (0.20225) or in terms of significance which is very small (0.000). This emphasizes the focus on the understanding of customers' specific needs. Also 'Responsiveness 4' proves to have a very small (0.000) value in terms of significance, thus highlighting the importance for personnel to be never too busy to respond to customers' requests. Thus, we can argue that the Overall Satisfaction is affected more by 'empathy' and 'responsiveness', than by other SERVQUAL dimensions. Furthermore, consistently with the literature above discussed, this fosters the predictive power of the overall satisfaction in terms of trust.

'TRUST 2' (Performance Trend Index) is influenced by 8 items of 22 (36.36%) and similarly to TRUST 1, it is again 'Empathy 5' the most influencing predictor both in terms of *beta* coefficient (0.22741) and significance which proves to be very small (0.000). Also the t-value (11.239) is significantly higher than that of the other items. As for 'TRUST 1', most of the predictors of 'TRUST 2' belong to 'empathy' area (3 of them. This is to say that the *Performance Trend Index* is mostly affected by 'empathy' dimension than by other SERVQUAL dimensions. In terms of trust, being positively influenced by customer satisfaction, the *Performance Trend Index* is a driver of trust since it increases as the customer perceives an improvement over the last 12 months in the CCIAA performance. This creates trust in the future CCIAA's performance.

'TRUST 3' (Loyalty Intention Index) is predicted by 11 SERVQUAL items of 22 (50%). 'Empathy 5' continues to be the most predictive item in terms of *beta* coefficient (0.13967), even if the item 'Empathy 1' seems not to be so "far" especially in terms of *t-value* which proves to be higher (6.196 for 'Empathy 1' versus 5.014 for 'Empathy 5'). Moreover, 'TRUST 3' is strongly predicted by all the 4 'responsiveness' items, proving that the intention to be loyal is more dependent on the CCIAA's ability to be responsive and to solve the customer's problems. More specifically, 'Responsiveness 3' and 'Responsiveness 4' prove to have a very small significance value (0.000) and both these items express the availability of CCIAA's personnel to help the customer (Responsiveness 3) being never too busy to respond to customer's requests (Responsiveness 4). These seems to be the set of conditions under which the customer would be willing to be loyal to CCIAA, if not forced by law.

It has to be highlighted that no 'tangibles' items seem to be predictive of the customer's loyalty intentions. This may mean that the intention to repeat the 'purchase' when alternative choices are available and not forbidden by law makes the customer feel free to choose a service provider. Thus, he/she is more influenced by the possibility to have his/her problem solved. In the end, it is confirmed a cyclical relationship trust-loyalty-trust: loyalty intention is based on trust; also, loyalty intention fosters trust.

Finally, 'TRUST 4' (Chamber Promoter Score) is predicted by 10 SERVQUAL items of 22 (45.45%). 'TRUST 4' could be seen as a sort of evolution of the previous 'TRUST 3', since it assesses the intention of the customer to recommend the CCIAA as service provider to friends and colleagues, thus involving his/her personal reputation and social bonds. Once more, the single most predictive item continues to be 'Empathy 5' in terms of *beta* coefficient (0.12344). Also its significance is quite small, but 'Assurance 2''s one proves to be smaller, even if in terms of *beta* coefficient 'Empathy 5' is double approximately (0.6302 for Assurance 2). The high predictive power shown by 'Assurance 2' indicates the importance of a feeling of safeness while the service is delivered by CCIAA. This undoubtedly generates trust. The positive relationship of such an item with the willingness of the customer to

recommend CCIAA to colleagues and/of friends could be attributed to the circumstance that prior to be willing to suggest a service provider to others a trust dimension has to be created and fostered. Keeping in mind that this probably is the most powerful advertising mean, based on the word-of mouth, CCIAA's management should invest time and energies in fostering such a trust based relationship with customers, in order to make them promoters of CCIAA's services offering.

Finally, this is the only TRUST variable which is predicted by just one 'empathy' item, thus underlining that the moment the customer has to recommend the CCIAA to colleagues and/or friends the empathic dimension as a whole proves to be relatively less important.

At this point, considering such an evidence, it was interesting to assess the overall influence of SERVQUAL items on TRUST dimensions. Hence, looking to all the four regressions performed, it is possible to synthesize the 4 research hypotheses. In particular, it has to be highlighted that in at least three of the four regressions performed the single most influencing predictor is 'Empathy 5' which is the last SERVQUAL item: *"CCIAA understands specific needs of its customers"*. This is particularly true for 'TRUST 1' and 'TRUST 2' that represent, respectively, the *Overall Satisfaction Index* and the *Performance Trend Index*.

On the other hand, looking at SERVQUAL areas, the most predictive area seems to be 'responsiveness' followed by 'empathy'. This clearly indicates that the most trust generating components of customer satisfaction are referred to the ability of the CCIAA to promptly and effectively respond to customer needs and to solve his/her problems as well. In other terms, the main trust generating 'skill' of the CCIAA is principally dependent on its ability to firstly listen to citizens' problems and finally to effectively solve them.

6. CONCLUSIONS

It is known that a low level of trust in public organizations has an undesirable impact on governance at all levels of government as public administration distrust results in weak support, and lack of commitment and participation in collective action and motivation. In order to recover the eroded trust in governments, politicians started making decisions that make the public sector closer to the people, even if, at this stage, the citizens played only a passive role. Going on, it has become necessary to involve the citizens in the decision-making process focusing on the public needs and trying to build a "offer" of services able to satisfy them in the best way. Thus, the focus has to shift to the citizen and his/her needs; the next step seems to be the involvement of citizens in decision-making processes in a way that they co-design and co-produce public services. To such an extent, it is essential to assess the perceived quality of the services provided by the PA, including customer satisfaction surveys.

The focus of this study is explore the relationship between customer satisfaction and trust able to show how and what is the perception and the participation of the citizen in the public life.

The present work moved from the convincement that customer satisfaction could be considered as a driver of trust and it is explored in Italian Chambers of Commerce. CCIAAs are positioned in a very strategic position thus playing a crucial role in the socio-economic life of the country.

In order to investigate the link between customer satisfaction and each trust indicator, we firstly performed four different linear regressions, following the backward elimination method because of the relatively high number of predictors (22). This returned that the most trust influencing area of SERVQUAL was 'responsiveness' which indicates that the customer pays a particular attention to the ability of the CCIAA to promptly and effectively solve his/her problems. On the other hand, the single most predictive item was 'Empathy 5' that asked the respondent about the ability of the CCIAA to understand his/her specific needs, thus highlighting the importance of a personalized and customized attention that the CCIAA has to pay to the customer.

To our general overview, our findings put in light two main customer satisfaction characteristics that generate trust: (1) the ability to understand the customer's specific needs, thus underlining the need of personalized and customized care of the customer, and (2) the effectiveness in solving citizen's problems, thus delivering effective and satisfying services.

These two customer satisfaction components could seem to be opposite each other, but they can be viewed as a sequence. Firstly, the CCIAA has to be empathic; it has to pay personalized attention to the customer, thus focusing on the best way to solve his/her problem in an effective way. Secondly, the CCIAA has to appropriately respond to customer's needs by providing the best solutions to his/her problems in the most effective way.

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THE ROLE OF SOCIAL MEDIA IN THE MARKETING STRATEGY OF FITNESS CENTRES

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ABSTRACT

The role of the internet and digital technology in marketing strategy are themes deserving further research (Celuch & Murphy, 2010; Day, 2011). Social media are used for promotional reasons (Nevin & Torres, 2012); for enhancing relationships with customers (Saperstein & Hastings, 2010; Wright, 2010) and for new service development (NSD) through integrating user-generated content in the development process. The purpose of this study is to determine how social media can be integrated into three areas of marketing strategy: the promotional effort; customer relationship management and NSD. Data was collected through in-depth, personal interviews of key informants in 8 fitness centres Greece and Finland. Results show that all firms promote their services through social media by using posts; shares, photos and videos that provide information about old or new services; new offers; events or other company news. Also, most firms use social media to handle complaints; develop and nurture a relationship with customers; reward customers for their loyalty, and inform customers of any changes in service provision; events or offers. Finally, the use of social media for NSD is mostly present in Greek fitness centres where customers vote for new service ideas through Facebook; are encouraged to provide their opinions on existing services; comment on any problems they face with services, and share any ideas they have. This study extends findings into the way social media can be formally incorporated into marketing strategy. Managerial implications are provided.

Keywords: *social media, marketing strategy, fitness centres, services, relationship marketing, new service development.*

INTRODUCTION

As the use of social media becomes more prevalent among adults and a staple in today's mainstream culture firms realise the importance of incorporating social media into their marketing strategies. First, companies increasingly use social media as part of their promotional campaigns to educate customers and create strong brand reputations. However, apart from using social media for communication

purposes, there are also other ways to incorporate its use in marketing strategy. In today's highly competitive environment where customer relationships have become essential to all businesses, social networks serve as platforms of customer relationship management (CRM). Finally, since social media enable two-way communication with customers, they also enable and enhance the co-creation process of products and services with customers. However, there is limited research on how social media can be integrated into all aspects of marketing strategy. This study aims to analyse the way fitness centres use social media in their marketing strategy.

BACKGROUND

Social media have become a rapidly growing, global phenomenon the past several years. According to the Nielsen Company (2010), social media users worldwide grew nearly 30 percent in 2010, from 244 million to nearly 315 million users. Research from Gartner's Consumer Technology and Markets group forecasted that global spending on social media would total $14.9 billion in 2012 (Gupta 2011). In a recent survey of 1,700 Internet users, Nielsen Online reported that 73% users engaged in social media at least once a week (Woodcock & Green, 2010). The number will soon be on the rise as the Generation Y customers who spend more time on the social media than older customers, become older and join the job market.

Social media, or networks, is a concept that has its origins in the Communications field, in which social networks are studied as Computer Mediated Communication. Boyd and Ellison (2007) present the evolution of social networks and define them as a space for exchanges and social interactions. This concept is based on Degenne and Forse (1999), who consider a social network as a set of actors and their connections. Social media is an online platform which enables customers to create and share content, communicate with one another, and build relationships with other customers (Gordon, 2010; Hennig-Thurau, 2010; Libai et al., 2010).

However, the value of social media for marketing is much higher than that. Smith (2009) classifies social networking as a global phenomenon that is spreading around the world and becoming an important marketing tool. Social networks are providing companies with tools to target campaigns according to the profile of their users and communities. Also, social networks contain important information about their users, habits, workplaces and preferences, as well as demographic and personal characteristics (Comm, 2009) that firms can use in their marketing efforts.

The use of social media for communication purposes with customers has been extensive especially in the last decade. Social media have been included in the promotional mix of companies and are considered to be an important marketing channel for many large global brands (Nevin & Torres, 2012). This is particularly obvious if we look at Dell's microblogging on Twitter or Ikea's innovative use of

photo tagging on Facebook (Circle, 2009; Warren, 2009). Mangold & Faulds (2009) consider social media to be a hybrid element of the promotion mix in that it combines some of the characteristics of traditional IMC (Integrated Marketing Communications) tools with a highly magnified form of word-of-mouth communications in which marketing managers cannot control the content and frequency of such information.

Social media has become very important for communicating with customers mainly because the new millennium customers actively seek information about products from social media before making a purchase decision. Apparently, customers tend to trust their circle of friends or colleagues much more than they trust the companies' advertisements (Woodcock & Green, 2010). Also, interactions on social media are engaging where information can be presented in the various forms such as experiences, jokes, photos, videos and comments from peers. These forums of sharing opinions or experiences can shape customers' perception of a merchant's product or service. The messages sent across can be amplified very quickly and brand performance can be impacted (Woodcock & Green, 2010).

The use of social media provides many tangible benefits for businesses, such as improved sales or enhanced customer relationships (Harris & Rae, 2009). Maddock and Vitón (2009) stress that social media use should have a specific goal or objective, such as increased brand awareness; increased sales; accelerated new-product adoption; customer retention, or real-time insight. However, the most recent social media marketing industry report indicates social media marketing is still in the preliminary stages of development (Stelzner, 2009). This probably stems from the fact that many businesses limit their involvement with social media in their promotional efforts and do not incorporate their use into their marketing strategy. As a result, there is a continued call for further research on the intersection of marketing and social media. The business use of the internet and digital environments including social media (Celuch and Murphy, 2010) and the role and centrality of digital technology in marketing strategy (Chang et al., 2002; Day, 2011) are themes highlighted as deserving further research.

Apart from their promotional role, social media can help marketing strategy in two very important areas. First, they can be used to enhance and strengthen relationships with customers. Social media help to improve communication with customers and through continuous interaction lead to customer intimacy (Saperstein & Hastings, 2010). So, firms can use social media to create intimate relationships with customers (Wright, 2010). In fact, researchers propose that Customer Relationship Marketing (CRM) must evolve to include social media into its repertoire (Moscato & Moscato, 2011) and as a result social media, are also known as "social CRM" (Lager 2009). If we consider that the development of close, mutually beneficial relationships with customers is considered to be a competitive advantage in today's market, social media can help businesses become more competitive.

Furthermore, the second important area where social media can be used is in the development of new products and services. Using consumer insight and creativity to develop new products and concepts is not uniquely tied to the advent of the internet but the extent of the use of co-creation is. The ability of consumers to interact with businesses across a variety of digital platforms; mobile; tablet, laptop and so on, and the growth of consumer generated material through these platforms has created the potential for businesses and brands to research and then use consumer generated content (Quinton, 2013). McKinnon (2009) stresses that as online relationships bloom into a new phase of online interactivity, customers and prospects will share information; seek feedback, and create content pertinent to the business cycle. Today, customers provide a lot of information to firms throughout the new product development process through social media interaction in the form of suggestions for new products or for changing existing products; tests for new products etc.

The use of social media becomes even more important in services that are intangible. Service businesses have embraced more social media as a way to develop relationships with customers and increase customer retention. Also, for businesses that provide any type of entertainment, such as fitness centres, and especially when the service is provided in groups, this trend is even more pronounced. This study aims to analyse the way fitness centres use social media in their marketing strategy and more specifically in three major domains: in the promotional mix; in customer relationship management and for new service development purposes.

RESEARCH METHOD

This study is qualitative in nature, aiming to develop a better understanding of how the use of social media is integrated in the marketing strategy of fitness centres. With this goal in mind, the study collected data through in-depth, personal interviews of fitness centre employees based on a semi-structured questionnaire. A key informant was used in each fitness centre that was either responsible for social media use or the one more closely working on this area. Interviews were done in 4 Greek and 4 Finnish fitness centres in order to observe differences between the two countries. Three areas of marketing strategy were analysed in relation to social media use: communication or promotional efforts; CRM actions, and actions aimed at the development of new services. Results were analysed with content analysis.

RESEARCH FINDINGS

Results show that in both countries social media are used for various marketing purposes. The most commonly used medium for communication and promotional purposes is Facebook. Specifically, all eight fitness centres have a Facebook page and promote their services through posts; shares, and videos

(enriched content) that provide information about old or new services, and inform customers of any existing offers that involve free or discounted subscriptions. The use of Twitter is a distant second choice since only 1 out of 4 centres in each country use it for service promotion.

Also, results show that all eight fitness centres use social media for CRM purposes. Specifically, all respondents emphasized that they use social media to develop and nurture a relationship with customers; to reward customers for their loyalty, and to inform customers of any changes in the schedule of service provision or any events organised. In Finland, 3 out of 4 providers use social media to have a private customer club and this enhances the management of customer relationships. In contrast, in Greece there is no private club but social media are used for complaints handling.

Furthermore, the use of social media for new service development (NSD) is present but not extensive and organised. In Greece, customers vote for the best service. Through Facebook there is a voting scheme for new service ideas. Also, customers are encouraged to provide their opinions on existing services; comment on any problems they face with services, and share any ideas they have. In Finland, only one fitness centre uses social media for NSD. They research consumer preferences regarding services offered and the results guide service mix changes. Also, another provider chooses to use an interactive channel of communication outside social media to manage customer ideas and complaints.

One important difference that emerges from results is that in Finland, there is a person responsible for social media marketing actions in each business, and trained in marketing and computer science. In contrast, in Greece there is no specific or trained employee and therefore social media marketing strategy is more ad hoc.

CONCLUSIONS AND MANAGERIAL IMPLICATIONS

The results of the study show that although the use of social media for marketing is extremely important, there is room for improvement in all three marketing strategy areas. The use of social media is not integrated formally into the marketing strategy of fitness centres. Future research should determine in which ways firms can formally use social media to accomplish their business goals. For example, how companies can increase the effectiveness of their promotional strategies and therefore optimise costs of sales and marketing efforts by using social media to increase customer engagement and develop successful brands. Also, social media can be used to manage customers in all relationship stages, from creating brand awareness and attracting customers to long-term customer retention and service adoption to complaint handling and dissatisfaction. Finally, social media can be used for NSD purposes to help design new products; to increase their speed to market; to build early sales quicker; to maintain their price premium, and to make necessary changes in service characteristics and in the service mix.

This study extends findings into the way social media can be formally incorporated into marketing strategy. However, it is limited to one industry and to a small sample of businesses. Future research can extend the sample and do cross-industry studies to validate findings. Also, multi-country studies will be useful to observe cultural differences in the use of social media.

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ONTOLOGY OF SOCIALLY RESPONSIBLE INVESTING. APPLYING GLOBAL FRAMEWORKS FOR AN EMERGING MARKET IN RUSSIA

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ABSTRACT

This article considers the evolution of socially responsible investing (SRI) in Russia. We seek to track the development of SRI practices and then examining how adopting ESG does measures can affect the firm valuation within the market and how does it affect its financial performance, risk management and equity prices.

From a complementary perspective, we seek to evaluate to which extent SRI and other relevant socio-economic factors can reframe the business practices of Russian corporations and business communities to comply with ESG principles.

We conclude that while financial instruments already show the advantages of SRI in Russia, social pressure influencing business is not sufficient for the widespread adoption of the ESG principles by both management and investors. This gap indicates that there are opportunities for investors and stakeholders willing to create value based on the principles of socially responsible business and investment ahead of the market.

Keywords: *ESG, sustainable development, Russia, stakeholders, Socially Responsible Investing.*

INTRODUCTION

Recently we have seen the rise of socially responsible investing (SRI) in Europe and the USA – nowadays it is one of the fast growing segments in investment universe. The numbers are telling and according to the Global Sustainable Investment Review 2012, more than 13,6 trillion dollars are managed by the funds investing according to SRI principles, which is 21,8% from total assets under management by investment professionals. By SRI we understand an investment process which takes

into account not only financial indicators, but also the long-term social and ecological consequences from investments.

In this paper, we would like to address two aspects related to the evolution of SRI in Russia. First, we would like to offer general logics for the business valuation model, which shows the contribution of the intangible and financial assets to the value of a company, considering the factor of sustainable interaction among stakeholders.

Secondly, we offer a theoretical model for assessing and forecasting the influence of SRI on ethical behavior of management and owners of the large Russian companies. On this basis, we can make adequate conclusions about the real advantages of SRI for investors in the Russian financial market and about the degree of the current influence of ESG on business. For a better understanding of SRI perspectives we suggest to temporarily suspend the "moral" questions: "how deeply and sincerely does business believe in social responsibility?". Instead, we seek to explain the financial logic behind taking the decision in making socially responsible investment, focusing on the importance of SRI outcomes on the enhancement of the quality of the financial assessment of the companies' market value, and on the actual weakness of the social pressure on business practices in Russia.

LITERATURE REVIEW

This overview helps us to distinguish between the actual financial benefits of SRI and application of ESG from one hand, and ethical, value-driven business practices and investments from the other. Thus, most studies show the significant financial impact of ESG principles and corresponding SRI in the developed countries. We also refer to a body of literature attesting that ethical standards, self-perception and social norms often drive investors' decisions to invest in a socially responsible manner alongside with financial expectations. Historically, these two types of behavior may be mutually enforcing - as ethical drivers increase both the demand for stocks and increase the number of companies managed according to ESG principles; in turn, this approach objectively creates financial value. We, thus, have a "double" demand for ESG and SRI. The weight of the two drivers may vary significantly depending on the social conditions of the business community and civil society in the given country (including political, religious and other factors), and at the specific historical period. Our further analysis seeks to explore these two aspects and make preliminary conclusion on the likely evolution of the Russian market based on their current combination: the actual financial returns of SRI and the dominant social norms in respect of ESG

CSR concerns and the evolution of SRI practice

According to (OECD, 2007), SRI can be noted since the early 1900 when US investors abstained investing in tobacco production and gambling sector out of merely religious reasons. Historically, we also can see how governmental policies can drive business orientation in certain directions, which can be applied to social Investments. For example, that was the case when the US government promoted US businesses towards innovative technology, for which they adopted a set of laws and policies towards long term oriented strategies aiming to encourage research and product development in what (Harrison and Bluestone, 1988) cited by (Markowitz, 2008).

Doh (Doh et al., 2010) found that investors are concerned about the social performance of firms in which they invest and the that endorsement through a third party can be a mean to pass this information to the investors who would use this information in their decision making process. We can note that reporting on CSR among firms in most industrial countries has increased in 2005 according to (Buck, 2005), while in 2004 the Economist reported a survey that was conducted among managers has revealed that the pressure has increased to report on social responsibility issues also cited by (Keulneer, 2006).

As to the **forms of SRI**, the Social Investment Forum in its definition of socially responsible investing 2006 has stated that it includes social screening, community investing and shareholder advocacy among other forms of SRI application. Hockerts and Moir (Hockerts and Moir, 2012) have distinguished between **two set of investors** when it comes to shareholder interest in CSR. The majority of investors or the mainstream investors are likely to build their attention in CSR because of its impact on the firm's cost of capital or on its very own stated results, that doesn't refute that some firms use social responsibility as a marketing tool rather than having legit impact (Gray et al. 1996). While the second set is called socially responsible investors who have a sincere direct concern about the specificity of firms interaction with the society and its stakeholders.

While (Glac, 2008) has identified **attributes** of socially responsible investors:

1) as the majority of investors , the financial performance of their investments is a point of interest for Socially responsible investors which could be considered as an indicator that for investors taking the decision to be socially responsible one doesn't mean you're doing charity or doing it out of guilt. This was cited by (Glac, 2008) through (Cullis et al., 1992; Lewis and Mackenzie, 2000a, b; Mackenzie and Lewis, 1999; Rosen et al., 1991) a higher acceptance tendency for return differentials between the common investments and the one who got screened as a social responsible filter is an evidence that the

socially responsible investors benefit from the characteristics of their investments whether they were financial or nonfinancial ones (Lewis and Mackenzie, 2000a, b; Webley et al., 2001) cited by (Glac 2008).

2) investing seems to a part of self perception or identity for many socially responsible investors as a mean to apply their own social beliefs and ethical values in economic sphere(Lewis and Mackenzie, 2000a, b; Rosen et al., 1991; Webley et al., 2001) cited by (Glac 2008), which can be also confirmed by their being a part of other social engagement groups (Rosen et al. 1991) also cited by (Glac,2008). As it comes to **decision making process** that is taken by investors, going through Socially Responsible Investment related literature we can distinguish two approaches :

One approach looks at the investment as a dynamic decision that has certain elements related to financial knowledge, which is the kind of knowledge that inform the investor of the risk type and level that is identified with each potential investment. Additionally these information detail the relationship nature between a) return and risk, b) the risk reduction which could be achieved through diversification (Downes and Goodman, 1999; Lintner, 1965; Markowitz, 1952; The Financial Planning Association, 2004) Cited by (Glac, 2008).

The second approach could be recognized as these investment decisions which are by their nature an expression of the investors self identification reflecting it in addition to their social beliefs on their investment choices (Allen et al., 2000; Cullis et al., 1992; Smith, 1990) Cited by (Glac, 2008).

Market Value Added through ESG adoption as an Intangible asset

Cai and He note that profit could enable the firms to do well environmentally in the case of positive correlation between environmental responsibility and profit (Valuation) (2013). And it was shown that the ESG integration in business operations enables reaching a comprehensive understanding of risks and opportunities affecting the company, which leads to better security selection and more effective risk management (Bassen & Kovacs, 2008)

As to Corporate Social Performance; it is foreseen to contribute in creating a comparative advantage that is sustainable which would enhance the corporate profitability leading to positive (Corporate Social performance-Corporate Financial Performance) relationship (Jones, 1995) cited by (Okionomou et al, 2012). According to (Doh et al., 2010) when firms seek external endorsement of CSR which is conveyed by social indices it seems that firms adopt reforms improving their financial and social responsibility position in order to meet the funding standards by these institutions. Since 1990, Patten has noted the evidence that investors have used the social responsibility as factor when it comes to

valuation process. This was also confirmed by (Marshall et al., 2009) cited by (Vashakmadze, 2012), who notes that institutional investors have some certain "embryonic" social measures that they consider when they are making investment decisions.

(Oikonomou, 2012) stated that as a result of Socially Responsible Corporate activity which is considered long-term risk reductive activity, some institutional investors like pension funds might find the stocks of firms with higher levels of CSP rather attractive, as according to (Ryan and Schneider, 2002,) cited by (Oikonomou, 2012), they "tend to have significantly predictable, long-term outflows to beneficiaries". This approach was empirically supported by (Cox et al., 2004) also cited by (Oikonomou, 2012), who found significant and positive relationship between the company's social performance and the preparation of its ownership by pension funds/ life assurance firms. Thus, when investors adopt responsible investment, their investment process convey attention to social, environmental, corporate governance and ethical causes (Renneboog et al. 2008) cited by (Riikka et al., 2013). Accordingly the investors seek to influence countries sustainability orientation and firm social responsibility adoption, yet they seek to optimize their financial risk-return tradeoff (Sievanen et al. 2012 ;Hoepner and McMillan 2009;) also cited by (Riikka et al., 2013).

While (Vashakmadze, 2012) noted among the reasons why it's important to assess sustainability the fact that growth estimates in perpetuity would be proper for firms that enjoy solid and proper stakeholder's relationships and adopting higher sustainability management standards and additionally the cost of capital should be lower when it comes to the firms that have these high standards. This would reflect to terminal valuation estimate, and when it comes to equity financing opportunities they were found to be cheaper for firms that has better social responsibility scores; additionally they also enjoyed higher valuation according to (Ghoul et al.,2011) cited by (Vashakmadze,2012). Multiple studies have examined valuation from an ecological perspective and they have found a positive relationship between being socially responsible and the firm's market value. (Vashakmadze, 2012) cited that (Semenova and Hassel, 2008) demonstrated that the firm's market value was risen due to reputation benefits of their environmental preparation, they also found the environmental performance might drive operational benefits reflect with a financial performance.

But Environmental Strength is considered an intangible asset that could be underestimated, and the market needs time to adjust the stock price according to environmental factor (Cai and He, 2013). (Edmans, 2011) cited by (Cai and He, 2013), noted that stakeholder management can be an indicator of sound management and complements to creating shareholder value, laying the foundation for competitive advantage. Accordingly, firms that are considered responsible benefit from higher long term growth, but environmental recognition is intangible yet its contribution to generating firm value is

relatively hard to measure which leads according to underestimation of the firm's market value in addition to the mispricing according to (Edmans, 2011). Building on the importance of sustainability, it was advised by (Scholtens, 2010) that assessing sustainability indicators when it comes to environmental performance should be developed with a special concentration on clarity and transparency.

Both, value driven investors and profit seeking ones can be spotted in the social Investment market (Derwall et al., 2005). As (Kaustia and Torstila, 2011) both cited by (Menz, 2010), claim that values have an impact on Investment. They have found that for example politicians and voters who has a left wing orientation are less likely to be found investing in stocks market, consequently the likelihood of choosing responsible investment is significantly affected by the way individual investors frame certain decision situation (Glac, 2009)

As established earlier, responsible investment decisions aren't made merely on profit expectation, accordingly ethical investors have a commitment to responsible investments even if there was a financial underperformance possibility (Lewis and Mackenzie, 2000ab) cited by (Glac, 2009), this tendency was also confirmed by the noted commitment of pension funds to responsible investments even during recent financial crisis (Sievanen, 2011)

Factors like investors culture can also influence responsible investment, (Sandberg et al., 2009) and (Bengtsson, 2008) cited by (Sievänen, et al.,2013). These authors claims that considering the cultural factors might help us understand the emergence of responsible investment, cultural specialties like tending to be masculine or feminine cultural orientation or how much the society individuals tend to avoid uncertainty, can explain the differences in responsible investing tendency in the Nordic countries.

These cultural characteristics reflected in social norms and values seem to have an impact on decision making related behavior of households and companies (Bénabou and Tirole, 2010), according to (Morgan, 2007). National business systems approach can be a very helpful factor if we seek to understand the nature of interaction between different organisations, labor, technology and knowledge, and the international flows of capital. But when considering the cultural factors we should note that the ethical policies of firms in industrialised countries has significant international differences. (Scholtens and Dam, 2007)

Market capitalization and ESG relationship

Going through related literature we find a rather positive link was indicated between CSR and some of the firm's financial performance, (Berman et al., 1999; Ranganathan, 1999; Margolis and Walsh, 2003;Ditz and Ranganathan, 1997) cited by (Keuleneer, 2006) and events, while Scholte (2006) has hypothesized that the finance relates to CSR. Looking at CSR from strategic perspective. Firms that improve their social performance are likely to convey that information to the market because of the benefits and returns that are associated with being a good corporate citizen (Bansal and CLelland, 2004' Greeening and Turban, 2000) cited by (Doh et al.,2010).

But how does CSR add up to the value of a company? According to (Doh et al.,2010), it was established by (Waddock and Graves, 1997) that superior social performance is indicative of good management practices consequently translated into better performance on the financial level, this link between social and financial performance was also concluded by (Orlitzky et al., 2003) and (Kurtz, 2005) cited by (Doh et al., 2010).

According to (Menz, 2010), firms that are considered socially responsible are preserved as less risky (Di Giulio et al., 2007; Orlitzky and Benjamin, 2001; Spicer, 1978), because they are moderately free of negative financial responsibilities of their business activities, their operation results tend to be stable consequently their stock prices would follow the same tendency. (Menz, 2010) adds that this systematically lower operational and financial risk is supposed to lead to lower risk premiums as it would lower the yield claims by the lenders. this is coherent with the structural risk model suggested by(Merton's, 1974) cited by (Menz, 2010), as the lowered firm valuation would also lead to lower risk premiums. (Cai and He, 2013) found a strong positive correlation between environmental responsibility and shareholders returns on the long run. While on the contrary, a strong negative correlation was found between environmental responsibility and abnormal trade volumes, which confirms that better environmental performance is associated with better financial performance. (Dowell et al.2000; Guenster al. 2010; Dixon-Fowler al. 2013) Cited by (Cai and He,2013) also cited (Bollen,2007), found that this attribute is used as an indicator for investors. (Cai and He,2013) have examined for the long horizon stock returns for many reasons among them is the fact that the returns are considered better than financial ratios, profits and prices for cross sectional analyses and timely reflecting the overall financial performance of a company. While the financial ratios and profit information are firm specific and generally they are updated quarterly or annually in addition to the fact that returns are rather connected to the shareholder value than profit offering better measurement of results of environmental protection for shareholders. Additionally, the returns are easy to be adjusted for risk through incorporating some risk controlling methods like Sharpe ratio and Carhart alpha, another benefit for

using long term stock returns is that they enjoy tax benefits, thus investors may prefer to long-run stock returns.

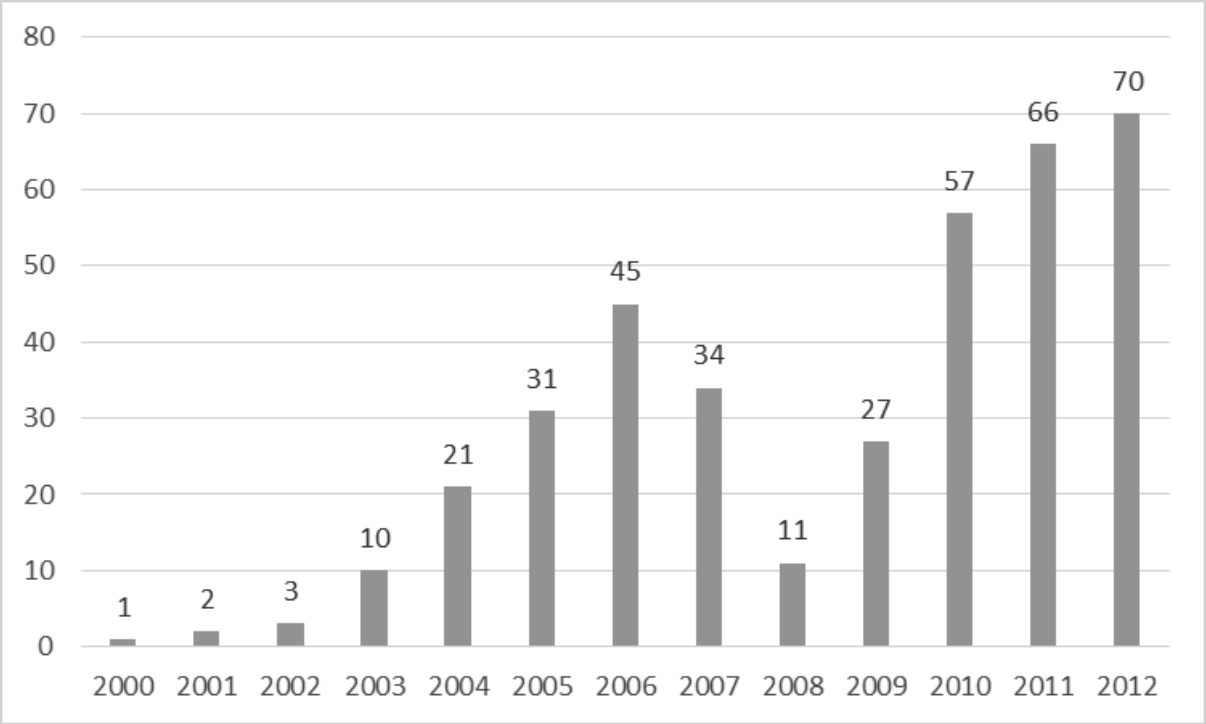
(Oikonomou et al., 2012) cited (Sharfman and Fernando, 2008) and showed that environmental risk management can lead effectively to a lower cost of equity capital in multiple ways among them is the increased tax benefits the systematic risk lowering, this result was demonstrated in their research that focused on the environmental dimension of CSP.

Firms with better corporate governance were having better control for risk in addition to other factors that contributed to a lower cost of equity capital, (Chen et al., 2011) cited by (Claessens and Yurtoglo, 2012). (Ashbugh Skaife et al., 2004) established that where firms have a higher degree of accounting transparency and more independence to its audit committee in addition to a more institutional ownership demonstrated a lower cost of capital, then its more block-holders counterparts. (Claessens and Yurtoglo, 2012) noted that the access to external financing and its amount is also affected by the quality of corporate governance framework, as the outsider's willingness to provide financing is lower and they tend to set a higher rates when they are less assured of how adequate the rate of return that they will get. An interesting study was conducted by (Collison et al., 2008) where they examined the financial performances for firms meeting specific Social Responsibility criteria ,that were included FTSE4 Good indices and in that study they were able to conclude that the superior performance of the indices is mainly because of risk reduction.

ESG related aspects disclosure was found to have a significant influence in the future firm's market capitalization, as these ESG aspects are being used by investors as an input parameter in the models used for valuation in order to estimate firm's value. Consequently, the more the firm is being open and sharing information about its own ESG orientation the more investors would have transparency for assessment of sustainability-risk factors (Vashakmadze, 2012)

SRI ON THE RUSSIAN STOCK MARKET

We can observe the influence of global SRI trend in the example of Russian public companies. Despite the fact that there are no legal requirements for preparing a sustainable development report or ESG responsibility report, companies like Gazprom, Rosneft, Uralkaliy and others publish these reports, and after the 2008 economic crisis this trend has increased (see pic. 1). Why? The answer is obvious- for CEOs of public companies, informing investors about interaction with stakeholders is becoming a key function for value based management.



Pic.1. The number of companies, which publish non-financial reports annually. Calculations were made on the basis of RSPP (The Russian Union of Industrialists and Entrepreneurs) data.

What happened in the last decades and why are investors eager to analyze information about the social responsibility of a business? If we look at price to book ratio P/B (market capitalization divided by the book value of equity) we will see that nowadays this indicator is on the level 2,7 for S&P500 index. It means that only 37% of market capitalization is explained by the balance sheet, and 63% is the market value added, also known as, intellectual capital.

This analogy had been noted by (Edvinsson and Malone, 1997), as they established that firm's is divided into financial capital and its intangible intellectual capital, while (Roos et al.,1998) added to it firm's physical capital.

(Edvinsson and Sullivan,1996) defined Intellectual capital as "Knowledge that can be converted into value", while (Chen et al., 2005) had in empirical study found that intellectual capital has a positive impact on the firm's market value and their financial performance, and can serve as an indicator of the futuristic financial performance, this was also confirmed by (Zeghal and Maaloul, 2010) who found that firms intellectual capital has a positive impact on its economical and financial performance.

If P/B = 1 – it means that for market participants the book value of equity is equal to the market value of equity (market capitalization). If P/B < 1 – it means that market evaluates the company's equity lower

than it is reflected by balance sheet. In such a situation, we can say that the market believes that company's business model is not able to create any value for its shareholders. If P/B > 1 – it means, that the market is ready to pay a premium above book value of equity. Thus, by using the P/B ratio, we can analyze intellectual capital from the market participants' perspective. Blue chips (shares of the most sustainable, liquid and reliable companies) have higher P/B. On the other hand, if we analyze analytical reports of respected investment banks, we will see that company valuation based on the DCF (discounted cash flow) method, that the terminal value is about 70% - 80%, and sometimes is close to 90% from the total value. It means that while investing in a company, the majority do not pay for cash flows in foreseeable future (5-7 years), but pay for the cash flows after the forecasted period.

Thus, it is becoming important for investors to assess the long-term sustainability of a company, but this cannot be done without understanding what type of relationship the company has with its stakeholders. The assessment of company's long-term sustainability is a vital category. It is subjective and depends on which information is available to investors for long-term sustainability assessment. For example, you may consider that Gazprom is a sustainable company, but we don't. Thus, in the way which point of view is overweight in a market, in that way market capitalization of Gazprom will go. That is why for the long-term sustainability assessment it is very important for the company to disclose information about how it interacts with its' stakeholders and how it communicates this very information to investors.

The results of empirical study (Vashakmadze, 2013) prove, that the level of information disclosure related to ESG factors influences on company's future capitalization. If investors are using ESG factors information in their assessment models to define a company's fundamental value with more company disclosures according to them, the bigger premiums investors are eager to pay. Because of that fact, information disclosure on ESG factors gives investors greater ability to assess a company's sustainability, and, consequently, a company's terminal value. The following conclusions can be made according to the research:

The level of information disclosure on ESG factors influences a company's future capitalization. Research has shown, that the future value of a company in the US stock market is explained ESG disclosure score (R^2 = 91,14%).

Investors take into account ESG factors in valuation models for defining company's fundamental value.

The more information related to communication with stakeholders a company provides, the bigger the investor's ability to assess sustainable development of a company. If a company disclosures information about how it interacts with its stakeholders and provides this information to investors, it

will lead to easier assessment of the company's long-term risks which can be occurred from different groups of stakeholders; consequently, it is becoming easier for the investor to analyze how sustainable business model is.

The results of the new empirical study (Vashakmadze and Sackley, 2014) show that involving the ESG indicator into the model allows prediction of better future capitalization of US and Russian companies as well. Thus, we can define two fundamental aspects in interaction of SRI and ESG reporting from the influence to the evolution of Russian business perspective:

- Improving the quality of business valuation on the basis of analysis of long-term sustainability of stakeholders interaction with company
- Possible change in owners and corporation management behavior in favor of ethics in relation to society

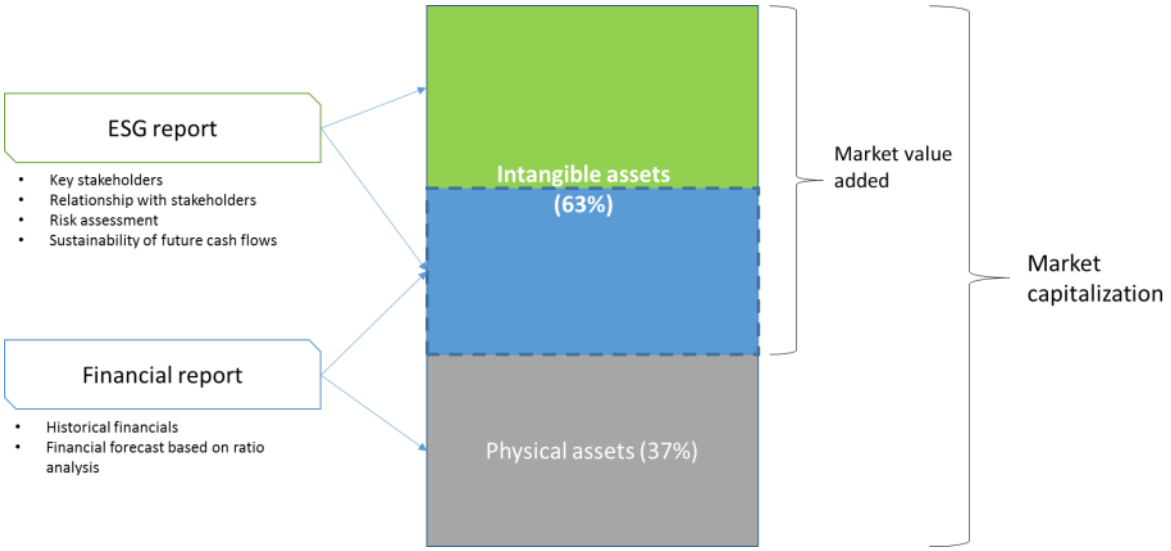
We will try to offer models for each of both aspects, not trying to answer whether Russian businesspeople and managers believe in the social responsibility of business as it is stated by social and integrated reports.

The transformation of company valuation model on the ESG basis

The presentation of the new business valuation model can be done in the following way: the higher (lower) a stakeholder's risk is, and consequently the risk of cash flow stability, the higher (lower) the P/B indicator. The classical model of assessment on the basis of discounted cash flows uses the list of strong assumptions for forecasting future cash flows and risks. Thus, in an equal situation in case of assessment of two different companies – one is assessed on the basis of financial report and market analysis, the another additionally using financial ESG report, the investor will be ready to give a premium for the second company because the reliability of assumptions is increasing according to the information about long-term sustainability of key stakeholders interaction.

In this way, it is becoming more accurate to evaluate the long-term perspective of a company. One of the strongest assumptions of the discounted flows method is the notion of an infinitely long existence of the evaluated company, which is, of course, contrary to the forecasts. Noticing ESG factors, allows reinforcing the quality of this forecast. For illustration, Figure 2 shows the explanation of market value added (MVA) according to ESG factors. The financial statements show only the balance value of assets (grey line) and explain the relatively small part of MVA (blue line). The green line shows the forecast

accuracy growth and evaluation growth due to the long-term sustainability of stakeholders' interaction, including owners, management, employees, federal and regional authorities, clients and suppliers, and society as well.



Pic.2. Explanation of MVA according to ESG factors (Vashakmadze, 2013).

The scheme of socially responsible investing grounding.

Figure 3 shows a simplified scheme of SRI grounding in the USA and Europe. Ethical standards are the basis for all agents, but they are not pushing SRI, while society will not achieve economic well-being, which will allow society to become an active participant of investment process. In the article "Short history of SRI", which was written by William Donovan, it was told, that the phenomena of ESG as an investment strategy was evolving in 18th century within the Methodist Church; Max Weber wrote about that before, classical arguments and critics from whom we are discussing below. The founder of the Methodist Church, John Weseley, in his sermon entitled "The use of money" has formulated rules about how to spend money with "Christians' wisdom…for the implementation of possible good… that money could serve to rescue a human from death!" Nowadays, the Methodist Church has been following the rules which were stated 200 years ago, and professionally manages its assets according to ESG principles. Other religious investors followed this example, offering to check a company according to amoral activity. Finally, the growth of welfare and retirement savings of masses American of investors gradually led to the growing importance of ethical behavior in a religious society, which heavily affects the company's evaluation. The aspects of ecological responsibility were continually added to the religious aspects, and in the late 1990s these requirements became the Standards of social accountability which have become mandatory for all public companies and widely used by public and

state enterprises. From the late 2000s the standard of integrated accountability has been evolving and it holds the concepts of sustainable development and social responsibility (in business strategy and in evaluating future milestones of the biggest multinational corporations) central.

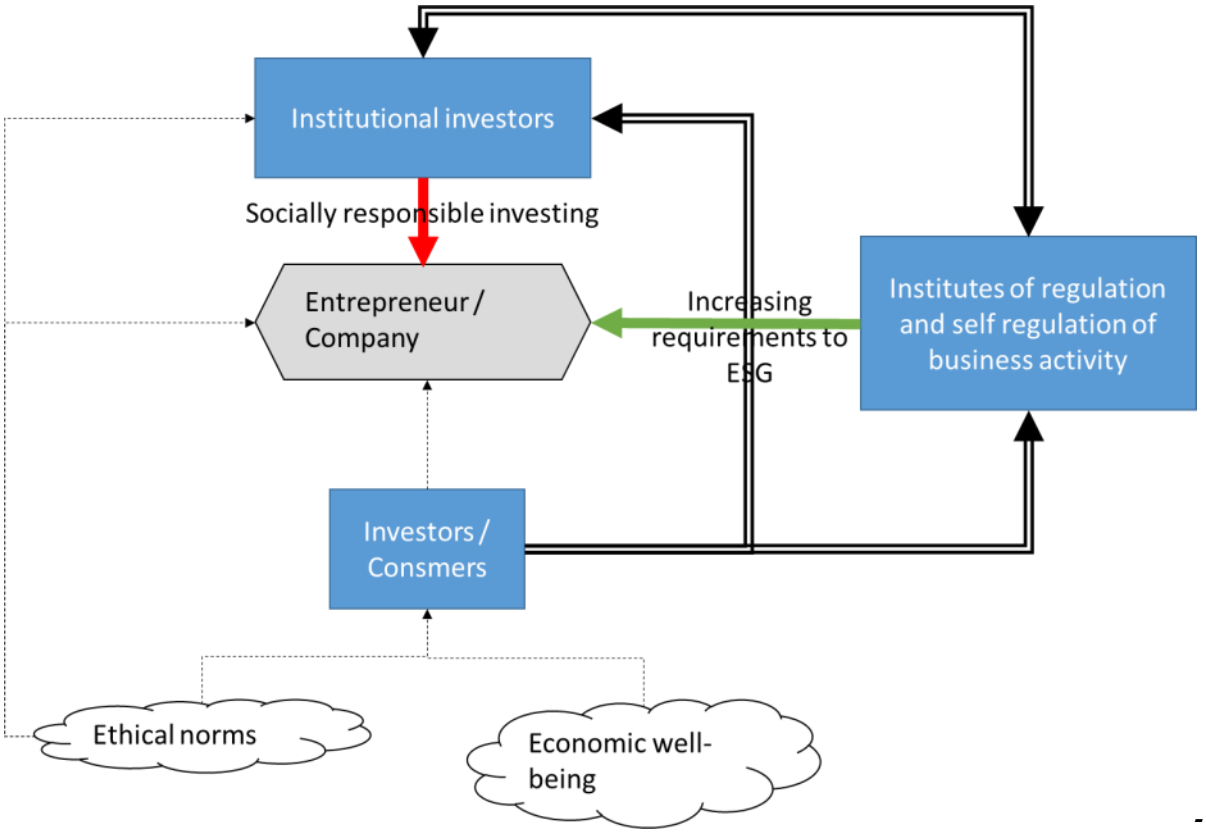


Figure 3. The grounding of SRI.

The social responsibility and sufficient welfare for investing society starts to affect business through the financial market in the light of putting its capital under the management of those who invest according to ESG principles. Also, by the social request for social responsibility, politics are translating through reinforcing the requirements in the ESG factors sphere.

The ethics of capitalism: Weber and Skinner's accounts as models for the future

In order to evaluate the long-term influence of the ESG factors on the management of large Russian companies, we can address the two classic interpretations of the unique historical situation when ethics became a part of capitalism in the Western Europe at the beginning of the early modern period. This was arguably the first move from "wild capitalism" to a more socially responsible business that met the requirements of the society. We can take into consideration the analogy between the standards of Protestant ethics (as a part of the emerging bourgeois ethics in the Northern Europe) and the contemporary global standards of ESG in regards to their impact on the business practices of capitalism in its formative period and at the present time, respectively.

This historical analogy invites us to two alternative interpretations of this peculiar phenomenon known as Protestant ethics (the term introduced and made universally recognizable by Max Weber) of emerging capitalism. Thus, the classical interpretation was given by Max Weber (Weber 1990), in his sociological work of the formation of new ethos and corresponding social relations in Western Europe and USA. From this perspective, he defines "the spirit of capitalism" as a historically new "way of thinking which seeks profit rationally and systematically within the frameworks of the profession". According to Weber, the religious ethics of Protestants, praising in particularly hard work and frugality, happened to fit well this new requirement and thus made Protestants better equipped for the new type of activity, giving them – using the contemporary vocabulary – a competitive advantage. Half a century later, Quentin Skinner has introduced a second fundamental interpretation of this unique phenomenon.

Skinner (Skinner, 2002) argued that the nascent Protestant bourgeoisie could have just adjusted its language and public self-presentation to the moral expectations of the communities, while entrepreneurs themselves were not originally driven by religious ideas. We presume that the second approach gives us the more reliable base evaluation of the long-term influence of social expectations and standards (usually moral ones) on business behavior (aimed at profitability). For the sake of our inquiry we will not distinguish ethics and morals, using them as synonyms.

Famously, Max Weber paid attention to the religious attitude of the American, English and German bourgeois towards their businesses. The conclusion that Weber came up with was that the inner confidence in the religious and soteriological aims of their enterprises made the Protestant bourgeoisie more inclined to operate business in a new properly capitalistic way. This way of behavior comprised self-limitation in consumption, focus on saving, reliance on providence and, moreover, the aspiration to the maximization of material success understood as a sign of blessing and the promise of salvation. As far as the Weberian Interpretative sociology is concerned, this deeply personal religious aim provided an additional impetus for the Protestants and therefore it gave them a tangible comparative advantage over Catholics. The economic data from several German regions would attest Weber's hypothesis as Protestants seemed to be systematically better off than Catholics operating in the same area.

At the heart of the Weberian explanation of the actual difference in incomes of these two otherwise similar groups was their religious beliefs and feelings, which could be understood as the evidence of the overall internal motivation of people. As it is well known, this work of Weber's became one of the most cited papers in the history of sociology, but also has been exposed to harsh and meticulous criticism. Weber's empirical statement on the greater success of Protestants compared to Catholics was subjected to even more severe criticism. Overall, there is no firm evidence of the difference in the

economic success of Protestants and Catholics operating in similar social and economic environments, and what difference existed was close to negligible (Hamilton, 1991). Nevertheless, the differences in social and economic development of the North and the South of Europe remain striking and can be related to the differences in the religious culture, which means that the question of the impact of religious beliefs and values is still open.

The very possibility of explaining such a clearly "selfish" and "rational" activity as private entrepreneurship in terms of ethical and religious beliefs remains fundamentally important for social and economic sciences. Moreover, the puzzling coincidence of economic motives and religious language seems undeniable in the personal diaries of the Protestant bourgeoisie which even a skeptical reader can confirm in "Protestant Ethic and the Spirit of Capitalism". A reader of the best-selling American books on personal and professional development in the late twentieth to the beginning of the twenty-first century also easily detects this alloy of motivation for personal economic gains and solid ethical principles (integrity) (see in particular, Covey, 1989). In other words, we can certainly speak about the mutual reinforcement of religious beliefs and business practices. However, the causal relationship between religious motivation and economic success proposed by Weber can be considered in a fundamentally different perspective.

Less widely known, but also fundamental interpretation of this mixture of Protestant and capitalist spirit was not focused on the comparison of the actual successfulness of Protestants Vs Catholics (Skinner, 2002). Quentin Skinner raised the question of whether it is possible to explain the coincidence of a deeply religious language of Protestant capitalists with the objective needs of business to legitimatize its social image without referring to internal religious beliefs. Skinner's basic thesis can be simplified as follows: constant criticism of the commercial activities by other members of the Protestant communities (their more religious representatives who were not engaged in business) demanded an innovative response from the first entrepreneurs. The rising bourgeoisie had to find an acceptable religious language that would help to introduce specific capitalist practices and values as acceptable and even praise-worthy for this critically minded “fundamentalist” majority. According to Quentin Skinner, to explain the convergence of religious and belief business values it is sufficient to assume that it was not a bourgeois mentality, but the need to formally meet the expectations and religious norms of the Protestant community - the standards in which the Early Modern entrepreneurs themselves did not necessarily believe. In this perspective Protestant ethics of capitalists was more a successful exercise in hypocrisy and adaptation to linguistic conventions than the result of real convictions and religious motivation. For example, if "greed" becomes "thrift", it becomes not only an acceptable form of business behavior, but also a praise-worthy religious virtue. Therefore, this rhetorical shift in terms of using

religious vocabulary allows for the subtle replacement of Christian poverty by the accumulation of capital as a role model. In turn, the limitation of consumption contributes to the further accumulation. However, as we will see here below, under certain conditions, this hypocritical "substitution of terms" limits the actual practices of the new capitalist.

Therefore, the original argument of Skinner is that even this initial hypocritical adaptation to expectations and norms of the Protestant communities leads entrepreneurs to a gradual change in their behavior in terms of acceptability and compliance with the publicly stated principles. Quentin Skinner emphasizes that we do not have any reliable way to test the sincerity of inner conviction (beliefs) of capitalists of Early Modern period. The religious sense of their economic activities such as the creation of commercial and industrial enterprises for the purpose of capital accumulation and growth remains elusive. In Skinner's perspective, Weber's argument, central to his Interpretative sociology, seems to be vulnerable and requires a more robust explanation. In a situation of strategic threat from a part of society, entrepreneurs would have a strong incentive to make their occupation look more legitimate to their communities - in fact, the safety and security of property in a hostile social environment were under threat in Protestant countries as they historically were many other contexts. The behavior of entrepreneurs that best meets the rhetorical conventions of the local community (in this case dictated by the Protestant ethic) is a long-term win-win strategy regardless of the internal beliefs of bourgeoisie of the Early Modern period. This behavior becomes a part of the established practice when the actual deviation from these standards increases economic costs for the trespassers. Regular practice of this linguistic and behavioral self-restraint leads gradually to the adoption of the Protestant standards and values and, finally, after a few generations can lead even to a deep religious faith.

In this long historical perspective, the contemporary drift of global corporations towards greater responsiveness to the ESG standards and the growing influence of socially responsible investing can be considered as an analogy for the transformation of bourgeois practices of the early Modern history under the influence of Protestant communities. Following the skeptical Skinner account of the Protestant ethics, we will also proceed from the fact that personal beliefs in ESG standards of the leading entrepreneurs and top management of large corporations is not the main factor contributing to the generalization of the socially responsible business practices in Russia. In this sense, the role of personal values and beliefs, which is regarded as a key factor by Max Weber, may still be significant. However, it can hardly be scientifically analyzed and forecasted. It is more likely that based on Skinner's model we can count on the gradual transformation of business practices under the pressure of two factors that will help to develop the working model for assessing the correlation between business practices and the external ESG standards in future:

- existence of systematic ethical requirements and expectations from business, which are arranged in clear linguistic and behavioral standards supported by external stakeholders

- stakeholders' ability to influence business (to increase costs or yields) depending on the compliance or non-compliance of entrepreneurs and top-management of corporations to the standards reflecting stakeholders' expectations.

THE MODEL OF THE SOCIALLY RESPONSIBLE INVESTMENT FORECAST IN RUSSIA.

The table below illustrates the simplified model, based on which it is possible to forecast how socially responsible investment and other factors may affect the socially responsible business practices in in Russia. Following the SRI formation scheme (see: pic. 3) we have identified key stakeholders for the contemporary Russian context. One can then assess the actual formation of an ethical standard for each stakeholder and their ability to influence business and thus punish or reward compliance to the standard. This theoretical framework enables us to identify the gap between Russia and those countries with higher level of socially responsible investment development. We are going to use the following qualitative metrics:

0 - absence of ethical requirements and no influence on business

1 - unformulated ethical requirements and medium influence on business

2 - well articulated ethical requirements and high influence on business

Stakeholder's type	Existence of systematic ethical requirements and expectations from business, which are arranged in clear linguistic and behavioral standards supported by external stakeholders (A)	Stakeholders' ability to influence business (to increase costs or yields) depending on the compliance or non-compliance of entrepreneurs and top management of corporations to the standards reflecting stakeholders' expectations (B)	Points = A*B
Consumers, clients	0 points In today's Russia consumers do not impose ethic requirements on a company's activity and do not correlate their behavior with the ethical business practices of their supplier. The growing demand for eco food relates to the quality of product rather than to the ecological responsibility of business.	2 points A priori customers have high influence on business, as they can prefer the production of more socially responsible companies to the one of non-ethical businesses	0
Investors (individuals) in mutual funds, pension funds	1 point At this stage most Russian investors do not have sustainable ethic requirements or expectations, while a significant part	1 point Due to the fact that only a small fraction of foreign investors influence the capitalization of	1

and other investment funds	of foreign investors who influence Russian public companies through the stock exchange do have some; the recent geopolitical crisis diminished the impact of foreign investors.	Russian firms, investors have a moderate influence on business practices in this respect.	
Institutional investors	1 point large investment funds for developmental agencies, and funds of direct investment work within the frameworks of modern ESG standards, which are clearly defined and are actively spread though the stock institutes. However, the funds that operate actively in emerging markets impose less strict requirements.	1 point In Russia, an active role of institutional investors in the formation of stock institution requirements and rules is limited by the relatively low free-float of the Russian companies. The relative share of such investors in the short-term perspective will decrease.	1
State and regulative institutions	1 point state regulators and local authorities have several requirements in the sphere of social responsibility, and less in the ecological sphere. As a rule, they are better articulated by the local authorities in the regions where the main tangible assets of the firm are located.	2 points state regulators and local authorities can significantly influence large business as there are flaws in the legal basis and there is a widespread practice of *ad hoc* law enforcement. This creates additional opportunities to influence business practices beyond the publicly stated standards.	2
			4 out of 16

Table 1. *The model for forecasting the socially responsible investments in Russia*

THE FUTURE OF SOCIALLY RESPONSIBLE INVESTMENT AND ITS IMPACT ON THE SOCIALLY RESPONSIBLE BUSINESS IN RUSSIA.

Despite the fact that in Russia SRI is only emerging and that not all mutual funds and private equity funds present in Russia are investing in accordance with the SRI principles, we can assume that the growth in prosperity will be the long-term driver of the SRI development.

The relative weakness of Russians' ethical demands or social expectations from business limits the influence of ESG principles on large corporations, which do not react to the pressure from within the Russian market and rather formally follow global standards and "best practices". Our qualitative model derived from Skinner's analysis indicates that the genuine transformation of the social orientation of the Russian business will only result from the growing social pressure from within Russian civil society and state. Only when most investors, consumers and regulative agencies will be ready actually and systematically unethical behavior of large corporations, we can expect a genuine change in the management's attitudes towards the declared ESG principles. In the absence of this internal pressure, the actual generalization of ESG principles will remain unlikely. The good news is that already in the current context smarter investors and stakeholders may create value by adopting

SRI approach and getting better returns ahead of the market – based on the real competitive advantage of ESG practices. When the civil society, consumers and state representatives will actually raise their expectations from business, the generalization of the SRI and ESG standards will follow the "virtuous cycle" of mutually enforcing offer and demand, which will create new business and investment opportunities. Finally, we can attest first signs of the growing sensibility to ESG issues among the new generations of the Russian managers, probably indicating the beginning of such a transformation.

For the preliminary empirical validation of the hypothesis described above, we carried out a sampling questionnaire asking the economically active population in Moscow and large cities of Russia. We have divided the respondents into two target groups:

1. Working residents of cities with the population above 1 million people in the age group of 20-55. The questionnaire has received 400 responses.

2. The MBA students of RANEPA IBS in Moscow. The questionnaire has received 41 responses. This questionnaire was conducted by ourselves.

The preliminary collected evidence shows that in Russia the sensibility if not the demand for socially responsible investment is gradually appearing among both managers taking MBA courses in the leading schools of business and economically active population in general, though the evidence requires additional systematic checking.

At the same time, we can talk about the significant role of SRI and ESG international norms and regulations offering a clearly defined range of recommended practices and language conventions to be followed. This fills the A type condition from our table. According to our model based on Skinners' historical account, this global standard will have a long lasting effect on business conventions and practices in Russia, but only when investors will systematically punish for their violation and remunerate for compliance. In the current context, as noted in the table above, the impact of mutual funds and direct investors on the capitalization of companies is rather limited and may even diminish in the short-term.

Finally, the strongest players able to influence corporate business and possessing a rather clear agenda in the sphere of social responsibility are central and local authorities – expecting companies to pay certain level of taxes and keep employment especially in the so-called monogoroda where one factory provides a majority of job

At the present stage, their understanding of business ethics limitations and their ability to affect business gives them the privileged role in shaping the real SRI practices.

The development of SRI in Russia will be not only external based on the transfer of the global standards, but also internal only when key stakeholders will be ready to punish unethical management and entrepreneurs' behavior and reward for the compliance with the standards at their own expense. Currently, the influence of these standards on business is moderate to low, but it can strengthen in the long term as the circle of investors broadens and as we can attest there are signs that economically active population is becoming more sensible to these issues. The key question remaining open is not when managers will wholeheartedly embrace ESG principles, but when Russian investors will be ready to back up their emerging SRI sensibility with rubles. As our technical analysis shows, rational investors can already improve the quality of their corporate business valuation of the Russian companies by taking into consideration the sustainability of key stakeholders' relations. Thus, the SRI framework is both, profitable and ethical. The next question then is how many Russian investors and analysts will read until the end of this text and agree with the arguments above. In a broader perspective, this approach can be tested on other emerging countries.

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THE INTERACTION BETWEEN ENTREPRENEURIAL CORPORATION AND CORPORATE REPUTATION: AN EMPIRICAL LONGITUDINAL STUDY

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ABSTRACT

This study shows that corporate innovativeness, proactiveness, and risk-taking highly interact with corporate reputation. We show that a corporation's reputation is a volatile good. Based on longitudinal data of 68 corporations, we illustrate that there are reputation winners, reputation losers, and those corporations with a continual bad reputation. Even more important, this study shows that proactiveness and risk-taking as two prominent dimensions of entrepreneurial orientation increase the likelihood of gaining reputation. In turn, increased reputation is rewarded with subsequent higher innovativeness. Therefore, we show that the sub-dimensions of entrepreneurial orientation should be considered separately and illustrate different effects of these sub-dimensions concerning corporate reputation. As a result, we contribute to the relationship between entrepreneurial orientation and corporate reputation by employing a large-scale longitudinal data set covering a period of eight years. Entrepreneurship researchers and practitioners are enabled to elaborate the consequences of their management approach in much more detail.

Keywords: *Corporate Reputation, Entrepreneurial Orientation, Innovativeness, Proactiveness, Risk-Taking*

INTRODUCTION

Just to draw a picture, let's start with a short metaphor: If you are interested in growth-accelerating factors for organic plants, you will easily find a positive impact of water, sun, and mold (Step 1 – identifying antecedents). More detailed research may find that the relationship between water and growth follows an inverse u-shape function instead of being linear (Step 2 – determining the type of relationship). Some additional research could reveal that it is rather the terra's nutrients than the mold itself that drives acceleration (Step 3 – identifying 'the effect behind', e.g., by utilizing moderation or mediation analyses). Finally, a predominant biologist would find that these three antecedents of

organic growth interact. A particular combination of water, solar irradiation, and nutrients, each on a plant-specific adequate level, shows to be the best condition to growth-acceleration of organic plants (Step 4 – drawing 'the big picture', e.g., by testing comprehensive moderated mediation models).

If applied to real world management situations, this story sounds somehow different. What drives a corporation's performance is quite a simple question with quite a lot of contrary answers. In fact, research provides a lot of very good answers in each sub-discipline of management today. However, an overarching model that allows considering interactions across disciplines is missing.

So what are possible interaction effects between the drivers of corporate performance? While increasing revenues and decreasing costs – as the top-level components of economic profit – will inevitably lead to superior performance, it is their interaction that really matters: Increasing revenues only contribute to company performance if the costs remain or decrease. Management science is mainly driven by the search for evidence on the antecedents of a corporation's performance. Although performance can be grasped as a multidimensional construct that also includes social and environmental dimensions, most scholars set their focus on financial performance. At the end of the day, it comes down to answering the questions of how to generate (more) financial profit – at least to address issues of practical relevance and importance and to develop managerial implications. Research findings are manifold and include evidence towards more efficient purchasing activities (e.g., through pinpoint negotiations), more effective human resource management (e.g., by addressing the war for talents), cost-efficient manufacturing procedures (e.g., by employing the principles of lean production), increased quality standards (e.g., by utilizing the six-sigma method), and innovative marketing activities (e.g., by inspiring customers).

Next to these 'traditional' antecedents, there are some additional factors that drive corporate performance, particularly a corporation's entrepreneurial orientation and a corporate reputation. Bringing together these two factors accounts for two perspectives at the same time. As a corporation's entrepreneurial orientation represents the internal percipience of a corporation's ability to behave in an entrepreneurial way, a corporate reputation characterizes the outside percipience of the corporation's entrepreneurial attempts. Therefore, this study focuses on the interplay between corporate reputation and entrepreneurial orientation.

CORPORATE REPUTATION AND ENTREPRENEURIAL ORIENTATION

Corporate reputation is widely acknowledged to be worthwhile when attracting customers, investors, or employees. The mechanisms behind are manifold. Reputable corporations attract more qualified applicants for job vacancies, have superior access to capital markets, charge premium prices, and

position themselves as technological leaders (e.g., Fombrun and Shanley 1990; Fombrun 1998; Logsdon and Wood 2002; Rindova et al. 2005; Walter et al. 2006). Thus, implementing trust and stability for customers and establishing important differentiating characteristics in comparison to competitors enables corporations with higher levels of reputation to generate a superior financial performance (Craig et al. 2008; Kärreman and Rylander 2008). In short, becoming a highly reputable corporation is a superordinate goal for managers. In line with others, we regard corporate reputation as the overall recognition in which a corporation is held (Auger et al. 2013).

Figure 1: *Overview of Corporations With Available Reputation Data*

In order to get data for analyzing the role of reputation we referred to the 'Global RepTrak™ Pulse Study', which is the world's largest study on corporate reputation provided by the Reputation Institute. We collected and carefully matched the reputation scores from 396 corporations over a period of four years. These reputation scores are provided by a global survey of more than 150 000 ratings, collected from about 47 000 customers. While 177 of these corporations are at least listed in two years, 68 corporations are included in each and every year allowing for detailed research on the shifts within the top 100 reputable corporations in the world. Figure 1 provides an overview of these corporations.

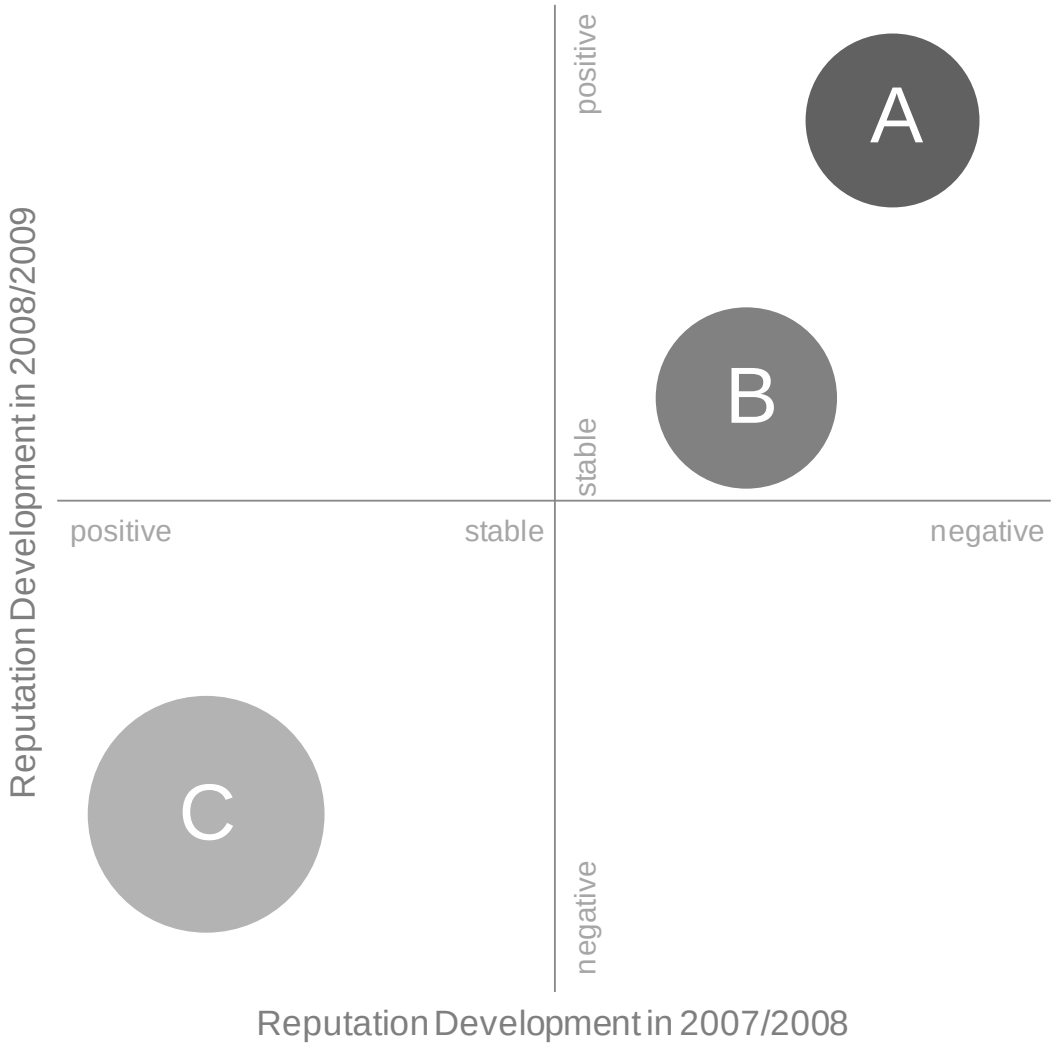
In a similar vein, a corporation's entrepreneurial orientation has a significant impact on a corporation's future performance across a wide selection of performance measures (e.g. Antoncic and Prodan 2008; Covin et al. 2006; Dimitratos et al. 2004; Phan et al. 2009; Zahra 1991). The basic idea behind this relationship is straightforward: Innovative corporations are better trained in recognizing opportunities that lead to an improved market position and, hence, to a superior performance. This argument is primarily based on two pillars. First, the first-mover advantage based on the assumption that innovative corporations take advantage of entrepreneurial opportunities by charging higher prices

while targeting premium market segments. Second, the competitive advantage based on an innovative corporation's ability to act quickly and to present new products ahead of competitors. Both are clearly advantageous and lead to a superior performance (Pearce II et al. 2009; Zahra 1991; Zahra and Covin 1995).

However, defining entrepreneurialism within a corporation is not a simple task. There is a long debate whether a corporation's entrepreneurial orientation – as the main construct determining entrepreneurialism in established corporations – is really multidimensional. In fact, it is indeed important to regard several sub-dimensions of the entrepreneurial orientation construct because each of these sub-dimensions can exert a different influence on a corporation's performance. Thus, concentrating on entrepreneurial orientation as an aggregated phenomenon is inadequate (Covin et al. 2006; Lumpkin and Dess 1996). We follow Miller's original operationalization that contains three sub-dimensions: innovativeness, proactiveness, and risk-taking. While innovativeness focuses on a corporation's ability to create new products ahead of its competitors (i.e., the competitive advantage argument), proactiveness is closely related to the first-mover advantage. Finally, risk-taking accounts for the uncertain disposition of innovative products and, thus, supplements the other sub-dimensions with a positive attitude towards an uncertain future (Miller 1983).

TOWARDS A BETTER UNDERSTANDING OF THE INTERPLAY

Empirical research on the interplay between entrepreneurial orientation and corporate reputation is rare. Both potential directions can be hypothesized and are rational and comprehensible. First, entrepreneurial corporations offer innovative products to customers and, thus, present their corporation as an interesting, innovation-oriented and reputable leader in the industry (Walter et al. 2006). Therefore, it is reasonable to assume entrepreneurial orientation to be an antecedent of corporate reputation. Second and contrary, corporate reputation can be regarded as an antecedent of entrepreneurial orientation because reputable corporations are especially motivated to act in an entrepreneurial way (Memili et al. 2010). In consequence, research on both constructs and their interplay is needed to strengthening our understanding of these two important determinants of corporate performance. Thus, a longitudinal study is needed to address this interesting and timely question.



Please note that this diagram illustrates the numbers for 2007/2008 and 2008/2009 changes; the size of each blister illustrates the sample size N. The row data are (2006/2007; 2007/2008; 2008/2009; N) Cluster A: -1,11; -3.41; 3.07; 13; Cluster B: -1.12; 3.50; -2.51; 14; Cluster C: 5.83; -1.93; 0.83; 24.

Figure 2: *Three Different Corporate Reputation Development Stories at a Glance*

Such longitudinal data enables us to investigate changes in variables of interest. Therefore, an investigation of the interaction between corporate reputation und the sub-dimensions of entrepreneurial orientation can be undertaken. In other words, empirical research based on longitudinal data enables us to determine the character of corporate reputation, either as an antecedent or an outcome of entrepreneurial orientation. For doing so, we employed a cluster analysis in a first step. The goal of this analysis was to identify sub-groups in which members are homogeneous while being heterogeneous in regards to members of the other sub-groups. Due to our focus on corporate reputation, we were especially interested in finding 'corporate reputation development stories' in order to identify a specific number of corporations that showed a similar development regarding their reputation scores. As our data set includes reputation scores for a period of four years, we were able to calculate three differences. Assuming three possible development directions per year (i.e., a positive, a

negative, or a stable development) results in a potential of 3^3=27 different clusters. In fact, the analysis shows that three clusters are enough to describe the existing development stories.

Obviously, Cluster C is a non-desirable position for corporations as a negative development in the second financial year of observation (2007/2008) cannot be compensated in the following financial year (2008/2009). Therefore we entitle this cluster 'Reputation Losers'. Corporations belonging to Cluster B are more favorable but show a more volatile development. After a negative development in the financial year 2006/2007, a very positive development in 2007/2008 can be seen. Unfortunately, this does not hold in 2008/2009 leading to the name 'Non-Improvers' for that cluster. Finally, the development of corporations of Cluster A is quite remarkable: A negative development in 2006/2007 and in 2007/2008 can be turned in a very positive development in 2008/2009. Thus, the label 'Reputation Winners' seems to be appropriate for these corporations.

METHODOLOGY

Researching the interplay between corporate reputation and entrepreneurial orientation requires longitudinal data on both measurements. Although measuring a corporation's entrepreneurial orientation is typically done by utilizing surveys, recent research indicates procedures avoiding a non-response bias by gathering data from secondary sources (Michalisin 2001; Short et al. 2010). In particular, collecting data by content-analyzing annual reports with established key words offers high reliable and valid results (e.g., Dolfsma and Panne 2008; Herrmann and Peine 2011; Katz 2006; Özçelik and Taymaz 2004; Rost 2011; Uotila et al. 2009; Sonpar and Golden-Biddle 2008; Franzoni and Scellato 2010; Grinstein and Goldman 2006). Likewise, content analyses of official documents are an established way to capture particular aspects of a corporation gaining three important advantages (Uotila et al. 2009). First, a content analysis is able to cover a broad definition. Second, it is available for large numbers and, therefore, especially suitable for researching a huge amount of corporations. Third, it is largely applicable across industries. Therefore, content analyzing annual reports of these corporations by utilizing the recently validated key words (Short et al. 2010) is beneficial here to measure the sub-dimensions of a corporation's entrepreneurial orientation. The utilized keywords are listed in the Appendix.

Thus, we collected annual reports via an intense Internet request. These annual reports cover a period of eight years (from 2004 till 2011) and focus on those 68 corporations that offer reputation scores in each and every year of interest (from 2006 to 2009). Due to some missing data, the potential amount of 544 annual reports reduces to 520. We content-analyzed these 520 annual reports by utilizing the specialized software 'NVivo 10'. This software allows for identifying keywords in a PDF document and

automatically calculates the density by dividing the amount of keywords found by the total number of words within the respective document. The resulting variable represents our measurement for a corporation's innovativeness, proactiveness, and risk-taking. As the basis of analysis is an annual report prepared and distributed by the corporation, our main argument that entrepreneurial orientation should be regarded from an internal perspective is adequately respected.

RESULTS

As we are interested in the interplay between the three corporate development stories indicated above and the sub-dimension of a corporate's entrepreneurial orientation, Figure 3 illustrates the respective scores in a condensed way. Cluster A represents the 'Reputation Winners' and is, thus, of increased interest.

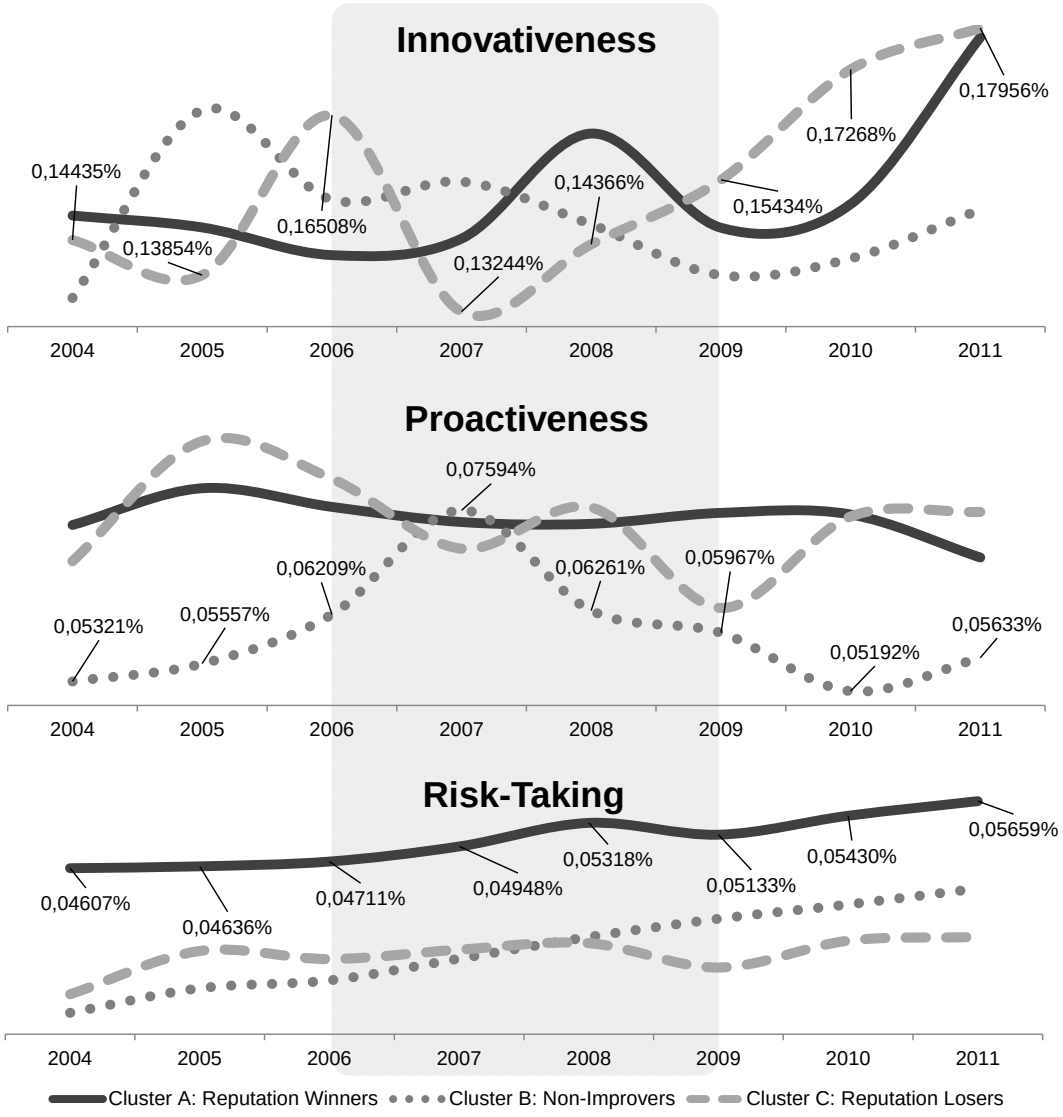


Figure 3: *Three Different Corporate Reputation Development Stories*

Before measuring the corporate reputation development stories (i.e., the left side), innovativeness seems to play an unidentifiable role. However, corporations in Cluster A and C clearly show higher levels of proactiveness. Even more important, the degree of risk-taking plays an essential role as it is much higher within corporations belonging to Cluster A. Therefore, being proactive is not enough to belong to the cluster of 'Reputation Winners'. Instead, a corporation must merge its proactiveness with risk-taking.

After measuring the corporate reputation development stories (i.e., the right side), the different roles of all three sub-dimensions change. While proactiveness and risk-taking remain on a more or less equal level, the measurement of innovativeness increases significantly. Thus, corporations belonging to Cluster A can be best characterized with high levels of proactiveness and risk-taking that lead to an increase in a corporation's innovativeness after showing a favorable corporate reputation development story.

DISCUSSION

Understanding the interplay between antecedents of a corporation's performance is a crucial task for both managers and scientists. Our research on corporate reputation, the sub-dimensions of a corporation's entrepreneurial orientation (i.e., two important antecedents of corporate performance), and the interaction effects allows us to draw some important conclusions.

First, it is a fatal error to regard a corporation's reputation as a phenomenon that is stable over time. In fact, analyzing the corporate reputation scores of nearly 400 corporations over a period of four years illustrates that three predominant development stories exist. While there are some corporations that lose important reputation scores year by year (i.e., the cluster of 'Reputation Losers'), some other corporations show a more volatile development (i.e., the cluster of 'Non-Improvers'). Corporations belonging to the cluster of 'Reputation Winners' are of increased interest for practice because they are able to compensate a negative development in two subsequent years.

Second, 'Reputation Winners' are characterized by high levels of proactiveness. However, as 'Reputation Losers' show a tentative equal level of proactiveness, it is a corporation's risk-taking that differentiates 'Reputation Losers' from 'Reputation Winners'. Therefore, proactiveness must be combined with risk-taking to increase the probability of belonging to the cluster of 'Reputation Winners'.

Third, 'Reputation Winners' are rewarded with increasing innovativeness after the successful turn-around of their corporate reputation journey. Hence, their investments in proactiveness and risk-taking

are twofold. On the one hand, these investments increase the probability of a positive corporate reputation development. On the other hand, these investments result in an additional increase of a corporation's innovativeness. Therefore, it seems to be advisable to increase these efforts within the activities of corporate entrepreneurship.

Fourth, our results clearly show that the sub-dimensions of a corporation's entrepreneurial orientation have different effects. Hence, it is inappropriate to distinguish between entrepreneurial and non-entrepreneurial corporation from an aggregated point of view. However, it is reasonable to measure and interpret a corporation's levels of innovativeness, proactiveness, and risk-taking. This procedure allows us to draw a much more detailed picture.

To sum up, this study offers contributions in three dimensions. First, we contribute to the ongoing debate if entrepreneurial orientation should be treated as a unidimensional construct (Covin et al. 2006; Lumpkin and Dess 1996). Our results clearly show that each sub-dimension exerts a different influence on corporate reputation and vice versa. Hence, entrepreneurial orientation should be treated in a multidimensional way. Second, this research contributes to the underresearched interaction between corporate reputation and entrepreneurial orientation (Memili et al. 2010; Walter et al. 2006). Third, investments in proactiveness and risk-taking are of advantage for corporations that want to be a 'Reputation Winner'. In turn, 'Reputation Winners' are rewarded with increasing innovativeness. Therefore, the results of this research are of high value for practitioners.

Nevertheless, as each and every research our study suffers from several limitations that offers avenues for further research. First, while we use longitudinal date over a period of eight years, the measurement of our reputation development stories is based on just four years. Therefore, enlarging our data set with additional reputation data seems promising for even more robust results. Second, we measured the sub-dimensions of entrepreneurial orientation with a justified content analysis. While our results show high validity, validating it, e.g., with patent data as another established proxy for a corporation's innovativeness seems to be advisable. Third and finally, the research presented in that study focuses on illustrating the interaction effects between corporate reputation and entrepreneurial orientation. While the results are of rich content for practitioners, researchers could benefit from even more detailed analyses, e.g., by running multiple regression analyses.

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APPENDIX

Following Short et al. 2010, we utilized these keywords for measuring the sub-dimensions of entrepreneurial orientation:

Innovativeness: Ad-lib, adroit, adroitness, bright-idea, change, clever, cleverness, conceive, concoct, concoction, concoctive, conjure-up, create, creation, creative, creativity, creator, discover, discoverer, discovery, dream, dream-up, envisage, envision, expert, form, formulation, frame, framer, freethinker, genesis, genius, gifted, hit-upon, imagination, imaginative, imagine, improvise, ingenious, ingenuity, initiative, initiator, innovate, innovation, inspiration, inspired, invent, invented, invention, inventive, inventiveness, inventor, make-up, mastermind, master-stroke, metamorphose, metamorphosis, neoteric, neoterism, neoterize, new, new-wrinkle, innovation, novel, novelty, original, originality, originate, origination, originative, originator, patent, radical, recast, recasting, resourceful, resourcefulness, restyle, restyling, revolutionize, see-things, think-up, trademark, vision, visionary, visualize

Proactiveness: Anticipate, envision, expect, exploration, exploratory, explore, forecast, foreglimpse, foreknow, foresee, foretell, forward-looking, inquire, inquiry, investigate, investigation, look-into, opportunity-seeking, proactive, probe, prospect, research, scrutinization, scrutiny, search, study, survey

Risk-taking: Adventuresome, adventurous, audacious, bet, bold, bold-spirited, brash, brave, chance, chancy, courageous, danger, dangerous, dare, daredevil, daring, dauntless, dicey, enterprising, fearless, gamble, gutsy, headlong, incautious, intrepid, plunge, precarious, rash, reckless, risk, risky, stake, temerity, uncertain, venture, venturesome, wager.

DO THE INVESTMENTS IN ARCHITECTURAL DESIGN HELP COMPANIES TO BE MORE SUSTAINABLE? FINDINGS FROM AN EXPLORATORY STUDY

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ABSTRACT

This paper explores the effects of the corporate architecture of industrial companies in relation to sustainability by means of a literature review and an exploratory research methodology including interviews to six Italian industrial companies that have invested in corporate architecture for sustainable development since 2000. The analysis suggests that corporate architecture is a fundamental means by which a company can improve the living conditions of the community in which it operates by contributing to territorial sustainability in economic (e.g., supporting local firms and providing employment), environmental (e.g., creating structures with a low environmental impact) and socio-cultural (e.g., accommodating and supporting events, creating places of socialisation and offering facilities to the community) terms.

Keywords: *Corporate Architecture; Industrial Companies; Corporate Social Responsibility (CSR); Sustainability.*

INTRODUCTION

Towards the end of the 1980s, industrial companies developed an interest in the search for beauty in exterior design (e.g., Banham 1986). To date, very few studies have been conducted on the corporate architecture of industrial companies in the management literature; however, some research has shown that corporate headquarters and office design can influence human behaviour, interaction patterns, communication styles, approaches to efficiency, productivity and creativity (Berg and Kreiner 1990). These factors have also been found to enhance corporate competitiveness (e.g., Bonfanti et al. 2013) in terms of strategy (i.e., by strengthening corporate identity, image, corporate values and brands),

organisation (i.e., by improving well-being in the workplace) and sustainability (i.e., by ensuring more efficient energy use). Some companies have spent large sums of money on corporate architecture design to improve their competitiveness and contribute to sustainable territorial development.

A literature review and an explorative analysis will be undertaken to examine the effects of investments in corporate architecture by industrial companies from a sustainability perspective. This analysis will not consider the economic or organisational performance achieved by investing in corporate architecture; rather, it will explore this little studied phenomenon of corporate architecture in Italy with the aim of stimulating the interest of scholars and practitioners. Finally, the paper will conclude by discussing the implications and possible future applications of corporate architecture in relation to sustainable territorial development.

THEORETICAL BACKGROUND

Companies between corporate social responsibility and sustainable development

The first studies of corporate social responsibility (CSR) were published in the 1960s (e.g., Davis 1960; Frederick 1960). Many subsequent studies followed (e.g., Sen et al. 2006; Maon et al. 2009; Carroll and Shabana 2010; Du et al. 2010). Over the last fifty years, CSR has been defined in a variety of ways; however, it is generally agreed that a definition of CSR must include any decisions and actions made for reasons that extend (at least partially) beyond the economic or technical interest of an enterprise (Davis 1960) and that CSR is a form of commitment aimed at improving the well-being of society (Kotler and Lee 2005). CSR does not refer exclusively to business; it also refers to social objectives (Brugmann and Prahalad 2007). To create value and well-being for the entire community (Baccarani 1991; Csikszentmihalyi 2003; Kofman 2006), companies must put individuals and the synergies generated in the competitive and relational environment at the centre of their strategic and operational choices (Golinelli 2010). To achieve this, in addition to obtaining a return on enterprise risk and entrepreneurial innovation, it is preferable that companies use profit to meet moral and social objectives. Thus, CSR is a strategy of competitive development adopted by companies voluntarily and discretionarily (Carroll and Shabana 2010) that aims to achieve economic and meta-economic goals by adopting long-term entrepreneurial behaviours directed towards stakeholders.

In the 21st century, sustainability or sustainable development has become an integral part of CSR and has been investigated by a number of social and economic science studies. Since the publication of the report 'Our common future' in 1987 by the World Commission on Environment and Development (WCED) chaired by Gro Harlem Brundtland, much has been written about sustainable development as a concept. Sustainable development has been defined 'as the kind of development that meets the needs

of the present without compromising those of the future by initiating a changing dynamic process where the exploitation of resources, the destination of investments, the orientation of technological development, and institutional changes are directed toward satisfying present and future necessities' (WCED 1987). More simply put, sustainable development is a means of meeting the needs of organisational stakeholders without compromising environmental and community resources and interests (Dyllick and Hockerts 2002).

The underlying idea of the sustainability revolution (Edwards 2005) is that the survival and future development of macro (e.g., the planet earth and its nations) and micro (e.g., social organisations and businesses) systems can be ensured by seeking a balance between economic, social and environmental interests; that is, by maintaining an economic perspective that is compatible with social equity and environmental balance. These factors are inseparable (Selman 2000) and important to sustainable development and the long-term maintenance of systems (Crane and Matten 2007).

Over the last few years, as international awareness of the importance of sustainability has increased so too has the importance of sustainable development in business management. A growing number of companies are adopting guidelines, developing values and implementing strategies and practices aimed at ensuring sustainability. According to the sustainable corporation model (Elkington 1994), organisations base their corporate values and processes on what is becoming a new business paradigm of sustainable development (Elkington 1997; Edwards 2005). A triple bottom line model of CSR and sustainable development has been developed based on three dimensions (Elkington 1997) (or 'the three Ps'); that is: 1) profit or a company's ability to maintain an appropriate competitive position; 2) people or protecting the health and safety of employees and consumers, respecting local communities and meeting of the expectations of stakeholders; and 3) planet or reducing ecological footprints by carefully managing non-renewable energy consumption, reducing manufacturing waste and rendering waste less toxic before disposing of it in a safe and legal manner. In addition to providing a system for measuring the level of corporate sustainability (Savitz and Weber 2006), this model also shows that a company is pursuing conditions of corporate sustainability (Quaddus and Siddique 2011) when it seeks adequate levels of profitability while at the same time respecting the welfare of all stakeholders (i.e., individuals internal and external to the company and the community of settlement) and acting in harmony with the environment. Thus, these three dimensions are mutually influential.

Companies operating on the basis of this logic not only contribute to achieving corporate sustainability, but also increase the value of the territory in which they operate by promoting a sustainable development culture at local level. Territorial management should favour the balancing of all stakeholders' interests, offer opportunities for the economic, social and cultural growth of people and

social groups and reduce differences in the economic and social development of different parts of the territory (e.g., Baccarani and Golinelli 2011).

Corporate architecture in the business management field

Corporate architecture and industrial archaeology have some similarities; however, their nature and purpose remain different. Industrial archaeology was a discipline born in England (Rix 1955) to study the industrial innovations of the past, such as machinery, manufacturing processes, architectural complexes and business documents and archives in relation to history, architecture, art, technology, town planning, customs and social life. Scholars of industrial archaeology aim to understand, revitalise and reuse a territory's abandoned or decaying factories and industrial heritage by valorising the functional aspects and historico-economic and socio-cultural importance of industrial buildings; rather than their aesthetics (Battisti 2009). Research in this area is increasing (e.g., Parisi 2011; Palmer and Neaverson 2012).

Corporate architecture includes the external or structural design of buildings and more general architectonic aspects (Berg and Kreiner 1990) as interior design, visual identity, and the corporate design of products and buildings. To date, only a few business management studies on the corporate architecture of industrial companies have been conducted and recent studies have only considered this phenomenon in the organisational field. Seiler (1984, p. 111) argues that corporate buildings are an important part of a company's profile and strategy when they 'reflect the purpose of the business and encourage important work relationships'. Other scholars (e.g., Melewar and Jenkins 2002) consider corporate architecture to be one of the elements of visual identity or corporate design that contributes to the creation of a corporate identity (Schmidt 1995; Bartholmé and Melewar 2009). Berg and Kreiner (1990) showed that corporate architecture and plant and environmental design is a way of infusing a corporation and its activities and products with meaning, corporate virtues and managerial intentions. Thus, corporate architecture is a totemic symbol that can unite employees around a common goal and vision and is the physical embodiment of an organisation's history and values. A number of studies examining corporate architecture in terms of spatial work settings (e.g., Kornberger and Clegg 2004; Dale and Burrell 2008) have shown the value of corporate headquarters as a tool of organisational cultural change (van Marrewijk 2009). Other scholars have argued that buildings can embody a company's soul (Seiler 1984) in the design of the main social areas through which people pass or come together during the day (e.g., a large hall or glass-covered courtyard) and strengthen feelings of community. Bonfanti et al. (2013) pointed out that corporate architecture could be extremely important for the development of corporate competitiveness in terms of an improved corporate identity and image, communication of corporate values and branding, creation of well-being in the workplace, and

achievement of greater energy efficiency. In addition to the structure and exterior design of a building, landscaping is also vital, as it is an integral part of the symbolic production of architectural space and organisational identity. Manipulation of the environment can generate a particular manner of perceiving and feeling an organisational reality (Cosgrove 1985; Daniels and Cosgrove 1988).

Companies use architecture to aesthetically and visually transform themselves, differentiate themselves from their competitors and establish better competitive positions (see Figure 1).

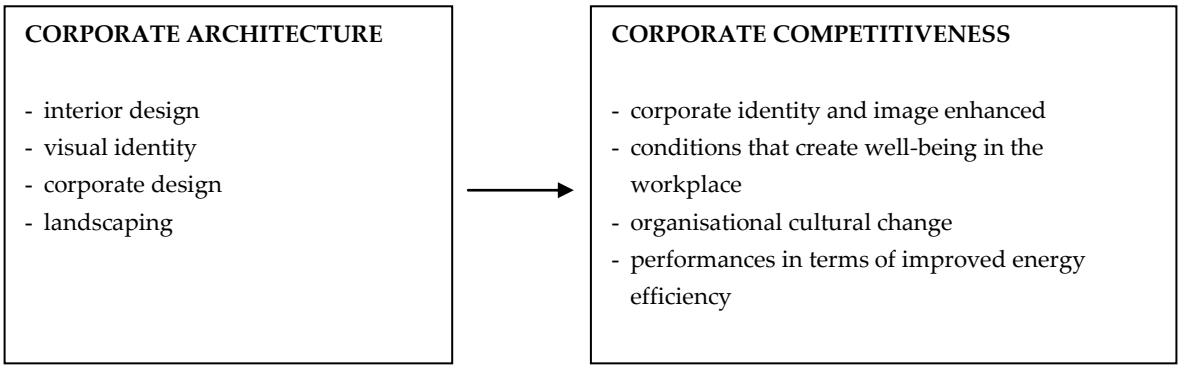

Figure 1. Corporate architecture and competitiveness: Advantages in terms of competitive position

Given that each company has not only a production space, but also an engine of economic and social development (Olivetti's philosophy cited in Cavallo et al. 2013; Sciarelli and Tani 2015), corporate architecture can contribute to the development of corporate competitiveness and at the same time create territorial sustainability. Only a few management studies have explored the contribution of corporate architecture to sustainable territorial development, this paper attempts to fill this research gap. It is argued that an industrial company's investments in architecture can lead to utility and benefits that ensure a territory's economic, environmental and socio-cultural development.

RESEARCH METHODOLOGY

Using an exploratory research methodology, this study investigates Italian industrial companies that have invested in corporate architecture (for sustainable development) since 2000. Companies were selected on the basis of a two-steps analysis. The first step of research involved a review of articles published between January 2000 and December 2014 in '*Il Giornale dell'Architettura*' (an important Italian journal on architecture). The aim of this review was to build a database of companies that have invested in corporate architecture projects. Upon completion of this first step, 92 industrial companies were identified. Then the websites of each company were used as a primary resource to determine the presence, richness and relevance of the information in relation to the research objective. A strategy of the theoretical sampling was also used to select these 92 companies (Patton 2002). The following factors

were determined to be relevant to the study: a) companies that have realised different types of investment in corporate architecture; and b) companies that have invested in almost two of the three dimensions of the sustainable development (in the economic, environmental and socio-cultural areas). Upon completion of the second step, six companies were identified for this study (see Table 1 for the profiles of these companies).

Company's name	**Location (Italy)**	**Foundation year**	**Core business**	**Architectural project (years)**
Diesel Kids and Diesel Props	Marostica (Vicenza)	1984	Clothing manufacturing company	2002–2004
Ditta Bortolo Nardini (Bolle)	Bassano del Grappa (Vicenza)	1779	Producer of spirit, grappa and liqueurs	2000–2004
Enoplastic	Bodio Lomnago (Varese)	1957	Manufacturer of innovative capsules and caps for the wine industry	2009–2010
Kerakoll (GreenLab)	Sassuolo (Modena)	1968	Manufacturer of materials and services in the applied chemical sector for building applications	2008–2012
Oberalp/Salewa	Bolzano	1935	Producer of high quality sports clothing and equipment	2009–2010
Pratic	Fagagna (Udine)	1960	Producer of innovative business bags and accessories	2009–2011

Table 2. *Selected industrial companies investing in corporate architectural in sustainable terms*

For each company, three sources of information were used to allow the triangulation of data (Woodside and Wilson 2003) and ensure the validity of the results; that is: 1) semi-structured interviews; 2) articles published between January 2000 and December 2014 in major Italian architecture magazines; and 3) secondary sources (e.g., company presentations, websites and other company documents). With specific reference to the interviews, we generally received reply from the business, communication, marketing or public relations manager, and in a case from the president. The interview questions mainly covered the two following aspects: a) the company's sustainability strategies; b) the effects of the corporate architecture in relation to sustainable development.

THE CONTRIBUTION OF CORPORATE ARCHITECTURE TO SUSTAINABLE DEVELOPMENT

The six industrial companies interviewed present different strategic approaches in relation to sustainability. They are briefly described in Table 2 on the basis of the information gathered up during the interviews and published online. They are distinguished into economic, environmental and socio-cultural area on the basis of information that has been specified. Many initiatives of the environmental area produce effects in terms of economic sustainability, even if they are not specified in the Table 2.

A majority of industrial companies invest in corporate architecture to produce profit and benefits that ensure the economic, environmental and socio-cultural development of the community. Thus, corporate architecture can contribute to territorial sustainability economically, environmentally and socio-culturally (see Figure 2). For the sake of clarity, sustainable development is examined by distinguishing the initiatives in relation to each area of sustainable development; these areas are closely related.

Company	**Sustainability Strategies and CSR Policies**		
	Economic Area	*Environmental Area*	*Socio-cultural Area*
Diesel Kids and Diesel Props (OTB Group)	The group promotes the OTB Foundation. A not for profit organization born with the mission to fight social inequality and contribute to the sustainable development of less advantaged areas and people throughout the world. The projects supported (both in Italy -10%- and Sub-Saharian Africa -90%) are selected following very simple criteria: they have to be sustainable, innovative, and bring about direct and concrete social impact.		
Ditta Bortolo Nardini	-	Nardini promotes environmental protection also in the activity of expansion of building space.	Nardini is committed to fostering the cultural growth of the local community around the themes of global development and sustainability. Moreover, it makes available company spaces for the realization of events related to the territory.
Enoplastic	-	Enoplastic is committed to protecting the environment as a primary asset. Its manufacturing processes seeking the environment protection through: a) abatement equipment atmospheric emissions, b) use, where possible, of glues and water based materials and non-solvent, and c) distribution of company land in large green areas.	Enoplastic believes that its business activities, in order to qualify as ethically responsible, should pursue production models that respect and safeguard human rights, the regenerative capacity of the Earth and the well-being of community.
Kerakoll	-	Kerakoll designs and manufactures innovative solutions for the environment and improving the health and quality of life through environmentally friendly construction materials and naturally breathable to prevent major diseases from pollution indoors. The commitment of Kerakoll is reflected in everyday life, in business, in sensitivity to the needs of consumers to ensure the satisfaction of the needs of the present without compromising the welfare of future generations. This is not only a mission but also a social responsibility guiding and uniting all the people who are part of the company.	
Oberalp - Salewa	The company is aware of having a great responsibility in shaping, with innovative, safe and meet the highest quality standards, sustainable development of alpinism. The company wants to protect the environment it loves. For this, it aspires to limit the possible environmental impacts in relation to saving energy, water and resources, as well as encourage renewable energy sources. Obviously, this approach produces positive impacts also in terms of economic sustainability.		The commitment of Salewa goes beyond alpinism lovers. It involves also people who are part of the community and the social environment in which company is established and who share values and ideals.
Pratic	Pratic have as cornerstone of its philosophy the environment: the energy is totally self-produced and the materials used in the products are mostly recyclable.		The company is committed to ensuring the wellbeing in the workplace. It supports different

		charitable initiatives: the annual participation in the Telethon marathon, the Cup of Skiing for the disabled, distance adoptions, earthquake victims and the mobility of the disabled.

Table 3. *Sustainability Strategies and CSR Policies of the selected company*

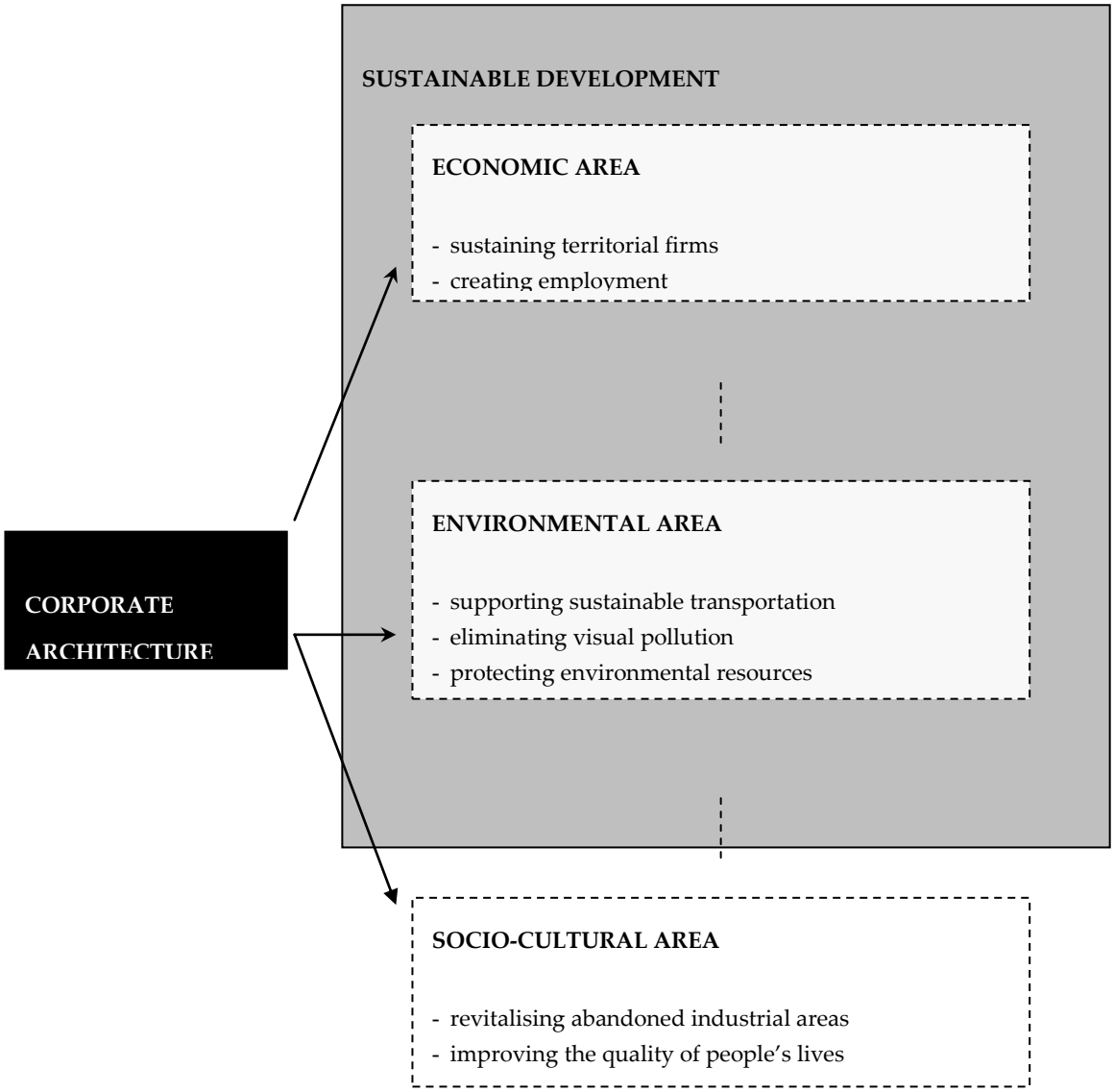

Figure 2. Main effects of the corporate architecture in sustainable development terms

From an economic point of view, investing in corporate architecture allows companies to follow the philosophy of total quality environmental management (TQEM). TQEM attempts to reduce costs throughout the entire corporate system (Shrivastava 1995). Companies adopting technological solutions drastically reduce costs for gains in environmental performance; for example, Oberalp/Salewa installed solar panels on the building's roof that were able to produce 420 kWh per year to reduce CO2 emissions (see Figure 3e). This company is also an excellent example of how companies can operate sustainably (in economic terms) by establishing and consolidating close relationships with suppliers of

building and maintenance materials. Such that local firms are supported, as they are involved in the construction work and, additionally, new facilities and services are offered that create further employment opportunities for the whole community, all of which increases economic returns for the territory. In 2010, Enoplastic finished redeveloping their production plant and created a structure that was technologically advanced and environmentally friendly (see Figure 3c). In addition to being a comfortable building with diffused lighting and good ventilation, this building also has high thermal efficiency and is able to produce renewable energy from solar energy through photovoltaic plant of 535 kWp integrated coverage. This plant can produce 600,000 kWh per year, an amount equivalent to the annual consumption of more than 200 corporate employees. Thus, the electricity used will be entirely subservient to the energy needs of the production plant. Similarly, Pratic produces more energy than it consumes (see Figure 3g). The photovoltaic system installed on the roof of Practic's building is composed of about 2,300 square meters of panels and has a capacity of 460 kWh.

From an environmental perspective, appropriate choices relating to corporate architecture can contribute to supporting sustainable transportation, protecting environmental resources and increasing eco-efficiency. Involving local firms allows goods to be transferred in a way that reduces energy and material consumption. Additionally, a company can use eco-friendly materials and/or double-decker trailers that carry more products per delivery to improve eco-efficiency and help preserve the environment. This is an example of green transportation whereby eco-efficiency is obtained by reducing fuel consumption. Designing individually striking corporate buildings that harmonise with the surrounding environment is also important, as this can eliminate visual pollution by creating an aesthetically gratifying panorama. Massimiliano Fuksas, an internationally renowned architect, designed the Nardini building called 'Bolle'; it is a building surrounded by and in harmony with nature (see Figure 3b). The building is 'suspended' between the trees of the garden designed by Pietro Porcinai (excavation of bubbles, seven meters deep, were made around the roots of the old oaks in which they are located). Similarly, the Kerakoll's building was designed to realise (both visually and functionally) the company's vision of eco-sustainability (see Figure 3d). This vision emphasised the importance of using natural materials, being eco-sustainable and combining elements of bioclimatic and energy efficiency along with high architectural quality (both externally and internally). The building is eco-tech; that is, it has a mantle of coverage, opens to the outside and the perimeter walls give an opening and sobriety to the territory. In addition, Kerakoll (see Figure 3d) offers a range of innovative eco-friendly products for a fast-growing new building philosophy that delivered important benefits in terms of protecting the environment and the health and well-being of individuals. The manufacturing plant of Pratic is integrated with the landscape in both environmental and aesthetic terms; the overall image of the building changes with the light and weather conditions (see Figure 3g). The parking

spaces (approximately 120) are hidden from the view of those who pass in front to the company and a large green area of 33,000 square meters surrounds the building. The architect for Diesel Kids and Diesel Propos wanted to strengthen and assert the territorial identity of the company so that it was able to interact with the landscape by means of polymorphic forms that related to the infrastructure and landscape (see Figure 3a).

From a socio-cultural point of view, corporate architecture can contribute to the redevelopment of abandoned areas and improve living conditions in the community. Industrial buildings can create opportunities for community socialisation by accommodating and supporting socio-cultural events, social groups and associations and offering other facilities and services that encourage cultural exchange and give people a greater sense of belonging to the territory in which they live. In this respect, in addition to hosting the research centre laboratories, Bolle of Nardini (see Figure 3b) allows their auditorium to be used for socio-cultural (e.g., dance festivals) and tourist (e.g., wine tastings) events.

Figure 3. Industrial companies investing in corporate architectural in sustainable terms

DISCUSSION AND CONCLUSIONS

This paper explored the effects of corporate architecture in relation to sustainable territorial development. Drawing on a range of theoretical and empirical resources, it explored the contribution that the corporate architecture of industrial companies makes to improve living conditions in communities. The companies studied provide empirical evidence that it is important for firms to invest in architectural innovation to achieve the objectives of territorial sustainability in economic, environmental and socio-cultural terms. This can be achieved by creating buildings that have a low environmental impact and promoting the socio-cultural growth of communities. Further, corporate architecture can be used to integrate a company with its territorial surroundings and create conditions for collective utilities that extend beyond the production of industrial goods and services.

The relationship between architecture and company has not always been synergistically developed, as different aims exist in relation to urban and territorial development. This paper showed that this relationship can be developed and provide benefits to companies, stakeholders and society as whole. To date, such cases have been sporadic in Italy; however, these cases nonetheless showed that some production spaces are being renewed under a sustainability perspective. Notably, this renewal is occurring more in the environmental and economic areas than in the socio-cultural area. A majority of the companies selected created or restructured their buildings using inspiring architectural solutions that were able to meet their energetic and technological needs. To a lesser extent, these companies also invested in corporate architecture to increase the socio-cultural value of territory. Only one company invested in the last dimension of sustainable development and this company had the highest entrepreneurial sensitivity in relation to the awareness of the social and cultural role of each enterprise. This is a typical feature of the management thinking in long-living firms (Rossato 2013).

Given that the path of sustainable development can be understood as a continual process of change or evolution (Newman 2007), a territory is a vital entity that can grow on the basis of its socio-cultural, environmental and economical-political responsibilities. Unlike the industrial companies cited in this paper, it is suggested that stakeholders finance architectural projects because the benefits are mutual. Only companies that are rooted in their territory are capable of triggering this type of change because their actions can innovate both. This study also extended the literature by highlighting the economic, environmental and socio-cultural effects of corporate investments in architectural innovation.

This study had a number of limitations. The results of empirical exploration are not generalisable for reasons including that the data collected was often specific to an existing situation at a particular point in time (Lee and Baskerville 2003) and not representative of all the sustainable initiatives carried out by

industrial companies in Italy. Further, the subjectivity of companies' choice criteria opens the way for further theoretical and empirical studies both in Italy and other countries.

One promising research finding concerns the antecedents that can induce industrial companies to invest in architecture for sustainable development. By combining antecedents and consequences, it is possible to create a conceptual framework that can be subsequently tested in relation to the specific territory of an individual company at regional level. To do this, it is necessary that the top management of each company: 1) lives in and loves the area in which their company operates; 2) pursues CSR for all stakeholders (employees, customers, suppliers and citizens); 3) develops a propensity to give something to the community by improving the industrial context in a perspective of sustainability; 4) considers profit as a means of creating economic and social value; and 5) cooperates with all stakeholders to ensure their sustainable mutual development.

A company's commitment should be visible in everyday dealings, their business and an awareness of the needs of consumers should satisfy current requirements without compromising the well-being of future generations. Companies must have both an economic mission and a CSR mission; business and social responsibility must be combined such that business is used to improve the quality of life of the people and the environment in which they live.

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A METHODOLOGICAL PROBLEM ASSOCIATED WITH DEFINING WOMEN ENTREPRENEURS

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ABSTRACT

This article highlights one of the most significant methodological problems of researching women entrepreneurs and understanding the female entrepreneurial experience, which is related to the definition of women entrepreneurs. The article presents the diverse definitions used in several researches, conceptualizes the different aspects related to the definition of a woman entrepreneur, and proposes future directions to conduct research into women as entrepreneurs.

Keywords: *Women entrepreneurs, female entrepreneurs.*

INTRODUCTION

As a result of the acknowledgement that enterprise creation is related to economic growth and employment, major efforts have been carried out globally during the past few decades to stimulate the generation of entrepreneurial activity (Weeks & Seiler, 2001). Entrepreneurship normally refers to the activities associated with being an entrepreneur (HarperCollins, 2003) and—even though it is a relatively recent area of research—it has been one of the fields of research that has expanded the most. Specifically since 1970, there has been a growing interest in the entrepreneurial activity of women in the world as a result of the great growth in business start-ups by women, based on the assumption that women encounter difficulties in starting and operating a business that are different from those faced by men (Neider, 1987). Women entrepreneurs have been identified as a "major force for innovation and job creation" (Orhan & Scott, 2001).

Although entrepreneurship has become one of the fastest growing fields of research over the past decades, there isn't one generally accepted definition of its meaning. The term has been used in many research studies with a variety of definitions. The problem becomes more complex when dealing with researches conducted in different languages and contexts, where there might not be a direct translation for the used terms. For example, there is no agreement on the translation of the term *entrepreneurship* into Spanish. Some use *espíritu empresarial* (HarperCollins, 2005), *empresarialidad* (Argentina), *emprendedorismo* (Brazil and works carried out by the Inter-American Development Bank)

(United States Agency of International Development [USAID], 2005) or *emprendimiento* (Peru). This confusion regarding terms often leads to the inability to compare different research studies about women entrepreneurs, thus hindering the understanding of women's entrepreneurial activities worldwide. Given the importance of a common and precise definition of what is a woman entrepreneur, the goal of this article is to present the diverse definitions used in previous studies, as well as to conceptualize the different aspects related to the definition of women entrepreneurs.

CRITERIA USED TO DEFINE WOMEN ENTREPRENEURS

In women entrepreneurship studies, there is no single generally-accepted definition of what an entrepreneur is. The definition of a *woman entrepreneur* varies from one research study to the other, and the various studies about entrepreneurs—specifically women entrepreneurs—do not exhaustively analyze the different criteria related to the definition of women entrepreneurs. In some cases, the criteria were not mentioned. Figure 1 shows a summary of several criteria used to define the concept.

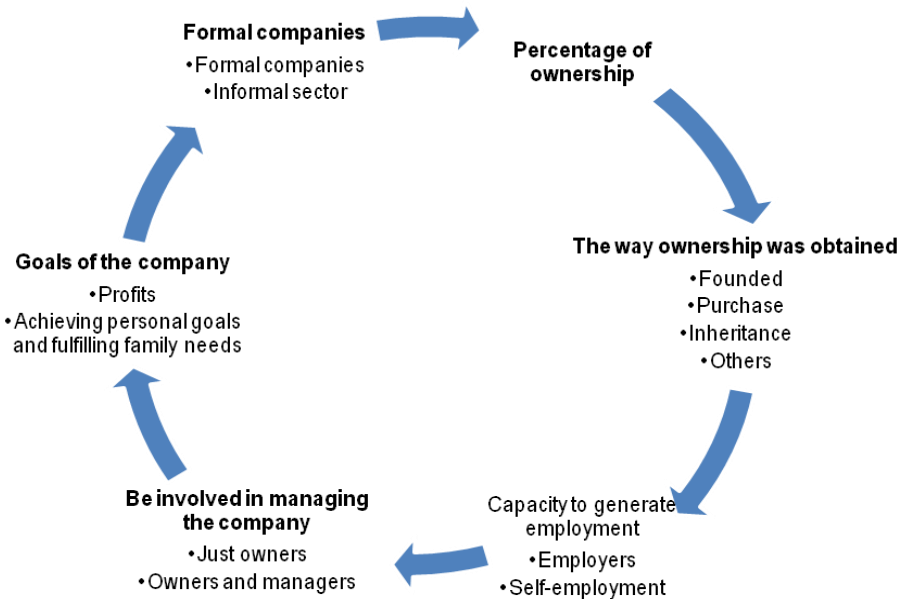

Figure 1. Criteria to Define Women Entrepreneurs

(a) What is the percentage of ownership of a company that women must control in order for the company to be considered women-owned? Some studies establish that women should own at least 50% of the company for it to be considered a women-owned enterprise, while other studies do not make that distinction.

(b) How do the studies take into account the amount of "women entrepreneurs in the shadows," including wives and partners of entrepreneurs who participate in the management of the enterprise even though their names do not appear as owners?

(c) Should research on women entrepreneurs consider only those companies founded by women or should they also consider companies that have been acquired by women? Some studies consider that the term entrepreneur applies only to people who start new enterprises, while other studies consider that the term entrepreneur refers to the owners of companies without distinguishing how the ownership was obtained (purchase, inheritance, or founding).

(d) Should research on women entrepreneurs include self-employment or must women be able to generate employment for others in order to be considered entrepreneurs? Some studies find that the term entrepreneur refers only to employers, while others consider self-employment a business itself.

(e) Should research on women entrepreneurs take into account the fact that they are actively involved in business management or can women entrepreneurs simply be the owners of a company without being connected to the management of the company? Some studies consider that the term entrepreneur only refers to the owners of a company, making no distinction about the management of the enterprise, while other studies consider that the entrepreneur—in addition to having ownership of the company—should also be involved in managing it.

(f) Should research on women entrepreneurs take into account the goals of the company? Some studies consider that the term entrepreneur should only be applied to people whose goals are to obtain profits and make their businesses grow, and exclude the owners of small businesses created with the main objective of achieving personal goals and fulfilling family needs, while other studies make no distinction between them.

(g) Should research on women entrepreneurs consider only the formal sector of the economy or also include the informal sector?

RESEARCH ON WOMEN ENTREPRENEURS

The research conducted on women entrepreneurs is quite extensive in the developed countries, especially in the United States, Canada, and the United Kingdom, but there is not much knowledge of women and their companies in Latin America. However, specific studies of women entrepreneurs in France, Singapore, Russia, Ireland, Puerto Rico, China, Turkey, Hungary, South Africa, Israel, Poland, Germany, India, Lithuania, Greece, and Australia have been conducted. In order to analyze the main

trends emerging from these studies, articles have been classified according to Gartner's (1985) conceptual framework for the creation of new enterprises: namely the concepts regarding the individual (refer to the person involved in creating the new organization and include demographic information, background, motivation, working and educational experiences, as well as psychological aspects); the environment (refers to the situation affecting and influencing the organization, and includes legal, political, governmental, sector and technological aspects); the organization (refers to the type of enterprise created, which includes its strategy, organizational characteristics, the type of enterprise, structure and the problems faced and the processes) and; the process (considers the actions taken by the entrepreneur to start up the enterprise and includes the identification of opportunities, the search for resources, the construction of the organization, the administration of the enterprise, and the response to the environment) (Gartner, 1985).

Most studies on women entrepreneurs were focused on the individual. The initial studies were devoted to learn about the background and organizational characteristics of women's enterprises. However, most recent studies consider a wider research on the problems faced by women entrepreneurs, their administrative practices, perceptions of women as administrators, their abilities for achieving success, gender differences, conflicts between their enterprise and family roles, and the vision they have for their enterprises. Methodologically, most studies are based on surveys and case studies, which are mainly descriptive and use the available samples, since there are no databases on women entrepreneurs and they frequently do not associate research with theory. Other methodological issues include the lack of instrument validation, the existence of a sole source of information, a tendency to generalize behavior, and the characteristics among different types of women (women who create new enterprises, women who take charge of the family business, and the differences in age, industries and size) (Brush, 1992). Despite all these issues, such studies have produced knowledge upon which theories of women's entrepreneurial activities are based and are being further developed.

DEFINITIONS USED IN RESEARCHES ON WOMEN ENTREPRENEURS

The term *woman entrepreneur* is difficult to define as there is no accepted definition in the academic sector or in the common language. Entrepreneurship, as an area of study, has been researched by experts from several disciplines, including sociology, psychology, and economics, each with a different definition. Academic writings use a variety of definitions for women entrepreneurs. Some consider women entrepreneurs as:

(a) Only women who establish new enterprises (Bennett & Dann, 2000; Hisrich & Brush, 1986; Inman, 2000; Schwartz, 1976, Smith-Hunter, 2003), while others refer to enterprise owners, without taking into account how they obtained ownership of them (Aidis, 2002; Izyumov & Razumnova, 2000);

(b) Only women who are employers (Hisrich & Fulop, 1994; Inman, 2000; Smith-Hunter, 2003) while others include self-employment as an entrepreneurial activity (Aidis, 2002; Izyumov & Razumnova, 2000; Voeten, 2002);

(c) Women who not only own, but also manage their enterprises (Aidis, 2002; Inman, 2000; Lee-Gosselin & Grise, 1990), while others emphasize only ownership without taking into account the person who manages the business operations or has an important administrative role (Bennett & Dann, 2000);

(d) Women who establish a business in order to obtain profits and growth (Bennett & Dann, 2000), excluding proprietors of small business, who are defined as "…those who establish and administrate a business with the main objective of achieving personal goals, where the business is the main source of income and consumes most of their time and resources, and where the proprietor sees the business as an extension of their own personality and related to their family needs" (Carland, Hoy, Boulton, Carland, 1984, p. 358).

Schwartz (1976) defined the entrepreneur as "an innovative individual that creates and builds a business that did not exist before" (p. 47). Schwartz (1976) also defined an entrepreneur as "an innovative individual who creates and builds a business from nonexistence" (p. 47), which implies that an entrepreneur creates a new enterprise. Hisrich and Brush (1992) defined an entrepreneur as the person who "creates something different of value, dedicating the necessary time and effort, taking the financial, psychological and social risks, and receiving the monetary rewards and personal satisfaction" (p. 4).

According to these definitions, entrepreneur can only refer, *strictu sensu*, to a person who founds an enterprise or business. From a wider perspective, it can refer to the ownership of enterprises, regardless of the way such ownership was obtained (founding, purchase, or inheritance) (Hisrich & Brush, 1986). According to Cooper and Dunkelberg (1981), a person may also have become an enterprise owner in one of several ways: (a) by founding an enterprise; (b) by purchasing the enterprise from a person outside the family; (c) by family succession, including the purchase of the enterprise from a family member; or (d) by promotion or incorporation into the enterprise by the owners. The foundation of an enterprise implies taking personal risks and the capacity to innovate

when conceiving and creating a business, and taking the initiative to establish something new. The purchase of an enterprise also implies taking risks and requires the initiative to find and agree to buy an enterprise; however, it requires less creativity and vision than detecting opportunities or obtaining the necessary resources to create an enterprise. To become the owner of an enterprise through inheritance, promotion, or incorporation into the enterprise, implies even less personal risk (even though the obligation, reputation, and other personal aspects may be involved), and does not require the innovation needed to obtain the necessary resources to create an enterprise (even though it may require a lot of inventiveness to expand an already existing enterprise).

Lee-Gosselin and Grisé (1990) studied women entrepreneurs in Canada and they operationalized the term *women entrepreneur* according to the following criteria: they must own at least 1% of the enterprise, be responsible for at least one managerial function (marketing, accounting, human resources or other) and work in the enterprise. Inman (2000) studied Afro-American women entrepreneurs in the United States and considered the following criteria: Women should own more than 51% of the business, have less than 500 employees, have founded the business (excluding purchasing or inheriting enterprises), administer their business, work full time in the enterprise and receive the greater part of their income from the enterprise.

Bennett and Dann (2000) define entrepreneur as "a person who has established the enterprise as a new venture, where growth is intended, for the prime reason of generating profit and achieving personal satisfaction" (p. 78). To operationalize this definition, they divide the term into three parts: create a new enterprise, guide it towards growth, and motivation. According to Izyumov and Razumnova (2000), any business in Russia is an entrepreneurial adventure due to the lack of financial and legal infrastructure and to the associated personal risk. Therefore, these authors use without distinction the terms *micro-enterprise, small business, self-employment,* and *entrepreneur*, given that—in transitional economies such as Russia's—the distinction among these terms is unclear. Aidis (2002) argues that the concept of entrepreneur is connected with an innovative behavior, a situation that may not be present in enterprises at a particular moment in time, and that is difficult to prove; the term *business proprietor* was preferred in the study, i.e., individuals that have their own businesses and that are actively involved in their operation. This definition does not take into account how proprietorship was obtained, or distinguish between employer and self-employed (self-employment considers the owner to be the only worker).

An interesting approach is the one used in Vietnam as part of the project *Training for Women in Micro and Small Enterprises, Phase 2* (Voeten, 2002), which distinguishes women entrepreneurs from those involved in commercial activities in order to survive. The document developed a set of criteria to

classify women's entrepreneurial activities: whether or not it is a women's enterprise; whether women were pushed or pulled to the enterprise; whether or not women would leave the enterprise if they were offered a permanent job; whether or not the enterprise is formally established; whether or not they are ready to pay for training in administrative matters; whether or not they wish to expand their enterprises; whether they hire personnel; whether they take risks or reinvest in their enterprises; whether or not the enterprise and personal finances are separated; whether or not the business has some kind of accounting record.

The analysis of Smith-Hunter (2003) was conducted according to the dimensions of *the proprietor of a small business,* and separated the concepts of administrator, entrepreneur, self-employed, and employee. For Steinhoff and Burgess (1989), the entrepreneur is the "person who organizes, runs, and takes the risks involved in operating a business" (p. 14). For Stoner and Freeman (1992) a manager is "someone who has formal authority to play a series of impersonal, informational, and decision-making roles in a particular unit" (p. 13). For Smith-Hunter (2003), an entrepreneur is associated with the creation of a new business and they may choose whether or not to administer it. If they choose not to administer it, the entrepreneur will only act as an investor. The self-employed are persons who work for themselves; they don't work for an employer, they work for themselves (Cambridge University Press, 2008). Under this concept, even when the *proprietor of the business* is regarded as *self-employed*, a *self-employed* individual is not necessarily the owner of a business. To be considered as the *proprietor of a business*, such business must be established as an enterprise, i.e., an organization that pursues certain ends. Individuals who work for themselves and who have not constituted an enterprise are self-employed, but they are not proprietors of a business (Smith-Hunter, 2003). The employee aspect is closely linked to the enterprise aspect. An employee is a "person who carries out an assignment or job" (Real Academia Española, 2001). While the owners of some enterprises take their income from the business' profits, others choose to assign themselves a salary for their job, turning themselves into employees. Taking these dimensions into account, Smith-Hunter (2003) considers that enterprise proprietors run their businesses as administrators; they risk, invest, and create their businesses as entrepreneurs. Additionally, they hire themselves and—in many cases—they are also employees in their own business when they assign a salary to themselves. "This multi-dimensional view of the small business owner is extremely important because it allows us to look at the complex nature of the various dimensions of the small business proprietor" (Smith-Hunter, 2003, p. 16).

Appendix A summarizes the results of 40 academic papers about women entrepreneurs in the last two years. Some of them do not include a definition of women entrepreneurs and others show definitions different from its research objective.

SOME GENERAL DEFINITIONS OF TERMS

The research on entrepreneurship demands to have common definitions of the following concepts: entrepreneurship, entrepreneur, enterprise, business, manger, employer, enterprising, and self-employment.

(a) The term *entrepreneurship* is defined as: "The state of being an entrepreneur or the activities associated with being an entrepreneur" (HarperCollins, 2003). There is no agreement on the translation of the term *entrepreneurship* into Spanish. Some studies use *espíritu empresarial* (HarperCollins, 2005); *empresarialidad* is used in Argentina, while *emprendedorismo* is used in Brazil (USAID, 2005).

(b) The term *entrepreneur* comes from the French verb *entreprendre*, which means "undertake" (Harper, 2001). The concept appeared for the first time in 1437, in the *Dictionnaire de la Langue Française* and it was associated with the adventurers who travelled in search of opportunities or with men in military expeditions (Landström, 1999). At a basic level, an entrepreneur is defined as "someone who starts their own business, especially when this involves risks" (Cambridge University Press, 2008); "a person who owns and runs a business—not necessarily a new, small, growing or successful business" (Oxford University Press, 1998). The term *entrepreneur* is defined as the "owner or member of the board of directors of an industry, business or enterprise" (Real Academia Española, 2001).

From an economic perspective, the entrepreneur is related to a certain degree of risk and is defined as "a person who risks capital and other resources in the hope of substantial financial gain" (Oxford University Press, 1998). From a sociological perspective, an entrepreneur is defined as an innovative individual: "…entrepreneurship, as defined, essentially consists in doing things that are not generally done in ordinary course of business routine" (Schumpeter, 1934, p. 254).

(c) The term *enterprise* is defined as "an organization, especially a business, or a difficult and important plan, especially one that will earn money" (Cambridge University Press, 2008). An *organization* is an "association of persons governed by a set of rules that are based on specific ends" (Real Academia Española, 2001).

(d) The term *business* refers to "the activity of buying and selling goods and services, or a particular company that does this, or work you do to earn money" (Cambridge University Press, 2008) or "the object or matter of a profitable occupation", without necessarily implying an organization (Real Academia Española, 2001). The terms *enterprise* and *business* are sometimes used interchangeably, but they are not the same. The

term *enterprise* refers to the "organizations dedicated to industrial, commercial or service activities with profit-making ends"; and the term *business* refers to "that which is the object of a profitable occupation, without necessarily implying an organization".

(e) The term *manager* is defined as: "To be responsible for controlling or organizing someone or something, especially a business" (Cambridge University Press, 2008).

(f) The term *employer* is defined as "a person or organization that employs people" (Cambridge University Press, 2008).

(g) The term *enterprising* is defined as: "Doing new and difficult things, especially things that will make money" (Cambridge University Press, 2008); or "Who resolutely starts difficult or risky actions" (Real Academia Española, 2001). According to the definition, the term *enterprising* does not necessarily imply that the initiative has consolidated into the creation of an enterprise. The term *enterprising* is used in the Minniti, Arenius, and Langowitz (2005) studies, who calculate the Total Entrepreneurial Activity Rate and define *enterprising* as "any attempt of new businesses or creation of new enterprises, such as self-employment, reorganization of a business, or the expansion of an already existing business by an individual, group of individuals or an already established enterprise" (Serida, Borda, Nakamatsu, Morales, & Yamakama, 2005, p.5).

(h) *Self-employment* is defined as: "Not working for an employer but finding work for yourself" (Cambridge University Press, 2008), which does not necessarily mean being the owners of an enterprise (Smith-Hunter, 2003, p. 14).

EMPIRICAL CONTRIBUTION: PROPOSAL FOR THE DEFINITION OF WOMEN ENTREPRENEUR

In order to compare better the academic researches on women entrepreneurs, these studies shall explain what does women entrepreneurs mean from the analysis approach, taking into account the following variables: (a) percentage of ownership of the company, (b) the way the ownership was obtained, (c) the generated employment level, (d) person in charge of the management of the enterprise, (e) goals of the enterprise, (f) time of operation of the business (g) whether the company is the woman's main source of income, (h) formal or informal sector of the economy. Based on these variables, the following is a proposed definition of women entrepreneurs that can be used in women entrepreneurs research: *Women entrepreneurs include women who own 50% or more of a formal enterprise*

(regardless of how they obtained the ownership), who are actively involved in their operation as managers or administrators, and who generate employment for themselves and for other people.

In order to operationalize this proposed definition—and based on previous studies (Bennett & Dann, 2000; Inman, 2000; Lee-Gosselin & Grisé, 1990; Voeten, 2002)—it has been divided into eight criteria that must be fulfilled in order for the person to be considered a *woman entrepreneur*. The criteria are:

a) A woman must hold 50% or more of the ownership of the business (shares, voting participation or entrepreneurial activity as an individual), regardless of the way the ownership was obtained. This criterion has been established to separate an enterprise that is owned by women.

b) The business must have more than two employees to differentiate a women entrepreneur from a self-employed woman, since hiring personnel is an important step in the entrepreneurial activity.

c) A woman must have an important administrative role in the enterprise at the time of the study.

d) A woman must work full time in the enterprise; this differentiates women entrepreneurs from those who do business occasionally.

e) A woman must receive most of her income from the enterprise; this differentiates a part-time opportunity from a full time commitment to the business.

f) A woman must be linked to the enterprise for a minimum of two years, to ensure her having a strong commitment to the enterprise.

g) The businesses must have been operating formally for two years or more, in order to differentiate short-term opportunities from a long-term commitment to the business;

h) The enterprise must be operating formally at the time of the study. The term *formal* refers to the legal and tax aspects of the business, i.e., enterprises that are considered legal are those that have legal economic activity and function as companies or individuals with entrepreneurial activity that comply with most of their fiscal obligations, even if that does not necessarily mean that all their employees are formally hired and that the entirety of their sales is formally declared to the tax authorities. The enterprise's formality can be expressed through the incorporation of a company (by-laws) or through the entrepreneurial activity as an individual (income tax, municipal license to operate or bills of sale).

The proposed definition of women entrepreneurs takes several types of entrepreneurs into account: women who are business owners and run their businesses as *administrators*; those who take risks, invest, and create businesses as *entrepreneurs*; women who are *self-employed* but also generate employment for other people and who are also *employees* in their own business. The definition makes no distinction of the way in which ownership was obtained, nor does it differentiate the women whose goal is to obtain profit and make their own business grow from owners of small businesses created mainly to achieve personal goals and fulfill family needs. The proposed definition considers women whose enterprises have been operating formally for a minimum of two years, which can be taken as a measure of commitment to the enterprise, regardless of the financial results obtained. It considers enterprises where women are actively involved in an important administrative role through full-time dedication, i.e., women working as managers or administrators of their enterprises, as "someone who has formal authority to play a series of impersonal, informational, and decision-making roles over a particular unit" (Smith-Hunter, 2003, p. 13). Finally, it considers enterprises from which women receive the largest part of their income, in order to distinguish women entrepreneurs from those who do business occasionally.

This approach has been used by Avolio (2010) in the study dedicated to understand why women become entrepreneurs. It provided empirical evidence of its application in a qualitative study based on the case method. The questions—specifically considered to determine that a candidate for the study meets the criteria for the definition of an entrepreneur—are shown in Table 1.

Table 1

Criteria to Define a Women Entrepreneur

Information	Question	Sources of Evidence
Woman's participation in the ownership	Is it a women-owned enterprise (50% of ownership or more)?	If it is a legal entity, verify in legal documents. If operating as an individual, verify in tax returns or from a declaration by an interviewee.
Formal activities	Do you operate your enterprise formally?	Expressed in the articles of incorporation, Tax returns, consolidated tax record, tax documents such as bills of sales or invoices, and/or municipal operating license.
Employees in the business	Do you have any employees? How many?	Verified by observation by the researcher and/or declaration of the interviewee.
Time of operation of the business	How long has your enterprise been established?	Expressed by advertising material, rental documents, tax returns or declaration of the interviewee.
Role of the woman in the enterprise	Does the woman have a vital role in the administration of her enterprise?	Verified by observation of the researcher.

Dedication to the enterprise	Do you work full time in your enterprise?	Verified by observation of the researcher and/or declaration of the interviewee.
Main source of income	Is this business your main source of income?	Declaration of the interviewee.
Time in the business	How long have you been the proprietor and conductor of the enterprise?	Declaration of the interviewee.

DISCUSSION

The lack of knowledge of entrepreneurial activity represents an obstacle to understand the phenomenon of women entrepreneurs. The increasing knowledge on women's entrepreneurial activity in the world will help us to understand the phenomenon and to facilitate the implementation of support programs that will help promoting the creation of enterprises by women and developing a favorable environment for entrepreneurial activity.

Current researches on women entrepreneurs encountered the following methodological problems thus far: (a) Research to date has not yielded comparative results that can be applied across different global contexts and, as a result, the lack of a single generally accepted definition of *women entrepreneurs* in the academic literature—that includes equivalent terms in different languages—has become a major obstacle to an understanding of this phenomenon, (b) Confuse *entreprenuership* with *entrepreneur*, assuming that self-employment is the same as a business, (c) Not explaining what women entrepreneurs mean from the analysis approach, which complicates the interpretation of results.

In that sense, this article proposes three things. First, the definitions for the following terms: entrepreneurship, entrepreneur, enterprise, business, manager, employer, enterprising, self-employment. These terms can be commonly used in academic research. Second, the article proposes a single standard definition of woman entrepreneur that considers the different aspects of what it is to be a woman entrepreneur. Third, this article proposes that researches shall clearly explicit what *women entrepreneurs* mean from the analysis approach, taking into account the following variables: (a) percentage of ownership of the company, (b) the way the ownership was obtained, (c) capacity to generate employment (d) to be involved in the management of the enterprise, (e) goals of the enterprise, (f) time of operation of the enterprise (g) whether the company is the main source of income for women, (h) formal or informal sectors of the economy.

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APPENDIX A

Table 1

Summary of Articles Discussing Women Entrepreneurs in the Last Two Years

Year	Authors	Definition of Women Entrepreneurs
2015	Al Mutairi, A., & Fayez, F.	"However, entrepreneurs are defined here for research purposes as persons who generate a new business for profit and employ at least one paid individual" (p. 51)
2015	Nneka, A. A.	"A woman entrepreneur is defined as the female head of a business who has taken the initiative of launching a new venture, who is accepting the associated risks and financial, administrative and social responsibilities, and who is effectively in charge of its day-to-day management (Lavoie, 2005)" (p. 234).
2014	Bashir, M.	"The simple random sampling technique was used to collect data from 100 educated female of Faisalabad, Pakistan, who was willing to run their own business." (p. 28).
2014	Belwal, S., Belwal, R., & Al Saidi, F.	"Women entrepreneurs have been defined differently by different people (Bruni et al. 2004, Lee-Gosselin & Grisé 2009, Martin & Osberg 2007, Schaper & Volery 2004). However, this paper considers women entrepreneurs as women who initiate, organize, and operate business enterprises".
2014	Bowale, E. K., Longe, J. B., & Suaibu, O.	"The Sampling frame covered micro enterprises, small enterprises and medium enterprise in the selected rural areas in Akoko North-East Area. The sampling frame for the survey consists of SMEs which employ not more than 10 for micro, 50 people for small (SSEs) and 250 for medium (MEs) Since not all the SMEs are formally registered with government and even trade associations, the population size cannot be exactly pre-determined" (p. 139).
2014	Bulgacov, Y., De Camargo, D., Figueiredo, M. L., & Da Cunha, S.	"In terms of the profile of the entrepreneurial activities of women and young people, we can characterize their work predominantly as alternative forms of employment and income due to a lack of option in the formal labor market. Their activities have very little planning, low initial investment and very little specialized formal knowledge in competitive sectors and with low productivity levels.
2014	Cini, M., Cucllari, F., & Gushi, L.	"Active enterprises run by women constituted 27.4 per cent of the total compared with 72.6 per cent conducted by men. In 2012, 30.1 percent of new enterprises are created and managed from woman." P.622
2014	Global Entrepreneurship Monitor	Entrepreneurship: "The definition of entrepreneurship—in the context of understanding its role in economic growth—is as follows: Any attempt at new business or new venture creation, such as self-employment, a new business organization, or the expansion of an existing business, by an individual, a team of individuals, or an established business." (Reynolds et al., 1999, p. 3)" (p. 17). The Total Early-stage Entrepreneurial Activity is the percentage of individuals aged 18-64 who are either a nascent entrepreneurs or owner-manager of a new business. This indicator can be additionally enhanced by providing information

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Year	Authors	Definition of Women Entrepreneurs
		related to inclusiveness (gender, age), impact (business growth, innovation, internationalization) and industry (sectors).
2014	Ilhaamie, A. G. A., Arni, B. S., Rosmawani, C. H., & Al-Banna, M.	"Businesswomen are defined as those women that start, own, operate, manage and take risk in their business. Meanwhile, OECD in 1998 defined it as someone who has started a one-woman business or someone who is principal in a family business or partnership or someone who is a shareholder in a publicly held company which she runs. Women entrepreneurs can contribute significantly to poverty reduction and accelerate the achievement of wider socio-economic objectives" (p. 428 – 429).
2014	Lee, I. H., & Marvel, M. R.	"We selected those ventures that were no older than six years old, had less than 200 employees" (p. 776).
2014	Mehta, B., & Parekh, S.	"Women entrepreneurs may be defined as the women or a group of women who initiate, organize and operate a business enterprise" (p. 35). "Information from 110 women entrepreneur having minimum of 2 years of experience in manufacturing, trading and service sector was considered" (p. 37).
2014	Ama, N. O., Mangadi, K. T., & Ama, H. A.	Women entrepreneurs were able to generate substantial incomes and profits that enabled them to improve the livelihood of the families and empowered them to themselves take major decisions in their families. The educational status of the women needs to be improved, as this will be necessary to improve their entrepreneurial skills" (p. 506).
2014	Guerrero, L. A., Maldonado, E. R., & Hernández, E. F.	"According to Santiago-Castro (2010), the business women owners in Puerto Rico, in general, are sole owners, have many competitors, and do not export. Their primary reason for pursuing business is to take advantage of an opportunity and the most important motive for pursuing that opportunity is obtaining greater independence, followed by increasing personal income" (p. 192).
2014	Saini, B.	"Women Entrepreneur is a person who denies the role of their personal needs to participate and be accepted economically independent. Strong desire to do something positive is a high-quality women entrepreneur who contributes to the position values of family and social life. According to Kamala Singh," A woman entrepreneur is a confident, innovative and creative woman capable of achieving economic independence individually or in collaboration generates employment opportunities for others through initiating establishing and running an enterprise by keeping pace with her personal, family and social life" (p. 30). According to Medha Dubhanshi Vinze, a women entrepreneur is a person who is an enterprising individual with an eye for opportunities and an uncanny vision, Commercial acumen, with tremendous perseverance and above all a person who is willing to take risk with the unknown because of the adventures spirit, she possesses" (p. 30). "Women Entrepreneurs may be defined as the woman or group of women who initiate, organize and co-operate a business enterprise" (p. 32)
2014	Selwin, S., & Harris, S. B.	Vinza (1987) defines woman entrepreneur as "a person who is an enterprising individual with an eye for opportunities and an uncanny vision, commercial acumen, with tremendous perseverance and above all a person who is willing to take risks with the unknown because of the adventurous spirit she possesses." This study focuses only on the women who are currently running a business. They have vision of flourishing in the business and persevere to be successful in their enterprise" (p. 83).
2014	Swarnalatha, A., & Vasantha, K.	"An entrepreneur is a person who is able to look at the environment, identify opportunities to improve the environmental resources and implement action to maximize those opportunities." (p.9)

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Year	Authors	Definition of Women Entrepreneurs
2013	Aaijaz, N., & Ibrahim, M. D. B.	"Entrepreneurs are people who introduce new combinations of factors of production, notably labor and capital. Therefore, it can be deduced from the literature theta entrepreneurs are clearly self-reliant people and their ambition is undoubtedly to create a business of their own (Johannison, 1990)" (p. 91).
2013	Barani, G. & Dheepa, T.	"Women Entrepreneurship means an act of business ownership and business creation that empowers women, economically increases their economic strength, as well as their position in society. Women entrepreneurs have been making a considerable impact in all most all the segments of the economy" (p. 25).
2013	Cheraghi, M.	"The population of study is the nascent entrepreneurs, as the people who have been starting a business. The sample is the nascent entrepreneurs who were surveyed in the Global Entrepreneurship Monitor in the countries which have been surveyed at least twice since 2001 with at least five years between the first and latest survey (Global Entrepreneurship Monitor, 2013; Reynolds et al., 2005)" (p. 175).
2013	Ekpe, I., Razak, R. C., & Mat, N. B.	"A quantitative research method (survey) was used to collect data from women entrepreneurs. A total of 280 questionnaires were distributed to the clients of three homogenous micro-finance banks in the north, east and west regions of Nigeria. From the returned questionnaires, 161 were usable after data cleaning" (p.14).
2013	Pandey, A., Raman, A. V., & Kaul, V. K.	"The sample shows that women still like to keep their businesses small by employing lesser number of employees, investing less capital, resisting taking loan and opting for sole proprietorship form of ownership " (p. 31).
2013	Santiago-Castro, M., & Pisani, M. J.	"After Blanchflower and Oswald (1998), we undertake a parsimonious definition of entrepreneurship as individuals who work for themselves for a profit. We also use entrepreneurship and self-employment interchangeably (Clark & Drinkwater, 2010)" (p.136).
2013	Thakur, R., & Walsh, J.	"This research is designed as a qualitative study and focuses only on independent women who co-own or own their businesses with a fair amount of decision making power and authority. This is because these groups of women are not only growing in number but also play significant roles in the economy" (p. 177).
2015-2013	Gomez, E., L., Armenteros, M. C., Guerrero, L., & López, S.; Amesi, J.; Gupta, V. K., Javadian, G., & Jalili, N.; Mahmood, S., Hussain, J., & Matlay, H. Z.; Liquidano, M. C., Carlos, C. E., Silva, M. A., González, Y.; Subramaniam, I. D., Arumugam, T., & Akeel, A. B. A.; Achtenhagen, L., & Tillmar, M.; Bose, V.; Eikhof, D. R., Summers, J., & Carter, S.; Gomez, A. M.; Lu, W., & Chen, W.; Mwobobia , F. M.; Nasurdin, A. M., Ahmad, N. H., & Zainal, S. R. M.; Pathak, S., Goltz, S., & Buche, M. W.; Sangeetha, N., &	No information

ISBN: 978-9963-711-37-6

Year	Authors	Definition of Women Entrepreneurs
	Panatula, M. K.	

ISBN: 978-9963-711-37-6

ECOMMERCE COMPETITIVENESS OF TURKEY AND RECOMMENDATIONS FOR PROMOTING DIGITAL GROWTH

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ABSTRACT

This paper reviews the international online market competitiveness of Turkey and discusses strategies for promoting e-commerce in the B2B and B2C market segments. The paper examines general information about Turkey's competitiveness, provides a discussion of Turkey's recent ecommerce status and offers recommendations for future advancement.

Keywords: *ecommerce, Turkey, competitiveness, developing nations, digital strategy*

INTRODUCTION

A country's competitiveness is defined by International Institute for Management Development (IMD) as the facts and policies that shape the ability of a nation to create and maintain an environment that sustains more value creation for its enterprises and more prosperity for its people. Today, competitiveness also emphasizes the ability to develop attractiveness, both to foreign and local enterprises, for activities that generate economic wealth (Garelli, S.2014). OECD defines international competitiveness as "at which level a country can, under free and fair market conditions, produce goods and services which meet the test of international markets while simultaneously maintaining and expanding the real incomes of its people over the long term" (Stanovnik & Kovačič, 2000). It can be assumed that competitive power of a country is related to different several factors such as natural and human resources, the existence of research and educational institutions, adequately established and well-functioning government organizations, financial systems, and cultural and social values that affect the companies operating in a country.

INTERNATIONAL TRADE COMPETITIVENESS OF TURKEY

International competitiveness can be considered the degree to which a country can, under free and fair market conditions, meet the test of international markets, while simultaneously maintaining and expanding the real incomes of its citizens (Texas A&M University, 2014). A nation's competitiveness

 ISBN: 978-9963-711-37-6

depends primarily on keeping productivity growth rates equal to or greater than those of its major competitors.

Based on the Global Competitiveness Report published by The World Economic Forum annually assess the competitive landscape of 148 countries in relation to their productivity and prosperity. From this information the Forum produces the Global Competitiveness Index (GCI). The GCI for Turkey increased from 4.3 in 2011-2012 to 4.5 in 2012-2013 and 4.5 in 2013-2014. In 2013-2014 reporting period, Turkey ranked as 44th among 144 countries in terms of global competitiveness. Although the situation in Turkey remains better than in many other European Economies the nation fell by one position to 44th following its significant improvement last year which is attributed to a slightly deteriorated economic situation, rising fiscal deficit and inflation nearing double digits (Schwap, 2014).

Turkey's complete WCR analysis (Figure 1) summarizes the stage of development. While Turkey has a strong macroeconomic stability and more trustworthy financial sector there are still challenges doing business. The difficulties in accessing to financing, high tax rates and foreign currency regulations are the important improvement areas. The government bureaucracy is considered to be inefficient and government spending remains high. Of significance is that the existing workforce is not adequately educated and current labor regulations are deemed to be restrictive. Although Turkey has a reasonably developed infrastructure, there is a need to upgrade ports and electricity supply. Moreover, Turkey needs to strengthen its innovation capacity and technological capacity.

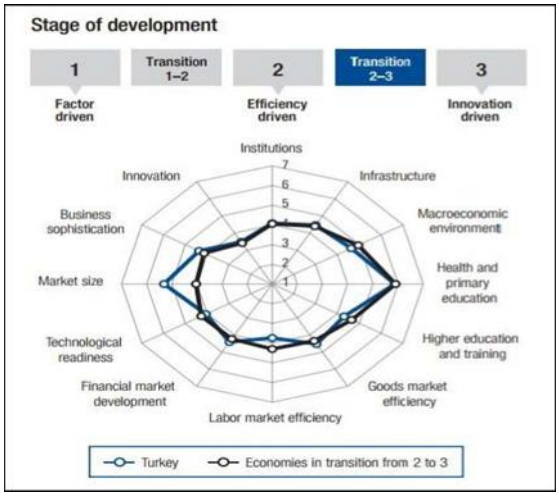

Figure 4. *Stages of Development (Source: World Economic Forum, 2013)*

GENERAL ASSESSMENT OF E-COMMERCE

The lack of infrastructure and labor force for e-commerce is a significant difference between developed and developing nations ability to embrace ecommerce activities. If in the long term developing countries are able to devote resources to improve e-commerce infrastructures, as well as assist business

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undertake web development activities, these countries may see greater growth than some developed nations reaching more market maturity (Terzi, 2011).

In the last decade, internet use and access to it has risen rapidly as number of the internet users has increased tenfold from 1999 to 2013 with approximately 40% of the world's population with internet connection up from less than 1% in 1995 (Internet live statistics, 2015). Around 40% of the world population has an internet connection compared to less than 1% in 1995. While B2B e-commerce is related to building the global networks of suppliers, customers and subsidiaries for global competition, Business-to-consumer (B2C) e-commerce is more local based on the fact that it is driven by consumer markets, in which consumers behave according to their shopping preferences and values. The number of internet users has risen rapidly as the first billion was not achieved until 2005 with the second billion being achieved five years later (2010). The third billion followed four years later (2014). Figure 2 depicts the number of global internet users per year since 1993.

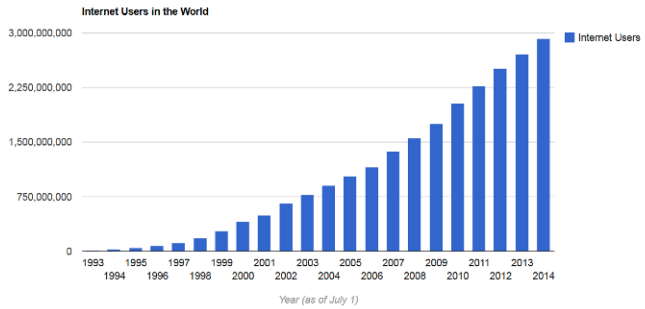

Figure 5. *Number of Internet Users 1993 through 2014*

Of domestic GPD importance is that E-commerce provides opportunities for business-to-business and business-to-consumer in the context of finding new markets in abroad, making partnerships with foreign companies in order to produce goods and/or supply the resources and raw materials, and in general making business transactions across borders (Terzi, 2011). See Figure 3 for regional breakdown of Internet users worldwide.

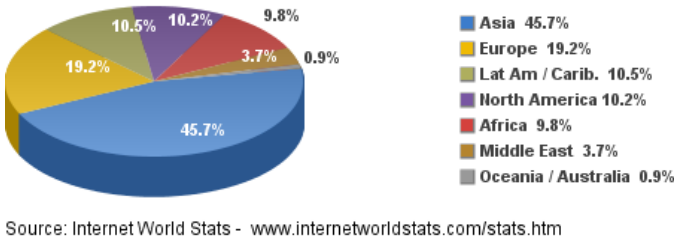

Figure 6. *Internet Users in the World – Distributed by Regions (2014 Q2)*

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TURKEY AND E-COMMERCE DEVELOPMENT

Internet use in Turkey has experienced rapid growth in the last decade which has been in concert with significant internet infrastructure improvement along with the growth of a sizable and knowledgeable youth population. 2014 data depicts Turkey as having thirty-five million Internet users with a one year growth rate of 3%. The Ninth Development Plan of Turkey (2007-2013) reflects this optimism stating, "Turkey will become an information society, growing in stability, sharing more equitably, increasing its global competitiveness and fully realizing her integration into the European Union (EU)" (unicef.org). Of particular importance, as a developing nation, is that Turkey has a 47% Internet penetration rate being ranked 18th with 1.21% share of the world's Internet users (Internet Live Stats, 2015). In this context, Turkey with its young and dynamic population is positioned well for dramatic ecommerce potential.

While Turkey has made impressive Internet advances the Internet user/population ratio and online trade volume are still quite behind it's potential. One possible explanation for this failure to reach potential may be a combination of a perception issue (consumers' bias against e-commerce because of their lack of knowledge and experience) and an insufficient infrastructure in terms of technology, legislation and finance. These two aspects are significant when considering the slippage of Turkey between 2012 and 2013 in global online market attractiveness ratings from 25th to 40th. Refer to AT Kearney 2012 E-commerce Index in Figure 4 and Figure 5 for world comparison data relating to online market attractiveness.

E-Commerce Index rank	2012 GRDI rank	Country	Region	Online market attractiveness (50%)	Online infrastructure establishment (20%)	Digital laws and regulations (15%)	Retail development (15%)	2012 score
1	3	China	Asia	100	56	55	58	78
2	1	Brazil	LATAM	84	56	67	90	77
3	26	Russia	East Europe	83	39	23	48	60
4	2	Chile	LATAM	35	78	100	71	59
5	28	Mexico	LATAM	53	41	75	26	50
6	7	UAE	MENA	22	100	77	49	50
7	11	Malaysia	Asia	27	78	79	46	48
8	4	Uruguay	LATAM	23	40	71	100	45
9	13	Turkey	East Europe	25	76	65	33	43
10	8	Oman	MENA	13	61	97	51	41

0 = low attractiveness 100 = high attractiveness | 0 = poor infrastructure 100 = developed infrastructure | 0 = no digital laws 100 = strong digital laws | 0 = undeveloped retail market 100 = developed retail market

Figure 7. *2012 Global Retail E-Commerce Index (Source: AT Kearney)*

ISBN: 978-9963-711-37-6

Rank	Country	Market type	Online market size (40%)	Consumer behavior (20%)	Growth potential (20%)	Infra-structure (20%)	Online mar attractiven score
1	China	Next Generation	100.0	68.8	100.0	51.1	84.0
2	Japan	Digital DNA	100.0	100.0	17.4	99.1	83.3
3	United States	Established and Growing	100.0	77.6	39.8	96.5	82.8
4	United Kingdom	Established and Growing	100.0	77.5	14.7	86.3	75.7
5	South Korea	Digital DNA	79.6	97.4	9.3	95.1	72.2
6	Germany	Established and Growing	90.3	78.3	28.1	65.1	70.4
7	France	Established and Growing	85.5	75.7	7.4	71.6	65.2
8	Brazil	Next Generation	37.2	51.2	64.7	64.1	50.9
9	Australia	Established and Growing	15.7	89.4	46.2	86.9	50.8
10	Canada	Established and Growing	17.7	73.5	48.3	91.5	49.7
11	Singapore	Digital DNA	2.3	93.1	28.9	100.0	45.3
12	Argentina	Next Generation	9.2	59.1	75.7	68.0	44.2
13	Russia	Next Generation	34.9	51.8	56.4	42.3	44.1
14	Hong Kong	Digital DNA	3.2	93.7	17.2	100.0	43.4
15	Italy	Next Generation	16.1	52.2	64.3	60.7	41.9
16	Sweden	Established and Growing	12.1	77.5	21.7	85.7	41.8
17	Slovakia	Next Generation	2.0	71.5	86.4	44.3	41.2
18	New Zealand	Digital DNA	2.5	92.3	28.1	78.5	40.8
19	Netherlands	Established and Growing	16.2	77.5	17.4	73.9	40.2
20	Chile	Next Generation	3.9	61.0	56.5	74.8	40.0
21	Finland	Established and Growing	13.3	77.2	13.6	82.1	39.9
22	Turkey	Next Generation	10.7	26.6	72.9	78.4	39.9
23	Venezuela	Next Generation	2.5	49.5	100.0	42.1	39.3

Figure 8. *2013 Global Retail Ecommerce Index(Source: AT Kearney)*

Deficiencies in the country's e-commerce infrastructure include technological & social issues, as well as issues that are legislative, financial, entrepreneurial, educational, and from sectorial reporting. Recent significant developments in both mobile and static broad band infrastructures should be further improved so that more people are able to access the internet easily. Only 15% of Turkey's population has smart phones which is a low rate compared to other developed countries. Significant advances are being made in telecommunications and smart phone ownership is expected to reach 40% of the population by 2017 with extensive usage of the Android system. Currently only 22% of smart phone owners use their phones for online shopping but this rate is expected to increase to 51% by 2017 (Afra, 2014). Uncertainties in related legislation make the operations of e-commerce firms difficult, they contribute to a lack of confidence of their users and also cause hesitancy among investors who are willing to invest on e-commerce.

Compared to many European nations and most developing nations Turkey has a high credit card penetration. Turkey has a credit card penetration rate around 60% which is significant when compared to Europe where the credit card penetration rate is lower than 50% (the UK leading the credit card penetration rate with 67%), In addition Turkey does not have the many of the problems found in Russia and some other Central and Eastern European countries with "cash on delivery" (which triples your return rates). One significant obstacle to Ecommerce growth in Turkey relates to difficulties related to payment for goods resulting from both a lack of alternative Epayment methods and lack of security in the payment process. In terms of alternative payment methods, other payment methods rather than credit card are under-developed in Turkey as a result of a lack of consumer trust as related legislation has deficiencies, return procedures are not secured, automation problems exist, and there are high commission rates for credit card transactions. Exacerbating infrastructure problems is the insufficient

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knowledge about the contributions and opportunities provided for daily life improvements by the internet and e-commerce.

Thwarting Ecommerce is that the Internet and e-commerce sectors are under the shared responsibilities of the Ministry of Finance, the Ministry of Development, the Ministry of Science, Industry and Technology, the Ministry of Transportation, Maritime and Communication, and the Ministry of Customs and Trade making agreements and coordination complicated. The general framework of the commerce legislation in Turkey is parallel to corresponding frameworks in the EU. However, there is a lack of experience and knowledge in terms of ruling, implementing and linking with the e-commerce ecosystem in Turkey (Afra, 2014). It will be important for Turkey to make changes in the legal structures or revise the existing ones, to better meet the sector's needs. Recent advances toward this are seen with the draft "E-Commerce Law" and draft "Protection of Personal Data".

DRIVING ECOMMERCE FORCES

The Turkish Ecommerce environment is one of the fastest growing internet economies in the world. There are several driving forces behind this growth which include: Credit card penetration, logistic infrastructure, high mobile internet usage and a viral / social young population. (Afra, 2013).

While behind many nations, Turkey has achieved a strong credit card presence in the "physical" environment and now needs to transfer this for Internet transactions where fears of security are both high and legitimate. Physical credit card use is described in Figure 6.

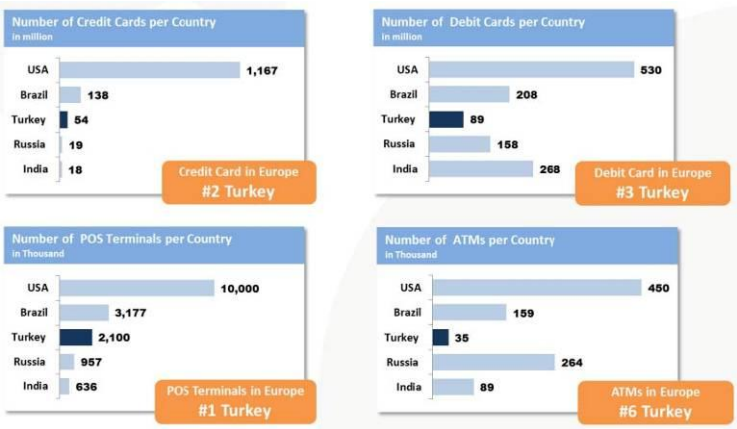

Figure 9. *Credit and Debit Cards use in Turkey Compared(Source: Afra, 2013)*

The other driving force is the solid logistic infrastructure of Turkey especially relating to the number and quality of the delivery companies for the last mile. The B2C logistic infrastructure is also extremely well developed. Turkey has many competing delivery companies. Just to give an example: Markafoni is able to deliver any order after shipping to the customer in 24 h if the customer lives not more than 600 km from Istanbul away. For almost all other distances it takes the delivery companies 48 h. Even to a

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small village at the Iraqi border. Figure 7 depicts the logistic infrastructure of the country to the all cities and package arriving time.

Figure 10. *Turkey logistic infrastructure(Source: Afra, 2013)*

Mobile penetration features an increasingly important Ecommerce factor and is high in Turkey (See figure 8). A combination of ten European Nations has 276 million 3G subscriptions, the United States has 208 million 3G subscriptions and Turkey has 13 million 3G subscriptions. In terms of 3G penetration Turkey ranks high as the United States has 64% 3G penetration, European Nation has 50% 3G penetration, and Turkey has 20% 3G penetration. Relating top mobile use is the high rate of social network participation by the younger generation in Turkey. Considering the top social networks of Facebook, Twitter and YouTube worldwide Turkey consistently ranks in the top twenty percent. This is important as it provides a broadly used platform from which other Internet Ecommerce services can grow.

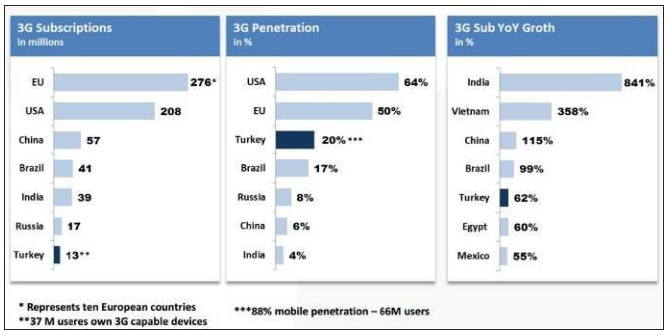

Figure 11. *Mobile Use in Top Nations(Source: Afra, 2013)*

Much of future Ecommerce success will focus on the emphasis given to small-medium sized enterprises (SMEs). According to the Dalberg Report on "Support to SMEs in Developing Countries through Financial Intermediaries-2011", SMEs are a fundamental part of the economic fabric in developing countries, and play a crucial role in furthering growth, innovation and prosperity. Unfortunately, they are strongly restricted in accessing the capital required to grow and expand, with nearly half of SMEs in developing countries rating access to finance as a major constraint (eudevdays.eu). Facilitating the growth of Small-and Medium-sized Enterprises (SMEs) is central to

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creating jobs for an underutilized and growing labor force in Turkey as SMEs account for 79% of jobs in Turkey (worldbank.org)

When broadly reviewing the overall mix of issues supporting or impeding Ecommerce Internet advancement in Turkey several issues need be considered. The table of strengths and weaknesses (Table 1) as presented by Sezgin (2013) is useful in understanding these factors.

S: Strengths • High credit card penetration, • Improvement of logistics infrastructure, • Improvement of operational process, • Active usage of social media; online support consumption and use of the trends affecting mainly young audience.	**W: Weaknesses** • Lack of sufficiently reliable, • Internet penetration and mobile commerce in the country is not yet high enough level, • Internet subscription is relatively expensive.
O: Opportunities • Young and dynamic population, • Increasing of the internet users number, • Regulation of legal infrastructure, • Development of payment systems, • Widespread use of mobile devices, • Supporting demand with competitive prices, • Spending tend to be high, • Increase of the angel investment and foreign investment interest, • Many brands have no online shopping site	**T: Threats** • Consumer habits, • Narrowing of profit margins due to intense competition.

Table 4. *SWOT analysis of e-commerce in(Source: Sezgin, 2013)*

CONCLUSION: FACING E-COMMERCE CHALLENGES IN TURKEY

Assessing E-commerce readiness. It is important to keep in mind that when reviewing Internet and Ecommerce activity, as well as considering future elements of success, in developing nations that rarely are two countries in similar states of infrastructure development, government involvement, development of service regulations and legal frameworks or technology advancement. As such, policies and strategies need be considered on a case by care situational basis. Almeida, Avila and Boncanoska (2007) have developed a series of items worthy of consideration which address items to consider when reviewing Internet readiness across nations at different stages of development. These involve:

- Examine and assess the available technologies to be used, including their obsolescence.
- Develop a projection of which technologies will be in use during the next ten years.
- Assess the technology providers as to ability to transfer products/services to new and possibly hostile environments.
- Assess and develop the necessary human capital to successfully transfer technologies.

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- Determine ability of a nation to enforce digital signatures.
- Establish domestic controls on encryption technologies to include import.
- Define the role of the government in encryption processes (as a certifying entity).
- Create a transparent process of technology licensing
- Examine the UNCITRAL model law on digital signatures for feature adoption.
- Create laws that fully protect the rights of the consumers utilizing new technologies.

It is clear that to be successful from a business perspective, rather than simply a communications modality, that technology is but one factor among many and securing financial infrastructures are as, or more, important than enhancing physical infrastructures. Developing a comprehensive yet useful Ecommerce infrastructure will require a broad approach. As Gokmen (2011) notes such an approach would necessitate having flexible and agile organizational structures to respond various changes in the global business market and the other challenging contexts.

Steps for Turkey's Ecommerce advancement. While Turkey is advancing communication infrastructure at a rapid pace the assurances related to financial transactions remain challenges. There are several steps that would assist to these challenges. The formation of an autonomous administrative body much like European TrustMark system to ensure that all the sector representatives and NGO's would communicate with the related Ministries via this structure. Important to secure the business environment of Ecommerce is that the increasing problems related to the security of systems and data needs to be coordinated at both private and government levels. Such coordination should include assistance in securing systems, development of payment opportunities designed around current payment methods as well as expansive education programs that promote the opportunities of Ecommerce, expound on the established logistical infrastructure and address the wide range of consumer concerns. A third area of concern is that while Turkey is leading developing nations in telecommunications there remains significant areas of weakness. Efforts need to be directed toward overcoming technological infrastructure deficiencies, extending alternative financial infrastructure and payment systems, addressing improvement of Ecommerce legal structure and improving climate for investors and entrepreneurs.

Acerbating the problem of Ecommerce growth is that consumers have confidentiality and security concerns about buying online. The majority of Turkish e-commerce organizations are B2C businesses. Examples include Hepsiburada.com (24%), gittigidiyor.com (19%), and Garanti Bankası (22%). In Turkey, consumer to consumer (C2C, sahibinden.com (%9)) and business to business (B2B) e-commerce had a relatively weaker development. From e-commerce categories perspective, there are no categories

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that have been fully transferred online in Turkey. However, garments and sports items, electronics, travel and media categories are being transferred online (Tekel, 2014).

Ecommerce has shifted the competitive factors that were the main stay of strategy for decades toward a more flexible and consumer oriented design. It is certainly clear that in international trade the traditional ways of international competition are no longer sufficient as a means of a nation to enhance their competitiveness. Coppel (2000) a decade ago noted that consumers demand personalized and high quality products/services free from time and location boundaries in electronic environment. As such, a dynamic Ecommerce environment serves to create new markets, new opportunities, new supply chains and distribution pathways for goods and services and speeds the development of related sectors The advanced infrastructures, including IT infrastructure, credit cards systems and other supporting systems, are major reasons why the US is a leading country of e-commerce, whereas Turkey is in stage of early adoption (Hwang et al., 2006). It is obvious that Turkey should concentrate on improving these factors in order to support B2B and B2C e-commerce. In 2011, Turkey ranked 17th among 24 European countries with an e-commerce sales volume of 3.1 billion Euros. In 2012, Turkey increased its e-commerce sales volume to 5.4 billion Euros, ranking 13th among 24 European countries. In 2012, Turkey ranked at the top among European countries with an annual e-commerce volume increase of 75%. Over the past year there has been a slip in ranking as Turkey failed to fully use the potential of their large thirty-six million user base in developing services. One factor is that the majority of Internet users are between the ages of 16 and 24 a population base with limited financial resources. A second situation exists in that the majority of items needed by other demographic groups are available through nearby marketplaces and the often noticed Turkish preference for price negotiations makes marketplace transactions preferable as currently Ecommerce businesses do not offer them price advantages, variety, or eases of use.

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 ISBN: 978-9963-711-37-6

SYSTEMIC APROACH TO SOCIAL RESPONSIBILITY: BUILDING AND MAPPING SUSTAINABLE PRACTICES AT URAL FEDERAL UNIVERSITY

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ABSTRACT

Universities are playing a very important role in forming the sustainable practices that connect the key players to create shared values with business, governments and society. Academia stands as a role model for the future graduates, moreover recent social and legal developments require Universities to report its social and ecologic responsibilities just like other organizations. Although the existent literature differentiates corporate and university social responsibility, there are still gaps in defining sustainability and social responsibility systemic practices in Academia, especially in international setting. The paper is a research in progress type and looking to formalize the social responsibility and sustainable practices for Ural Federal University based on the analysis of existent practices and research in the global education arena. The first part of the paper is devoted to understanding the current streams in defining sustainable development and social responsibility in Universities in the international setting. The next part suggests methodology review and outlines a suggestion for USR model. The third section describes the state of Ural Federal University sustainable practices internal perception diffusion, its measurement and attempts to map it in the world USR. The methodology includes international literature review, GRI and web-sites content analysis and self-study survey of UrFU internal processes and stakeholders. The results reveal gaps to fulfill for future systemic sustainable development of UrFU.

Keywords: *University Social Responsibility, CSR, non-financial reporting, USR impacts, management of sustainable practices.*

INTRODUCTION

One of the major changes towards raising value of the University is the increase in socially responsible behaviour and stakeholder management. At present, the management of University social responsibility includes harmonization management of the interests of internal and external partners, organizations, applying multistakeholder approach to achieve the sustainable development strategy

 ISBN: 978-9963-711-37-6

objectives. Sustainability and non-financial integrative reporting is a measuring framework of socio-economic impact of the University on the regions of presence.

High level competition between world-class universities is urging the need to take measures to improve the attractiveness of the university for all stakeholders. The biggest players in the industry get deeper understanding of how sustainable practices, combining economic, social, and environmental factors, lead to lower reputation risks, strengthen competitiveness, increase academic staff efficiency and students loyalty. Ultimately, this results in improving reputation, creating a positive contribution to the business and social community in economic and social development of the regions where they operate. All the above mentioned caters for favorable conditions for the realization of long-term development strategies based on stakeholders` interests' harmonization.

INTERNATIONAL APPROACH TO UNIVERSITY SUSTAINABILITY AND SOCIAL RESPONSIBILITY: LITERATURE REVIEW

Universities are currently experiencing a significant process of change that materializes into a new way of looking at the approach and purpose of education. USR fosters sustainable development within the long-term and tries to adapt higher education institutions' purposes, views and values in line with their performances.

It falls to universities to promote corporate responsibility, scientific social responsibility and citizens' social responsibility in order to think about the impact of universities on knowledge, values and behavior. That is the reason why universities are engaged in the process, as they have to make a commitment to their students, professors and staff, to other institutions and above all to society.

The academic community has addressed that controversy following several streams in the literature.

The first line has focused on the relationship between topics narrowly related to externalities such as Academia response to new challenges of globalization, approach to the current social changes and the impact of the executives' ethical attitudes and behaviour on their CSR orientation (Vasquez et al, 2014; Weber et al, 2004).

The second line is accumulating internal management and activities of Universities such as mastering management system (Gonzalez-Rodrigues, 2012; Adams, 2013) and influencing students' values through responsible education (Weber et al, 2004; Gerde and Wokutch, 1998; Epstein, 1999, Hauser, 2000; Ibrahim et al, 2006). In fact, Universities play a fundamental role in CSR education since they are the greatest contributors to the formation of their students, forthcoming entrepreneurs, business leaders, managers and employees.

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The third line relates to sustainability reporting differences as per country or world region in approaching the sustainability practices in Academia. Apart from cross-cultural understanding of sustainability and social responsibility, there seem to be institutional differences.

Although the number of non-financial reports as well as concerns about sustainability in young people and other university stakeholders is increasing, the number of verified harmonized reports is still not massive (Lozano, 2011). The analysis of GRI verified non-financial reports shows a lot of diffusion in sustainability reporting, which makes it a hard task to compare cross-national peculiarities and compare University responsibility to corporate sector (Alonso-Almeida et al, 2015). All the above might explain why there are so many approaches to USR using the same measures and indicators based on GRI guidelines. University social responsibility as well as its mother theory CSR has evolved differently not only between Western and Eastern European counterparts but also within those regions, and therefore differences in consumers' perception in different geographical areas seem plausible. Much of the research on CSR has been conducted in market economies assuming that transition economies could be considered homogenous (Elms, 2006).

Sustainability reporting is an uncommon and diverse practice at Canadian universities, indicators are selected based on multiple approaches and have limited scopes emphasizing eco-efficiency, although the pan-American rating system STARS has been introduced to unite Canadian , American and other world universities in the unified sustainability reports (Fonseca at al., 2011; Urbanski and Filho, 2015).

General lack of environmental management systems, the trend emerging to formalize the objectives of sustainability is associated with the use of the performance cycle in Italy (Vagnoni and Cavicchi, 2015). Universities are expected to apply social responsibility to support regional and national innovation systems, with a primary role in developing the competitiveness of Europe's economies (Paleari et al., 2015).

Ko (2015) describes the focuses of sustainability among the studied HEIs in China on water and energy conservation and on non-technical initiatives.

Russia's transition to a market economy has brought significant changes to Russian society. Russia has lots in common with Chinese transformation of Universities and actually is falling part of Chinese academic responsibility, some lessons should be learnt. The economic growth in China has led to unethical and irresponsible business practices (Shafer et al, 2007). Teaching university students business ethics and Corporate Social Responsibility (CSR) has become increasingly important for business scholars and executives in both Russia and China in recent years.

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The importance of business ethics/CSR education has been recognised as it can raise students' ethical awareness and change their ethical attitudes (Balotsky and Steingard, 2006). Unfortunately, education in business ethics and CSR in Russian educational institutions has lagged far behind the present urgent demands. Russian university students are the future business leaders, whose current CSR awareness and opinions will determine their future behaviour on sustainability issues, which leads the sustainable development of the country as a whole. Most Universities tend to show their input into the social development and responsibility in their mission, but only a limited number has a proven record of cooperation with communities and socially responsible investments (Golubev et al, 2011)

Brazilian Universities are also concerned about integrating the CSR and sustainability related courses in the curriculum, due to the lack of which are forcing systemic fail to educate future green managers (Palma et al, 2011). The developing countries seem to be on the sustainability-reporting track as well, although the key driver is stakeholders satisfaction with little attention devoted to ecological perspective (Hinson et al, 2015).

Formation and management of the social responsibility of the University in accordance with the best practices include management and harmonization of the interests of internal and external partners, organizations, sustainable development strategy, multistakeholder approach to achieve the objectives. All papers reviewed in the first section of this article vote for harmonized USR standard can have a positive impact on the attractiveness and competitiveness of the university, while most papers call for specified GRI guidance for Universities.

DRIVERS OF UNIVERSITY SOCIAL RESPONSIBILITY VERSUS CORPORATE SOCIAL RESPONSIBILITY

The literature review outlines that according to the reported practices, the main partners for the universities are regional governments, along with industry and business community. This tandem indicates harmonized partnership to address other important tasks: to improve the quality of education to meet the needs of the labor market, to meet the needs of enterprises in research and development for the development of a particular economic sector or cluster. Social responsibility of the University is now considered not only as a social policy, but also as environmental and economic security, as well as the framework of anti-corruption and improvement of ethical relationships. The synergy of corporate, government and university resources provides the path to solve the problems related to the innovation policy in enterprises, the role of socially responsible leadership for a sustainable business development and knowledge transfer, in particular, cross-cultural awareness. It is necessary to point out that by their very nature, every school will implement their own, original social responsibility. In this regard, it is

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essential to identify common and distinctive features of social policy of other institutions, to perform an analysis of universities from different countries.

In 2011 a study revealed that economic development, social equity, and education in sustainability are the major drivers for achieving sustainability in HEI, while health and safety issues, energy requirements, institutional enhancement, and international research and development trends are the less significant driving forces (Waheed, 2011). Another popular tool for Assessment of Sustainability in Universities was developed by Lozano (2006). It outlined key aspects to access the University SR. Four impact-based USR model (Vasquez et al, 2014) defines the key impacts- educational, cognitive, organizational and social.

The above review in my paper correlates with findings of Vasquez et al. (2014) that the most developed USR model is impact-based, that is bonding social responsibility to the way University manage their impacts on people, society, economy and nature around them. Taking into consideration cross-cultural and institutional differences revealed from the literature review I suggest grouping the impacts in the following slightly modified way (figure 1).

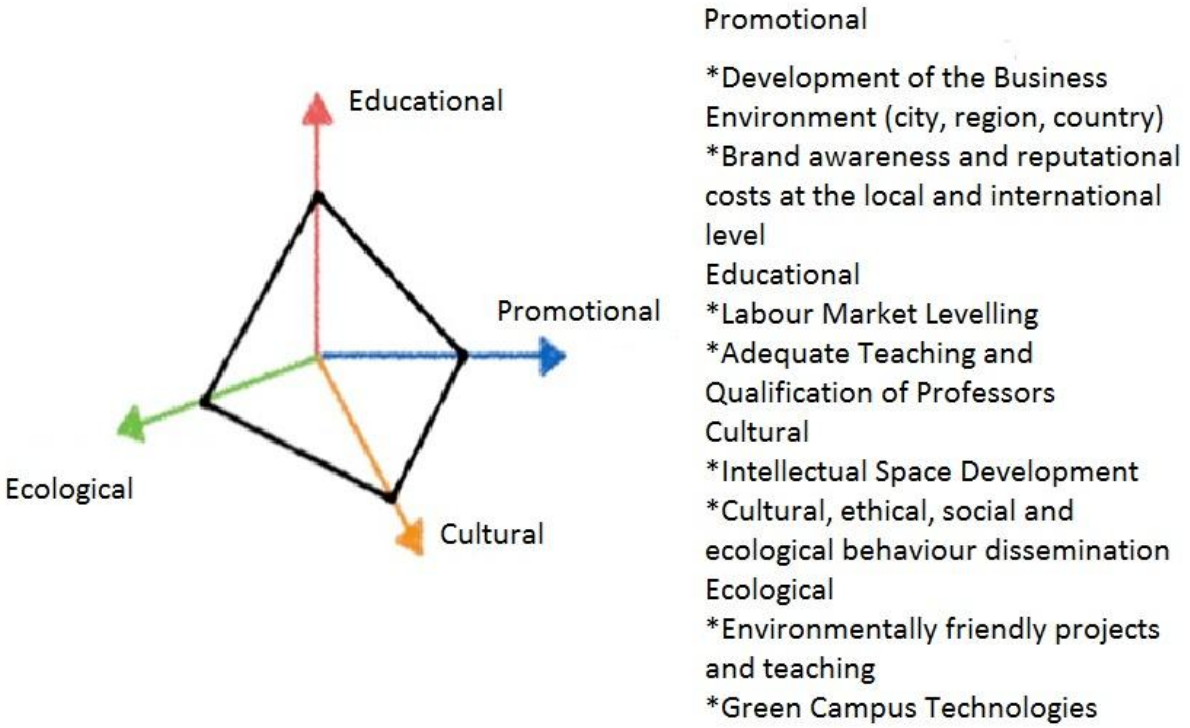

Figure 1- Impact-based USR Model

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Particularly, it is understood that universities care for personnel, communities, and its economic and social image, which cause four different types of strategic impacts around them: educational (qualificational), promotional, ecological and cultural.

As for educational impact, it aims to a responsible civic education for communities, students and professors. An interdisciplinary approach to social, safety and ecologic issues encourage a better connection between teaching, researching and social awareness. The strategic impacts relate to environmentally friendly strategy and economic stability of the University as a large HR hub and organization, responsible for the communities development. Universities are leading the way in relation to the implementation of social policy Academic research has played a vital role in the evolution of financial reporting standards and there is potential for academic research to have a similar impact on USR reporting standards.

The role of the universities in shaping the sustainable development of world-class organizations is growing in Russia. Traditionally, in the narrow context of social responsibility the main focus of universities is to promote the socio and economic development of the regions, primarily through training and capacity building of university research.

INTEGRATING SUSTAINABLE PRACTICES AND SOCIAL RESPONSIBILITY AT URAL FEDERAL UNIVERSITY INTO THE MANAGEMENT SYSTEM

Ural Federal University is one of the top 15 Russian Universities, which ambitiously aims to be in the top-200 world class universities as of QS ranking 2020. The significant part of the best Universities seem to have the advanced system of social responsibility and sustainable reporting traditions. In the paper I have analyzed 5 Universities from QS top-200 list of best Universities, which were chosen as the benchmark according to the UrFU strategy2020 (Aalto University, Sungkyunkwan University, Yonsei University, City University of Hong Kong, TsingHua University), and also 15 Russian top Universities.

The internet content analysis showed that although not all the Universities follow particular standard to report non-financial activities, all of them publish sustainability practices in the form of appendix to the annual report, or as a special sustainability report, or as non-financial report as per GRI guidelines. None of the Russian Universities reports the social responsibility in accordance to GRI guidelines, very few Russian Universities tap into ecological vector of responsibility. It looks that emerging economies are mostly concentrating on the wider dialogue with stakeholders rather then integrating sustainable solutions in its strategy systemically.

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Currently, UrFU is actively working to enhance social responsibility of the University. That is why in partnership with experts, University has identified priority stakeholders and defined the concept of social responsibility of the university. The top-management declares that social responsibility of the university should be an integral part of its strategy and long-term policy. Voluntary commitments undertaken by the University are defined with the involvement of stakeholders to implement social programs and projects improving interaction with communities, businesses and government, and supporting development of the region and the country.

The paper seeks to map UrFU to the map of global education social responsibility and formalize the systemic approach to the sustainable practices at UrFU. This is not possible without ongoing dialogue with internal and external stakeholders, although this research is in progress below are some results from the pilot self survey of the University stakeholders.

The interview with 10 top-management representatives of UrFU was based on GRI G4 guidelines to define the impacts to disclose. It released readiness to partly disclose its social, HR, environmental and economic strategy in the first public non-financial report. There are lots of internal pluralism in understanding the meaning for sustainable practices, its impacts and ways to report. The top-management of the University understands social responsibility as the key driver of national educational policy in many countries, which contributes to the acceleration of the development of the regional and University brand; strengthening of international socio-economic relations in the region and the country as a whole; increasing brand value of the University and overall investment attractiveness. Following aspects related to the four impacts defining URS as explained in previous sections were grouped with these intentions to sum up the following system of impact and effects indicators (table 1):

Table 1. *Prospective system of impact and effect indicators*

Key aspects:	Sample Indicators	Impacts
1. 1 Social responsibility to students (HR responsibility)	number of scholarships(fee, accommodation) and financial allowances to special categories of students number of CSR and SD courses in the curriculum number of research grants and theses related to SD and CSR internationalisation through recruiting international students, professors, managers for effective knowledge transfer	Educational
1.2. Social responsibility to staff (HR	training and professional development (internal and external traineeships) adequate salary,	Qualification

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Responsibility)	health insurance and other safety care support of research on social causes: networking with various regional and federal partners (number of events and contracts)	
2. Social responsibility to the local community	Educational Activities (Pro-BONO practices) for External Parties Support of Athletic Activities Supporting Social Causes Number of Social and Cultural Events for local communities University Charity	Cultural
3. Environmental responsibility	Waste management Energy Efficient Technologies Development and Implementation (number of projects and patents) Construction of eco-friendly dorms for students and totally new campus Introduction of the electronic document flow	Ecological
4. Economic Responsibility	Development of the regional and University brand value; international socio-economic contracts bringing investments at the regional and national level, creating jobs and providing adequate salary to internal stakeholders, establishment of research labs in the field related to SD of the region	Promotional

To measure USR awareness and perception diffusion among management, professors and students a self-report pilot study was conducted with a total sample of 200 students (80 % undergraduate and 20% postgraduate students), 50 teaching staff. The survey instrument was based on the indicators importance (table 1). The participants were asked to use a five-point Likert type scale to grade the importance given to each activity from 1 (least important) to 5 (very important).

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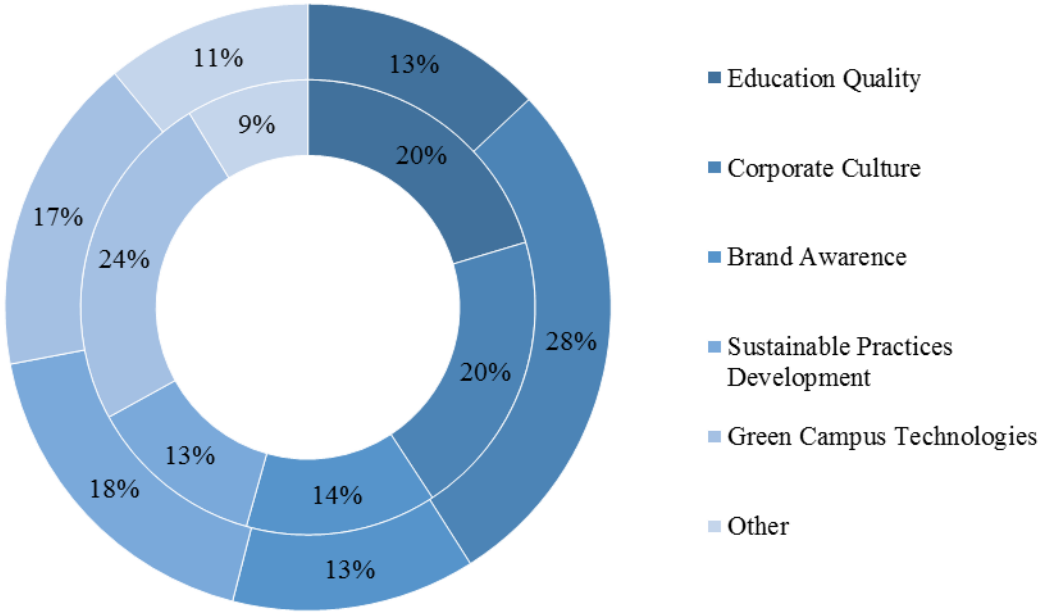

Figure 2. *USR importance for Students(Inner Circle) and Professors (outer circle)*

The results of the survey of the teaching staff and students were compared in the evaluation of the perception of the suggested components of social responsibility of the university. The importance of factors - the components of the system of social responsibility has been quite different, which could mean poor awareness of the social responsibility of the university and ongoing sustainable practices (figure 2).

The results are quite controversial and do not clearly illustrate the perception uniformity for USR between professors and students. Currently, in accordance with the best practices, management of the University's social responsibility projects includes management and harmonisation of interests of the School's internal and external partners, sustainable development strategy, and a multistakeholder approach to achievement of the objectives.

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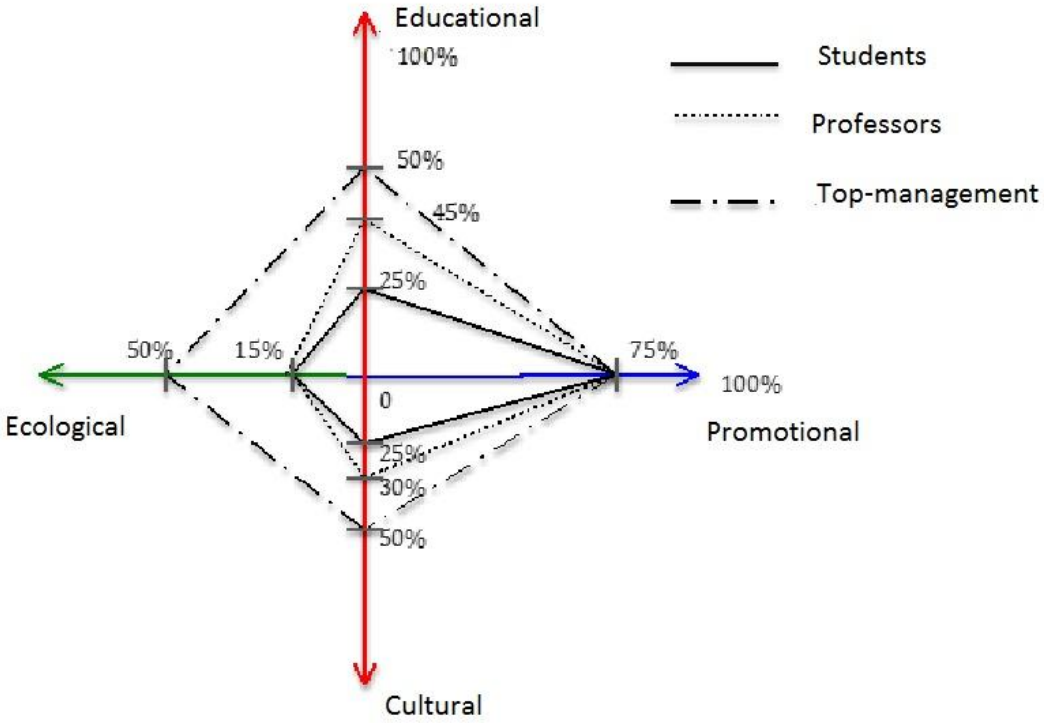

Figure 3. Diffusion of USR model perception in URFU

In line with global trends, UrFU is implementing a comprehensive strategy for the implementation of the socially responsible organisation principles through training of students, faculty and administrative staff, influence on internal and external stakeholders, and involvement in the sustainable development of the region. UrFU has a social responsibility policy and a code of ethics in place, and is currently preparing a sustainability report to the GRI G4 standard. The economic-promotional impact appears to be the most important in the model of UrFU USR model according to all internal stakeholders, but it might be due to the lack of deep understanding what social responsibility and sustainability is, that stakeholders are not including environmental, communities, educational management into the issue. That might help to define framework for the implementation of HR awareness of social responsibility at UrFU.

DISCUSSION AND LIMITATIONS

The purpose of conducting a literature survey is to create an agenda for future research. Thus, the findings provide the basis on which a future research agenda is going to be adjusted. First, future

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research might include the expression of the opinions of academics and managers on the question of broadening the relationships between quality management and social responsibility.

Responsible management helps Academia manage those practices that affect stakeholders and the natural environment openly and directly. Social responsibility can be compared to quality management due to its multiple dimensions. Responsibility is already being managed when, for example, employee policies are developed, when customer relationship strategies are implemented, when supply chains are managed, when leaders are really committed to a quality culture, when Universities manage processes to achieve quality improvement for wider environment, and when Academics use measurement systems to improve their activities. Therefore, certain quality practices may impact positively company ethical behaviour (e.g. regularly publishing academic integral financial and non-financial reports, ethical book-keeping, providing a transparent policy, credible information about education and management quality). The self-survey revealed some gaps in integrating sustainable practices into the University daily life, which is a way for top management to work more closely with internal stakeholders. The research aims bring the USR of Ural Federal University to a world level to overcome "the window-dressing" stage and to fill in gaps in systemic approach.

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 ISBN: 978-9963-711-37-6

MEASUREMENT OF ORGANIZATIONAL ATTRACTIVENESS FOR EMPLOYER BRANDING IN HIGHER EDUCATION

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ABSTRACT

It is the purpose of this paper to explore employer branding in higher education, offering a framework to measure organizational attractiveness of higher education institutions. The paper reports the development and validation of Organizational Attractiveness Extraction Scale (OAES) comprising 11 dimensions and 67 items. The results of this study show that OAES makes it possible to identify employment experiences that are most often met by employees in higher education institutions, to unfold employee work values preferences, and to extract the unique characteristics of organizational identity, determining perceptions of organizational attractiveness and enabling higher education institutions to differentiate from competitors in the labor market. It is believed that OAES and its application will constitute a fruitful base for further exploration of employer branding and, specifically, employer value proposition development in higher education.

Keywords: *employer branding, organizational attractiveness, employment experience, higher education.*

INTRODUCTION

Developing an effective employer brand it is increasingly essential for organizations to build trust and commitment, become an employer of choice and stay competitive in the marketplace. In modern economies where products and services become very alike, industries get overcrowded and competition for the best employees becomes almost as fierce as competition for customers, organizations are most likely to be heartily investing in distinctive employment practices in order to differentiate themselves from their competitors in the labor market even more so than the product market (Lievens and Highhouse, 2003; Sørensen, 2004; Berthon et al., 2005). It is no longer enough for organizations to manage their human resources effectively. In order to attract and retain the right employees and talents organizations have to immerse themselves in an *employer branding* strategy, i.e. identify what is so special and valuable about them and what exactly current employees or possible candidates love and embrace about a particular work place in order to create a 'package of

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advantages' and market it both internally and externally, earning the label of 'attractive employer' and, in the same vein, signaling what kind of people the organization is eager to hire. In other words, employer branding refers to "how a business builds and packages its identity, from its origins and values, what it promises to deliver to emotionally connect employees so that they in turn deliver what the business promises to customers" (Sartain and Schuman, 2006: vi).

Therefore, employer branding first and foremost begins with the creation of an employer value proposition, which is a central message to be embedded in the employer brand about unique employment experience offered by the company to the existing and potential employees (Backhaus and Tikoo, 2004; Edwards, 2010). Forasmuch employment practices determining the employment experience "guide the firm in selecting particular types of people with particular kinds of aptitudes and abilities to pursue particular goals in particular kinds of ways, motivated by particular kinds of rewards" (Baron, 2004: 5), an employer value proposition is organization specific and encompasses a complex array of features (Edwards, 2010). Moreover, what works in one industry sector may be quite different from what works in another, therefore a good theory or model should exist of how employer branding should be developed in certain organizations to capture their context and history (Martin, 2007).

In this light, more attention should be given to employer branding in knowledge-intensive industries and knowledge-based organizations (Ewing et al., 2002) that are merely dependent on the expertise, competencies and excellence of their employees and where employment relations form a key facet of organizational identity (Baron 2004). This is extremely important in higher education case, where realities of changing academic employment worldwide, such as "alterations in working conditions, terms of appointment, and remuneration" (Altbach, 2000: 9) have determined the deteriorating attractiveness of academic workplace (Enders and Weert, 2004). Evidently, search for organizational authenticity, unique employment experience offered to and valued by employees and positioning this distinctiveness in the labor market could enhance the attractiveness of higher education institutions (abbreviated as HEIs therein) as employers.

Therefore, the purpose of the present research was to develop an instrument that would allow to measure organizational attractiveness of HEIs as employers, i.e. to identify employment experiences that are most often met by employees in HEIs, to unfold employee expectations or 'most wanted' benefits provided by work at a particular HEI and to provide with the means for transformation of this knowledge into compelling employer value proposition and successful employer brand.

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THEORETICAL BACKGROUND

> "If you need to get the right people on the bus to deliver your strategic intent, you first need to ensure that you make your bus attractive to the right people" (Mosley, 2007).

Employer branding, applying marketing principles to human resources management, emerged in the U.S. and the U.K. at the end of the 20th and immediately at the beginning of the 21st as a response to such staffing challenges as the growing importance of intangible assets and intellectual capital, increasing knowledge-based work, specificity of the attitudes of new generation Y, workforce diversity, a war for talent as well as overall brand power and human resources' search for credibility (Jenner and Taylor, 2007; Martin *et al.*, 2005; Ployhart, 2006; EB Insights, 2011).

Since then employer branding has received much attention in practitioner world and has prompted a steady stream of articles, books (Barrow and Mosley, 2011; Sartain and Schumann, 2006), blogs and investigative pieces, as well as a rapid growth of consultancy firms and services, devoted to the topic – e.g., Versant, Universum, People in Business, and Employer Brand International to name a few. Conferences and summits on the employer branding are being organized in the USA, Canada, Italy, France, the UK, etc., but have also spread all over the world, inviting to network and learn from employer branding leaders. International companies are appointing Engagement and Branding, Talent Recruitment, Recruitment Marketing and Employer Branding directors', managers' and specialists' positions to "develop the strategy for and execute and manage solutions for brand insights, research, focus groups, surveys, brand value propositions and positioning" (Gap, 2014).

Employer branding as an influential approach and a new discourse of human resource management (Martin *et al.*, 2005) has also evoked a considerable research attention. The literature examines theoretical foundations and conceptual framework of employer branding (Ambler and Barrow, 1996; Backhaus and Tikoo, 2004; Edwards, 2010; Lievens et al., 2007; Moroko and Uncles, 2009; Mosley, 2007; Wilden et al, 2010; Martin *et al.*, 2005), analyzing its dimensionality (Hillebrandt and Ivens, 2013; Berthon *et al.*, 2005), exploring premises of attraction to an employer (Highhouse et al, 2007; Highhouse et al, 2003; Devendorf and Highhouse, 2008; Schreurs et al, 2009; Zaveri and Mulye, 2010; Ehrhart and Ziegert, 2005; Lievens et al, 2001; Lievens, 2007; Lievens and Highhouse, 2003; Lievens et al, 2005; Turban, 2001; Jiang and Iles, 2011; Shahzad et al., 2011), and investigates specific aspects of the phenomenon, such as positioning (Sartain, 2005; Sivertzen et al, 2013; Kroustalis and Meade, 2007), employer branding outcomes (Davies, 2008; Cable and Edwards, 2004; Fulmer et al, 2003; Mosley, 2007), effects of corporate social performance (Turban and Greening, 1997; Albinger and Freeman, 2000), and characteristics of successful employer brands (Moroko and Uncles, 2008).

Nevertheless, despite the great popularity of employer branding among practitioners, research in the field still poses a number of critical questions and issues for management scholars, such as the

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embryonic state of employer branding theory and its conceptual ambiguity (Backhaus and Tikoo, 2004; Moroko and Uncles, 2008, Martin, 2007; Edwards, 2010, Lievens, 2007), the lack of knowledge on how organizations should develop and implement effective employer branding (Backhaus and Tikoo, 2004; Edwards, 2010), unclear link between employer branding and organizational outcomes (Backhaus and Tikoo, 2004) and neglected significant segment of individuals included in attraction research (Ehrhart and Ziegert, 2005; Lievens et al, 2001).

Furthermore, employer branding is – albeit with a *few exceptions (Stensaker, 2007; Temple, 2006; Distinct Higher Education, 2012)* – yet largely unexplored in higher education. The scarcity of information and knowledge on *how organizations in general and higher education institutions in particular should develop the underlying value proposition of the employer brand* (Backhaus and Tikoo, 2004) is regrettable, because it is the sort of evidence that would enable HEIs to achieve many of their strategic goals "through being memorable, authentic, and clearly articulating what it has to offer to the people that are important to it" (Distinct Higher Education, 2012: 4). Moreover, successful employer brand builds *distinctiveness* (Rosethorn and Mensink, 2007), which has been explicitly proven to be beneficial and "crucial for strength of reputation, financial stability, and much more" in higher education (Distinct Higher Education, 2012: 4).

Therefore, it is the particular ambition of this paper to offer a methodological contribution to empirical studies on employer branding in higher education, exploring a framework for employer brand development. The emphasis will be put on the internal perspective of employer branding examining organizational attractiveness from the *current employees' perspective*. It is useful to take this approach since "the role of branding with existing employees is less clear" (Simmons, 2009: 686) and needs more elaboration. Furthermore, "building the employer brand from *inside* the business – with a consistent substance, voice, and authenticity throughout the employment relationship – may be the most powerful tool a business can use to emotionally engage employees" (Sartain and Shuman, 2006: vi). This will primarily entail understanding a number of factors that drive *organizational attractiveness* as an employer and wrapping them into employment offering to be delivered by the employer brand.

Operationalization and measurement of organizational attractiveness has evoked considerable attention and resulted in different instruments, scales and approaches. The Great Place to Work Institute carries out probably the most famous worldwide research and assessment of an attractive workplace, as well as the election of the best ones, which is performed using the Great Place to Work survey tool Trust Index (What is a Great Workplace?, 2013). This tool has been used to evaluate employers since 1980, concluding that trust, pride and joy make a workplace great. Another well-known tool is Gallup's Q12, designed to measure employee engagement (Harter et al, 2006) and used annually for The Gallup Great Workplace Award. The main limitation of this instrument is that

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organizations must meet criteria of size, minimum response rate, and minimum results in order to be invited to apply (Gallup Great Workplace Award Criteria, 2013). A tool comprising just 12 questions might also appear to be insufficient to capture more subtle areas of organizational attractiveness. To go further, FORTUNE World's Most Admired Companies (2013) study produces lists of companies that enjoy the strongest reputations. To determine industry rankings a maximum of 10 top executives and seven directors per company along with a pool of financial analysts are selected to evaluate the attributes of company reputation. In this way, perceptions of employees are ignored, giving very few ideas about internal truths of organizational life.

Asserting that employer's attractiveness must be conceptualized particularly in the case of higher education institutions, some surveys are worth particular attention. The Chronicle of Higher Education conducts research of Great Colleges to Work For in the USA using The ModernThink Higher Education Insight Survey (Chronicle Great Colleges - Survey Instruments FAQ, 2013). This instrument measures the extent to which faculty/employees are involved and engaged in the organization and the quality of the workplace experience. The Scientist Magazine is carrying out the worldwide survey Best Places to Work Academia (2013) which is intended at uncovering aspects of work valued most by life science academics and their suggested areas for improvement.

Other most popular instruments applicable to measuring the construct or just some facets of organizational attractiveness include Reputation Quotient (Fombrun et al, 2000), Corporate Personality Scale (Davies et al, 2001), Corporate Credibility Scale (Newell & Goldsmith, 2001), and numerous job satisfaction surveys (Van Saane et al, 2003; Cabrita & Perista, 2007). To see a whole but not yet final scale of this phenomenon, the data by the Reputation Institute (2013) shows that best employers, top brands, most admired, socially responsible companies and corporate reputations have been assessed in more than 100 lists published by magazines and newspapers around the world up to date. There could be added a comprehensive list of global and national rankings of HEIs. Though significant, they mainly measure university's reputation for excellence in teaching and research.

Despite or specifically because of this abundance of instruments, there is a sound rationale for the development of a new scale to measure organizational attractiveness in higher education. Existing instruments are diverse and ambiguous, many of them commercialized, pursuing a priori principles of universal 'employer of choice' (Rosethorn & Mensink, 2007), too broad or too narrow in scope, using too objective or too subjective indicators and neglecting the simple fact that different people have different perceptions about the value and importance of different job characteristics (Schokkaert et al., 2009), and very few – except the rankings, also criticized for criterions and methodology – aimed at higher education institutions.

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Addressing these limitations, but, admittedly building on numerous methodological strengths and insights of the available measures this paper reports the development and validation of Organizational Attractiveness Extraction Scale (OAES) intended to assess organizational attractiveness of HEIs and identify particular features of employment experience that are most valued, appreciated and significant to their employees.

METHODOLOGY

Considering recommendations by G. A. Churchill (1979) and implications from the numerous methodological researches (Hinkin, 1995; DeVon et al, 2007; Parasuraman et al. 1988; Fombrun et al, 2000; Newell & Goldsmith, 2001; Ekiz & Bavik, 2008; Berthon et al, 2005; Parsian & Dunning, 2009; Pennington, 2003) a procedure of Organizational Attractiveness Extraction Scale (OAES) development was projected as follows: 1) Definition of research area; 2) Development of scale items; 3) Collection of initial data; 4) Purification of the scale.

Definition of research area. Based on the theoretical and conceptual framework of employer branding a research area was set up to explore the development of employer brand herein referred to as *a set of particular employment experience attributes that make organization distinctive and attractive as an employer*. Respectfully, as a means for employer brand development, this research was focused on the measurement of organizational attractiveness as perceived actual and desirable attributes of employment experience. Particularly, the research sought to identify and operationalize dimensions of organizational attractiveness in HEIs.

Development of scale items. Following the best practices of scale development, both deductive and inductive methods were used in item generation (Hinkin, 1995). As for deductive scale development 8 international methodologies of workplace attractiveness assessment (i.e. Great Place to Work ®; The Chronicle of Higher Education, Great Colleges to Work For, ModernThink Modern Education Insight Survey ©; The Scientist, Best Places to Work Academia; Gallup Great Workplace Award, Q12 ©; Canada's Top 100 Employers; Britain's Top Employers; Aon Hewitt Best Employers, Australia and New Zealand and the TNS Gallup's Index of the Most Attractive Employer 2006) were analyzed.

Accordingly, a general list of 76 overlapping dimensions of employer's attractiveness was composed and narrowed down to 30 dimensions based on separate features while retaining the maximum possible number of potential dimensions (DeVon et al., 2007), namely *Commitment to Quality, Effective Leadership, Fairness, Career Development, Performance Management, Organizational Culture, Supervisor Relationship, Reputation, Employee Engagement, Respect & Recognition, Job Satisfaction, Work Atmosphere & Social, Training and Development, Working Conditions, Trustworthiness, Research*

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Resources, Strategic Management, Social Security, Compensation & Benefits, Diversity, Teamwork, Work/Life Balance, Organizational Integrity, Financial Success, Teaching Environment, Social Activity & Responsibility. The maximum possible number of potential dimensions was retained (DeVon et al., 2007). Additionally, dimensions were detailed to ensure that their perception is equal to a maximal degree.

Content validity #1. Further, content validity as "the degree to which elements of an assessment instrument are relevant to and representative of the targeted construct for a particular assessment purpose" (Haynes, et al., 1995: 239) was used to verify whether the items in the sample are relevant to the purposes of the study. Additionally, 30 dimensions were detailed to ensure that their perception is equal to a maximal degree. For example, *Fairness* was described as *the extent to which employees believe people are managed fairly, personal favouritism is not tolerated, disputes resolved fairly, reporting illegal activity is comfortable, equity through compensation and benefit programs.*

A panel of 15 purposely chosen expert analysts in the areas of human resource management, marketing, organizational management, organizational psychology and questionnaire design was set up, representing both academic and non-academic staff of Vytautas Magnus University, which was selected because of convenient accessibility.

Even though a 4-point scale is recommended for use in content validity, it is assumed that this scale is not sensitive enough in light of the fact that content experts are often prone to evaluate content items with high marks (DeVon *et al.*, 2007). Because of this, content reviewers were asked to assess the importance of every dimension for the attractiveness of the higher education institution as an employer, evaluating on the scale of 1 to 10, where 1 is "absolutely irrelevant" and 10 is "extremely relevant". In order to achieve a high level of objectivity and distance themselves as far as possible from the evaluation of the *present situation* in their focal higher education institution, the experts were asked to refrain from analyzing a current situation in separate dimensions, but instead base their answers on their own expectations, i.e. points of view, opinions, attitudes and beliefs about the higher education institution as an attractive employer.

For the selection of dimensions the *Content Validity Index for Items (I-CVI)* was calculated as the number of content experts giving an item a relevance rating of 9 or 10, divided by the total number of experts, i.e. 15 (Polit and Beck, 2006). For further analysis, dimensions awarded high marks by 10 or more experts (i.e., two thirds of all experts were in consensus regarding this question) were selected. Using the I-CVI of no less than 0.667 accordingly, a list of 12 dimensions was created encompassing *Fairness*, *Organizational Culture*, *Supervisor Relationship*, *Job Satisfaction*, *Training and Development*, *Working Conditions*, *Trust*, *Strategic Management*, *Compensation and Benefits* (integrating Pay and Benefits), Collaboration and Teamwork labelled *Teamwork*, *Work-Life Balance* and *Academic Environment*.

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Seeking to ensure the *face validity* of the tool, experts were also asked to write comments related to the formulation of the dimension and clarity, precision of its elaboration, as well as suitability of the wording and its probable comprehensibility to the respondents.

Semi-structured interviews. In parallel, applying an inductive approach, three semi-structured interviews of Vytautas Magnus University staff (total N = 70) and four semi-structured interviews of Vytautas Magnus University undergraduate final course students (total N = 160) were conducted with the aim of determining their value attitudes and perceptions about the researched university. The staff were asked *why they are working in the university* and *for what reasons they would leave it*. Individual written answers were summarized according to the frequency of repetitions, revealing the value attitudes that help form a university's identity in this way. Example answers would be "informal communication", "nonhierarchical relations", "honesty", "collegiality", "intellectual, stimulating environment", etc.

Student groups tried to explain *why I am in this university*. As in the case of staff members, written answers during the collective talk sessions were pooled into value groups. Example answers would be "good reputation", "good atmosphere", "students are respected and treated equally as the rest of the university's society", "competent and friendly teachers", etc.

As a summation of the data from the semi-structured interviews, a list of 149 statements made by the respondents was created which demonstrated how they expressed their motivation in view of refined values.

It is noteworthy that this process helped to identify viewpoints of both external (for the students) and internal (for the employees) stakeholders and to ensure their synergy and integrity.

Content validity #2. The next stage in the development of the instrument began with the expansion of the 12 expert-refined dimensions that make up the attractiveness of the higher education institution as an employer with the statements collected during the semi-structured interviews. Another panel of 13 purposely chosen content experts was formed from the focal University and requested to evaluate the validity of every statement in regard to the dimension to which it was attributed answering the question *"Does the statement measure the dimension to which it has been assigned?"* by *"Yes"* (scale point 4), *"Partly yes"* (scale point 3), *Neutral"*(scale point 0), *"Partly no"*(scale point 2) *and "No"* (scale point 1). If the answer to the question *was "No"*, experts were asked to assign the statement to another dimension by marking the field *"Move to the dimension No."* or to choose the option to *"Remove"* the statement. In case the list of statements did not include one needed to measure the dimension, the experts were also asked to fill in the field "Other" by writing their opinion or offering a suitable statement. To refine the list of statements the Content Validity Ratio (CVR) was used. Its basic goal is to evaluate how essential a particular item is for the measurement of a

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dimension. Pennington (2003) argues that the proportion must be greater than 0.54, which corresponds to 10 out of 13 experts assessing a respective element as suitable to the given dimension. 75 out of 149 statements were eliminated using this method, some were reassigned (for example, the statement *„Remuneration system is clear and objective“* was moved from dimension 8 *Compensation and Benefits* to dimension 2 *Fairness*) and an initial Organizational Attractiveness Extraction Scale, consisting of 12 dimensions and 74 statements connected to them was framed, as listed in Annex 6.

Piloting: data collection, first stage. After the pool of items was generated an initial data was collected to purify the measure. As it is common in pilot tests, the convenience sampling was used and a primary survey was carried out at Vytautas Magnus University.

A questionnaire was designed to extract both actual and desirable characteristics of university's attractiveness as an employer. Hence a twofold response scale of *Experience* (EXP) and *Importance* (IMP) was applied for evaluation of each item. First, the respondents were asked to think if they “don't have at all, have a little, have a lot of experience or are constantly experiencing” the essence of every statement; second, the respondents were invited to evaluate how important the content of the statement is to them from "not important at all", "not important", "important" and "very important". Additionally "I am uncertain" was put to both scales. Therefore a 4-point response scale with a separated neutral evaluation was employed. The twofold scale was also supposed to contribute to the easier interpretation of the survey results providing with a clear picture of what employees were used to and what they still lacked for.

To collect the data a web-based anonymous survey was conducted in the period from June 2011 until September 2011. Invitations with a reference to the web-based questionnaire were distributed via Vytautas Magnus University intranet, available to all 1000 eligible employees, 391 having read the message and received a survey. The respondents were invited to express their opinion thus taking part in the development of the university strategy and employer brand in particular. Anonymity of the respondents was also stressed. 186 employees were surveyed. Similar sample sizes were used to purify initial instruments, as reported by Parasuraman et al. (1988). The distribution of respondents by gender (67.2% women respondents) and position (50.5% of Academic and 49.5% of Administrative staff) corresponds to the composition of the overall University population, therefore the sample is proportionally allocated and representative (see Table 1).

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Characteristics		Frequency	Percentage
		(*N*=186)	
Gender			
	Females	125	67.2
	Males	61	32.8
Age			
	<25	7	3.8
	26-35	60	32.3
	36-45	47	25.3
	46-45	45	24.2
	>55	27	14.5
Employee group #1			
	Academic staff	94	50.5
	Administrative staff	92	49.5
Employee group #2			
	Subordinate staff	122	65.6
	Supervising staff	64	34.4
Tenure			
	<5	67	36.0
	6-10	45	24.2
	11-15	32	17.2
	>=16	42	22.6

Table 1. *Demographic characteristics of the sample*

Purification of the scale was started with a clear-out of the data: responses with neutral meaning labelled "I am uncertain" were excluded from further analysis. Following Parasuraman et al. (1988), the following analyses were based on the *Importance* and *Experience* scales' difference scores.

Aiming at examining the structure and dimensionality of the scale, Exploratory Factor Analysis, as it is common with the first data set (Newell and Goldsmith, 2001; Parasuraman et al, 1988), was conducted prior to 12 conceptually developed dimensions. The difference scores of 74 items were factor analyzed using SPSS with the Principal Component Analysis procedure and Varimax with Kaiser Normalization rotation. The nonparametric bootstrap method was applied for factor analysis purposes (Zientek and Thompson, 2007) and a Kaiser-Meyer-Olkin index of 0.886 indicated the appropriateness of using factor analysis on data. A statistically significant Bartlett's test of sphericity (sig. < .05) indicated that significant correlations exist among the variables to proceed with factor analysis (Hair, 2010).

Having an a priori conception about how items are related, it was decided to project on 12 factors to be extracted. Since the scree test suggested 15 factors, multiple factor analyses were run setting the number of factors extracted at eight to 15 (Costello and Osborne, 2005). The 'cleanest' rotated factor structure yielded an 11 factor solution, where no factors with less than three items and cross-loading items emerged. Extraction of 11 factors accounted for 65.8% of the common variance meaning that an eleven-factor model was practically significant and a solution is satisfactory (Hair, 2010).

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7 poor performing items (No. 4 *My supervisor sets clear goals and objectives for my work*, No. 6 *My supervisor praises me*, No. 14 *I have trust in my colleagues*, No. 26 *I can show initiative there*, No. 36 *Good student-faculty relationship prevail*, No. 45 *Variety of situations, activities and people is being met there*, and No. 55 *Environment is intellectual there*) with loading less than 0.45 were apparent in initial organizational attractiveness scale and, having a sample of 186 respondents it was suggested that they be removed from factor matrix (Hair, 2010), resulting in a total row of 67 items.

In order to test reliability and assess the quality of extracted factor structure, the estimates of internal consistency using Cronbach's alpha coefficients were computed separately for each of the 11 factors (Churchill, 1979; Parasuraman et al, 1988) ranging from 0.714 to 0.933. Considering the general rule for having coefficient alpha not lower than 0.70 to prove the internal consistency of the scale (e.g., Fombrun et al, 2000; Berthon et al, 2005), the values of Cronbach's alpha showed to be more than sufficient. The descending lists of internal corrected item-to-total correlations did not indicate a sharp drop in the row of alpha weights or considerable increase in the total factor's Cronbach's alpha score if dropped out. Subsequently no items were eliminated from the scale.

Eventually, the scale purification procedure after the first pilot resulted in 11 factors comprising 10 original dimensions, i.e. *Job Satisfaction, Training and Development, Work-Life Balance, Academic Environment, Organizational Culture, Compensation and Benefits, Teamwork, Supervisor Relationship, Strategic Management* and *Working Conditions*. Meanwhile former dimensions of Fairness and Trust converged into new termed *Fairness and Trust*. The final composition and content of OAES with Factor loadings and Cronbach's alphas is shown in Table 2.

At this stage the scale was ready for additional pilot testing for which new sample was used to collect the data (Churchill, 1979; Hinkin, 1995).

Items	**Cronbach's alpha**	**Factor loadings**										
		F1	**F2**	**F3**	**F4**	**F5**	**F6**	**F7**	**F8**	**F9**	**F10**	**F11**
1. Organizational Culture	.933											
Q51. Work environment is collegial.		.735										
Q49. Good atmosphere prevails in University.		.691										
Q47. Openness and sincerity is encouraged in University.		.683										
Q50. Ethical standards are followed.		.661										
Q52. High quality performance culture is being created in University.		.661										
Q56. Conflicts are harmonized and resolved effectively in University		.657										
Q53. Environment is community-friendly.		.656										

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Q46. Constructive criticism is appreciated.		.651			
Q44. Informal communication is frequent.		.564			
Q48. Creativeness and initiative is fostered in University.		.558			
Q54.Academic freedom is valued.		.502			
2. Fairness & Trust	.930				
Q9. Remuneration system is clear and objective.			.751		
Q8. Procedures promoting transparency are developed.			.736		
Q13. Equal opportunities are ensured.			.705		
Q12. Clear standards for promotion and tenure are articulated.			.703		
Q16. Promises are kept in my University.			.698		
Q17. I have trust in University leadership.			.660		
Q11. Decisions are made without bias.			.646		
Q10. Employees are treated fairly.			.642		
Q15. Words match with actions in my University.			.617		
3. Teamwork	.902				
Q71. I can rely on my colleagues.				.796	
Q70. I enjoy *working* alongside *like-minded people.*				.762	
Q73. I have good relationships with my colleagues.				.733	
Q69. My colleagues are helpful and supportive.				.686	
Q72. Effective internal communication is developed.				.629	
Q74. Cooperation is promoted to get the jobs done.				.535	
Q68. Employees share their ideas and knowledge.				.525	
4. Academic Environment	.839				
Q38.High study quality is pursued					.767
Q35.My peers are best scientists and lecturers.					.731
Q37.Students are good and motivated in my University.					.705
Q34. Innovative training methods are encouraged in					.686

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my University.						
Q40. A favourable research environment is created in my University.			.634			
5. Strategic Management	.870					
Q64. Organizational, departmental and employee integrity is ensured.				.772		
Q65. Policies, procedures and responsibilities support strategy implementation.				.746		
Q63. Sustainability and corporate social responsibility are fostered.				.659		
Q66. Employee participation in decision making is promoted.				.631		
Q67. University is building positive reputation and image.				.601		
Q62. A clear strategy and direction is set and aligned with University vision and values.				.579		
6. Job Satisfaction	.891					
Q23. I like my job and find it interesting.					.678	
Q18. My job is intellectually challenging.					.650	
Q19. I can realize my ideas and potential.					.637	
Q21. I know what is expected of me at work.					.626	
Q25. My job meets my experience and abilities.					.548	
Q20. My job feels meaningful.					.529	
Q24. I feel that I and my efforts are valued.					.504	
Q22. I have career opportunities in my University.					.464	
7. Supervisor Relationship	.874					
Q7. My supervisor gives me feedback about my progress.						.754
Q1. My supervisor listens to me and regards my opinion.						.704
Q5. My supervisor supports me.						.684
Q2. I have trust in my supervisor.						.668
Q3. My supervisor gives me guidance.						.624
8. Compensation and Benefits	.922					

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Q58. Effective employee incentive scheme is functioning in University (for loyalty, achievement, etc.).			.709			
Q60. Additional benefits are offered to motivate employees.			.659			
Q57. I am getting paid enough for my job.			.653			
Q59. Best employees are appreciated in University.			.634			
Q61. Employee's performance results and competencies are recognized and rewarded.			.579			
9. Training and Development	.857					
Q30. I receive enough training to do my job in best manner.				.778		
Q32. I have opportunities for personal growth in University.				.698		
Q31. Employee training and development meets University aims and objectives.				.693		
Q33. Talents are nurtured in University.				.494		
10. Work-Life Balance	.714					
Q28. I have enough flexibility in my work.					.771	
Q29. I may harmonize my work and personal life needs.					.740	
Q27. My work load is manageable.					.649	
11. Working Conditions	.721					
Q41. I am provided with all necessary equipment and resources to do my job well.						.743
Q42. Safe and comfortable working environment is created in my University.						.655
Q39. The consistent administrative support is provided to faculty members.						.494
Q43. I am not experiencing stress in my work.						.450

Table 2. *Organizational Attractiveness Extraction Scale*

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Piloting: data collection, second stage. To further evaluate OAES, its reliability and application potential, two independent convenience samples were used to collect additional data. The scale was administered in Aleksandras Stulginskis University (abbreviated as ASU) during the period of March – June 2012 and in Kaunas University of Technology (abbreviated as KUT) during the May of 2012.

There were some amendments made in the design of the questionnaire, namely, a four-point response scale was changed to a 10-point scale as it was noticed that the former does not give enough discrimination and distribution. Thus, a twofold *Experience* (EXP) and *Importance* (IMP) 10–point response scale was used for evaluation of each item. Firstly, the respondents were asked to assess whether a statement reflects actual employment experience in the particular higher education institution, with "1" used to indicate "least experienced" (lowest perceived experience), and "10" – "most experienced" (highest perceived experience). Secondly, the respondents were asked to evaluate how important such employment experience was to them, with "1" used to indicate "least important" (lowest perceived value) and "10" – "most important" (highest perceived value).

The list of items was randomly mixed not to provide respondents with a clue as to what dimension is being measured and to avoid inertia and bias. Considering primary survey feedback, items phrased in confusing ways were reworded. As in the first stage of data collection, online anonymous questionnaires were distributed via e-mail.

N = 117 completed questionnaires were returned from ASU and *N* = 269 received from KUT. Table 3 shows demographic characteristics of the two samples.

Characteristics		ASU		KUT	
		(*N*=117)		(*N*=269)	
		Frequency	Percentage	Frequency	Percentage
Gender					
	Females	54	46,2%	139	53,7%
	Males	63	53,8	120	46,3
Age					
	<25	4	3,4	8	3,0
	26-35	16	13,7	90	33,8
	36-45	41	35,0	69	25,9
	46-45	33	28,2	44	16,5
	>55	23	19,7	55	20,7
Employee group #1					
	Academic staff	83	72,2	193	73,1
	Administrative staff	32	27,8	71	26,9
Employee group #2					
	Subordinate staff	31	27,0	54	20,5
	Supervising staff	84	73,0	209	79,5

Note: There are no statistically significant differences between these subsamples, except for age (p= .008).

Table 3. *Demographic characteristics of two samples*

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To assess scale reliability with new data, Coefficients alpha were calculated. Table 4 shows the reliability figures for each of the eleven organizational attractiveness dimensions for the initial data, for the entire database of the second data collection and for the ASU and KUT separately. The reliability levels for both initial data and total second stage data are all above the threshold of 0.70 for acceptance in validating the developed scale. *Work-life Balance* is the only factor which could be questioned from the ASU data, the same could be said about *Training and Development* factor from KUT data. As far as reliability scores from other columns are acceptably high, this deflection presumably could be affected by a certain organizational context.

Organizational attractiveness dimension	**Reliability for initial data**	**Reliability for total second stage data** ***N* = 386**	**Reliability for ASU data** ***N* = 117**	**Reliability for KUT data** ***N* = 269**
Organizational Culture	0.933	0.950	0.940	0.936
Fairness and Trust	0.930	0.937	0.930	0.935
Teamwork	0.902	0.883	0.833	0.853
Academic Environment	0.839	0.823	0.831	0.802
Strategic Management	0.870	0.906	0.875	0.867
Job Satisfaction	0.891	0.857	0.760	0.817
Supervisor Relationship	0.874	0.948	0.825	0.927
Compensation and Benefits	0.922	0.881	0.896	0.879
Training and Development	0.857	0.815	0.837	*0.681*
Work-life Balance	0.714	0.725	*0.661*	0.709
Working Conditions	0.721	0.786	0.806	0.762

Table 42. *Cronbach alpha reliability scores for each factor and respondent group*

Additionally, the non-parametric Mann-Whitney U test was used to assess whether differences existed between mean values of two subsamples on Experience scale (see Table 5) and on Importance scale (see Table 6).

	Organizational Culture	Fairness and Trust	Teamwork	Academic Environment	Strategic Management	Job Satisfaction	Supervisor Relationship	Compensation and Benefits	Training and Development	Work-Life Balance	Working Conditions	Experience Index
Mann-Whitney U	10935,000	11968,000	10956,500	10772,000	10456,500	11985,000	12482,500	11082,000	11720,000	13234,000	13129,000	6852,000
Wilcoxon W	17263,000	17854,000	17397,500	17327,000	16897,500	18426,000	18810,500	17523,000	18390,000	20020,000	19684,000	11130,000
Z	-2,324	-1,026	-2,913	-3,641	-3,316	-1,819	-1,370	-2,772	-2,681	-1,404	-,735	-2,197
Asymp. Sig. (2-tailed) p value	,020	,305	,004	,000	,001	,069	,171	,006	,007	,160	,463	,028

Table 5. *Results of non-parametric Mann-Whitney U test on Experience Scale*

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	Organizational Culture	Fairness and Trust	Teamwork	Academic Environment	Strategic Management	Job Satisfaction	Supervisor Relationship	Compensation and Benefits	Training and Developme	Work-Life Balance	Working Conditions	Importance Index
Mann-Whitney U	4947,000	5449,000	5547,000	5274,500	5037,500	5655,500	6334,500	6642,500	5457,500	7046,000	5966,000	3015,000
Wilcoxon W	7503,000	8299,000	8550,000	8277,500	7963,500	8356,500	9337,500	9645,500	8460,500	9896,000	8969,000	5361,000
Z	-4,535	-4,226	-4,726	-5,495	-5,410	-4,071	-4,056	-3,319	-5,255	-2,710	-4,311	-4,344
Asymp. Sig. (2-tailed) p value	,000	,000	,000	,000	,000	,000	,000	,001	,000	,007	,000	,000

Table 6. *Results of non-parametric Mann-Whitney U test on Importance Scale*

The results of a Mann-Whitney test indicated significant or highly significant differences on the majority of dimensions, except *Fairness and Trust*, *Supervisor Relationship*, *Work-Life Balance* and *Working Conditions,* i.e. seven out of 11 on Experience scale and on all dimensions on Importance scale. These findings suggest that perceived actual and desirable employment experience differentiates between the two researched higher education institutions as well as presuppose different patterns of organizational attractiveness possessed by ASU and KUT.

CONCLUSION

It was the particular ambition of this study to promote the yet largely unexplored field of employer branding in higher education, offering a framework to operationalize organizational attractiveness of HEIs. Specifically, a 11 dimensional 67 item Organizational Attractiveness Extraction Scale (OAES) measuring employees' perceptions of actual and desirable employment experience was developed and pilot-tested in Lithuanian HEIs.

It could be concluded that after two pilots OAES is valid for the surveyed higher education institutions, and therefore is applicable for broad usage within the higher education sector. OAES has proven to be useful in determining unique employment experiences that are most often met by employees in higher education institutions and unfolding employee work values preferences. Accordingly, it enables to explore organizational attractiveness of HEIs, to uncover unique characteristics of their employment-based identity and, therefore, provides the means for building effective employer branding strategy.

Although the OAES application allows delineating distinct patterns for employment relations followed by HEIs, it is not intended for benchmarking and is not supposed to be for interpretation in terms of “better” or “worse” higher education institutions. As Rosethorn & Mensink (2007) has put it “No organization should be aiming to be all things to all people – different types of people are right

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for different types of companies"(p. 4). Therefore the key idea behind OAES is distinctiveness, i.e. it allows for pinpointing unique features of organizational identity and employment experience in every researched higher education institution. Thus eventually application of OAES could be pointed at enhancing diversity that "has been identified in the higher education literature as one of the major factors associated with the positive performance of higher education systems"(Van Vught, 2008: 154).

The ulterior steps utilizing gathered intelligence would require more qualitative research, brainstorming, creativity, marketing activities as well as adherence to human resource management issues to wrap this knowledge into distinctive, energizing and compelling employer value proposition promoting it internally and externally.

It could be concluded that for employer branding in higher education to be successful, it should go beyond a "reputation race" (Van Vught, 2008), because "while trying to be unique and distinguishable from the rest, a university risks becoming more similar, removing the true unique characteristics it might have" (Stensaker, 2007: 22). Repeating the question raised by E. Hazelkorn (2011) "Does everyone really want to be like Harvard – or they do they just want to be loved?" (p. 3), the answer is evident. Respectively in the business, if everybody were to get stuck on admiring the Fortune 500 list, they would be as narrow-minded as to see only .000000001% of those that got there (Murmann et al., 2003). But the world is full of other success stories that do not conform to any universal laws of organizational attractiveness. Employer branding celebrates this type of organizational success. "Brand values have to be unique: you must focus your branding efforts on owning a word in the prospect's mind. A word that nobody else owns" (Temple, 2006: 18). Starting with self-understanding of "who are we?" higher education institutions get the floor to tell the true and compelling story of an organization's "forever and after". To invite potential employees on a unique employment journey and make it come true. And, eventually to stand out from the crowd by differentiating itself as a desirable employer in the labour market.

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 ISBN: 978-9963-711-37-6

STRATEGIC OPTIONS: THE BUILDING BLOCKS OF STRATEGIC AGILITY IMPLEMENTATION

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ABSTRACT

Increasingly dynamic, complex and unpredictable economic circumstances require continuous and systematic re-evaluations of selected development pathways and redefinitions of strategies and plans. This paper is aimed at proposing a means of identifying and choosing strategic options that can be defined as the possible development pathways of an enterprise's business model. Strategic options are the instruments, choices and actions that link together the information that emerges from the strategic analysis processes and the actions an enterprise has to take to implement strategic agility and to constantly redesign the business model pathway. The model suggested in this article is capable of combining methodologically rigorous planning techniques with a creativity and flexibility that is essential to enterprises today. Through the lens of the proposed model, the article contributes both from an academic and a practitioner point of view, to shed light on the relevance of strategic agility issue and on the role of strategic options on the process of business model's shaping.

Keywords: *strategic options; strategic analysis, business model, business strategy*

INTRODUCTION

In increasingly dynamic, complex and unpredictable economic circumstances, strategy is becoming focused on approach and orientation; rather than planning and programmes. As Grant (2010, p. 793) stated: 'Disruptive technologies and accelerating rates of change have meant that strategy has become less and less about plans and more about creating options of the future, fostering strategic innovation and seeking the "blue oceans" of uncontested market space'.

Volatile and competitive circumstances require continuous and systematic re-evaluations of selected development pathways and redefinitions of strategies and plans. Today, many companies struggle to survive not because they act erroneously, but because they are unable to adapt to changing circumstances, continue doing what used to be the 'right thing' and are victims of rigid business models (i.e., victims of strategic inertia) (see Rumelt, 1995, 2011; Doz and Kosonen, 2008). An ability to

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address discontinuities, technological disruptions, convergence and constantly renew global competition business models is now essential. Strategy has become a more creative means of identifying possible directions on which decision-making and actions can be based. Accordingly, strategies resolve around decisions and actions, but in which direction? This question can only be answered by identifying strategic options that can be defined as the possible development pathways of an enterprise's business model. Strategic options are the instruments, choices and actions that link together the information that emerges from the strategic analysis processes and the actions an enterprise has to take to modify its business model and realise its strategic vision. Thus, strategic options bridge the gap between the analytical phase of strategic project elaboration and the decisional phase.

The aim of this article is to propose a means of identifying and choosing strategic options capable of combining methodologically rigorous planning techniques with a creativity and flexibility that is essential to enterprises today.

The article begins with a brief review of the theoretical background that frames the analysis of strategic options. A proposed model is then described and a real-world example provided of a medium-sized Italian enterprise for which identifying and choosing strategic options has been particularly important over the last few years. This example, which is partially based on the consultancy work that the authors have undertaken for the enterprise, forms the basis of the research that led to the development of the article. Finally, conclusions will be drawn and the implications of the findings of this research for managers and scholars will be set out.

THEORETICAL BACKGROUND

The concept of strategic options is deeply rooted in strategic management. Since the 1960s, academics and consultants have frequently examined the question of strategic options, albeit with varying degrees of success (see Chandler, 1962; Ansoff, 1965; Hofer and Schendel, 1978; Porter, 1980, 1985). This includes Chandler's (1962) four strategies, a number of portfolio matrixes (see McKinsey, Little, Marakon), the six strategies proposed by Hofer and Schendel (1978) and the cost/differentiation strategies proposed by Porter (1980, 1985).

In today's turbulent and dynamic environment, the quest for strategic options has gathered momentum (Beretta Zanoni *et al.*, 2014; Grant, 2010; Lafley *et al.*, 2012, McGrath and Nerkar, 2004). Increased competition and economic crises have affected the economic landscape and resulted in enterprises having to reshape their strategies and business models (Baden-Fuller and Morgan, 2010; Chesbrough 2010, Ghaziani and Ventresca, 2005; Lecocq *et al.*, 2010; Magretta 2002; Zott and Amit 2008; Zott *et al.*,

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2011) to survive. As noted by Weber and Tarba (2014), in a chaotic environment the primary determinant of the success of an enterprise is strategic agility; that is, an ability to remain flexible when facing new challenges, to continuously adjust the strategic direction of the company and to develop new ways to create value (i.e., new business models).

There has been much debate by scholars over the concept of strategic agility. Brueller *et al*., (2014) studied the relationship between M&As and strategic agility and conceptualised strategic agility as the capability to make knowledgeable, nimble, rapid, strategic moves with a high level of precision. Doz and Kosonen (2010) focused on the importance of a business model evolution and defined strategic agility as the capacity of an enterprise to be agile, open to new evidences, always ready to reassess previous choices and able to change direction in light of new developments. Lewis *et al*., (2014) emphasised the contradictory nature of strategic agility and noted that it is synthesised by a complex balance between a stable commitment to future vision, the importance of a strategic planning process and an ability to be adaptable and open to emerging decisions.

Despite such different perspectives, it is possible to identify some recurrent themes, including that:

1. Strategic agility is an attitude. It is a way of managing enterprises. It is not about a reaction to a major threat or event; rather, it is a constant ability to reshape the course of action and to continuously check and renew an enterprise's business model.

2. Strategic agility involves overall organisation design and not just the rearrangement of some product or categories.

3. Strategic agility entails some requirements in terms of capabilities (i.e., being superior in sensing evolutions, threats, opportunities and, in terms of leadership, being able to rapidly transform the enterprise via decision-making processes and organisational change).

4. Strategic agility does not exclude strategic planning processes; rather, it integrates planning processes by making them more flexible and avoids rigidity and inertia (Rumelt, 1995, 2011; Huff *et al*., 2007).

The growing emphasis on strategic agility in the literature demonstrates its relevance and highlights the urgency to systematise the concept for both theoretical and practical reasons. Strategic agility is a core issue in the strategic management literature that cannot be left to theory. This study aims to investigate the issue of strategic options. It presents a method that is both methodologically rigorous and creatively drives managers to identify and choose strategic options; that is, a method that implements strategic agility to constantly redesign business model pathways.

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THE PROPOSED MODEL

The model suggested for identifying and choosing strategic options is divided into three key phases:

1. Drawing a competitive map;
2. Identifying the strategic options available to an enterprise (the possible moves that it can make within the context of the competitive panorama represented by a map); and
3. Evaluating the quality of the identified options.

Drawing a competitive map

Among that different tools that have always played a significant role in strategic theory and in strategic analysis, maps and matrixes play a central role. Such tools enable the analyst to describe and schematize phenomena providing a sufficiently complete picture of the problem (Solinas and Vernizzi, 2011). The advantage of these tools is the immediacy of the description they provide. Following the great usage that strategic literature and practice have made of such strategic tools (Faulkner and Bowmann, 1995, Hofer and Schendel, 1978) our model starts with drawing a competitive map aimed at representing the positioning of players in a given competitive space.

The debate about the definition of the competitive space (i.e. business) is central to the field of strategic management. Industrial economics drew business boundaries using product similarity as the delineating criterion, building the business definition around the industry concept (Bain 1972). Porter criticized the original industrial economics approach and introducing mobility barriers concept designed competitive space around the strategic groups definition (Caves and Porter, 1977). Moreover, Abell (1980) proposed a three dimensions space for business definition consisting of: customer groups, costumer needs served and technologies employed.

Following Abell approach the competitive map drawn as first step of our model aims to represent the positioning of various players in the competitive arena, defined as the specific combination of 1) purchasing motivation on which it is intended to leverage; 2) typology of the target purchasers; and 3) nature of the offered product / service (i.e. technology).

Given that no competitive spaces are immutable over time, the map should be drawn from time to time to identify successive variations in the most important dimensions (two, three, or even four). Moving towards a more operating point of view, the key operative aspects of this phase are:

a) identifying the most significant/innovative dimensions on which to construct the map;

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b) identifying the market players and their positioning on the map; and

c) reading the map and interpreting the competitive features it represents.

The most delicate aspect of preparing a competitive map is identifying its significant dimensions. In mapping, it is possible to identity numerous significant dimensions within each of the three levels of competitive positioning; for example, purchasing motivations may include the various needs being catered for; target customers may be identified in terms of socio-demographic groups or geographical locations; and the significant dimensions of the nature of a product may include price, perceived quality, range and the technology used. In principle, the less conventional the chosen dimensions, the greater the probability of obtaining original and innovative interpretations of the map.

An example of a competitive map can be seen in Figure 1. This map was drawn for 'Alba' (a pseudonym) a medium-sized company in north-east Italy that produces and sells machines for the automatic inspection of injectable drugs under its own brand name. The positioning of the company is based on a purchasing motivation related to the need to inspect injectable drugs automatically, its customer target is large and local pharmaceutical companies and its offer system is characterised by the completeness of its knowledge of the technology associated with the inspection of injectable liquids. Its main competitors are other producers of machinery for the pharmaceutical industry that differ from each other in relation to the level of their inspection know-how and the extent of their coverage of an entire pharmaceutical process that can be simplistically divided into the three phases: processing, inspection and packaging. As the inspection phase is particularly relevant for this example, the matrix is based on the following two dimensions:

- the degree of coverage of the inspection phase (which may range from specialising in a single form of inspection to providing all types of solutions); and

- the degree of coverage of the entire production process that may be limited to machinery for only one phase (i.e., processing, inspection or packaging) or extended to all three phases.

Having identified the significant dimensions and drawn the map, the next step is to identify and position the players inside it. In the case of Alba, the results can be seen in Figure 1.

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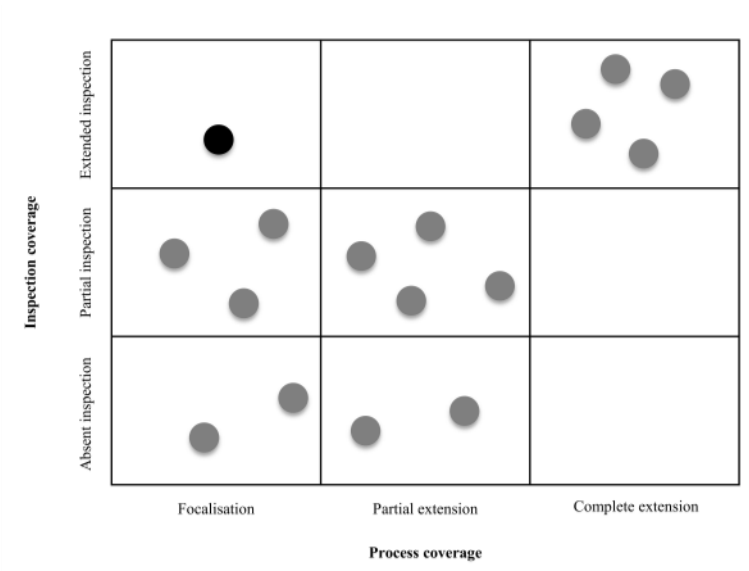

Figure 1. *Figure 1*: Pharma machinery players' positioning

It is possible to interpret the map by analysing the characteristics of the groups and identifying the most crowded and freest competitive spaces. Further, by comparing the existing situation with that of a previous time period, it is possible to identify the dynamics of the differences that have occurred due to changes such as the positions of the players and their aggregations.

Identifying the strategic options

Upon completion, the map becomes a means of understanding the strategic options (i.e., possible moves) available to an enterprise within its competitive space and the impact that each move would have on the business model (Grant, 2010; Lafley *et al*., 2012, McGrath and Nerkar, 2004).

Though the concept of business model is widespread in practice and in strategic theory (Magretta, 2002; Ghaziani and Ventresca, 2005; Zott *et al*, 2011; Lambert and Davidson, 2013), there is still no unitary definition (Zott *et al*, 2011). For the aims of this paper and adopting the perspective of linking the business model to the dynamics of strategy realization and implementation (Richardson, 2008), we define the business model as the combination of three elements:

- The portfolio of businesses (Abell, 1980);
- Its positioning in relation to other businesses, which is dependent upon purchasing motivations, customer targets and the nature of the product (Porter, 1980; Håkansson and Sneotha, 1995; Fiegenbaum *et al.*, 1996; Cockburn *et al*., 2000; Ries and Trout, 2001; McNamara *et al.*, 2003; Bowman, 2008); and

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- Its structural architecture; that is, the complexity of its resources, activities, policies, ownership, organisational structure and its mission.

Following this definition, understanding the impact that every strategic option would have on business model means evaluating the effect of each option on the enterprise's business portfolio, the positioning of its supply and its structural architecture over time. The key operative steps to identify strategic options are:

1. Identifying potential movements within the map. Thus, the first step is to decide whether to remain in the current position or move along one of the identified dimensions.

2. Identifying potentially feasible moves, excluding those that are beyond the reach of the enterprise and those that are devoid of any significance.

3. Evaluating the impact that each plausible option would have on the enterprise's business model (i.e., its business portfolio, positioning and structural architecture).

The matrixes simplify the possible impact of each option for the business portfolio.

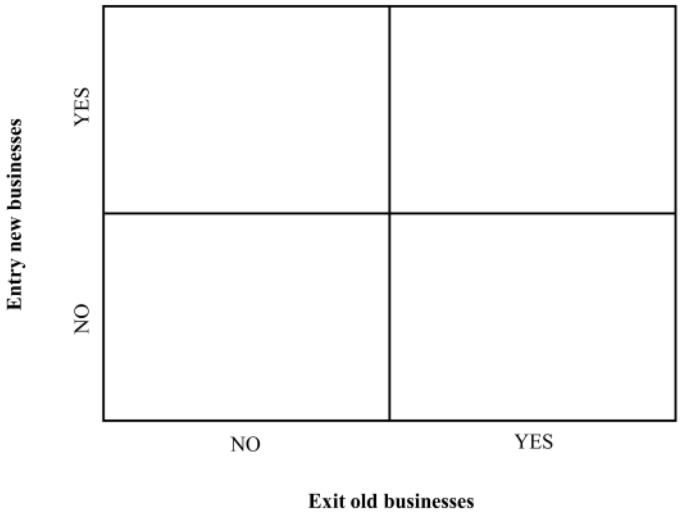

Figure 2. *Figure 2*. Entry new businesses/exit old businesses

In relation the matrix for entry of new business/exit of old businesses, the simplest situation would be represented by an absence of new businesses and no exits by any old businesses. In such circumstances (no change in business portfolio), consideration can be given to the other two variables; that is, the firm's positioning in relation to new or old businesses and its structural architecture (see Figure 3).

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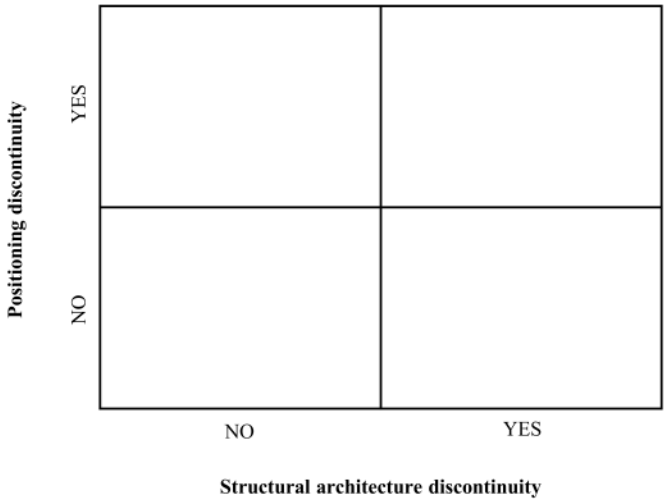

Figure 3. *Figure 3.* Positioning and structural architecture discontinuity

However, if the options also include a change in the business portfolio, it is necessary to add an additional matrix that combines the dimension of entry/exit complexity (high/low) and the dimension of discontinuity in an enterprise's structural architecture (high/low) (see Figure 4).

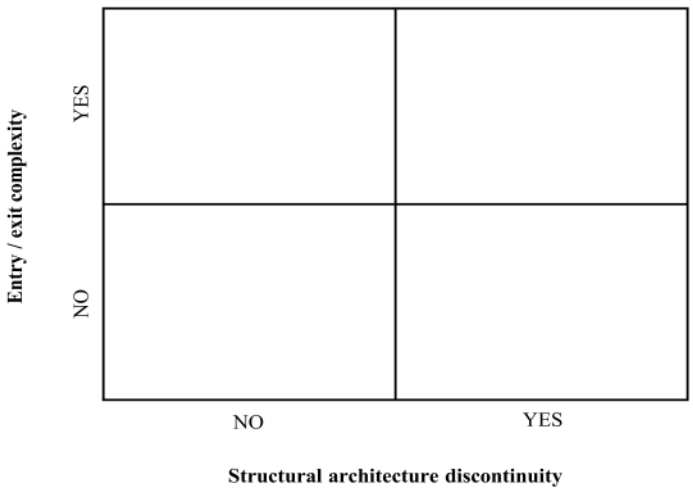

Figure 4. *Figure 4.* Entry/exit complexity and structural architecture discontinuity

The entering or exiting of a business can have significant impact on an enterprise's structural architecture, as it often requires interventions that affect its resources, activities, policies and organisational structure In the pharma machinery industry example, the following strategic options (see Figure 5) can be identified based on the initial position in the map:

- Partially extending coverage from inspection to other phases of the production process (Option 1); and

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- Further refining the level of coverage of the inspection phase (Option 2).

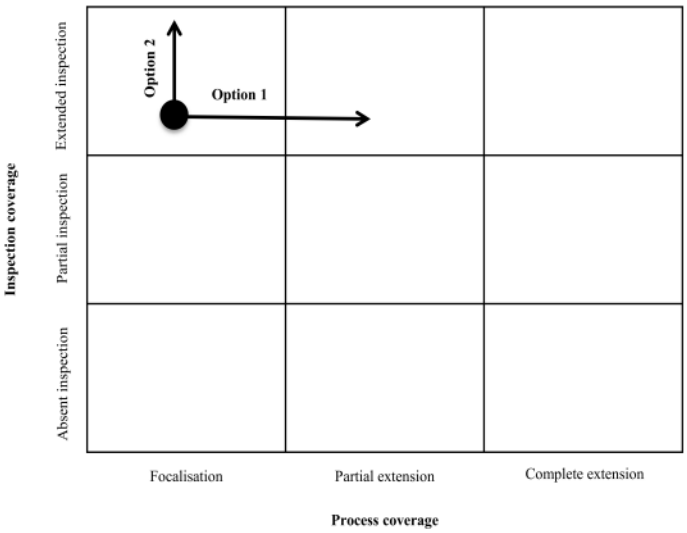

Figure 5. *Figure 5.* Alba' options

These two options are significantly different in terms of their impact on the enterprise's business model. Option 1 involves at least partial extension of the coverage of the process, which means broadening the enterprise's offer of automatic inspection machines to include equipment and machinery for the phase of processing and/or packaging. Thus, it implies an extension of the enterprise's business; that is, entry into a new business (processing/packaging) without abandoning its traditional business (inspection). In relation to the enterprise's positioning and structural architecture, this option involves considerable discontinuity, as entering a new business changes the needs and, thus, the purchase motivation, type of products supplied and the technology being used. In relation to entering the new business, Option 1 may also be complex because of the presence of strong and established competitors and the enterprise's need to acquire competences and technologies different to those use previously. Finally, Option 1 has a significant impact on the pyramid of the enterprise's structural architecture (resources, activities, policies); however, it only partially affects its mission and ownership structure.

Conversely, Option 2 does not involve entering a new business; rather, it aims to reinforce the enterprise's control over its traditional business. Thus, it has a less pronounced impact on the positioning and structural architecture of the enterprise and seeks only to broaden the customer base (which consists of both pharmaceutical companies and companies from other sectors, including the beverage and veterinary sectors) and causes minimal change to the enterprise's purchasing motivations or the types of product supplied. Option 2 also involves less discontinuity in relation to structural

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architecture. Indeed, it requires only marginal changes to resources and activities and no changes to ownership structure or mission.

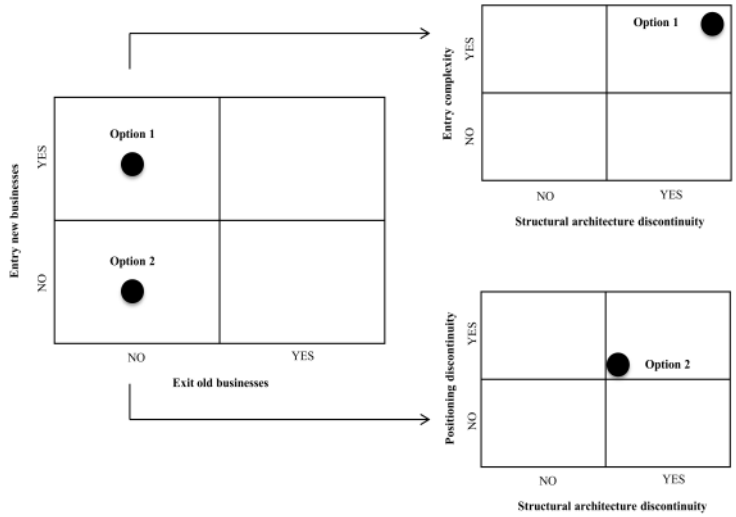

Figure 6. *Figure 6.* Impacts of Alba's options

Evaluating the strategic options

Having identified the options and understood their impact on the enterprise's business model, it is necessary to evaluate the option in relation to profitability and associated risks (Cool *et al.* 1989; Ruefli 1990; Fiegenbaum and Thomas, 1995). The objective of this phase is to determine whether the choice of one or more options would generate a physiological situation (i.e., where the expected yield and risk go in the same direction) or a 'red ocean' or a 'blue ocean' (i.e., a situation in which in which the risk is greater than the expected yield or vice versa) (Kim and Mauborgne, 2005).

Conceptually, any evaluation of a strategic option should be based on expected profitability and risks as calculated by comparing ROI with WACC or, alternatively, ROE with the cost of risk capital (ke), depending on whether the situation is viewed from the asset or equity side. Returns depend on the temporal dynamics of revenues and costs, as well as the amount of capital immobilised in the business. The level of risk depends on how the uncertainties are quantified in the business (operating risk) and financial dimensions (financial risk).

The 'blue ocean' options are those in which the expected profitability exceeds the capital cost; the physiological options are those in which profitability and the cost of capital are the same; and the 'red ocean' options are those in which the cost of capital exceeds the expected profitability (it is obvious that these options should be automatically excluded, but this is not always possible) (see Figure 7).

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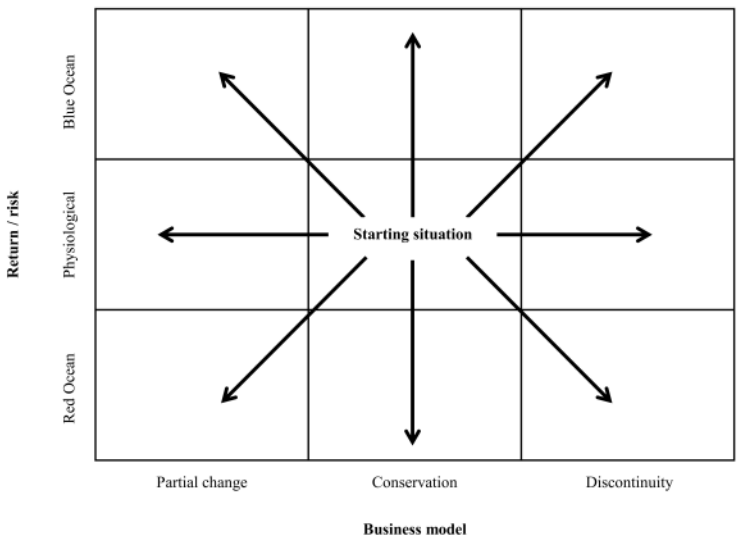

Figure 7. *Figure 7.* Options evaluation

The centre of the matrix shows the options that would allow an enterprise to preserve a physiological relationship between profitability and risk without making any substantial change in its business model. In relation to these options (which can be defined in terms of 'conservation'), it is useful to reason on the basis of three types of movement. Horizontal movements (i.e., movements to the left or right) identify defensive options, where the business model is partially or even radically adjusted to preserve physiological profitability; upward movements identify 'attacking options' and downward movements indicate 'withdrawal' or 'retreat'.

In the case of Alba, the two identified options are evaluated as follows (see Figure 8):

- Option 1 (at the bottom right of the matrix) is characterised by significant discontinuity in relation to the business model and more contained profitability (less than the associated risk);
- Option 2 (at the top left of the matrix) is characterised by only a partial change to the business model and favourable profitability (greater than the associated risk).

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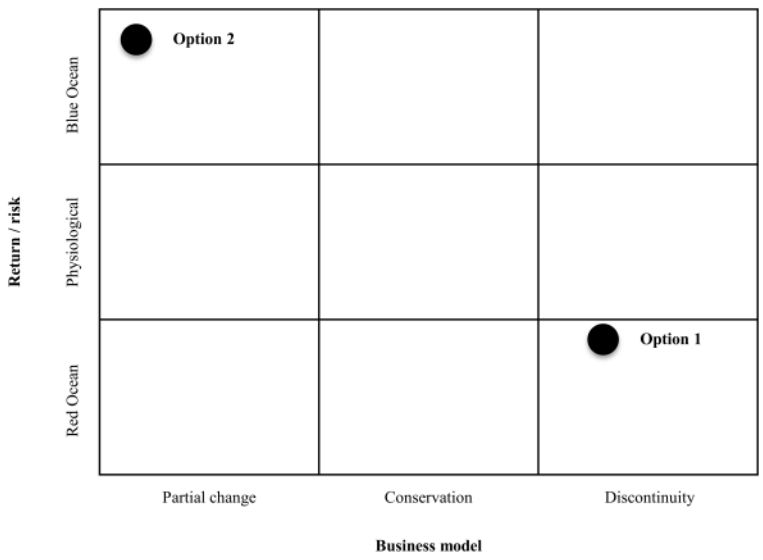

Figure 8. *Figure 8.* Evaluation of Alba's options

IMPLICATIONS AND CONCLUDING REMARKS

In recent years, scholars have debated the importance of strategic agility; that is the ability of an enterprise to continuously adjust its strategic direction and develop new ways to create value in relation to its business model (Lewis *et al.*, 2014; Bock *et al.*, 2012; Sanchez and Mahoney, 1996; Shimizu and Hitt, 2004; Volberda, 1997).

A number of studies and business cases (Worren *et al.*, 2002; Junni *et al.*, 2013; Doz and Kosonen, 2010) highlight the importance of managers constantly working on monitoring new directions even if there are no changes in strategy or competition, which demonstrates how organisational constant renewal has become a priority and how the capability of constantly reshaping a complex organisational strategy is an intensely strategic challenge. The process requires specific attitudes, capabilities, experiences, tools and method (Fourné *et al.*, 2014).

This study suggested a model that drives managers to identify and choose strategic options; that is, a method that implements strategic agility to constantly redesign the business model pathway. This study also made theoretical and practical contributions to the field. Theoretically, it contributed to the research on strategic options and strategic agility, and, practically, it provided a model for identifying and choosing strategic options that can be used by management. In particular, the suggested model make it possible to highlight a series of path developments of which firm management may not be fully aware as well as competitive opportunities and threats whose value or significance may otherwise have been overlooked.

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The adoption of such a model could help enterprises to avoid strategic inertia, one of biggest threats to survival. Strategic inertia can be defined as the tendency for organisations to maintain the status quo and resist strategic renewal outside the frame of current strategies (Huff and Thomas, 2007).

A limitation of this study is that only one enterprise was analysed. Further research should identify and use other case studies for strategic option identification, choice and evaluation. Future studies should also analyse the relationship between industry evolution over a long period of time and the manner in which enterprises adapt themselves to this evolution or succumb to strategic inertia.

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 ISBN: 978-9963-711-37-6

DOES COMMERCIALISATION OF R&D INFLUENCE BUSINESS MODEL MATURITY?

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ABSTRACT

The purpose of this paper is to create and test the practical application of the business model maturity assessment solution based on the entrepreneur's perception of development of individual elements that influence the process of generating customer value and benefitting from this value. The concept development was based on the business model canvas (Österwalder and Pigneur, 2010) and tested through DELab UW (Digital Economy Lab at the University of Warsaw) on a sample of 46 respondents, which consisted of two categories of businesses: those using R&D processes and those who did not perform any R&D activities. To grow and build competitive advantage, companies need broad-based innovation, not only in respect of products and technologies, but also in terms of their strategies and business models (Christensen, 2010; McGrath, 2012; Orłowski, 2013; Casadesus-Masanell, Zhu, 2013). A business model embodies the organisational and financial 'architecture' of a business and mediates between technological innovation and the creation of economic value (Chesbrough and Rosenbloom, 2002). For companies using the outcomes of R&D processes in their business, commercialisation is the basis for developing a business model. Therefore, it seems important to analyse the effect of R&D commercialisation on the development of business model elements. To determine differences in the business model maturity between the "R&D" and "Non-R&D" groups of enterprises with the use of ANOVA test, the authors designed a Business Model Maturity Indicator. Furthermore, we tested a hypothesis, that the diversity of business model maturity depends on the use of R&D in business operations.

Keywords: *business model, maturity of business model, R&D, commercialisation, innovation*

INTRODUCTION

The business model defines the way a company delivers customer value, makes customers pay for it, and transforms these payments into profits, thereby reflecting the management's hypothesis of what the customers want, how they want to receive this, and, how the company can best meet these needs, be paid and generate profit (Teece, 2010).

 ISBN: 978-9963-711-37-6

The concept of business modelling is has been discussed in theoretical and empirical literature over the last twenty years (Barney (1991); Boulton and Libert (2000); Barabba et al. (2002); Chesbrough and Rosenbloom (2002); Magretta (2002); Hedman and Kalling (2003); Yip (2004); Morris, Schindehutte and Allen (2005); Osterwalder, Pigneur and Tucci (2005); Shafer, Smith and Linder (2005); Tikkanen et al. (2005); Chesbrough (2007); Zott and Amit (2007); Johnson, Christensen and Kagermann (2008); Richardson (2008); Shi and Manning (2009); Gambardella and McGahan (2010); Teece, 2010; Achtenhagen, Melin and Naldi (2013), Veit et.al. (2014)). The business model describes the company logic, shows how the company operates and how it creates shareholder value (Casadeus-Masanell and Ricart, 2010) - it is a unique blend of 3 streams that are critical to the business. These streams include the value stream for business partners and buyers, the revenue stream, and the logistical stream (Mahadevan, 2000; Baden-Fuller and Morgan, 2010; Jabłoński, 2013). The business model should evolve together with the market and business internal environment – it should preferably keep ahead of market expectations (Jabłoński, 2013). According to Chesbrough and Rosenbloom (2002), the essence of the concept is that: "a business model embodies nothing less than the organisational and financial 'architecture' of a business". The authors also indicate that the business model mediates between technological innovation and the creation of economic value. It might even be brought to an extreme conclusion that "a mediocre technology pursued within a great business model may be more valuable that a great technology exploited via a mediocre business model" (Chesbrough, 2010). Chesbrough and Rosenbloom (2002) define the correlation between the business model and strategy. The purpose of the strategy is to support the development of the model, while the proper model creates customer value (Chesbrough and Rosenbloom, 2002) and comparative advantage (Teece, 2010). Thus, a business model is viewed as something "more generic" than business strategy. To survive and grow, companies need broad-based innovation, not only in respect of products and technologies, but also in terms of their strategies and business models (Christensen, 2010; Orłowski, 2013). Business model innovation is often identified as a main driver for competitive advantage (McGrath, 2012; Casadesus-Masanell and Zhu, 2013) and when a current model fails to bring expected economic value there is a need for "radical" business model innovation meaning the introduction of a new business model (Casprini, 2014). What attracts closer attention nowadays is the ability of a company to adapt their business model to quick and rapid changes in market expectations. This especially applies to high-tech innovative startups being forced to empirically test their "lean startup" business models (Ries, 2011; Blank, 2013) in dynamic market environments. For this reason, business models should be subject to regular assessment (Österwalder and Pigneur, 2010). Owing to such an assessment, it is possible to identify potential areas for business model improvements and thereby

 ISBN: 978-9963-711-37-6

encourage the company to seek and implement changes. If an organisation performs self-assessments, the idea to measure maturity may be very useful, particularly at later stages of the company lifecycle. Maturity models are used for measuring the performance and maturity of individual functional areas or processes, as well as that of the whole organisation. The problem of organisational maturity was defined by Philip Crosby (Crosby, 1979) – as the organisation's ability to professionally employ quality management methods and techniques. The Quality Management Maturity Grid (QMMG) proposed by Crosby is an organisational maturity matrix used by organisations to measure the maturity of their product or service quality management processes. Crosby distinguishes five steps of quality management maturity: Uncertainty, Awakening, Enlightenment, Wisdom, Certainty. QMMG is regarded as a precursor of the Capability Maturity Model (CMM) developed by Software Engineering Institute (SEI, 2006; Gibson et al., 2006) and its extension, the Capability Maturity Model Integration (CMMI), which is currently one of the most popular organisational maturity assessment tools. CMMI is employed by: BMW, NASA, GM, Ericsson, Nokia, the U.S. Army and the U.S. Department of the Treasury (Gibson et al., 2006). We propose the maturity analysis solution be used for measuring the maturity of organisations' business models in the Likert Scale 1 to 5 based on entrepreneurs' subjective judgements. The findings may yield knowledge about weaknesses and strengths of the business model and of its individual elements, a basis for continual measurement and improvement, or for prioritising the organisation's development projects. Furthermore, the process may be applied to benchmark the performance of companies representing the same industry and similar lifecycle phases.

WHAT DETERMINES THE SHAPE OF BUSINESS MODELS USED FOR THE PURPOSE OF COMMERCIALISATION: A LITERATURE OVERVIEW

Most of the definitions of business models and approaches in building business models have some features in common. The description of the consumer value creation is the most important one, followed by the revenue model design. Furthermore, a business model should define a firm's position within the value chain, i.e. its interaction with external actors, as well as company resources and its strategic focus (target market, competitive strategy) (Nenonen and Storbacka, 2010). Conceptualising value creation through a business model is particularly crucial for start-ups, as they need to determine their strategies and to convince investors. To this end, a business model should be presented in a comprehensible form. A solution like this is proposed by Österwalder and Pigneur (2010). Their tool, Business Model Canvas, consists of 9 interrelated blocks: Value Propositions (the value offered by the organisation to its customers), Key Activities (the activities the organisation has to undertake to ensure the efficient operation of its model), Key Partners (an element of the model which describes the

 ISBN: 978-9963-711-37-6

chain of suppliers and business partners vital to efficient operation of the company), Key Resources (assets indispensable to the business model implementation; they may include physical, financial, intellectual and human resources), Customer Segments (organisation's target groups), Channels (the value proposition reaches the customers via communication, distribution and sales channels), Customer Relationships (the organisation develops its relations with each individual segment of customers), Revenue Streams (the effect of the value proposition realisation – they symbolise the revenue generated by the company as a result of providing services to customers), Cost Structure (informs, how each of the business model elements influences the cost structure).

The set of components the business model comprises depends on the company development phase and is integrated with the process of commercialisation. The results of the McKinsey global survey: Innovation and Commercialisation (McKinsey & Company, 2010), show that commercialisation of innovations and technologies is an element of companies' strategy planning process and determines the shape of their business models (McKinsey & Company, 2010). Furthermore, a strong correlation between commercialisation-related skills and the competitive advantage of companies has been observed: the successful companies integrated commercialisation in the process of designing their business model.

"*Commercialisation*" is defined as the movement of ideas from the research laboratory to the market place (Thore, 2002), a process of acquiring ideas and augmenting them with complementary knowledge, developing and manufacturing saleable goods and selling the goods on the market (Mitchell and Singh, 1996).

The Asian and Pacific Centre's Technology Handbook for the Transfer of Technology defines commercialisation as developing a business model which results in higher profits generated owing to delivering customer value through the development of products/services based on special technologies and successfully marketing these (APCTT, 2008). Other modern models of new technology commercialisation have been presented by Cooper (1990), Jolly (1997) and Goldsmith (Gwarda-Gruszczyńska, 2013). Jolly (1997) describes the opportunities for a new technology inventor to generate revenues by: 1) marketing their commercial product or service, 2) transferring the intellectual property by a variety of methods, and/or 3) gaining further support from the wider community.

The model designed by De Geeter (2004) is intended for the commercialisation of scientific research results. The author's special focus is on technology transfer, intellectual property protection and the process of selecting business partners. The basic components of commercialisation include: technology, value, customer and process. According to Corkindale (2008) the methods by which a research organisation can gain (financial) reward from a new technology through commercialisation

 ISBN: 978-9963-711-37-6

are: licensing out the intellectual property (IP) to a third party, selling the IP, a joint venture with an outside party to develop and commercialise the IP, a commercial company spin-off with an equity stake, selling the IP to a professional licensing organisation; licenseing out the IP via a third party and paying them a commission; auctioning off the IP (via an e-market site); offering the IP to a Technology Standards organisation for licensing all of its members; granting royalty-free rights to non-profit lead users so that they can help to make the new technology more pervasive; promoting the scientific and technological achievement to those bodies (a) which endorsement of the excellence is desirable, and (b) that support and fund research so that further grants become available and other forms of support are given.

RESEARCH PLAN AND METHODOLOGY

The purpose of this paper is to create and test the practical application of the business model maturity assessment based on the entrepreneur's perception of development of individual elements that influence the process of generating customer value and benefitting from this value. The originality of this paper lies in the business model maturity indicator designed based on the business model canvas, and, in determining how business models vary the level of maturity as regards the nine business model canvas elements, depending on the business innovation resulting from the commercialisation of R&D deliverables. The article is based on the analysis of differences in the business models' maturity perceptions expressed by respondents in the survey of R&D and Non-R&D companies. The study includes an attempt to verify the hypothesis that the diversity of business model maturity depends on whether results of R&D processes are used in business operations or not. In particular, we shall use the ANOVA single factor analysis to verify a hypothesis that the business model maturity diversity is greater between the R&D and the Non-R&D groups than inside these groups.

The data were collected from 17th February to 10th March 2015 through a survey addressing entrepreneurs via the Digital Economy Lab (project at the University of Warsaw). DELab is a research unit conducting interdisciplinary research on the transformation related to the development of information and communication technologies and drawing up solutions in the scope of the effective application of new technologies in the economy and society in Poland, and, Central and Eastern Europe (DELab UW, 2015).

The principal part of the survey focussed on the respondents' subjective perception of their business models with regard to the nine business model canvas elements: Value Propositions, Key Activities, Key Partners, Key Resources, Customer Segments, Channels, Customer Relationships, Revenue Streams and Cost Structures, with a special emphasis on the business environment and customer satisfaction.

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The Business Model Maturity Indicator was designed based on an overview of the literature on measuring the maturity of organisations (Crosby, 1979; SEI, 2006) in various aspects of their operations, as well as based on the business model canvas template proposed by Österwalder and Pigneur (2010). The survey included questions pertinent to each of the elements. For responses, the Likert Scale from 1 to 5 was used. The focus was on the analysis of business model weaknesses and strengths proposed by Österwalder and Pigneur (2010), while also addressing a wider range of the literature on business model design problems (Mahadevan, 2000; Chesbrough and Rosenbloom, 2002; Teece, 2010; Casadeus-Masanell and Ricart, 2010; Jabłoński, 2013). Figure 1. summarises the problems addressed in the survey questions. When answering, the respondents expressed their subjective perception of the business model maturity, referring to each of the elements. The overall perception – Business Model Maturity Indicator (BMMI) – was computed for the company as an arithmetic mean of the results obtained in the nine areas of the canvas.

BMMI = $\frac{1}{}\sum_{=1}(\frac{1}{}\sum)$,

Where x – value of the answer in each element *i* and question *j*, $j = 1..k_i$ – number of questions in element *i*, *i* – number of canvas block, $n = 9$ canvas blocks.

In order to characterise the respondents, a question was included about the time span between the moment a business idea emerges and company registration, the age of the company, and whether R&D deliverables were used in the business operation. We suppose that the business model maturity and the value proposition in particular, depends on how innovative the product or service is, on keeping ahead of the competition in launching them onto the market through effective commercialisation of one's own innovative developments.

The age of the company and the fact of having given deeper consideration to the business model foundations prior to starting the business itself are factors influencing the business model maturity in a positive way.

The questionnaire included a section dedicated to the identification of the most frequent methods of obtaining R&D deliverables for the purpose of expanding the business, as well as the methods of R&D commercialisation. Furthermore, the respondents were asked to rate the significance of resources specified in the questions as well as the role of institutional support in their respective businesses. A wide range of demographic characteristics were covered to capture data for the quantitative analysis of the BMM determinants planned for the future.

 ISBN: 978-9963-711-37-6

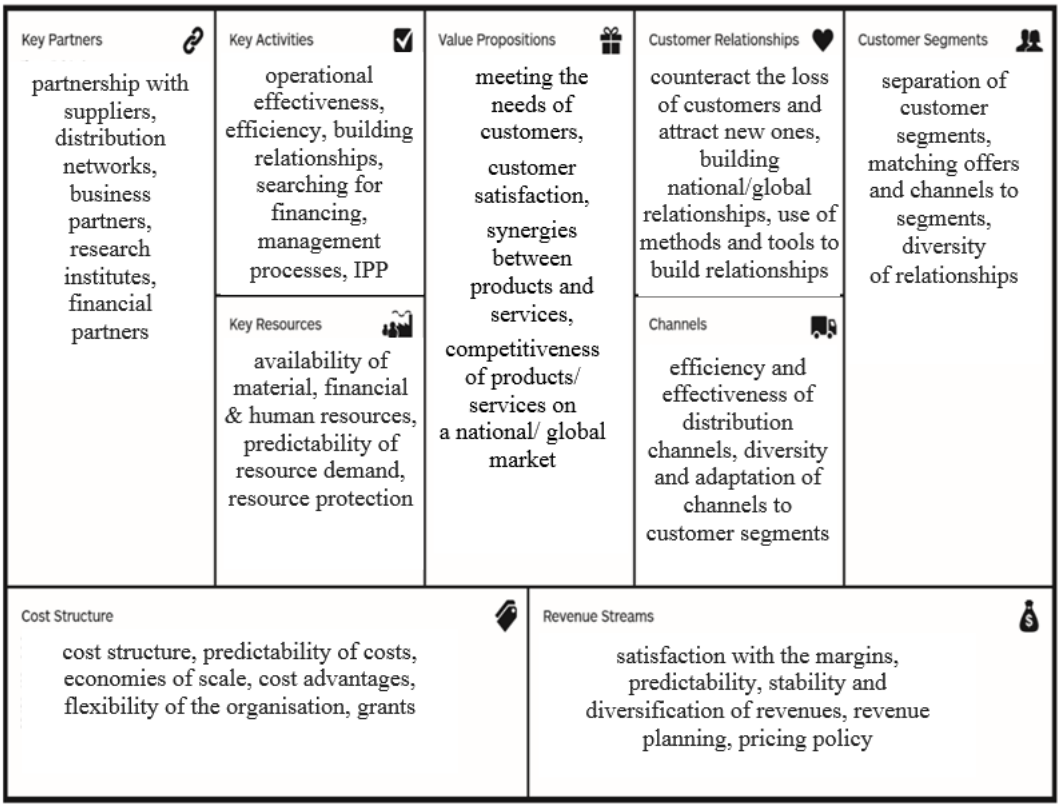

Figure 1. *A summary of the issues addressed in the business model maturity survey*

SAMPLE CHARACTERISTICS

The business model maturity survey was conducted on a small sample of respondents (46), in the hope that it will be expanded in the future. In the sample 63% of respondents needed less than a year to register a company after the idea for the business emerged. 50% of the companies participating in the survey were using R&D in the start-up phase, as well as in the phase of growth. 37% had been doing business for a period shorter than 2 years, while the average company age was 6 years. 20% of businesses had been operational for 10 years at least. 65% of the companies representing the R&D category were working on new developments on their own, 43% were collaborating with other businesses, and 35% with universities or research institutes. 61% of respondents launched finished products or services onto the market on their own, while 74% of R&D companies commercialised the effects of their research work without any support. 28% of the respondents launched and sold finished products or services in collaboration with other companies.

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THE FINDINGS

The role of resources in the business model development

The radar chart (Figure 2) illustrating the perceived role of resources in business development shows that: companies using R&D in their business appreciate the significance of such elements as: the knowledge and research skills of their personnel (according to Colombo and Grilli, 2005, Bureth, Penin and Wolff, 2010), the founders' research and development achievements (a "Star" scientist" (Zucker and Darby, 1998), the board's managerial skills (Colombo and Grilli, 2005); formalised external relations (licences and contracts); patents (Shane, 2002; Niosi, 2003; Penin, 2005) and information technology.

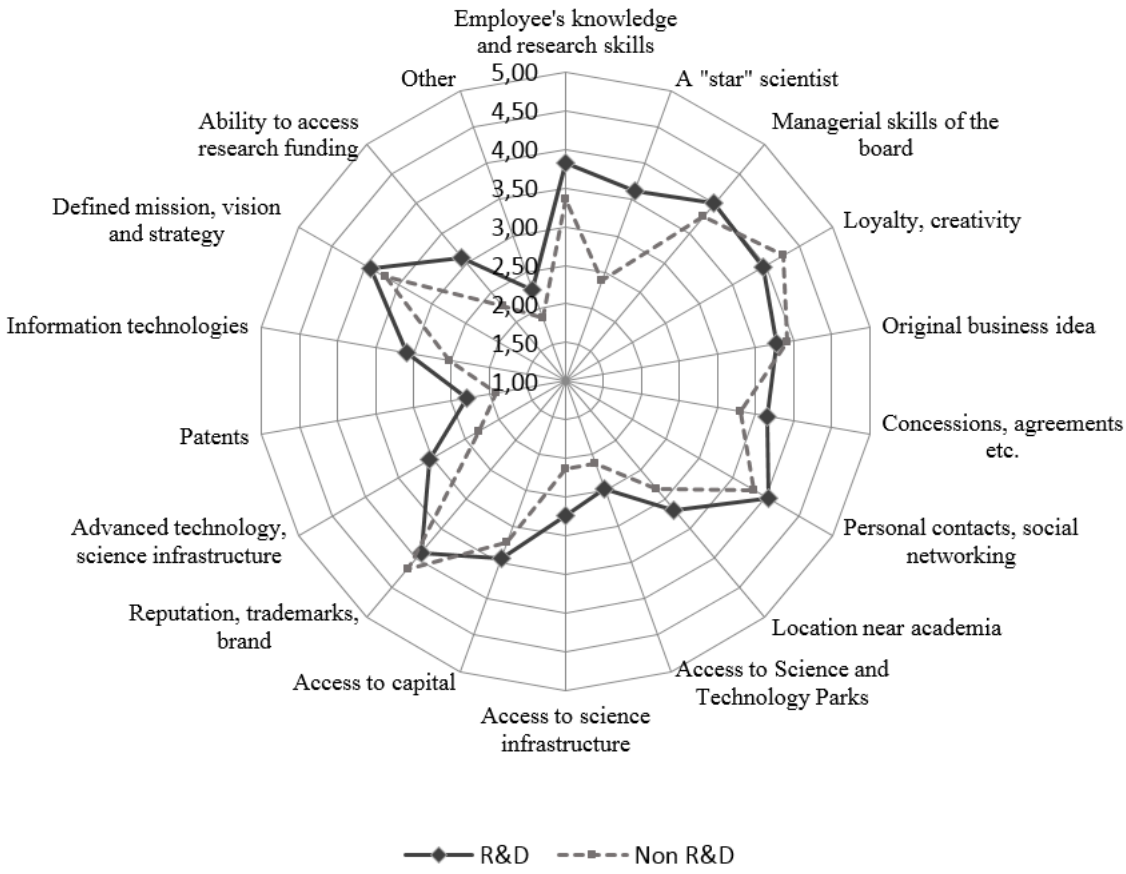

Figure 2. *The role of resources in the business model development*

As far as R&D cost reduction is concerned, important factors include the business location and the proximity of university centres, the access to the science and research infrastructure (Zucker and Darby, 1998), to advanced technologies and equipment, including Science and Technology Parks (Audretsch and Feldman, 1996; Pelle et al., 2008) but also – to sources of financing (Lerner et al., 2003; Brown et al., 2009; Gorodnichenko and Schnitzer, 2010; Aghion et al., 2012), while the R&D project risks depend on the effectiveness in applying for research grants (Almus and Czarnitzki, 2003; Becker and Pain, 2003; Lee and Hwang, 2003; Klette and Moen, 2012). Ali-Yrkkö (2004) stresses that public

 ISBN: 978-9963-711-37-6

R&D funding can be seen as lowering the private cost of an R&D project and making an unprofitable project profitable. If any R&D infrastructure is bought with an R&D subsidy, the fixed costs of other R&D projects are lowered. The know-how or knowledge developed in subsidised projects diffuse to other projects, improving their probability of success. In the category of "Non-R&D" companies, the most vital factors include: an original idea of a business (product, technology, etc.); employees' attitudes, motivation and behaviour (e.g. loyalty, creativity) and the corporate image (reputation, trademarks, the brand). Informal external relations (personal contacts, social networking), as well as a defined corporate mission, vision and strategy determine the growth opportunities regardless the business innovation level.

Business Model Maturity Indicator value patterns

A comparison of descriptive statistics of the BMMI for the two sub-samples: R&D and Non-R&D reveals that the mean and the median of BMMI is higher, while its variability lower in the R&D category, including such elements as Value Proposition, Key Partners, Key Resources, Key Activities, Customer Segments and Customer Relationships (Table 1).

		Min	**Max**	**Mean**	**Median**	**Variance**
Business Model Maturity Indicator	Total	1.84	4.00	3.21	3.26	0.2633
	R&D	2.51	4.00	3.37	3.28	0.1857
	Non R&D	1.84	4.00	3.05	3.21	0.2977
Value Propositions	Total	2.00	4.71	3.68	3.86	0.3902
	R&D	2.71	4.71	3.86	4.00	0.2402
	Non R&D	2.00	4.43	3.50	3.71	0.4877
Key Partners	Total	1.00	4.00	2.69	2.90	0.8829
	R&D	1.00	4.00	2.94	3.00	0.6307
	Non R&D	1.00	4.00	2.43	2.60	1.0424
Key Resources	Total	1.00	4.33	3.32	3.42	0.4516
	R&D	2.33	4.17	3.54	3.67	0.2171
	Non R&D	1.00	4.33	3.10	3.33	0.6079
Key Activities	Total	1.71	4.00	3.32	3.50	0.3766
	R&D	2.43	4.00	3.52	3.57	0.1978
	Non R&D	1.71	4.00	3.12	3.43	0.4873
Customer Segments	Total	1.75	5.00	3.55	3.75	0.4442
	R&D	2.5	5.00	3.71	3.75	0.2821
	Non R&D	1.75	5.00	3.40	3.50	0.5781
Customer Relationships	Total	1.86	4.00	3.19	3.29	0.3953
	R&D	2.00	4.00	3.33	3.43	0.3014

ISBN: 978-9963-711-37-6

	Non R&D	1.86	4.00	3.04	2.86	0.4646
Channels	Total	2.00	5.00	3.34	3.25	0.4927
	R&D	2.00	4.50	3.45	3.50	0.3463
	Non R&D	2.00	5.00	3.24	3.00	0.6391
Cost structure	Total	1.00	4.00	2.88	2.86	0.5248
	R&D	1.00	4.00	3.04	3.00	0.6965
	Non R&D	1.57	4.00	2.71	2.57	0.3181
Revenue Streams	Total	1.00	4.00	2.91	3.00	0.5416
	R&D	1.00	4.00	2.95	3.00	0.7056
	Non R&D	1.50	4.00	2.87	2.83	0.3989

Table 1. *Comparison of the Business Model Maturity Indicator descriptive statistics for subsamples R&D and Non R&D*

This permits a conclusion that the average business model maturity is higher in the "R&D" category of companies, both in general terms and in respect of the six elements of the business model canvas referred to above. The categories of companies distinguished within the survey sample do not differ much in Channels and Revenue Streams as far as the average maturities of their business models are concerned, while the Cost Structure aspect shows greater variance the average in the R&D group of businesses.

The impact of R&D commercialisation on Business Model Maturity

In order to verify the research hypothesis, an ANOVA simple factor analysis was conducted to investigate the significance of differences in the Business Model Maturity Indicators mean values in general and with respect to the nine business model canvas elements in both categories of companies: "R&D" and "Non-R&D". ANOVA is a statistical test used for comparing mean values in groups. The total variance (diversity of results) is divided into a part deriving from differences between groups and a part deriving from differences between results within the groups. The Business Model Maturity Indicator was computed as an arithmetic mean of the business model maturity score in the Likert Scale from 1 to 5 in the nine canvas areas, with the aspects described in Figure 1 taken into account.

The results of ANOVA show strongly significant differences in means between the "R&D" and "Non-R&D" groups, exceeding the difference within these groups.

ISBN: 978-9963-711-37-6

ANOVA	MS_B	MS_W	test F	p-value
Business Model Maturity Indicator	1,2114	0,2417	4,0617	**0,0303*** **
Value Propositions	1,5444	0,3640	4,0617	**0,0453*** **
Key Partners	2,9252	0,8365	2,823173	**0,0681** **
Key Resources	2,1739	0,4125	4,0617	**0,0265*** **
Key Activities	1,8744	0,3425	4,0617	**0,0239*** **
Customer Segments	1,0652	0,4301	2,1466	**0,1227* **
Customer Relationships	0,9388	0,3830	2,1466	**0,1246* **
Channels	0,4905	0,4927	4,0617	0,3239
Cost structure	1,2937	0,5073	2,1466	**0,1175* **
Revenue Streams	0,0731	0,5523	4,0617	0,7178

*difference of means is significant at the level: *(p<0.15); **(p<0.1); *** (p<0.05); MS_B –Mean Square Between groups; MS_W – Mean Square Within groups*

Table 2. *Differences in mean significance of BMMI elements between & within groups by role of R&D in operational activity*

Hence, ANOVA provided a positive verification of the hypothesis that the business model maturity diversity is greater between the R&D and the Non-R&D groups than inside these groups. The results of ANOVA and the descriptive statistics confirm the positive effect of R&D commercialisation on the business model maturity level. The analysed companies' value propositions consist of products and/or services that can be offered on domestic and/or global markets. Value proposition is the sum of benefits to be provided to the customer and the reason why customers prefer an offer to competitive offers. In the instance of companies using R&D, value proposition often includes new needs the customers were not even aware of. The results obtained for Value Propositions, where the high significance of differences between business models maturity of R&D and Non-R&D than within these groups, may be an indication that using R&D makes it easier to define value propositions owing to the innovative nature of the products/services offered and the awareness of potential opportunities for development of products/services with the aim of satisfying customers' needs better.

R&D-based businesses compete for talents and focus on the intellectual capital. Their innovative products/services are developed owing to their key resources: talents (Colombo and Grilli, 2005). In companies offering innovative products/services, the category of key resources comprises: participation of s star-scientist (Zucker and Darby, 1998), patents and patent applications (Niosi, 2003; Pénin, 2005), intangible assets and intellectual assets (Federal Trade Commission, 2003; Zambon, 2003). Furthermore, such factors as the capability to envisage the demand for tangible and financial assets and to compete effectively are relevant when building a successful business. The results of ANOVA for Key Resources confirm that differences in business model maturity are greater between the "R&D" and "Non-R&D" than within the groups, at the 5% significance level. The results for Key Activities indicate a stronger diversification of business model maturities between the "R&D" and

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"Non-R&D" groups of firms than inside these groups. This situation may be caused by differences in the nature of their business in terms of operating effectiveness and efficiency.

In the R&D companies, the main focus is on introducing the outputs of these processes to development of innovative products and/or services, as well as on marketing them in a skilful manner, following the business environment investigation (Daum, 2003).

Moreover, seeking funding (especially research grants and Venture Capital) and making one's way to the market through collaboration with partners who have already established a stable position is no less important (Powell et al., 1996; Roos et al., 2005). Considering the strong links between R&D companies and knowledge centres, the category of strategic partners should include not only the academia and research institutes, but also distribution chains and major corporations capable of contributing to the process of value creation and of partnering in strategic alliances, while reducing the small businesses risks due to attracting them as clients. The results of ANOVA for Key Partners confirm that differences in business model maturity are greater between the "R&D" and "Non-R&D" than within the groups, at the 10% significance level. R&D companies may establish partnership relations also in order to undertake joint research projects or to reduce costs through the access to the infrastructure of Science and Technology Parks, for example. Scientist' participation in the Supervisory Board may be helpful in associating specialist knowledge with the needs of spin-offs' looking for solutions to the products/services developed by them. The co-operation with partners may also help monetise those of the R&D results, intellectual property or know-how elements that have not been used internally. The benefits of partnering with a venture capital provider include, in addition to funding, the access to the specialist knowledge in the field of corporate strategy building (Niosi, 2003; Shimasaki, 2009).

The main segments of customers should be diversified, so as to expand the range of the proposal, while diversifying the operational risk. Furthermore, products and services are also directed towards companies of various sizes, including those in the same sector as well as those representing other sectors (Festel and Rittershaus, 2014). The methods and tools designed to support the process of building customer relations, such as Customer Relationship Management software, loyalty systems or social networks for example, are important.

The results of ANOVA for the areas of Customer Segments and Customer Relationships confirm that differences in business model maturity are greater between the "R&D" and "Non-R&D" than within the groups, but only at the 15% significance level. Although companies operating on global markets may gain a cost advantage through locating their production in Poland owing to the relatively low labour cost here, the results of ANOVA for the Cost Structure confirm differences in the business model maturity at the 15% significance level only. This situation may result from the fact that only

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24% of respondents export their products and/or services, mostly to Central and Eastern Europe and only 9% to Northern America (most of them using R&D). The innovation model may provide for traditional marketing, but using other distribution and communication channels, e.g. global distribution chains, licensing and partnering with dedicated MNEs may influence the business model shape. With an innovative product/service it is possible to charge more and generate revenue streams. No business model should be limited to revenues from single transactions with one-off clients – it also needs to provide for cyclical revenues. Revenue cyclicality is achievable for companies offering innovative products/services, as they may charge their customers with licence or subscription fees. Yet, ANOVA (a sample of 46 respondents) does not show any significant differences in the business model maturity between R&D and Non-R&D companies as regards Channel and Revenue Stream areas. This may mean that institutions supporting business and innovation development should be re-oriented towards strengthening the business-business collaboration (Channels) as well as the business-institutional partners links, in order to enhance Revenue Stream planning and management skills.

CONCLUSION AND FUTURE RESEARCH

The article proposes and tests the practical application of the business model maturity assessment solution based on the entrepreneur's perception of 9 interrelated segment: Value Propositions, Key Activities, Key Partners, Key Resources, Customer Segments, Channels, Customer Relationships, Revenue Streams and Cost Structures. The results of ANOVA simple factor analysis for the Business Model Maturity Indicator (BMMI) designed by the authors prove a significant positive influence of R&D commercialisation on the development of the business model's individual elements, including in particular: Business Model Maturity Indicator in total, Value Propositions, Key Resources and Key Activities. The same applies to Key Partners, though at a lower significance level (7%). The findings prove that the diversity of business model maturity depends on the implementation of R&D in business operations. Namely, the practical implications from this research findings may indicate that the implementation of R&D makes it easier to define value propositions owing to key resources, including talents, and Key Activities intended to better match innovative products/services to customer needs. R&D companies strategic decisions arising from research findings could be spotting and using potential product/service development opportunities with the aim of keeping ahead of the competition. The focus of future research will be on the quantitative analysis of business model maturity determinants, as well as on characterising each individual maturity level in the context of the CMMI program. The findings would enable formulation of recommendations for institutions

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supporting entrepreneurship, as well as for start-ups themselves, with regard to development of their innovative business models.

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ISBN: 978-9963-711-37-6

EPIDEMIC ECONOMIC DEVELOPMENT IN AGRICULTURE SONGHAI CASE

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ABSTRACT

Economic growth of agriculture in developing countries depends on the capability of millions of small and medium farmers and growers to change their status of necessity entrepreneurs and become business-minded entrepreneurs. Few of them are able to do it. We propose to support a selected group among them in a way that would generate epidemic economic growth. The Tipping Point model, intended to achieve this objective, is tested on the trainees of Songhai center, Porto Novo, Benin.

Most of the trainees at the Songhai Center are potential entrepreneurs, interested in developing not only their own businesses.

The context provided by the Songhai Center is based on an improved way of life and professional technical support. Research, management and marketing knowledge transferred is limited.

An improved context will generate, beyond the presence of salespersons, connectors and mavens. Connectors, mavens, and salespersons must work as a team.

Improved stick based on cooperation surrounding common business opportunities should be able to generate epidemic economic development in agriculture in Porto Novo.

Keywords: entrepreneurs, epidemic economic development, agriculture, Benin, connectors, mavens, salespersons

INTRODUCTION

Hatten and Ruhland (1995, pp. 224) define an entrepreneur as "an individual who establishes and manages a business for the principal purposes of profit and growth." McNeil, Fullerton, and Murphy (2004) claim that the most important characteristics that determine entrepreneurial success are self-motivation, readiness to take risks, common sense, moral and social values, competitiveness, persistence, responsibility, self-confidence, acceptance of loneliness, and adaptability.

Can one person possess all the qualities required for starting a successful business? Below we present the concept of the entrepreneurial team based on internal and external resources, and demonstrate why it could be more efficient than a single entrepreneur.

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THE ENTREPRENEURIAL TEAM

Franco and Haase (2012) discuss the concept of collaborative perspective in business alliances between entrepreneurs. Froehle and Roth (2007) state that organizational resources comprise the development championing, employee motivation, internal communication, lines of responsibility, managerial support, social networks, reward structure, and development team diversity. Franco and Haase conclude that previous experience in entrepreneurial activities, and the management and negotiation of alliances in the past may affect knowledge and decision making in the future (Eden & Ackermann, 2001; Hasty et al., 2006).

Intra-entrepreneurship (entrepreneurial orientation) is a process by which individuals in an organization pursue opportunities irrespective of the resources they currently control. Brunaker and Kurvinen (2006) connect entrepreneurial orientation to the capacity of existing organizations to be able to develop the way their business operates.

Miller and Friesen (1983), Covin and Slevin (1991), and Kenney and Mujtaba (2007) indicate proactiveness as another dimension of entrepreneurial orientation. It is the willingness to differentiate ideas from opportunities based on researching and analyzing tendencies. This requires the company to be oriented toward the future and attempt to lead rather than follow the competition.

Collective business capacity is another important dimension of entrepreneurial orientation. As Miles et al. (2006) have shown, the concept of collective business capacity emerges in the first phase of collaboration. Timmons (1994) considers the value of the team inside the firm to be extremely important at the early stages of new undertakings. The fundamental component of collective business capacity involves the skills of the entire team in dealing with opportunities that may arise. Johannisson (2002) emphasizes that for better understanding of collective entrepreneurial capacity, the entire organization must be viewed as a collective image.

Johannisson (2002), and Kenney and Mujtaba (2007) regard entrepreneurial orientation as a collective phenomenon resulting from collective actions, where in a new undertaking the entrepreneur is never alone. Eisenhardt and Schoonhoven (1996) define the collective image as the interaction between the team members. In small firms, the owner-entrepreneur must exert his influence by creating the conditions that raise the collective spirit and enhance the entrepreneurship of the firm (Exton, 2008).

According to Timmons, the "entrepreneurial team is a key ingredient in the higher potential venture" (Timmons, 1999, p. 58). It is difficult for every entrepreneur to have all required managerial knowledge. Individuals with complementary backgrounds make effective teams for creating new venture companies. Entrepreneurship is “the ability to build a ‘founding team’ to complement your own skills and talent” (Timmons, 1989, p. 1).

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Timmons defines four roles requiring different skills, talents, creativity, and management skills, complementing each other in the entrepreneurial team— the manager, the entrepreneur, the promoter, and the inventor:

- The entrepreneur's role requires both creative capabilities and management skills in order to be able to propose to the manager feasible ideas.
- The manager's role requires management skills. His role is to make decisions to implement the working program on schedule, within budget, andat a required level of performance.
- The promoter's role is to be in charge of the communication with the customers because his has his confidence
- The inventor's role requires creativity and few management skills; he is supposed to develop ideas and projects, but does not have the skills to transform them into a finished product.

Each role can be fulfilled using internal or external resources.

A research center could serve as an "inventor," as is NASA for many U.S. companies using its patents. A seed company such as Limagrain (seeds) could play the role of the inventor for water melon growers by offering Ocelot, the mini watermelon, or for tomatoes growers by offering the Gusto tasty tomato (limagrain website). Local franchisers play the role of promoters for many international companies,

such as Coca Cola, Zara, or Mac Donald's. External entrepreneurs could propose new initiatives, as did Tony Fadel by suggesting the iPod concept to Apple (innovate.umich.edu website)

NECESSITY ENTREPRENEURSHIP: PUSH MOTIVATION

Shapero (1975), in his push theory of entrepreneurial activity, laid down the foundation of the necessity entrepreneurship related to the negative situational factors, which can serve as an impulse for individuals to become self-employed. Gilad and Levine (1986) proposed the opposing concept, ascribing a pull-motivation to individuals who are alert to attractive and potentially profitable business opportunities.

According to Audretsch and Thurik (2000), an individual can create a startup either because he fears unemployment or because he discovers an opportunity. This vision of business venture creation is presented by Bhola et al. (2006) as two "types of dynamics," push or pull. Since Reynolds et al. (2002), this dichotomy has been expressed in the concepts of necessity entrepreneurship (push motivation) and opportunity entrepreneurship (pull motivation).

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Haas (2013) differentiates between four types of necessity entrepreneurs, according situational (personal) and environmental conditions:

Absolute necessity entrepreneurs

Absolute necessity entrepreneurs are individuals experiencing negative situational and environmental influences simultaneously. In addition to their individual circumstances creating an immediate burden in their life, they experience poor environmental circumstances, which can be expressed as high unemployment and crime rates, a nonfunctioning legal system, low capital availability, high taxation, etc. (Staw & Szwajkowski, 1975; Fuduric, 2008; Tang, 2008).

Relative necessity entrepreneurs

Negative situational circumstances are important for the individual's decision to become self-employed by engaging in entrepreneurial activity**.** The positive environment provides a better and wider range of possibilities to subsist.

Voluntary entrepreneurs in a less developed environment

Unfavorable environmental circumstances provide limited business opportunities to motivated entrepreneurs resulting from low purchasing power of potential customers or high costs related to inefficient infrastructure in transportation, energy, or telecommunications.

Voluntary entrepreneurs in a developed environment

The choice between working as an employee and becoming self-employed is made freely and independently. Examples include the new generation running the family business, and retired professionals, such as former accounting managers, technicians, or engineers, who want to continue working for various reasons.

OPPORTUNITY ENTREPRENEURSHIP: PULL MOTIVATION

Opportunity entrepreneurship requires creative capabilities focused on the relevant market opportunities. Efficient creativity meets opportunity.

Creativity

McClelland (1971) focused on the motivational power of distinct levels of personal and social actualization. The first level of motivation—the need for achievement—belong to the person-oriented school and requires personal responsibility, taking calculated risks, performance feedback, and task completion According to the humanist approach, freedom and safety can be sources of creativity; according to the behaviorist approach, creativity may also be the result of knowledge or learning.

The second level of motivation, "the need for affiliation," belongs to the socio-psychological school. It requires approval of the community. The intention is to conform with "wishes and norms."

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The third level of motivation—the need for power—is both personal (because there is a need for achievement) and socio-psychological (because the entrepreneur wants to exercise control and maintain leader-follower relationships). Value can be created for the community, as for example, in the case of the development of a new drug for cancer; for both the community and the entrepreneur, as in the case of the development of the mobile phone by Motorola and Nokia; or only for the entrepreneur, for his personal enrichment.

Opportunity

The question of whether opportunities are discovered or created has inspired a great deal of debate in the entrepreneurship literature (Alvarez & Barney, 2007; Alvarez, Barney, & Anderson, 2013; Sarasvathy, Dew, Velamuri, & Venkataraman, 2010). Some researchers maintain that opportunities are created through entrepreneurial action, if they do not exist *a priori* (Baker & Nelson, 2005; Garud & Karnøe, 2003; Sarasvathy & Dew, 2011). The realist school considers opportunities as waiting to be discovered (Shane & Venkataraman, 2000; Ventakaraman, 1997). Kirzner (1973, 1997) maintains that some entrepreneurs are simply more alert to opportunities than others, implying that anyone with a sufficient dose of alertness should be able to perceive some opportunity.

Shane (2003) holds a more restricted view on discovery of opportunity: some agents have a better view of the landscape owing to their relative position. Being at the top of a local peak may give you a better view of the surrounding terrain than being in a valley or on some other peak. Experience, education, knowledge, personal ability, and social background provide each entrepreneur with different capabilities to discover opportunities (Shane, 2003). According to the creation school, "the field of our science is human action, not the psychological events which result in an action" (Mises, 1949, p. 11). The creation school is focused on the process by which novel ideas can be generated (Sarasvathy, 2008). Creative solutions are the result of a process of trial and error.

SMES AND THE TIPPING POINT MODEL

SMEs have limited financial capabilities and knowledge, and cannot adapt their BMI to technological development, environmental changes, or the improvements required in the business value chain. They are often caught in the "commodity trap" characteristic of Chesbrough's Type 1 group (Chesbrough, 2007). Few have succeed in having "some differentiation in their business model: to target a customer other than those that buy simply upon price and availability," representing Chesbrough's Type 2 group. The way to Types 3- 6 is to target segments simultaneously, obtain access to external technologies, adjust to customers' future requirements, or engage in joint ventures; these options are not feasible for SMEs.

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Cooperation between SMEs helps improve the SMEs' BMI and change the rules of the game (Kim & Mauborgne, 1999). The main motivations for forming alliances between SMEs are exploitation of complementary technologies (Mariti & Smiley, 1983), reduction and rationalization of R&D and reduction of its cost (Neto, 2000), economy of scale, risk sharing (Bamford et al., 2003), and achieving a new positioning and new synergies (Harrigan, 1985). The initiative for alliance formation can begin with the most motivated SMEs, which are able to achieve positive results and are ready to transfer their knowledge and experience to others.

Support is provided to SMEs that take the initiative to apply for a grant, a loan, or a consulting service. Are those the most valuable SMEs or the most influential? Perhaps others SMEs, with greater business potential, fail to apply for various reasons. We must identify those that could have a positive influence on others and generate a viral economic development.

The Tipping Point model proposes such an active process. Gladwell (2000) argues that socio-economic phenomena can spread like an epidemic if specific entrepreneurial forces and environmental conditions are met: the entrepreneurial forces are defined by the law of small numbers, and the environmental conditions by the stickiness factor and by the context.

A small number of people (or firms) can start an epidemic. These few can be SMEs that have the capacity to generate a viral process of development. To create this contagious movement, we must know the profile that those few SMEs must have in order to initiate such a process. Based on the law of the few, Gladwell proposed three profiles: the maven, the connector, and the salesperson.

The Law of the Few

There are exceptional people behind those few SMEs that are capable of starting an epidemic. The critical factor in epidemics is the type of the SME messengers—some are connectors; others are mavens or salespersons.

Connector

Connectors are people (or the entrepreneurs behind SMEs) with well-developed networks of contacts relevant to global business operations. Connectors are special because of their ability to span many different worlds, reflecting the various networks developed through different areas of their lives, both personally and professionally. Connectors reflect social capital in the global context (Kostova & Roth, 2003; Lengnick-Hall & Lengnick-Hall, 2006; Taylor, 2007). Social capital is based on the importance of relationships, both within and outside the organization, for helping in the transmission of information to those who require it. Connectors need to have the ability to generate and disseminate important information. They must have access to available knowledge across international operations and to

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provide their firms with the opportunity to achieve a competitive advantage over local firms (Kogut & Zander, 1993).

Connectors can bridge the management gap between geographically dispersed operations. They can fill structural holes between various operations and act as linchpins or coordinating devices between people who may otherwise remain to a large extent unconnected (Kostova & Roth, 2003). An individual's web of contacts within the firm and outside of it is key to the successful performance of the firm in a global environment.

Maven

Maven SMEs are characterized primarily by their ability to accumulate and impart knowledge. Their importance comes from their broad professional awareness in their specialization, business, or technology. In business, they are aware of trends regarding pricing, supplies, and consumer demand. This knowledge extends beyond simple accounting benefits, however, and may include innovative solutions in various technical and financial areas. In technology, they are routinely updated by the relevant sources about the new developments, future trends, and their potential effect on company activities.

Mavens have access to relevant information, and are willing and able to share it with colleagues and other relevant stakeholders; indeed, they take a degree of pleasure in sharing this information.

Salesperson

Sales people have "the skills to persuade us when we are unconvinced of what we are hearing" (Gladwell, 2000: 70). Salespersons have the ability to persuade others to implement knowledge. A small group of mavens and connectors can affect a large number of salespersons, and through them generate a viral process of economic development, as noted by Bonnet, Nelson, and Le Pape (2011) and by Gladwell (2000, p. 70-79).

The stickiness factor

To trigger an epidemic, we need significant ideas that can move us to act. The elements that make an idea sticky are those that create common interests between connectors, mavens, and salespersons, ensuring and improving cooperation between them. The best stick is sustainable growth over time.

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The power of the context

Contextual changes that are capable of triggering an epidemic are vastly different from what we may suspect them to be. The impetus to engage in a certain type of behavior does not come from a certain kind of person but from a feature of the environment. Small changes in context can be important for triggering epidemics.

According to the "broken windows theory" of Kelling and Coles (1996), in a city, relatively minor problems such as graffiti, public disorder, and aggressive panhandling are the equivalent of broken windows, inviting more serious crimes. An epidemic can be reversed (tipped in the opposite direction) by manipulating the smallest details of the immediate environment.

MODELS OF REGIONAL ECONOMIC DEVELOPMENT

Incubator model

The United States National Business Incubation Association (NBIA) defines the business incubator as "a dynamic process of business enterprise development, providing under one roof shared office services, access to equipment, flexible leases and expandable space" (NBIA website). The main task of the business incubator is to create a positive context by providing management and consulting services as well as relevant material and financial resources.

In 1956, Massey-Fergusson, the largest industry in Batavia, New York, in the US, closed down, leaving vacant a complex of multi-story buildings. The Mancuso family purchased it and decided to divide the buildings and rent out the units to individual businesses that they would nurture by providing shared office services, and assistance with fundraising and business consulting. Thus, the first business incubator was created: Batavia Industrial Park (BIP). Each business was entirely independent and had no common interest or activity with the others. The main objective was to improve the business activities of entrepreneurs and of the Mancuso family.

Industrial district model

Marshall's industrial district model (1891) is considered to be a stable one, which enables the development of strong local cultural identity and shared industrial expertise. What makes it special is the nature and quality of the local labor market. Industrial districts stimulate innovation, support business adaptability, and facilitate endogenous regional development (Amin & Thrift, 1994). The establishment of industrial districts requires mutual trust and an industrial atmosphere (European Commission, 2002). The industrial district is driven by strong local demand.

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The industrial district model was implemented in the 1970s in Italy: industrial districts in the textile industry in Carpi and Prato, the furniture industry in Brianza and Cascina, and the footwear industry in Vigevano opened new markets to Italian industry in Europe and Japan (Brusco, 1982).

The industrial district model generates development in regions where the industrial sector is based on a wide range of SMEs specializing in a similar domain, and where gatekeepers facilitate the free flow of knowledge from internal and external sources.

At present, industrial districts producing textiles, ceramic tiles, and machine tools are concentrated in Northern and Central Italy (Paniccia, 1998). Markusen (1996) emphasizes that the Italian variant of the Marshall industrial district model is characterized mainly by socio-cultural features. Active trade associations provide a shared infrastructure, and firms consciously network with one another.

Cluster model

A cluster is defined as a "geographic concentration of competing, complementary, or supporting firms that develop sale-purchase relationships, use the same pool of technologies, and share customers and existing human resources pools" (Porter, 1990, p. 131). Firms in a cluster develop competitive advantages based on human capital, the knowledge generated within their environment, and local and international demand (Porter, 1998). Rosenfeld (1996) emphasized the role of the cluster as a generator of new resources ("specialized skills, new knowledge") and of new competitive businesses ("innovation competition"), as well as "opportunities for cooperation."

Arizona was one of the first states to embrace cluster-based economic development in the early 1990s. Cluster organizations in Southern Arizona (Catts, 2002) stimulated the level of business activity, increased capacity, and created a competitive and favorable business environment in six clusters, around six "production specialization" axes: aerospace, bio-industry, environmental technologies, information technology and tele-services, optics and plastics, and advanced composite materials.

In 2006, Tucson Regional Economic Opportunities (Tucson, 2006) released a study that for the first time established baseline measurements for all six technological areas in Southern Arizona. The results showed that despite nearly a decade of operation, the number of firms engaging in collaboration and joint ventures was very low, ranging from 8% to 22% across the sectors. More than 50% of industrial participants in the project did not belong to any of the cluster organizations. Without direct intervention and support for networking and cooperation, the economic forces in the cluster model cannot ensure cooperation between firms.

In the early 1990s, it became obvious to German policy makers and to the informed public that Germany was suffering from a late start in the emerging biotech industry (Dohse, 2007). Therefore, the German government considered it necessary to make a particular effort to strengthen Germany's

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position in this technological area, which is considered to be a key technology and driver of economic growth in knowledge-based economies.

The BioRegio contest was designed by the federal government as a competition at the regional level, in which consortia formed from public and private sector organizations would develop a concept for biotech research and commercialization on a regional basis. The three regions selected were Munich, Rhineland, and the Rhine-Neckar Triangle.

Japan has two focal national cluster programs: the Industrial Cluster Project (ICP) managed by the Ministry of Economy, Trade, and Industry(METI) since 2001 (Nishimura & Okamuro (2011a, 2011b)), and the Knowledge Cluster Initiative (KCI), together with the City Area Program, managed by the Ministry of Education, Culture, Sports, Science, and Technology (MEXT) since 2002. The MEXT programs were reorganized and integrated into the Regional Innovation Cluster Program in 2010 (Nishimura & Okamuro, 2011c).

Kotli Loharan consists of two large villages of *lohars* (iron smiths), about five miles to the northwest of Sialkot (medpk.com website), Pakistan. They manufacture all types of metal articles for functional and ornament use, such as shields and weapons, betel-nut cutters, knives, boxes, plates, and inkstands. The *lohars* of these villages are employed as armorers and shoe-smiths by the army. In 1920, there were about 500 iron-workers in the region (Government of Punjab, 1920, pp. 125). British doctors used to have their surgical instruments repaired by the skilled workers of the region. These craftsmen eventually started successfully replicating the imported instruments (fpcci website). Doctors and iron workers were the originators of the Sialkot cluster specializing in surgical, dental, and veterinary instruments. Scissors for tailors and barbers, as well as instruments for beauty salons are also produced in the region.

Open incubator model

The regular incubator supports only entrepreneurs who are prepared to join a common location from which to operate. In the open incubator model, entrepreneurs remain in their original location and need not relocate to a common site, as in the case of the classic incubator.

Entrepreneurs are selected according to their business potential, their interest to cooperate with others, and their capacity to contribute to viral economic development. They must be part of "the few" (mavens, connectors, and salespersons) or have the potential to become one of them. The open incubator supports SMEs along the value chain of a sector that comprises businesses engaged in primary and support activities.

Similarly to the industrial district, the open incubator establishes a support infrastructure in cooperation with the entrepreneurs, who are the main beneficiaries. Among participants are common

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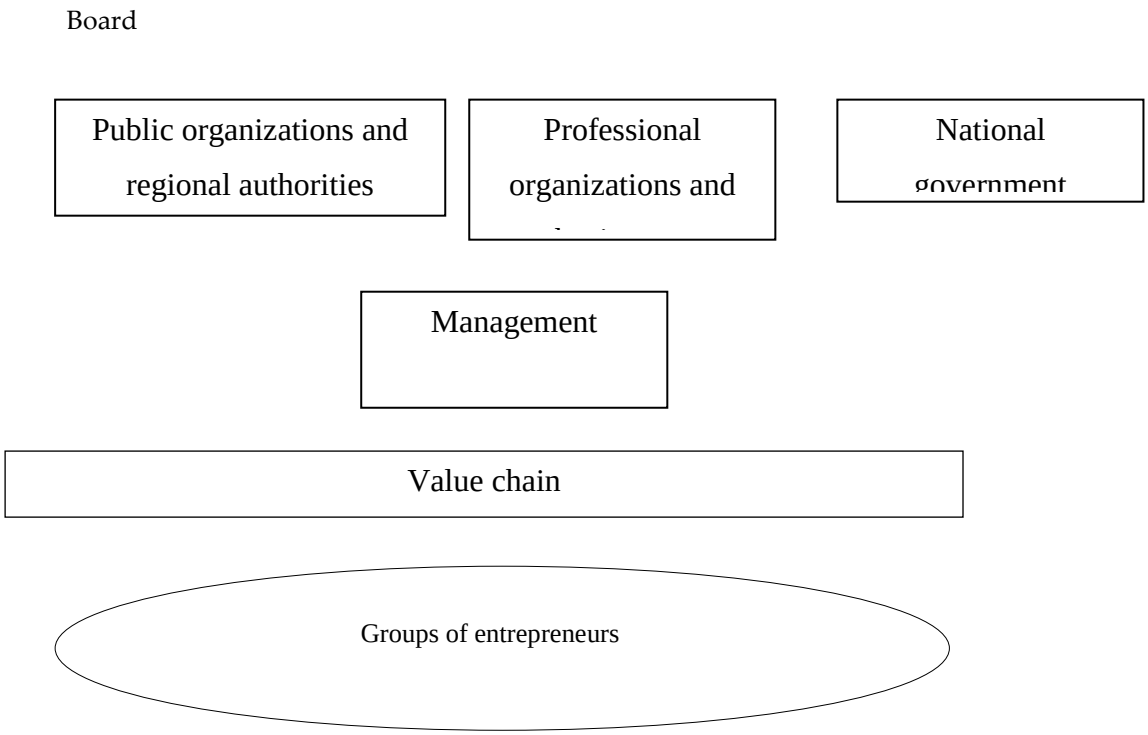
technological transfer centers, export companies, and import equipment, as required. Similarly to the cluster, the objective of the open incubator is to generate growth based on cooperation-competition between related and supporting firms, members of the open incubator. The open incubator encourages members to organize themselves in groups that can propose specific activities serving common interest such as joint exports, development, production, or purchasing.

OPEN INCUBATOR



The open incubator is more than a consultant and less than a shareholder. Its role is to create the conditions for a deeper and wider positive cooperation. The open incubator model can be established by a public or private organization with the objective to support and improve a bottom-up process leading to a cluster.

At the bottom, the entrepreneurs' profile can be analysed based on Timmons's roles (entrepreneur, manager, inventor, promoter), McCleland's (1971) motivation levels (need for achievement, affiliation, power), and Gladwell's (2000) law of the few (mavens, connectors, salespersons). Such analysis helps determine the required support for each entrepreneur and his role in the sector and the region. The management of the open incubator is responsible for creating the context and the "stick" by means of the relevant activities carried out in cooperation with the entrepreneurs and the local authorities. The

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board, composed of representatives of the sector, the region, and other stakeholders (education, finance, research, customers) decides the vision and the mission of the planned cluster.

The open incubator focuses on the entrepreneurial level, which is the main generator of development behind each one of the three models: incubators, industrial districts, and clusters. The open incubator supports entrepreneurs in a given sector and region along the entire value chain.

SONGHAI, PORTO NOVO, BENIN

Benin is one of the poorest countries in the world, and its situation has not improved over time. In 2013, its GDP per capita was USD 805, compared with USD 690 in 2008 (World Bank, 2013). 44.1% of the population is under 14 years (Nationmaster, 2013). The largest increase in the number of the poor between 2006 and 2009 occurred in the agriculture, livestock, and fishery sectors (IMF, 2011).

In 1985, Dr. Godfrey N'Zamujo, a Dominican priest from Nigeria, took the initiative to found the Songhai Center in Porto Novo, Benin, in order to train young potential agricultural entrepreneurs. The Songhai Center has created a context that is entirely different from what can be found outside of it. Inside the Center, not even a cigarette butt thrown on the ground, every morning a clean set of work clothes is provided for each student and clean water is made available by filters manufactured at the Center. Three meals a day are currently served by and to the students. Each student receives a per diem for current expenses. The "stick" is created by encouraging students to work together on joint projects.

Songhai offers services and support to former trainees as well as to local entrepreneurs. It gains credibility by paying salaries and bills from revenues generated by its own production. The Songhai Center breeds fish, poultry, cows, sheep, goats, and pigs. It produces rice, cassava, soya, fruits and vegetables, and agricultural and food processing equipment such as post-harvest systems, grain separators, solar ovens, pasteurization systems, filtering systems for drinking water, and water recycling systems for agriculture.

Approximately 200 students attend 18-month training programs at sites in Porto-Novo, Savalou, Parakou, and Kinwédji. The first nine months are dedicated to general core courses (mathematics, economics, biology) and to training in various specializations. Subsequently, students select a specialization in which they work during the last nine months, when they also prepare personal projects.

In 2010, I trained Songhai trainers and managers, and had the opportunity to interview the managers, the trainers, and the trainees in order to evaluate the feasibility of an open incubator that would generate viral economic development based on "the few" (mavens, connectors, and salespersons). We

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analyzed first the trainees' profiles in order to determine whether we can find among them the potential mavens, connectors, and salespersons.

Trainees' potential

Level of motivation has been defined based on the role that the trainees expect to play in their professional life, after completing the training program. Below are three proposed roles corresponding to levels of motivation:

- Need for achievement – lowest motivation level: to work in a farm
- Need for affiliation – medium motivation level: to establish a new farm
- Need for power – highest motivation level: to influence agriculture in the region

The trainees expressed their desires to become mavens, connectors, or salespersons according to their interest in the following areas:

- Research: mavens, because they are interested in creating and integrating new knowledge.
- Management: connectors, because they must have a wide range of relations inside the farm, with the employees, and outside the farm, with suppliers and customers.
- Sales: salespersons, because they know how to convince customers.
- Production only: growers, without any intention of becoming a part of the few.

The sample

The sample included most of the participants in the 18-month program in Porto Novo (N=53). Below are the basic profile characteristics of the trainees:

- 11% were under 20 years, 58% between 21 and 25years old, and 31% over 25 years old.
- Parents' employment: 49% in agriculture, 22% in public services, and 29% in trade.
- Education level: 13% finished secondary school, 14% finished primary school, 73% completed the baccalaureate.

  13% were interested in production only.

  82% were interested in production and one of the following possibilities: research, management, or sales.

Hypotheses

To generate a viral economic development, mavens and salespersons are needed. Trainees with the highest level of motivation have the potential to become connectors, mavens or salesperson. We defined this motivational level of "need for power" by the will to influence the development of the region. We expect that:

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H1: A positive correlation exists between the need for power motivational level ("to influence agriculture in the region") and working in research (maven), management (connector), and sales (salesperson).

We defined the "need for affiliation level" as the will to establish a farm. We also expected that trainees expressing such a will could be a part of the few as connector, maven or salesperson. Therefore:

H2: A positive correlation exists between the need "to establish a farm" and working in research (maven), management (connector), and sales (salesperson).

Trainees who have the lowest level of motivation and intend to work in a farm (need for achievement) are interested only in being farmers and have no intention of becoming a part of the few. Therefore:

H3: A positive correlation exists between the desire "to work on a farm" and working only as a grower.

Results

The dependent variable "to influence the development of the region" correlates negatively with management-connector and positively with sales-salesperson (Table 1). Thus, highly motivated trainees are not connectors, but can be good salespersons. H1 is therefore supported only for salespersons.

Table 1: Regression with "to influence the development of the region" as dependent variable

R Square: .163 N= 46	B	Std. Error	T	Sig.
(Constant)	2.754	.471	5.852	.000
Management-connector	-.468	.167	-2.799	.008
Sales - Salesperson	.354	.163	2.175	.035

The dependent variable "to establish a new farm" is positively correlated with an interest in production only (Table 2). This correlation expresses the presence of trainees mainly interested by production. H2 is not supported.

Table 2: Regression with "to establish a farm" as dependent variable

R Square: 187 N= 49	B	Std. Error	T	Sig.
(Constant)	-1.056	1.764	-.598	.553
Production	.414	.170	2.442	.019

The dependent variable "work on a farm" is not positively correlated only with sales- salesperson. Trainees at this motivational level are a part of the few as salespersons. H3 is not supported because we assumed a positive correlation with production (Table 3).

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Table 3: Regression with "to work in a farm" as dependent variable

R Square: .231N=49	B	Std. Error	t	Sig.
(Constant)	.349	.357	.966	.339
Sales - Salesperson	.407	.111	3.695	.001

DISCUSSION

The context provided by the Songhai Center is based on an improved way of life (clothes, filtered water, good food, etc.), good work conditions, and technical support for production. Research, management and marketing support is missing. There is few networking or cooperation between trainees. They cannot be connectors or mavens even those who are highly motivated but only salespersons.

As an open incubator, which intends to generate viral economic development based on the law of the few, the Songhai Center must improve the capabilities of the trainees to be connectors or mavens by giving them the opportunity to operate in a real business environment under the Center's umbrella and its professional and financial support.

Potential mavens are missing. The program has to include issues related to agricultural research, including projects conducted by trainees in cooperation with local agricultural research centers.

Connectors, mavens, and salespersons must work as a team in order to generate epidemic economic development in agriculture in Porto Novo. The Songhai Center must be able to offer business opportunities to groups consisting of connectors, mavens, and salespersons who are able and willing to promote common economic interests. Potential opportunities may be suggested by the managers of the various departments who are in contact with entrepreneurs, distributors, and customers in the region. Business opportunities could be promoted in growing and selling fruits, vegetables, and fish, producing yoghurts and juices, as well as machinery supporting agricultural activities.

CONCLUSION

Most of the trainees at the Songhai Center are potential entrepreneurs, mainly interested in developing their own businesses. Some of them, highly motivated could be mavens or connectors in a context improved by transfer of wider and deeper technological, management and marketing knowledge. The model of Open Incubator could generate such a process by supporting cooperation with research centers, management and marketing organizations. The trainees could use the knowledge developed in those organizations in their current activities in Songhai center and also develop personal and common projects. Technological research improving production, marketing

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research improving the selection and development of products initiated by trainees could improve the capabilities of trainees, trainers and managers in Songhai center.

The stick between trainees could be generated by cooperation surrounding common business opportunities with the support of the trainers and the managers of the different sections who have also the managerial and business experience. They sell products such as yoghurts and cheese, soft drink and concentrated juice, fishes, eggs, food and agriculture processing machinery.

Trainees as connectors, maven and salesperson could produce and sell such kind of product in the market. They should be able to generate epidemic economic development in agriculture in Porto Novo.

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 ISBN: 978-9963-711-37-6

OPEN INCUBATORS AND CLUSTERS IN SOUTH SUDAN. A MOVE TO ACHIEVE PEACE

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ABSTRACT

Purpose: The objective of this research is to generate a process of economic development able to overcome conflicts between populations in the different states of South Sudan by creating common economic interests.

Methods: Within the framework of the World Bank Capacity Building program, we had the opportunity to lead two parallel focus groups in South Sudan, one on economic strategy and the second on public policy and regional decentralization. In order to achieve the objective of our research, we used the Porter's Diamond and the clustering process at the national level and the open incubator model at the regional level .

Findings: The participants identified three potential clusters which involve all the states and are able to create common economic interests between populations: forest related products, gum arabic and its applications, palm and sesame oil. Open incubators specialized in vegetables, crops and cattle will supply the basic needs in the different states and strengthen the decentralization process generated by the three selected clusters.

Contribution: The open incubators solve the problem of current life and insure the subsistence of the population. The three clusters prepare the second phase of development, the industrialization process based on competitive advantages generated by more efficient use of local resources.

Originality: We involved the different populations in solving conflicts by improving economic l added value for subsistence and for a better future.

Keywords: clusters, decentralization, South Sudan, competitive advantage, tipping point

INTRODUCTION

Interdependence between education, labor, telecommunication, energy, agricultural, industrial, and economic policies requires cooperation in order to achieve economic development and regional decentralization.

Top directors and administrators in the different ministries, in charge of the economic and social development have to meet together and plan common actions in order to generate new competitive advantages.

 ISBN: 978-9963-711-37-6

Within the framework of the World Bank Capacity Building program, in cooperation with the Galilee International Management Institute (GIMI), we had the opportunity to lead two parallel focus groups in South Sudan one for representative of different ministries on economic strategy and the second for public organizations on regional decentralization.

The capacity building programs of the World Bank in developing countries provide managerial and creative knowledge to those in charge of leading changes in economic and social policy.

The participants discussed which process of economic development will be able to overcome conflicts between populations in the different states of South Sudan and create common economic interests.

Representatives from different ministries and institutions participated in the two programs and had the opportunity, for the first time, to plan together potential clusters, and initiate regional decentralization..

COMPETITIVE ADVANTAGE OF NATIONS

Availability of low cost labor, and local natural resources could serve as a starting point of a comparative advantage for a developing country, but these cannot generate sustainable competitive advantages over time. Below we present different models of development aimed at generating a sustainable competitive advantage.

Free economic zones (FEZ)

Between 1980 and 1984, China established the first free economic zones (FEZs) in Shantou, Shenzhen, and Zhuhai, in Guangdong Province, and in Xiamen, in Fujian Province, as part of its economic reforms and policy of opening up to the world . China sought to attract international investments based on its low cost of labor in order to start an industrialization process (Mohiuddin, Regnière, Su, & Su, 2014). Numerous other FEZs followed, based on the competitive advantage of large-scale production and on specializations such as those in the car industry at the Dalian Free Trade Zone (dlftz.gov.cn/index.aspx) or in electronics and telecommunications at Tianjin Economic-Technological Development Area (teda.gov.cn/html/ewwz/portal/index/index.htm).

Other developing regions and countries used a similar model. The "maquiladoras" in Central America focus on textile, clothing, food, metalwork, electronics, and footwear (Vargas-Hernández, 2011). Added value and the number of direct jobs have grown at an average annual rate of 25% in some Central-American countries (Acevedo, 2008).

Ay (2009) argued that free zones in Turkey do not make a positive contribution to Turkey's foreign trade, therefore their functions as foreign currency generators are not highly applicable in Turkey, and they remain insufficient in export-oriented development efforts. Foreign investments in free zones have remained low compared to foreign investments in domestic areas. But free zones contribute to

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reducing unemployment (Ay, 2009). In opposite, according to Kocaman (2007), the free zone experience worldwide and in Turkey indicates that these zones do not increase foreign trade and employment.

The UAE government has established nearly 40 free zones, in which 100 percent foreign ownership is allowed and no taxes are levied. The highest concentration of the free zones is in Dubai, with more than half of the total number of free zones (23), followed by Abu Dhabi (5), Ras Al Khaimah (4), Fujeirah (3), Sharjah (2), Ajman (1), and Umm Al Quwain (1). Outside the free zones, local sponsors are needed for foreign companies to set up operations, and foreign ownership is limited to a maximum of 49% (Mina, 2013). Eighty percent of non-oil exports in the UAE originate from the free zones.

Porter's diamond, SWOT analysis and clustering process

Porter's diamond (Porter, 1986) model provides an analysis of the "factor conditions" in a given region. Based on "demand conditions," the model proposes a plan for industrialization around clusters in which related and support industries generate economic development. This model represents the upgrading of the SWOT analysis, at the country level. The SWOT model analyzes the strengths and weaknesses of a firm in order to find the best potential opportunities in the market at a the lowest threat.

"Factor conditions" refer to the strengths and weaknesses of a country in human and material resources, including knowledge and infrastructure. "Demand conditions" refer to the opportunities and threats related to the demand composition (market) in a country and to its capacity to request value and anticipate needs. Under the macro and micro economic environment of "firm strategy structure and rivalry," "supporting and related industries" use the factor conditions to generate clusters and meet demand conditions.

Countries in the first stage of development (World Economic Forum, 2015) are mainly "factor-driven." Low cost labor and unprocessed natural resources are the dominant basis of competitive advantage and exports. Factor driven economies are highly sensitive to world economic cycles, commodity prices, and exchange rate fluctuations. The basic requirements of such economies are institutions, infrastructure, macroeconomic environment, health, and primary education.

Countries in the second stage of development moved into an "efficiency-driven" stage in which they must begin to develop more efficient production processes and increase product quality because wages have risen and they cannot increase prices. Substantial investment in efficient infrastructure, business-friendly government administration, strong investment incentives, improved skills, and greater access to investment capital make possible significant improvements in productivity.

 ISBN: 978-9963-711-37-6

Efficiency is enhanced by higher education and better training, improved market efficiency, labor market efficiency, development of the financial market, technological readiness, and market size.

Herewith two cases illustrating the first stage and move to the second stage.

Tirupur cluster in the middle of the cotton belt of Tamil Nadu, in southern India (Albu,1998; Cawthorne,1995) was based at stage 1 on the local production of cotton.

The local ethnic population, the Gounders, are known for their progressive approach to agriculture, their affinity with improved technology, changing crop patterns according to market demand and taking pride in toiling in the field along with hired labor with whom they maintain family relations. Chari (2000) has stressed the importance of the Gounder community network as a source of finance and access to it in the industrial development of Tirupur.

At the second stage of development, started the industrialization process.Almost 80 % of Tirupur textile exporters come from this traditionally agricultural community. Community connections are helpful, especially in cases of new venture and capital/financing requirements. If someone accepts an order on which he cannot deliver, he passes it on to a fellow community member. Trust and hard work have helped the first-generation entrepreneurs in this agricultural community build companies worth several hundred crores. According to the Tirupur Exporters Association (TEA) there are 1,500 knitting units, 700 units related to dyeing and bleaching, 500 units involved in fabric printing, 300 units involved in compacting and calendering, 2500 units assembling the finished products (the exporters), around 250 units linked to embroidery activities, and 500 units dealing in other accessories (TEA, 2011).

Kotli Loharan consists of two large villages of lohars (iron smiths), situated about five miles to the northwest of Sialkot, Pakistan (medpk.com). All types of metal articles for utilitarian and ornamental purposes are made, such as shields and arms, betel-nut cutters, knives, boxes, plates, and inkstands.

At stage 1 of this economy, traditionally, the lohars of these villages had been employed as armorers and shoesmiths for the army. In 1920, there were about 500 iron-workers in the region (Government of Punjab 1920, p. 125), when British doctors began to have their surgical instruments repaired by the skilled workers in the region. These craftsmen were eventually able to successfully replicate the imported instruments (fpcci.com). The doctors and iron workers were the source of the Sialkot cluster specialized in surgical, dental, and veterinary instruments. Tailoring and barber's scissors, as well as tools for beauty salons are also produced in the region.

At the second stage, Sialkot started exporting surgical instruments, the Government established the Metal Industries Development Centre (MIDC) in 1941 in order to improve standards and to support

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the local firms. In the same period, was established the Surgical Association of Pakistan. Currently there are 1000-1200 small and medium-size enterprises in the region, and a labor force of 10-50 employees serves each enterprise in the sector (SIMAP, 2010). This industry employs around half a million workers (SIMAP, 2010-2011).

Countries at the third stage of development move into the "innovation-driven" stage. Wages will have risen by so much that in order to sustain them and the associated standard of living businesses must able to compete with new and unique products, services, models, and processes. The ability to produce innovative products and services at the frontier of global technology, using the most advanced methods, becomes the dominant source of competitive advantage. An innovation-driven economy is characterized by distinctive producers and a high share of services in the economy. Such an economy, based on the twin pillars of business sophistication and innovation, is quite resilient to external shocks.

The Oxfordshire cluster in U.K. illustrates the innovation driven third stage of development. Dr. Martin Wood worked as an engineer in the Clarendon Laboratory, the Physics Department of Oxford University, specializing in very low temperature physics, requiring strong and stable magnetic fields. His function was to manage the "powerful but ageing" engineering facility and design equipment for research scientists. Martin Wood founded Oxford Instruments (OI) in 1959 with Audrey, his wife. Barrie Marson, hired in 1971, began a deliberate process of diversification, expanding the activities of OI into medical, electronic, and industrial-analytical equipment. Between 1971 and 1982, OI grew from 100 to 1,300 employees, and from a turnover of £500,000 to £100 million.

OI developed nuclear magnetic resonance (NMR) systems. NMR spectroscopy is based on the ability of the nuclei of atoms to behave like microscopic magnets. The applications of NMR grew exponentially, from spectroscopy, used mostly in biochemistry, to magnetic resonance imaging (MRI), a diagnostic imaging modality that provides valuable clinical information about the human body.

In 1985, the Oxford Trust. established by Martin Wood and his wife Audrey (sbs and scienceoxford websites), assumed responsibility for encouraging the development science and technology applications (Wood, 2001). They engaged with other firms in the high-tech cluster, with business and public-sector organizations, speaking for and acting on behalf of the high-tech sector, both locally and nationally.

INCUBATOR MODEL

The US National Business Incubation Association (NBIA) defines a business incubator as "a dynamic process of business enterprise development, providing under one roof shared office services, access to

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equipment, flexible leases and expandable space" (NBIA website). The main task of the business incubator is to create a positive context by providing management and consulting services, as well as relevant material and financial resources.

Two main organizations initiated the establishment of incubators in developing countries (Bijaoui, 2008), the United Nations Industrial Development Organization (UNIDO) and the EU. UNIDO adopted the concept of the incubator in order to "create a favourable environment for entrepreneurship and the expansion of SMEs" (UNIDO, 2002).

As part of a research project conducted for UNIDO, Djik (1997; 1999) interviewed entrepreneurs from Burinabe, Burkina Faso, and found that most of them were reluctant to work in groups. When asked whether they would like to participate in joint projects, 50% answered that they refused to cooperate with other entrepreneurs.

Since 2002, the EU has supported the creation of incubators within the framework of the South African GODISA program (www.godisa.net), which aims to support economic growth and creation of long-term employment opportunities by enhancing technological innovation and by improving the productivity and international competitiveness of SMEs. The GODISA program comprises the Pilot Innovation Support Centre, a Pilot Technology Demonstration Centre, and six technology-based incubators, two of which focus on a local specialization, cut flower and nutriceutical industry.

The GODISA case study has shown that incubators that operate in conducive environments tend to be more successful than those that are not situated in such settings. Highly conducive environments for business incubation are those characterized by access to knowledge and financial support, but also by networking ("stickiness" process) (Buys & Mbewana, 2007).

OPEN INCUBATOR MODEL TOWARD CLUSTERING PROCESS

The regular incubator supports entrepreneurs who seek to move to a shared site and are ready to do it. In an open incubator, the entrepreneurs remain where they prefer to be and are selected based on their business potential, their interest in cooperating with others, and their capacity to contribute to viral economic development (Bijaoui & Regev, 2015).

The open incubator establishes support infrastructure in cooperation with the entrepreneurs who are its main beneficiaries.

The objective is to generate growth based on cooperation-competition between related and supporting firms, members of the open incubator. They are encouraged to organize partnerships that can propose specific activities based on the common interest such as joint exports, development, production, or purchasing.

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The open incubator is more than a consultant and less than a group of shareholders. Its role is to create the conditions for a deeper and broader efficient cooperationand positive-competition. It can be initiated by a public or private organization whose objective is to support and improve the bottom-up process toward a cluster.

The open incubator model helps improve the decentralization and clustering processes by selecting SMEs that are able to generate development. Based on local factors and demand conditions, regional authorities cooperate with the private sector and support service providers such as universities, training centers. Investment and export companies also participate in the development of a given sector.

METHODOLOGY

Economic development generated by a clustering process requires the cooperation of different ministries, each one in charge of a different part of the puzzle: finance, agriculture, labor, trade, industry, education, natural resources, infrastructure, and many others. We had the opportunity to conduct two focus groups in parallel in South Sudan with representatives of these ministries. The first one, focused on economic strategy, included 14 participants; a second one, focused on public administration and decentralization, included 18 participants. We transferred knowledge about economic development and the clustering process to the first group, and about human capital, innovation, SWOT analysis and decentralization process to the second one.

The first group had to determine which clusters could generate the first and second stage of development in South Sudan as illustrated by Tirupur and Skialot cases.

The second group proposed, at the micro-economic level of regions, specific specializations for open incubators, which could generate local economic development supporting the regional decentralization process.

In the economic strategy program the following organizations and ministries were represented:

Juba University (2)

Investment Corporation

National Audit Chamber

Anti-corruption Commission

Urban Water Corporation,

Employees justice national chamber

Ministry of Cabinet Affairs

Ministry of Finance (2)

Ministry of Health

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Ministry of Foreign Affairs

Ministry of Education

Ministry of Labor

A the end of the discussion the participants completed a questionnaire describing their views about the factor and demand conditions of the Porter's diamond in their country, and evaluated their relative importance on a scale from 1(not relevant), 2, 3 (low relevancy), 4, 5 (highly relevant). They proposed potential clusters that could generate common economic interest for most of the population.

In the public administration and regional decentralization program the participants were from the following organizations and ministries:

Juba University (2)

The Investment Corporation

State Food Security (3)

Independent institution in charge of transparency

Two NGOs

Ministry of Culture and Youth

Ministry of Finance (2)

Ministry of Justice

Ministry of Transport

Ministry of Labor

Ministry of Telecommunication

Ministry of Education

Ministry of Cabinet Affairs

At the end of the discussion they completed a questionnaire proposing domain of specializations for potential open incubators that could serve as the starting point of regional decentralization on a similar scale as the first group.

RESULTS

Porter's Diamond in South Sudan

Factor conditions

Local natural resources are identified as the best asset for development (64.3 percent, highly relevant), better than low-cost labor (50% highly relevant). The inadequate infrastructure (71.5 percent, low relevancy) has a negative effect on development because of a limited network of roads, no trains and no outlet to sea. Consequently, trade is mainly with the neighboring countries (Uganda, Kenya, Congo, and Ethiopia), and not between regions.

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Demand conditions

Fresh products (71.4 percent, highly relevant) , and energy products

(57.2 percent, highly relevant) are the main components of demand. Processed products, telecommunication, and medical services are not available for most of the population due to poor infrastructure. Most of the processed products are imported from neighboring countries. form a smaller part of demand.

Structure and Rivalry

Structure

Literacy is the main problem of the country (69.2 percent, highly relevant), before food insecurity and mortality (61.5 percent, highly relevant). Without education, economic and social development cannot occur.

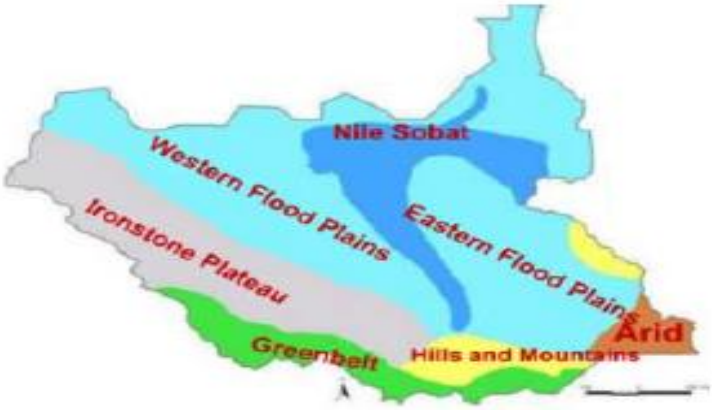
Rivalry

Governmental involvement is the main obstacle to competition (57.2 percent, highly relevant) because the international support enters to the country through governmental institutions. The large number of SMEs, especially in the informal economy, competing with each other (64.2 per cent, highly relevant), insure competitive prices of fruits, vegetables and meat. Cattle is one of the most important resources of South Sudan.

Supporting and related industries

The economic map of South Sudan shows specific specializations in the different regions. From among these options, participants had to select the ones that could unify the country around common economic interests and serve as a basis for the development of clusters. As can be seen in Exhibit 1, forestry, coffee, and tea are common to the south-east and south-west, vegetable oil throughout the entire regions, rice in the west, center, and the north-east, maize in the north, and gum Arabic in the upper Nile region, close to the Sudan border, the leading world producer.

Exhibit 1: Regional topography of South Sudan and its agriculture



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Region	Suitable Crops		
Greenbelt	▪ Maize ▪ Fruits ▪ Vegetables ▪ Irish Potatoes	▪ Oil palm ▪ Tea ▪ Coffee	▪ Tropical Forestry ▪ Horticulture ▪ Gum Arabic
Ironstone Plateau	▪ Sorghum ▪ Groundnuts ▪ Sesame	▪ Sunflower ▪ Livestock	▪ Oilseeds ▪ Gum Arabic
Nile Sobat	▪ Sugar Cane ▪ Rice	▪ Oilseeds ▪ Gum Arabic	▪ Sorghum
Flood Plains	▪ Rice ▪ Sugar Cane	▪ Sesame ▪ Gum Arabic	▪ Groundnuts ▪ Oilseeds
Hills and Mountains	▪ Wheat ▪ Fruits ▪ Forestry	▪ Tea ▪ Coffee	▪ Horticulture ▪ Gum Arabic
Arid Zone	▪ Gum Arabic	▪ Livestock	▪ Sugar Cane

Source: Ministry of Agriculture, Forestry, Cooperatives, and Rural Development

Herewith the three potential clusters with the capacity to generate the first and second stage of development.

Forestry cluster

About 81% of Sub-Saharan African (SSA) households rely on wood-based biomass energy (fuelwood and charcoal) for cooking. Electricity is not regarded a suitable alternative, given equipment and use costs (IEA, 2010).

Currently, the total consumption of wood in Africa is about 700 million cubic meters (m^3) per year—with approximately 75 million m^3 consumed for industrial wood products and the remaining 625 million m^3 consumed for fuel wood including charcoal FAO, 2011)

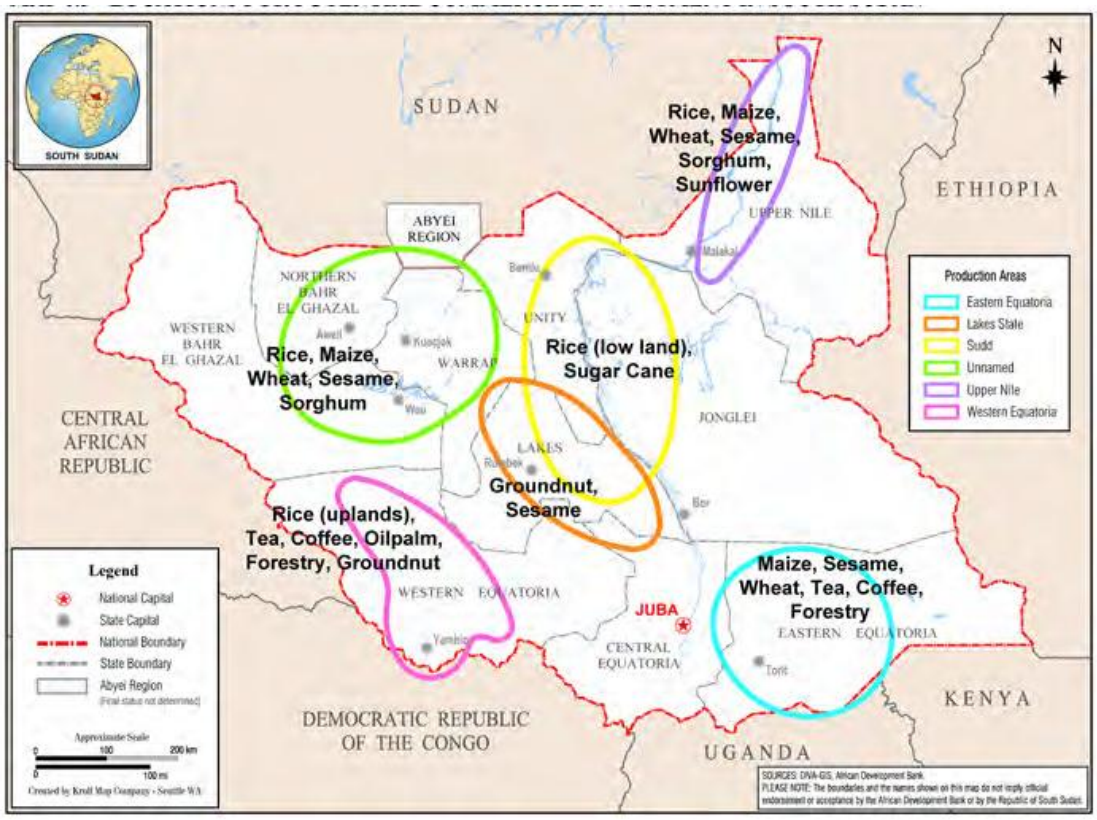
Western and Eastern Equatorial states in South Sudan are the potential base for the forest cluster involved in wood products, wood fuel, and charcoal (Exhibit 2).

The wood-based biomass energy sector employs a significant workforce, providing regular income to thousands of people all around the country who work as small-scale producers or collectors, traders, transporters, and retailers.

Sustaining community-based forest management, including agroforestry systems, is a requisite for developing a forest cluster.

ISBN: 978-9963-711-37-6

Exhibit 2: States and agricultural specialisation in South Sudan



Other related industries have been identified such as wood for construction (doors, windows), honey, wild forest coffee and medicinal plants.

Nespresso spokesman was quoted saying coffee plantations will be developed near the town of Yei in Central Equatoria, on the Boma plateau in Jonglei and in the Imatong Mountains in Eastern Equatoria state."The goal is for the first South Sudan capsules to hit the market in 2015," he reportedly (nestle-nespresso website).

<u>Vegetable oil cluster</u>

The vegetable oil cluster is based on palm in Western Equatoria state and sesame oil in Western and Northern Bahr El Gazal, Warrap and Upper Nile states.

RBD palm oil (unfractionated palm oil) is used for producing margarine, shortening, vegetable ghee, frying fats and ice cream (Ofosu-Budu and Sarpong, 2013. In the production of ice cream, milk fats are replaced by a combination of palm oil and PKO. A blend of palm oil, PKO (Palm Kurnel Oil) and other fats also replaces milk fat for the production of non-dairy creamers or whiteners.

Palm oil is the largest natural source of essential vitamin E, and is high in vitamin K and dietary magnesium. Palm oil and PKO are also ingredients for the production of specialty fats, which include cocoa butter equivalents (CBE) and cocoa butter substitutes (CBS) and general purpose coating fats.

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CBE and CBS have physical properties that are similar to cocoa butter and are widely used for production of chocolate confectionery.

Non-food uses of palm oil and PKO are for the soap, detergent and cosmetic industries. They are also used in the chemical industry for plasticizers and coatings. A recent trend is the usage of by-products, as well as CPO, as energy sources for electricity plants and increasingly as biofuel and biodiesel.

Sesame seed has higher oil content (around 50%) than most of the known oilseeds

although its production is far less than the major oilseeds

It is one of the most stable edible oil despite its high degree of unsaturation. The presence of lignan type of natural antioxidants accounts for both the superior stability of sesame oil and the beneficial physiological effects of sesame.

Antioxidants are well recognized to play an important role in the defense against

oxidative stress, which may cause damage to membrane, nucleic acid, and protein

resulting in circulatory ailments, senility, mutation, and cancer (Halliwell et all, 1995)

sesamin could act as a stimulus to the liver function, particularly in the endoplasmic reticula (Akimoto et al, 1993)

Gum arabic cluster

Gum arabic is a natural gum produced by acacia trees mainly in the arid zone of Western Equatoria state.

Gum arabic is an important ingredient in soft drink syrups, "hard" gummy candies such as gumdrops, marshmallows, M&M chocolate candies, and edible glitter, a highly popular, modern cake-decorating staple.

(minerals-water.co.uk website) .

Artists use it as a traditional binder in watercolor paint, in photography (for gum printing), and as a binder in pyrotechnic compositions. Its use in intestinal dialysis has also been investigated.

Pharmaceuticals and cosmetics also use the gum as a binder, emulsifying agent, and a suspending and viscosity-increasing agent. It is used topically for the healing of wounds, and has been shown to inhibit the growth of periodontic bacteria and the early deposition of plaque.

Gum arabic is an important ingredient in shoe polish and can be used in making incense cones at home. It is also used as a lickable adhesive, for example on postage stamps and cigarette papers. Printers employ it to stop oxidation of aluminum printing plates in the interval between processing of the plate and its use on a printing press.

Gum arabic is also used as a binder for watercolor painting because it dissolves easily in water. Color pigments are suspended within the gum arabic in varying amounts, producing watercolor paint. Gum arabic protects and etch images in lithographic processes. Ink tends to fill the white space on

ISBN: 978-9963-711-37-6

photosensitive aluminum plates if a layer of gum is not applied. In lithography, the gum is used to etch the most subtle gray tones.

Regional decentralization

Participants at the workshop belong to the administration at various ministries and are in charge of implementing the economic policy determined by the directors who participated in the economic policy program. We asked participants to indicate with which open incubators they propose to start regional decentralization.

Regional open incubators are proposed in vegetables, crops (61.1 percent, highly relevant), cattle and food processing (44.4 percent highly relevant) to provide for the basic needs of the population.

CONCLUSION

The objective of this research was to propose a process of economic development able to overcome conflicts between populations in the different states of South Sudan and create common economic interests.

The participants agreed upon economic strategy based on three main potential clusters (forest-related products, gum arabic and its applications, and palm, sesame oil applications) could move South Sudan from stage 1 to stage 2 of development..

These clusters cover all the states, create common interests between populations, and generate long-term competitive advantages.

Open incubators specialized in vegetables, crops, cattle, and further food processing will insure the basic needs in the different states and strengthen the decentralization process generated by the three clusters.

The open incubators solve the problem of current life and insure the subsistence of the population. The three clusters prepare the second phase of development, the industrialization process based on the competitive advantage generated by the efficient use of local resources.

We involved the whole populations of the different states, in solving conflicts by higher economic added value for subsistence and a better future.

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TAX COMPLIANCE GAMES METHODS AND EVIDENCE FROM BEHAVIOURAL DYNAMICS IN GREECE

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ABSTRACT

This paper mainly reviews and discusses the alternative methods adopted by researches based on tax compliance games. It is part of the research project titled "Shadow economy and corruption in Greece: Size, causes and impact." With regard to their methods, attention should be on the individuals synthesizing the groups from which experimental data is drawn, and on the assumptions underlying the models exploring the data. With regard to their findings, it is time for an exploration of the properties of the "slippery slope framework". Second, the paper presents preliminary evidence and proposals to tackle tax evasion from our experiments and the structured interviews with the participation of individuals as well as micro and small business owners. The implementation of the next phase of our interviews, scientific games and economic experiments will involve at least 2,000 individuals and business owners. The innovativeness and originality of our research area and of the wider project THALES are associated with the facts that has never before in Greece been performed a research to such an extent, and also that this study is situated at the peak of the current public and academic debate. The research methodology and the project by considering the weaknesses of a direct approach of measuring the Greek shadow economy, aspire to be the first that will calculate the shadow economy in Greece by using and analyzing primary data. The ultimate aim is to develop a policy mixture that would significantly enhance tax morale and tax compliance.

Keywords: *enterprise behavior; experiment; questionnaire survey; tax games; tax morale; tax compliance; tax evasion; Game theory; slippery slope framework; SMEs; Greece.*

INTRODUCTION

The growing body of literature on tax compliance indicates that economic, social and psychological variables have to be considered to understand the factors that foster it. The researchers performing tax compliance games adopt a behavioural approach to game theory. They test out the implications about tax compliance through (usually agent-based) models based on elements of game theory and data from group experiments. The tax compliance games reviewed here concerns such models, which are either tested by data from group experiments or by simulations.

 ISBN: 978-9963-711-37-6

Moreover, the discussion about tax compliance games that takes place in this paper is based on studies that have been published from 2010 onwards in journals catalogued in internationally recognized lists (for example, see journal quality list at http://www.harzing.com/jql.htm).

The purpose of our research project is to research and measure all the various aspects of shadow economy in Greece, including corruption, tax evasion, tax avoidance, social contribution avoidance, undeclared and illegal work, self-consumption, tax morale level, tax compliance level, illegal and criminal acts (black or underground economy, money-laundering, human and drug trafficking, briberies). It covers all economic agents in Greece, such as citizens and corporations (e.g. public servants and private individuals, companies and all professional categories, etc.). The research is also performed at sector levels. It does not aim to the precise percentage regarding the measurement of Greek shadow economy but aims to the qualitative analysis of questionnaire results and the comprehension of the problem.

The innovativeness and originality of our research area and of the wider project THALES are associated with the facts that has never before in Greece been performed a research to such an extent, and also that this study is situated at the peak of the current public and academic debate.

Various proposals and structural policies to the Greek Government are expected to be addressed at the finalization of the research, for the effective confrontation of black / shadow economy and tax evasion in Greece.

The paper is organized as follows. The next section, which is the main body of the paper, gives an overview of game theory's role and pinpoints the main issues in tax compliance research, before presenting the methods and findings of studies based on tax compliance games (as discussed above). The third section presents preliminary evidence and proposals from our structured interviews with individuals and micro and small business owners fourth. The fourth and final section draws some conclusions mainly on the findings of the studies discussed.

AN EXPLORATION OF TAX COMPLIANCE GAMES

This section constitutes the main body of the paper by discussing the methodology and methods of tax compliance games. Before doing so, a brief overview of game theory's role (in terms of highlighting the merits of game theory approaches) takes place here.

Despite the numerous concerns about the predictive ability of game theory, the approach is still considered useful for approximating the behaviour of players engaged. For example, Rubinstein (who has contributed significantly to the theory's progression) argues that game theory is not able to generate the accurate predictions that would solve public policy problems. He states that "the playing of games is dependent on abilities that game theory does not capture well" (Rubinstein, 2007: 636) and

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as such, "the object of game theory is primarily the considerations used in decision making in interactive situations" (Rubinstein, 2007: 634). Even so, for the formulation of an optimal strategy or policy, a paradigm of the interactions among stakeholders (i.e. the game) is required and one of the greatest concerns (beside the assumptions about the players' rationality) is about the accuracy of the payoffs.

The rest of the section is organized as follows. The next subsection pinpoints the main issues in tax compliance research (definition, context, methods, etc.) through past literature surveys. A brief discussion of multivariate methods takes place in the second subsection, for the consideration of decisive factors that may not be included in game theory models. Finally, the last subsection discusses the methods of tax compliance games through a review of studies with an empirical feature (experiments or simulations) that have been published from 2010 onwards in journals catalogued in internationally recognized lists.

Issues in tax compliance research highlighted by literature surveys

The aim of this introductory section is to indicate the importance of non-financial motives and how it has become possible to model, as the latest literature survey concludes (Pickhardt and Prinz, 2014), by what means behavioural dynamics foster tax compliance or prevent noncompliance.

A good starting point for the discussion about tax compliance is the work of Andreoni et al. (1998) who review all relevant issues of the particular subject. The authors highlight the importance of the subject through the interest of governments to reduce the patterns of tax noncompliance. The success of the policies aiming to reduce these patterns requires knowledge about the behaviour that characterizes tax noncompliance.

Andreoni et al. (1998) referred to the complexity of the subject by stating that the problem of tax compliance is an issue of public finance, as much as it concerns organizational design, law enforcement, ethics and labour supply. With regard to the game theory approaches for exploring the problem of tax compliance, the authors stated that although the development of the principal-agent and other game theory models of tax compliance were an important theoretical advance at that time, they were poor descriptions of real world tax systems. Moreover, the same authors pinpointed the requirement for the exploration of the psychological, moral and social influences on compliance behaviour.

Torgler (2010) provides a more recent overview of the literature on tax compliance (and tax morale). This author does not discuss the merits/limitations of game theory models but rather focuses on the undeveloped aspects that Andreoni et al. (1998) stressed, by addressing the effect of cultural or social norms and of social capital on tax compliance behaviour. Torgler (2010) emphasizes on the role of tax morale (i.e. the motivation to pay taxes) by referring to observations of a strong negative correlation

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between tax morale and the shadow economy (assumed to represent tax noncompliance) and to estimates for the effect of institutional quality on tax revenue.

With regard to the context of tax compliance, Kirchler and Wahl (2010) distinguish between four types of tax compliance and noncompliance: voluntary and enforced tax compliance, tax avoidance and tax evasion. The authors assert that although voluntary and enforced tax compliance are differentiated by the motives behind these forms of tax behaviour, the relationship between tax avoidance and tax evasion is distinguished by legality and illegality, i.e. the possibility of tax evasion is deterred on account of audits and fines. The authors verify the validity of their proposed clarifications by exploring a sample of self-employed taxpayers.

Moreover, with regard to the self-employed, for who the literature indicates a greater proneness towards tax noncompliance, Kamleitner et al. (2012) highlight the tax situation of small business owners and expand the analytical framework of tax compliance, from a psychological perspective. The authors assert that personal characteristics and the specific tax situation can be captured by the perceived opportunity for noncompliance, the ability to understand the rules and comply, and the decision frames (which are based on their cash flows, etc.).

In line with the evidence about the non-financial incentives, Alm (2014) reviews the social factors described by social norms, morality, etc. and argues that these group motivations are more important than the respective individual (i.e. possibility of audit or penalty, tax rates, etc. described as financial incentives). The literature also indicates that non-financial incentives are important drivers of tax compliance in the case of firms (Bame-Aldred et al., 2013), as it is in the case of individuals (self-employed or not).

With regard to the driving factors of tax compliance, Kirchler et al. (2012: 138) give a broader picture and distinguish between economic determinants (frequency of audit, fine, marginal tax rate, income, opportunity to evade or avoid taxes) and psychological determinants (complexity of tax laws, attitude, norms and justice). Kirchler et al. (2012) suggest that the ‘‘slippery slope framework”, which differentiates between taxpayers who intend to voluntarily comply with the law, versus taxpayers who intend to comply as a result of enforcement activities, integrates the economic and psychological perspectives on tax compliance.

Finally, with regard to the methods adopted by relevant studies, Kirchler and Wahl (2010) identify three major issues. Firstly, econometric models in the case of aggregation (panel data analysis) face the criticism of confounding influences on tax behaviour, at the same time as micro-econometric models have raised concern about their ability to reflect all aspects of tax behaviour. Secondly, although field experiments are able to provide reliable estimates for compliance determinants the face the challenge of finding comparable treatment and control groups. Alternatively, laboratory experiments are more

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appropriate for validating theoretical assumptions and suffer from their intrinsic properties, which limit the generalization of their findings. Thirdly, although secondary data would expand the boundaries of tax compliance analysis (as in any research area), its scarce availability requires from researchers to conduct their own surveys.

Multivariate approaches to tax compliance

The aim of this section, which precedes the discussion of the last subsection about tax compliance games, is to deliver an overview of the decisive factors influencing tax compliance. The reason for this lay in the fact that the multivariate analysis of studies which do not adopt a game theory model, can explore the significance of a great number of independent variables. The paper included in the discussion is the most cited paper (i.e. over 40 citations in Google scholar) published from 2010 onwards in journals catalogued in internationally recognized lists.

Wahl et al. (2010) perform two laboratory experiments for the exploration of the influence that trust in authorities and their enforcement power exert on tax compliance. For the first experiment, the authors gather their data from 120 students. They perform a multivariate analysis of variance with trust and power as independent variables, along with answers on trust and power as dependent variables. Their findings indicate that there is manipulation of trust and power. Based on the same data, the authors also perform an analysis of covariance with trust and power as independent variables, voluntary and enforced tax compliance as dependent variables, and gender, age, and income as covariates. Their findings indicate that both high trust and high power lead to increased tax payments, where a combination of high trust and high power evoke the highest voluntary tax compliance and a combination of low trust and high power fosters the highest enforced tax compliance.

In their second experiment, Wahl et al. (2010) based their analysis on data from 127 self-employed individuals. The authors perform a multivariate analysis of variance with trust and power as independent variables, voluntary tax compliance and enforced tax compliance as dependent variables, and gender, age, and income as covariates. They find that participants are more voluntary compliant when authorities are trustworthy than when authorities are untrustworthy, that age significantly influences voluntary tax compliance and that enforced tax compliance is highest when authorities are untrustworthy but powerful. Finally, the authors perform an analysis of covariance with trust and power as independent variables, strategic taxpaying behaviour as a dependent variable, and gender, age, and income as covariates. They find that age significantly influences strategic taxpaying behaviour and that the latter is highest when authorities are untrustworthy but powerful, and lowest when authorities are trustworthy and powerful.

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The issues brought into attention by this section are the assumptions of the ''slippery slope framework'', which still continues to be the basis of studies adopting multivariate approaches to tax compliance (for example, see Kastlunger et al., 2013; Kogler et al., 2013). The reason for not including the work of Wahl et al. (2010) in the next section, is because they based the most important part of their analysis on data gathered from an online questionnaire and not from an experiment (i.e. a procedure through which responses where reported).

Tax compliance games

Alm et al. (2010) gather their data through a laboratory experiment where 131 individuals (students and university staff) participated. The authors explore how the decision either to file a tax form or to report income is affected by earned income, wealth, audit probability, the presence of uncertainty about tax features, the service of the tax agency (in terms of information provided) and the demographic variables of age, sex, own preparation of tax returns and the dependence on parental tax returns. The experiment consists of three phases. In the first, participants are informed about the audit probability, the penalty rate (150 percent), the tax rate (35 percent) and the deduction and the tax credit. In the second phase, participants face uncertainty regarding their allowed deduction and tax credit. In the third and final phase, participants may resolve the uncertainty by receiving information from the tax authority (i.e. the true levels of the deduction and the tax credit are revealed to them). For the tax form filling decision, the authors report the results for a linear probability model and explore the effect of the tax form cost, and state that they have also estimated probit and logit models. They also state that they have estimated similar models for the probability of buying a form but do not report their findings because they are identical to those of filling a report. For the reporting decision, the authors report the results for a Tobit model and explore the effect of lag audit. Alm et al. (2014) finally manage to fulfil the aim of their study through the findings of their laboratory experiment, which indicate the significance of the information services of a tax agency and the tax liability uncertainty, for reporting compliance.

Bloomquist (2010) models tax reporting compliance by small business owners in an agent-based framework based on (what he calls as) evolutionary dynamics. Based on data from the IRS' National Research Program study of individual taxpayers for FY 2001, the author primarily explores the compliance rate of 559,555 individuals whose income is derived solely from a Schedule C sole proprietorship (1,101 cases). (Note: For a definition of sole proprietorship see http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Sole-Proprietorships). The author reports the compliance rate of this sample as the amount of reported taxable income divided by the amount of taxable income per exam.

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Kastlunger et al. (2011) were based on a sample of 86 undergraduate students to conduct a laboratory experiment for the exploration of the effect of nonetary rewards on tax compliance. All participants were informed about the tax rate (20 percent) and the audit probability (15 percent) and that in the case of an audit they would have to pay the remaining tax due and an additional fine. Three different sets took place, in two of which those found to be compliant after an audit, received monetary rewards. Through a repeated measurement analysis of covariance (with conditions as between-subjects factor, sixty periods as the within-subjects factor, gender as the covariate, and mean tax payments as the dependent variable) the authors found that the covariate gender is significant. For the times when the prospect of a reward is provided the authors observed that total compliance or total evasion was the outcome and concluded that when compared with a control treatment with the same penalty for tax evasion but without the reward for an honest tax report, the option to evade one's tax due becomes less attractive. Finally, with regard to the relation between the "bomb crater effect" and the monetary rewards for being compliant, tax payments after an audit were lower when honest tax reports were not reinforced by rewards than the opposite.

Muehlbacher et al. (2012) treat tax compliance in their analysis as dichotomous variable and find that 28 percent of the participants that went through the immediate audit procedure participants honestly paid their taxes at the same time as 59 percent of the participants engaged in the delayed audit procedure did so. Based on this finding, the authors argue that tax compliance may be higher if the uncertainty whether one's tax return would be audited is not resolved for a period after the compliance decision.

Andrei et al. (2014) develop a theoretical agent-based model to test the effects of network topologies in the propagation of evasive behaviour. The authors assume that in 441 agents, 50 are honest and always declare their actual incomes, 50 of are dishonest and calculate the lowest possible incomes they can declare according to their risk aversions and their subjective probabilities of apprehension. The remaining 341 agents are characterized as imitating agents. The authors assume that dishonest agents do not declare their income if their subjective probability of an apprehension is less than the tax rate (numerator) over the tax rate plus the subtraction of the tax rate from the penalty rate, which is multiplied with the exponential function of risk aversion, the penalty rate and actual income. Conversely, the authors assume that dishonest agents declare their actual income if their subjective probability of an apprehension equals the ratio of the tax rate to the penalty rate. If their subjective probability of an apprehension exists between the values of the calculations discussed in the previous two sentences, then their declared income equals their actual income minus a function of their risk aversion, their subjective probabilities of apprehension and the tax and penalty rates. The declared income of imitating agents is based on the product of the average of their neighbours' ratio of actual to declared income and their own declared income. Based on these features, the authors develop two

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metrics: the voluntary tax rate and the mean gross tax rate. The first indicates an agent's voluntary tax compliance and is calculated by the tax rate multiplied by the ratio of declared to actual income. The second, which is calculated by the tax rate multiplied by the ratio of average declared to average actual income, refers to agents declaring an income lower than their actual income. The authors use these metrics in several networks (namely no network, Moore, von Neumann, ring world, small worlds, power law and Erdos-Renyi) and test the sensitivity of the agents contained within them. The authors highlight the that networks play a considerable role in the collective behaviour of the agent population and as such, they argue that If tax authorities target more highly interconnected individuals, then one should expect the honesty of the population to increase.

The work of Hashimzade et al. (2014) also concerns the development of an integrated framework that combines ideas from behavioural economics and social networks to model occupational choice and tax compliance. The authors simulate their network model to a population with proportions in employment, risky self-employment, and less risky self-employment at 30, 20, and 50 percent, respectively. The simulation indicates that the network effects generate a culture of noncompliance that varies across groups, i.e. the self-employed groups hold similar beliefs, which are distinctly different from those of the employed. Moreover, the test for the "bomb crater effect", with an audit probability of 5 percent, indicates that a high rate of compliance is a consequence of the infrequent audits.

Bazart and Bonein (2014) conduct an experimental session of 3 independent games: a tax game, a risk game and an inequity game. 24 undergraduate students participated and generated 288 observations. In the tax game, participants were provided with a constant income, information about the fine rate (350 percent) in the case of tax evasion, the audit probability (1/3) and the randomly occurring tax rates of 20, 30 and 40 percent for exploring the forms of inequity among taxpayers. More specifically, only in the first treatment the participants face the same tax rate. In the rest five treatments there is:

- high vertical inequity, where half participants face a tax rate of 30 percent and the other half 20 percent;
- low vertical inequity, where half participants face a tax rate of 30 percent and the other half 40 percent;
- horizontal inequity, when participants are informed about the average income reported by the others;
- high vertical inequity combined with horizontal inequity;
- low vertical inequity combined with horizontal inequity.

In the risk game, participants had to make 20 successive choices between 2 options: a safe and a lottery option. Risk-neutral participants should switch from the lottery to the safe option at choice 15. Finally, in the inequity game, participants had to make two successive sets of choices. The authors find through

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their game that disadvantageous inequity in tax rates leads to an increase in the number of evaders. Also, that the level of tax rate remains a strong and negative determinant of reported income and that an audit experience has a negative and persistent effect on reported income ("bomb crater effect").

Bruttel and Friehe (2014) conducted a laboratory experiment in three stages with 125 undergraduate students participating. Based on the responses from the experiment, the authors test whether a higher penalty multiplier induces a higher level of declared income. The authors find that this is true even when the penalty multiplier changes during the experiment and conclude that tax behaviour in their experiment was guided as much by existing enforcement parameters, as by past enforcement parameters.

Last but not least, Durham et al. (2014) conducted a laboratory experiment with 96 undergraduate students participating. All participants completed questionnaires so that the authors would gain some basic insights about their risk preferences. The participants in their experiment were either endowed with money or had to earn income by participating in a double auction market. In both cases they then had to report and pay 40 percent tax. Participants then had a 25 percent chance of being audited and in the case of underreporting, they were required to pay the underreported tax and a penalty equivalent to the underreported tax. The experimental data set is analyzed with a repeated-measurement analysis of covariance with the transformed compliance rate as the dependent variable (set to 1 in the period following an audit for individual subjects). The results of this estimation indicate that compliance is not influenced by the joint selection of income source (endowed or earned) and context (tax or non-tax). In contrast, the interaction of income level, income source and context is significant and negatively related to compliance, at the same time as the main effect of income level and the interaction of period, income source and context are positively related to compliance. As a result, the authors find that neither income source nor context has a significant impact on tax compliance.

PRELIMINARY EVIDENCE FROM OUR QUESTIONNAIRE SURVEY

Until now, the estimated size of shadow economy in Greece results only through indirect approaches, methods that are easily applicable but include a great possibility of fault in the accurate measurement of the shadow economy, and are also unable to determine the factors that cause people to shift toward shadow economy. These indirect approaches to measure shadow economy are the widespread calculations of black economy that are based on secondary macroeconomic data.

The research methodology and the project by considering the weaknesses of a direct approach of measuring the Greek shadow economy (there is a cost in resources and time of managing a large number of questionnaires), however, aspire to be the first that will calculate the shadow economy in

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Greece by using and analyzing primary data. The implementation of the next phase of our interviews, scientific games and economic experiments will involve at least 2,000 individuals and business owners. Emphasis is given to the qualitative analysis of questionnaire results which it aspires to reveal the opinions of households, enterprises and institutional entities and public services. It does not aim to the precise percentage regarding the measurement of Greek shadow economy but aims to the qualitative analysis and the comprehension of the problem so that we can reach essential and thorough proposals to the government in order to contain the problem.

The final selection of the exact methodology for the implementation of the tax compliance games is based on the literature review aforementioned in the current paper. Currently, the phase of the Project related to the implementation of a pilot survey involving 500 participants has been concluded and the preliminary evidence is discussed in the current paper.

The summarized preliminary results are based on a random sample and structured interviews conducted during the second semester in 2014, with the participation of individuals as well as micro and small business owners (i.e. owners of SMEs). During the analysis, emphasis is given to the qualitative aspects and analysis of questionnaire results in order to expose the behavioral patterns of the various economic agents.

Greece is a country with low level of public services hence tends to have low-level governance (including over-regulation and corruption) and that in turn tends to enhance poor tax morale and tax compliance.

We realized that the most wealthy individuals are the most likely to avoid paying taxes. Top tax evaders are professionals, with politicians protecting their own occupations. Firms and the self-employed tend to participate mostly in tax evasion, compared to salary employment. However, companies or industries that generate lots of traceable information have lower levels of evasion.

There is evidence that self-employed people tend to underreport their income in Greece but this is true everywhere, not just in Greece or in south east Europe. Although administrative barriers to entry make self-employment in Greece unattractive, the advantages of the potential benefit of tax evasion and the savings from the social security payments (which effectively increase for higher incomes) become a forceful motive to prefer it from salaried full-time or part-time employment. This can also provide a justification for the large preference for self-employment in Greece relative to the respective in the EU.

Tax evasion in Greece consists more a social norm, connected to the belief that taxes are wasted. In principle, tax evasion can be largely rooted to the historical mistrust between the Greek state and its citizens. However, there is another dimension of tax morale in Greece that is not related to trust in public institutions. This form of tax morale, which has been frequently termed by the Greek media as

ISBN: 978-9963-711-37-6

the "sport of tax evasion", describes the norm of evading taxes for personal gain, and can be understood through the absence of the "social norm" of tax compliance.

The complexity of tax law and the tax system are found to have negatively impacted the tax compliance behavior, whereas importance was assigned by the small business owners that participated in the survey to the actual (high) level of tax rate which tends to encourage corruptive behaviors. The probability of tax audits, appears however to have altered in certain cases their attitudes towards declaring, instead of concealing, their real income.

As possible solutions to contain the size of tax evasion, according to feedback received from participants in the experiments, we might propose the following:

- the court system must act instantly. Tax evasion cases should be legally treated within a month of the evidence being presented.
- a financial reward scheme should be established to incentivize disclosure of tax evasion
- a publicity campaign should be undertaken to encourage people to disclose tax evasion (even through SMS - mobile devices, internet websites).
- punishments do not have to be severe but at the same time if someone repeat the same behaviour (for example, between three to five times) then the punishment would be severe.
- introduction of a flat rate of tax not below 10%, and not above 15% (for individuals and for companies).

CONCLUSION

The discussion about the methods of tax compliance games that takes place in the previous section indicates that the studies based on the particular method cannot explore all the determinants of tax compliance concurrently. Nevertheless, the findings of the studies reviewed indicate that priming and a friendlier tax service foster tax compliance, while uncertainty and inequity foster tax noncompliance. Their findings also give evidence for the "bomb crater effect" and indicate that:

- income levels are positively related to tax compliance,
- tax rate levels have an inverse relationship with tax compliance,
- monetary rewards and higher penalties do not reinforce compliance.

Moreover, the fact that two papers (Andrei et al., 2014; Hashimzade, et al., 2014) indicate through their simulations that networks play a major role in tax compliance (note: they assumed ex priori on the existence of networks in their theoretical models). At the same time that Bloomquist (2010) finds no neighbourhood effects, indicates that findings are not only case sensitive to the population from which data are taken but also on the theoretical assumptions.

 ISBN: 978-9963-711-37-6

The direction that tax compliance games should follow is insinuated in second subsection in section two, where more all-encompassing models explore the properties of the "slippery slope framework". Accordingly, Prinz et al. (2014) attempt a formalization of the coerciveness and persuasiveness features of the "slippery slope framework" so that experimental studies of the phenomenon may emerge. While detection and punishment are important (for example, against the findings about coerciveness discussed here, in a compliance related - not tax compliance though - study, Nosenzo et al. find through a laboratory experiment that fines successfully deter noncompliance), the findings of the studies discussed in the previous section are in consistence with the suggestion of Alm and Torgler (2011) about the abilities of the "service" and "trust" paradigms to foster tax compliance. Beyond coerciveness, persuasiveness is also important, as for example, recent studies (Hallsworth, et al., 2014) indicate that standard tax payment reminder letters seem to considerably enhance tax compliance.

Overall, attention has to be brought to the group of individuals on which the experiment takes place. Interestingly enough, all studies discussed in the previous section except from Bloomquist (2010), are based on experimental data from student groups.

Finally, summarized preliminary evidence and proposals to tackle tax evasion was presented from our structured interviews with the participation of individuals as well as micro and small business owners.

European Union
European Social Fund
OPERATIONAL PROGRAMME
EDUCATION AND LIFELONG LEARNING
investing in knowledge society
MINISTRY OF EDUCATION & RELIGIOUS AFFAIRS
MANAGING AUTHORITY
Co- financed by Greece and the European Union
NSRF 2007-2013
programme for development
EUROPEAN SOCIAL FUND

Note

THALES Programme has been co-financed by the European Union (European Social Fund - ESF) and Greek national funds through the Operational Program "Education and Lifelong Learning" of the National Strategic Reference Framework (NSRF). The current paper is presented under the auspices of the Programme

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ISBN: 978-9963-711-37-6

AUTHENTICITY AND FOOD SAFETY IN READY TO HEAT LASAGNE: AN EVALUATION AFTER THE 'HORSE MEAT SCANDAL'

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ABSTRACT

The recent 'horse meat scandal' in Europe has sparked huge concerns among consumers, as horse meat was found in beef lasagne ready to be consumed. Within STARTEC, a European funded project, this study investigates consumers' preferences, attitudes and willingness to pay (WTP) towards characteristics of ready to heat (RTH) fresh lasagne, including origin of the meat, tested for meat authenticity, safety of the lasagne, and nutritional value, using Discrete Choice Experiments in six countries - Republic of Ireland, France, Italy, Spain, Germany and Norway. Our representative sample of 4,598 European consumers makes this the largest cross country study of this kind. The questionnaire was administered online in January 2014. Results from models in WTP-space show that, on average, consumers are willing to pay considerable amount (about €4-9) for food authenticity; on this Irish and Italian are the least concerned while Spanish are the most concerned. As expected from discussing with stakeholders, food safety claims and nutritional value of the RTH lasagne are relatively less important. Consumers also value knowing the origin of ingredients preferring locally sourced meat. Primarily, the results of this study present strong evidence that consumers in Europe are highly concerned about authenticity of the meat in ready meals and strongly prefer to know that the meat is national. This evidence suggests that there is great value in providing information on these attributes, both from a consumer perspective and where this leads to an increased consumer confidence has benefits for the food industry.

Keywords: *Random Utility Maximisation; food safety; ready meals; horse meat scandal; consumer preferences.*

ISBN: 978-9963-711-37-6

INTRODUCTION

In the late 2012, European food industry has been affected by a crisis driven by the finding of horsemeat in pre-prepared foods, without any declaration on the package, food label or ingredients list (European Commission, 2014). This is commonly referred to as the 'horse meat scandal'. The scandal is largely contained within Europe and first came to light when the Food Safety Authority of Ireland published results that beef burger products had tested positive for equine DNA (Food Safety Authority of Ireland, 2013). This led to further incidences being revealed in the UK and across Europe. This has affected consumer confidence in the integrity of the market of pre-prepared food containing meat. In light of this, the analysis of consumer preferences and willingness to pay for enhanced features becomes necessary. The main contribution of this manuscript to the literature is indeed to ascertain, employing the Discrete Choice Experiment (DCE) method, the additional value current and potential consumers are willing to pay for improved safety, information and quality features of ready to heat (RTH) fresh lasagne. Furthermore, this is the first study which explores this issue across different countries in Europe.

This paper is structured as follows: Section 2 highlights the background literature, Section 3 describes the methodology and introduces the case study, Section 4 presents the results, and Section 5 concludes the paper.

BACKGROUND LITERATURE

Since the '90s, studies in the fields of economic, psychology and marketing have been increasingly focused on consumer preferences and impacts of crisis and risk perception. This theme became of pivotal importance in marketing science when consumer confidence in the food safety regulation diminished due to several significant food safety incidents (Cope et al., 2010). The consumer's perception of risk influences choice about products, brands and retailers, and modifies the consumer decision-making process and intentions (Frewer and van Trijp, 2007; Verbeke, 2001). The literature about consumer risk perception analyses lifestyle hazards, such as inappropriate dietary choices (Steptoe et al., 2004) or microbiological risks caused by wrong consumer behaviour (Fischer et al., 2005), the influence of cultures (Palmer, 2003), media and ethic and other concern (Dreesenz et al., 2005) on risk perception, trust towards food product considering public responses to regulate food safety (Berg et al., 2005), and the role of affect in guiding risk and benefit judgments (Finuncane et al., 2000).

Another important stream is focused on the role of risk perceptions and the reactions to food scandals. Bánáti (2011) highlight that, despite the fact that food has never been safer than nowadays, consumers are considerably uncertain, anxious and increasingly critical about food safety. Concerning this topic,

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Berg (2004) analyses the impact of dioxins in food in Belgium and the detection of mad cow disease in Britain on consumer trust, identifying four groups of consumers, namely the sensible, the sceptical, the naïve and the denying. Lakner et al., (2005) analyse consumers' reactions to the Hungarian paprika scandal of 2004. Van Kleef et al. (2009) surveyed consumers from four countries affected by specific food scandals, namely German consumers and Bovine Spongiform Encephalopathy (BSE) scandal and nematode worms in fish; Greek consumers and mould in Greek yogurt and avian influenza; Norwegian consumers and E. coli in meat and contaminants in Norwegian salmon; British consumers and BSE and contaminants in Scottish salmon, highlighting the crucial best practice in risk management in consumers eyes. Zhou and Wang (2011), analyse attitudes of Chinese consumers towards the safety of milk powder after the melamine scandal, highlighting their concerns about the products.

Literature analysis highlight that whilst consumer preferences for food quality and safety features are well known, there is little evidence of those preferences when fraudulent labelling has occurred as with the horse meat scandal. This research aims to understand consumer concerns about food safety and to highlight which issues cause the major concerns. To reach this main objective, consumer preferences and willingness to pay for label information attesting improved features of the product in terms of food safety will be analysed. The study also aims to point out similarities and differences of consumers' preferences across Europe.

METHODOLOGY

These objectives will be achieved through the analysis of consumers' preferences for RTH fresh lasagne. A survey was administered online in January 2014 to a sample of households representative of the population, across six European countries; namely Republic of Ireland, France, Italy, Spain, Germany and Norway. We selected an online administration as it was the best method to reach so many respondents in different countries across Europe. The collected data are from 4,598 consumers.

The survey instrument was developed as follows: firstly the respondents faced a presentation of the survey and were asked consent to participate in the study, after having received all relevant information about data protection and privacy. Then, after a few socio-demographic questions used by the survey company to screen respondents to obtain a sample as representative as possible of the population, they were presented with a general ('warm-up') questions aimed at making the respondent comfortable with participating in the survey and answering questions (Bateman et al., 2002). A screening question was used to ascertain if consumers currently bought RTH meals or would consider buying them in the future.

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Following the socio-demographic questions, the five attributes used in the DCE were described to respondents. A question is asked after each attribute description to help keep the respondent actively engaged and focused on the DCE attributes and levels before the DCE is shown to them. The final part of the survey presents eight DCE questions. Attributes were selected based on focus groups, consultation with SMEs producers of RTH lasagne, and relevant literature. Five major attributes were selected: risk of food poisoning, origin of the meat, test of meat authenticity, retention of nutritional values. Attributes and levels used in the DCE are reported in Table 1. The price used in each country has been converted in Purchasing Power Parity (PPP) for the analysis, using the tool available on Methodex Currency Converter as follows: Germany 2010 was used as the baseline, a coefficient of 0.917 has been multiplied to the price for France, a coefficient of 0.890 for the Republic of Ireland, 0.955 for Italy, 0.086 for Norway and 1.084 for Spain.

Attributes	Levels
1. Risk of food poisoning	Enhanced Safety Current Safety
2. Origin of the meat	Unknown Imported National
3. Test of meat authenticity	Tested Not tested
4. Retention of nutritional values	Twice the current level Current level
5. Price	6 levels from € 2.80 to €5.50 (in Norway we used prices between kr 35 and kr 60) In analysis, price has been converted in PPP.

Table 3 Attributes and Levels – RTH lasagne

We designed the questionnaire adopting the D_b-efficiency under uninformative prior criteria for the indirect utility coefficients (Ferrini and Scarpa, 2007). Twenty-four different choice sets were produced and then divided into three blocks. Respondents faced 8 choice tasks in which they were asked to state their preferred RTH lasagne among two experimentally designed alternatives and a current situation. They also had the option to not buy any lasagne. Figure 1 shows an example of choice task.

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Attribute	Lasagne 1	Lasagne 2	Lasagne with Current standards
Risk of food poisoning	Enhanced safety	Enhanced safety	Current safety
Origin of the meat	National	Imported	Unknown
Test of Meat Authenticity	Tested	Not Tested	Not Tested
Retention of nutritional values	Twice the current level	Current level	Current level
Price	€4	€3.5	€2.5

I would buy:

- Option 1
- Option 2
- Lasagne with current standards
- I would not buy any of the proposed Lasagne

Figure 1 Example of choice task

ECONOMETRIC APPROACH

DCE is an application of the theory of value (Lancaster, 1966) combined with the Random Utility Maximization Theory (Thurstone, 1927; Manski, 1977). Under this setting, the core assumption of DCE is that choices are driven by the maximisation of respondents' utility. The utility that each alternative brings to the respondents can be represented by the function:

$$U_{nit} = V_{nit}(\beta, X_{nit}) + \varepsilon_{nit}, \qquad (1)$$

where n indicates the respondent, i the chosen alternative, t the choice occasion, x is a vector of attributes, β is a vector of parameters to be estimated and ε is a random error term (unobserved by the researcher, often referred to as disturbance) assumed to be iid Gumbel distributed. Given the utility function of Equation 1, the probability for individual n of choosing alternative i over any other alternative j in choice set represented by a multinomial logit (MNL) model (McFadden, 1974) is:

$$Pr_{nit} = \frac{e^{\mu V_{nit}}}{\sum_{j=1}^{J} e^{\mu V_{njt}}}, \qquad (2),$$

where

$$V_{nit} = \beta' x_{nit} \qquad (3)$$

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In order to compare results of different countries, the model was estimated in willingness to pay (WTP) space (Scarpa and Willis, 2010, Train and Weeks, 2005):

$$U_{nit} = -\alpha\, p_{nit} + (\alpha\, w)'\, X_{nit} + \varepsilon_{nit}\ , \quad (4)$$

where w is the vector of WTP for each attribute computed as the ratio of the attribute's coefficient to the price coefficient: w = ✂✂✂✂✂. Note that equation (4) is equivalent to equation (1) when none of the parameters is random. An important feature of the WTP-space specification, in addition to allowing researchers to directly interpret attributes estimates in "money terms", is the possibility to test the spread of the WTP distribution directly using Log-likelihood tests (Thiene and Scarpa, 2009). Furthermore, in a Mixed Logit (MXL) framework (Train, 2009), the specification in WTP-space allows the analyst to directly specify a convenient distribution for WTP estimates (Train and Weeks, 2005).

The presence of such heterogeneity is not detected by the standard MNL. MXL – or Random Parameter Logit (RPL) – models have been introduced to investigate such heterogeneity. In this context the utility function includes parameters described by an underlying continuous distribution ✂(·). The unconditional probability of a sequence of T choices can be derived by integrating the distribution density over the parameter values:

$$\Pr\,(nit) = \int \prod_{t=1}^{T} \frac{e^{V_{nit}}}{\sum_{j=1}^{J} e^{V_{njt}}} f(\alpha, \beta) d\alpha, d\beta. \quad (5)$$

In Equation 5, in order to take into account the fact that we observe a panel composed by T choices for each respondent, we integrate the product of the T logit probabilities. Given the particular composition of the choice set we decided to include an error component to the model (Walker, Ben-Akiva, and Bolduc, 2007, 1107–1109 and 1112 for panel data).

As the adopted utility specification in WTP-space (Equation 4) is non-linear in the parameters (Scarpa et al., 2008), our models were estimated in BIOGEME 2.2 (Bierlaire, 2003), that allows for nonlinearities in the utility function, with the CFSQP algorithm (Lawrence et al., 1997) to avoid the problem of local maxima in simulated maximum Log-likelihood. The integrals were approximated numerically by means of simulation methods (Train, 2009) based on 1,000 Modified Hypercube Sampling draws (Hess et al., 2006).

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RESULTS

Our first order of business is to look now at the descriptive statistics of the samples across the six countries. The sample size varies (between 700 and 813 respondents), but keeps a fairly good male female ratio, age, education, employment and civil status across the six countries in which we administered the survey. In Republic of Ireland we did not manage to sample in the youngest segment of the population, but this was possible and done in the other countries.

	Republic of Ireland	**Norway**	**France**	**Germany**	**Italy**	**Spain**
Sample Size	700	700	790	798	813	797
Gender						
Male	44%	49%	47%	48%	48%	51%
Female	56%	51%	53%	52%	52%	49%
Age						
18-24	0%	15%	12%	11%	11%	10%
25-34	5%	18%	18%	18%	22%	26%
35-44	17%	18%	19%	20%	21%	24%
45-54	27%	17%	18%	21%	20%	16%
55-64	27%	17%	18%	16%	14%	13%
65+	24%	15%	15%	14%	12%	11%
Education						
School up to 14 years of age	1%	1%	10%	3%	3%	1%
School 14-16 years of age	7%	6%	13%	10%	5%	5%
School 16-18 years of age	24%	43%	23%	33%	27%	18%
Post-school diploma	37%	22%	19%	31%	31%	22%
University degree	22%	27%	16%	22%	34%	46%
Post-graduate University degree	9%	1%	19%	1%	0%	0%
Employment						
Working full time	36%	41%	49%	48%	43%	48%
Working part time	20%	10%	8%	13%	15%	10%
Unemployed	13%	7%	7%	5%	10%	16%
Student	5%	12%	5%	8%	9%	9%
Retired	10%	14%	25%	19%	12%	10%
Looking after the house	14%	5%	5%	6%	10%	5%
Unable to work for health reasons	3%	11%	2%	2%	0%	1%
Marital status						
Single/never married	18%	29%	22%	26%	29%	30%
Married	54%	33%	44%	42%	49%	46%
Living with a partner, not married	16%	22%	19%	19%	15%	17%
Other	12%	16%	15%	13%	7%	7%

Table 4 Demographic characteristics of respondents across the 6 countries

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The samples targeted in each country were highly educated and most respondents were either employed or retired at the time of the interview. About half the sample in each country but Norway was married. The highest prevalence of married was in Republic of Ireland and Italy.

Table 3 shows results from the RPL model estimations in WTP-space in each country. In our analysis we considered all features as dummy variables, with a baseline in the current level of safety, information about the origin of the meat in the sauce, DNA test and retention of nutritional values. Before we explain the results it is important to notice that a RPL model is characterised by the estimation of two parameters for each attribute described by a continuous distribution: the mean (◎) and the spread of the distribution (◎). In our particular case, all attributes in the model are modelled as continuously distributed variables and therefore are presented in the table with these two values.

When reviewing the results, it is firstly interesting to notice that the sign of all WTPs confirm prior expectations, with positive WTPs when risk reduction is fostered, when consumers are provided with information about the product origin, and particularly when it is nationally produced, when meat authenticity is tested and when nutrition values are retained. WTP estimates are statistically significant in almost all cases, with wide heterogeneity within and between countries as shown by the spread of the estimated distributions and the differences in certain attributes such as Enhanced Safety and test for meat authenticity.

Analysing firstly results from the samples within each country, it is possible to notice that respondents from the Republic of Ireland place the highest monetary value on the RTH lasagne being tested for meat authenticity (€3.47 on average) and nationally produced (€3.18 on average). They are willing to pay less to reduce the risk of poisoning (€0.5 on average) and to improve the retention of nutritional values (0.65 on average). The same order of preferences, but with higher absolute values associated with each feature, is highlighted for Norwegian, German and Spanish consumers. Preferences are slightly different in France and Italy, where the national origin of the RTH lasagne is rated as the most important product's feature: indeed, this information is associated with the highest price premium for consumers in these countries. The Test of authenticity on meat is rated second, showing less sensitiveness to the horse meat scandal than participants from the other nationalities.

Since results from the RPL model in WTP-space as presented in Table 3 are not easily interpretable, we generated kernel distributions for the WTP associated with each attribute in each country as described in the model and presented the outcome in Figure 2.

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	Republic of Ireland		Norway		Italy		France		Germany		Spain	
	WTP	t-ratio	WTP	t-ratio	WTP	t-ratio	WTP	t-ratio	WTP	t-ratio	WTP	t-ratio
Risk of food poisoning												
Current Safety (ref. level)												
◎◎◎◎◎ Enhanced Safety	0.54	7.72	0.99	3.97	1.02	5.73	0.83	4.04	1.93	3.57	2.19	10.77
◎◎◎◎◎ Enhanced Safety	0.43	2.55	1.25	2.62	1.13	4.13	1.86	3.12	1.80	3.11	2.89	8.41
Origin of the meat												
Unknown (ref. level)												
◎◎◎◎◎ Imported	1.10	9.39	2.34	3.4	1.73	5.3	2.37	3.87	1.26	3.63	3.69	9.1
◎◎◎◎◎ Imported	0.30	1.67	2.35	2.93	1.09	3.34	1.98	2.93	2.04	2.67	1.15	6.79
◎◎◎◎◎ National	3.18	12.96	4.94	3.49	4.19	5.02	7.48	3.55	6.19	3.37	8.42	9.12
◎◎◎◎◎ National	1.70	8.84	4.41	3.25	1.65	4.21	4.19	3.35	5.23	3.25	5.75	8.81
Test of meat authenticity												
Not tested (ref. level)												
◎◎◎◎◎ Tested	3.47	13.63	6.16	3.63	3.63	5.73	5.24	3.67	7.42	3.41	9.38	9.37
◎◎◎◎◎ Tested	1.67	9.31	4.36	3.19	2.15	4.52	4.39	3.33	5.56	3.15	7.51	8.46
Retention of nutritional val.												
Current level (ref. level)												
◎◎◎◎◎ Twice the current level	0.66	7.84	0.89	4.33	0.39	3.44	0.30	1.75	0.16	0.68	0.51	4.69
◎◎◎◎◎ Twice the current level	0.57	4.30	1.34	2.72	1.47	4.27	1.16	2.44	1.98	2.93	2.30	8.74
Error component A - B	4.39	10.09	13.00	3.24	6.05	4.49	9.53	3.3	8.93	3.06	17.50	8.5
Option A	0.41	1.52	-0.18	0.16	1.54	3.68	-4.81	2.12	-4.26	1.75	-0.03	0.09
Option B	0.29	1.11	-0.63	0.51	0.85	1.69	-4.50	2.1	-4.41	1.83	0.70	2.29
Current situation	-3.60	5.12	-8.68	2.35	-4.40	2.79	-9.69	2.6	-8.02	2.41	1.85	7.29
Log-Likelihood	-4,390.744		-4,518.679		-5,752.351		-5,110.501		-5,316.198		-6,403.621	
sample size	700		700		813		790		798		797	
number of parameters	16		16		16		16		16		16	

Table 5 WTP for each enhanced attribute (in € Germany PPP 2010)

ISBN: 978-9963-711-37-6

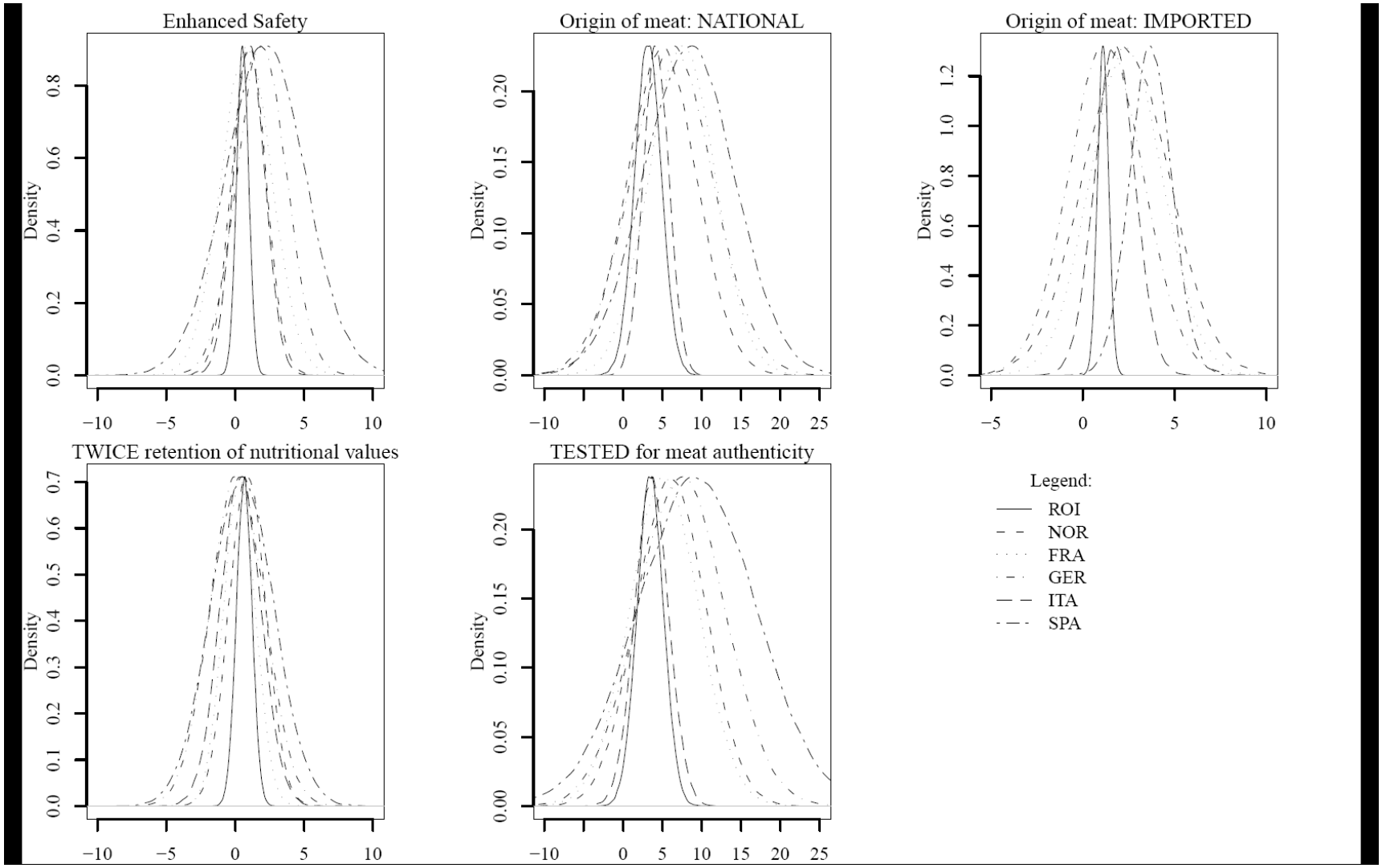

Figure 2 Kernel distribution of WTP for each attribute across the six countries

ISBN: 978-9963-711-37-6

The distributions presented in Figure 2 highlight how the mean WTP for enhanced nutritional value in RTH lasagne is very close to zero with little variation across and within countries, while for enhanced safety, even if WTP are close to zero, there is more variation across countries and little variation within Republic of Ireland but higher variation within the sample in Germany (which has the highest value together with Spain).

The willingness to pay for knowing the origin of the meat and for the test of authenticity is more controversial, presenting overall higher WTP but much more heterogeneous within each sample (with the sample from Republic of Ireland with a smaller variation and average WTP very close to zero). In particular, knowing that the meat is imported or national is most valued by respondents from Spain and least valued by respondents from the Republic of Ireland (with very little variation within both samples). Respondents from other countries show more heterogeneity.

DISCUSSION AND CONCLUSIONS

This study investigates consumers' preferences, attitudes and willingness to pay towards RTH lasagne including origin of the meat, whether the meat is tested as what is stated in the ingredients, safety of the lasagne, and nutritional value. We use a Discrete Choice Experiments administered in six countries – Republic of Ireland, France, Italy, Spain, Germany and Norway – to a total sample of 4,598 consumers. Results are coherent with priors and expectation and, analysing descriptive statistics and attitudinal questions it appears evident that the survey instrument worked well in all subsamples.

We add to the recent literature focused on consumer preferences and impacts of crisis and risk perception, by studying preferences for origin of the meat, whether the meat is tested as what is stated in the ingredients, safety of the lasagne, and nutritional value in fresh RTH lasagne. We use marketing to study how consumer confidence in the food safety regulation diminished due to a significant food safety incidents such as the "horse meat scandal". As Cope et al. (2010), we found significant impacts. This paper is not focussed on consumer risk perception and trust towards food product. From our results we could argue that, in marketing a RTH product such as fresh lasagne, meat authenticity and origin is more important than food safety and, as expected, nutritional value. This study contribute to the literature by firstly exploring preferences when fraudulent labelling has occurred as with the horse meat scandal, aiming at understanding consumer concerns about food safety and to highlight which issues cause the major concerns.

Our analysis indicates that consumers would welcome the enhancement of quality and safety in ready to heat lasagne, but that they do not feel they should pay for enhancing those two features. This is probably due to the fact that products are already considered safe once reheated in the microwave and

 ISBN: 978-9963-711-37-6

that when consuming RTH lasagne a person does not usually consider its nutritional value and vitamin retention. While we find many similarities across the six regions, we also observe some differences. The results show that all consumers have strong preferences for meat produced in their nation and for meat tested.

This can be the impact of the recent 'horse meat scandal' in Europe, as in that recent even, horse meat was found in RTH lasagne which stated that beef was the ingredient of the sauce. The results from RPL models in WTP-space, which account for heterogeneity within each sample, show that on average consumers are willing to pay about €4 to €9 to know that the meat they eat is authentic, with Italian and Irish least concerned and Spanish most concerned from a monetary point of view. Food safety is relatively less important as consumers are willing to pay €0.6 to reduce risk of food poisoning. Consumers also consider it important to support locally sourced meat with an average willingness to pay of €4 to consume lasagne produced with national meat. Primarily the results of this study present strong evidence that consumers in Europe are highly concerned about the authenticity of the meat declared on ready meals and strongly prefer to know that the meat is national. This evidence suggests that there is great value in providing information on these attributes, both from a consumer and, where this leads to an increased consumer confidence, from the food industry perspective, suggesting that there is great value in providing information on these attributes. In the highly competitive market for food, this suggests that local producers have scope to differentiate and add value to their products through enhancing the safety and quality of RTH meals by enhancing certain attributes such as food safety and origin labelling. A further important finding from this study is that strong regional differences in price premiums exist for these enhanced features. This suggests that food producers should consider tailoring their products for different markets.

The limitations of this paper are mainly related to the fact that the data were collected after the horse meat scandal and that no data from before the scandal is available. Furthermore, the attitudinal part of the questionnaire should be explored and interacted with the preferences' analysis in order to better explain heterogeneity.

ISBN: 978-9963-711-37-6

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 ISBN: 978-9963-711-37-6

GLOBAL COMMERCIAL IN LOCAL MARKETS: BEST PRACTICE FROM RED BULL?

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ABSTRACT

There is an extensive literature on adaptation of advertising to local cultures vs. "globalized advertising". Also the potential use of famous people in advertising has been extensively documented.

The frame of this work is based on a TV-commercial from Red Bull which is essentially global. This exploratory research compares perceptions and the related imaginations evoked among members of two cultures (Britain and France) after watching this commercial featuring national symbols of one culture (Napoleon Bonaparte and the famous French rapper Kaaris). The TV commercial consists of a cartoon film featuring Napoleon with an underlying rap song from Kaaris.

French and British adults were interviewed based on a structured questionnaire regarding the main and secondary message of the cartoon as well as their understanding of Napoleon as a historical figure.

Depending on their cultural background the interviewees associated very different feelings with the historical figure shown in the cartoon. Additionally the articulation and the style of the song were perceived differently in both cultures.

The original French version of the song criticizes the values of the French establishment which adheres to "Napoleon values" like meritocracy and order. The same lyrics translated into English did loose its aggressive critique of the "bourgeois society".

The results show that even though the film and the underlying lyrics are differently understood and interpreted among both audiences, the targeted marketing message is equally delivered. So we can conclude that Red Bull succeeded in adapting a global movie into two different local markets.

Keywords: *Publicity, Advertising, Red Bull, UK, France, Standardization, Adaptation*

 ISBN: 978-9963-711-37-6

INTRODUCTION

In 1983 Theodore Levitt published his seminal article on globalization of products (Levitt, 1983). Since then, scholars have debated about the usefulness of globalized, standardized products versus adapted products. This debate includes publicity as well. More recent literature favors adaptation of products and publicity to local tastes and culture (Light, 2013) and points out that cultural factors indeed explain differing brand acceptance (Mooij, 2010). Especially food advertising, which was for a long time to be considered a purely local type of advertising shows mixed results with regard to globalization and adaptation of publicity (Czarnecka *et al.*, 2013).

Red Bull, an energy drink from Austria, is marketed following a global standardized marketing strategy addressing young, energetic people loving to have fun (N.N., 2012). Apart from event marketing, Red Bull also uses traditional advertising, as i.e. TV spots. Red Bull is known for its cartoon-like commercials which center on the message that "Red Bull creates wings". They are standardized because the only adapted issue is the language as well as the countries the commercials are shown in. This article focuses on a TV ad published in 2012 which tells the story of French emperor Napoleon in a condensed version.

With regard to culture, humor, acceptance of conventions, France and Britain differ considerably within Europe. However, the Napoleon commercial of Red Bull has been screened in both countries in 2012 (and in others as i.e. Italy, Sweden as well as some Asian countries). This exploratory study is a pretest of a larger survey. It investigates if the Red Bull commercial evokes different feelings and meanings among UK and French citizens and if Napoleon actually conveys the brand's meaning.

The reminder of the article is structured as follows: the first section gives an overview of the literature with special focus on standardization and adaptation of the marketing mix. The following section explains the methodology of the study which is followed by a short discussion of results. The article finishes with a conclusion.

LITERATURE REVIEW

The article draws on different lines of literature that have to be reviewed. First, the literature on standardized and localized advertising has to be reviewed. Secondly, the reasons for the use of celebrities in commercials are analyzed.

Culture-bound advertising

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The debate of the adaptation of advertising to local cultures is almost as old as the debate about globalization. Within advertising, preference for culture-bound (emic) and culture-free (etic) advertising shift. The debate started already in the 1960s. In an article from 1965, Wadia, a cultural anthropologist, explained culture to marketers and advised them to identify global (universal) traits which can be used all over the world and local (cultural) specific traits and tastes where marketing has to be adapted. The final conclusion is that marketing is culture-bound and will be meaningless and boring if not adapted to local needs. Plummer (1977) later on proposed a concept of life-style measurement. Life style is characterized as commonalities in activities, interests and opinion as well as basic characteristics of people's living patterns. Across cultures people might share some aspects of life-styles and thus, life-styles can be used in order to distinguish between consumers in different cultures and address them with the most effective marketing specifically adapted to their mode of activity or being. Within cultures, different life-styles exist. Thus, he advised to tailor advertising to very specific groups within cultures but suggested that – since some commonalities in life-styles exist – certain aspects of the marketing approach can be kept across cultures. Kanso (1992) researches advertising strategies of Fortune 500 companies and finds out that most advertising is localized because thus it is better understood in the markets in question. Oosthuizen (2004) points out that due to standardization of marketing messages those are termed in a way to find the lowest common denominator across cultures. Thus, many messages are lost due to a different perspective of the receiver of the message. Gau (2007) compares German and French advertising from a linguistic point of view. She proves that advertising messages are coined differently for French and German consumers. French readers / viewers of commercials prefer a rather subtle, implicit and playful approach, making use of irony and sarcasm. Through the use of an image-rich language giving way for associations, French customers are challenged. Germans on the other hand are fact-based, information-seeking and readily accept use of English language as an indicator of novelty or modern products. Mooij (2010) complains that too much standardization in the communication process occurs because marketers are taught marketing theories coming from US or UK scientists. In both countries, individualism and low uncertainty avoidance prevail, thus, favoring a standardized marketing approach. She concludes that a differing cultural background will also lead to a different understanding of marketing messages.

In sum, all authors advocate an advertising strategy that takes note of the local culture because only this way, companies will create effective advertising. As a consequence, a research question is formulated:

R1: Do French people associate more or different meanings with the Red Bull advertisement since it uses symbols of French Culture?

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Culture-free advertising

After the appearance of the article of Levitt (1983) researchers started to investigate the usefulness of truly global, standardized advertising. Early advocates of standardized advertising are Domzal and Kernan (1994). They analyze identical ads shown in several countries and discern creative features that are globally understood. The sample covers different product categories. Ads featuring the brand in a visual and concrete way using real portrayals of e.g. logo or product are more likely to be understood across cultures. Use of excessive words and metaphors should be avoided. In general, they detect a higher usage of culture-free than culture-bound ads. Solberg (2002) conducts a survey among Norwegian multi-national companies and finds out that the globalized approach is still the one preferably used. In his literature he states that within advertising, practitioners have shifted between standardization and adaptation whereas academics have mostly recommended adaptation. His own research supports this finding since Norwegian managers prefer globalized to locally adapted advertising. He still advocates for a thorough understanding of the local cultures since he found out that those companies that were in regular contact with their local subsidiaries were able to produce more successful standardized ads. Thus, he implies that only thorough knowledge of foreign markets enables marketers to find a common denominator in order to enable standardization. Torres Moraga and Muñoz Navarro (2006) distinguish between three different types of cultures used in commercials in order to increase sales. Those are global, local and foreign (i.e. associating a commercial with a specific foreign country in order to benefit from the culture of this country. Examples are Switzerland for watches, Germany for cars). They find out that the global approach is the most commonly used one and the most promising one regardless of product category. Spielmann and Delvert (2014) try to answer the question if standardized advertising can include language and offer Globish as alternative. Globish is a lingua franca based on English with a restricted use of words and tenses. Thus, it appears to be English but is easier understood. Their respondents indicate that ads in Globish might indeed be an alternative for local brands to develop a standardized approach in promotion.

In sum, all authors advocate for a global standardization of advertising in order to benefit from the associated cost savings as well as the increased image (being perceived as a truly global brand). Red Bull is a very typical example of a global brand since it employs identical ads in all countries and only translates the contents. Consequently, a second research question is developed:

R2: Do French and English customers associate equal feelings with the Red Bull commercial?

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Glocal approach

Apart from a purely global or local approach, several researchers pointed out that globalization or localization depends on certain factors. In addition, not all elements of the ad need to be standardized or standardization can occur solely across a certain region of culturally similar countries (e.g. Latin America or Arab countries). Zandpour *et al.* (1994) develop a model to predict which parts of ads have to be adapted. They distinguish between creative strategy, informativeness and style and offer a guide how these elements need to be adapted with regard to the cultural dimensions developed by Hofstede. Duncan and Ramaprasad (1995) also recommend certain elements to be standardized, others to be localized. In a descending order strategy, execution and language can be object to standardization. Client perspective has to be taken into account in order to determine how much standardization is desired. Cervellon and Dubé (2000) note that food ads can only be standardized to a certain degree since they appeal to different customer groups. Given local tastes, certain aspects of food advertisement have to be locally adapted. In a sample of French and English Canadians who share the same nationality, food ads directed at the French speaking population emphasize pleasure whereas those directed at English speaking customer prioritize health aspects. In a more recent research, Czarnecka *et al.* (2013) contradict this viewpoint within the European Union where food ads tend not to be based on local cultures. Vrontis (2003) analyzes the degree of adaptation / standardization of all parts of the marketing mix. Advertising is an element that is rather locally adapted. The respondents indicated that the decision to adapt or standardize can vary and depends upon a series of factors as e.g. culture, market development, competition, laws, economic differences, sociological considerations and differences in consumer perceptions. Okazaki *et al.* (2006) point out that standardized advertising enhances performance. But global environment has to accept standardization. In total, three main factors influence standardization: external environment, strategy and internal organization. Melewar *et al.* (2009) mention similar aspects that guide standardization and localization: macro-environment, firm or industry characteristics and consumer preferences. As a consequence, Fastoso and Whitelock (2010) point out that much of the standardization of marketing mix elements as well as advertising occur on the regional level and not on a global level. Subsequently, strategies are glocal in nature. Jiang and Wei (2012) discover that US multinationals are very often adopting glocal strategies in advertising whereas European countries are more apt to adopt a global strategy. This might be driven by the impact of the common market that lies at the heart of the European Union and assumes less and less cultural differences.

In sum, these authors advocate for a certain degree of local adaptation of commercials.

The use of celebrities in advertising

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Research on the use of celebrities in advertising started in the 1950's. Two dominant models for explaining the convincing effect of celebrities are the source credibility model developed by Hovland *et al.* (1953) and the source attractiveness model from McGuire (1985). The source credibility model states that celebrities have a certain level of trustworthiness and expertise which increases confidence in consumers so that they change their attitude towards the brand. The source attractiveness model explains the change in buying behavior via similarity, likability and familiarity of the celebrity to the consumer, thus enabling consumers to convey their positive feelings towards the celebrity upon the brand.

The use of celebrities or heroes in advertising depends a lot upon the culture of the receivers of the ad. Not all celebrities are known everywhere in the world and not all do convey the same meaning all over the world. Thus, the use of celebrities in advertising generally implies a cultural-bound strategy. Scott (1991) analyzes the use of celebrities in advertising from ancient to modern times. She points out that already in pre-industrial ages, celebrities (e. g. Empress Josephine, Mme Pompadour, Napoleon) as "arbiters of taste" appeared. The permissions to associate their names with certain fragrances or clothing was a guarantee for immediate success. She concludes that viewers have to be familiar with the chosen celebrity and the chosen style of the copy in order to be able to fully understand the meaning of the ad. Erdogan (1999) gives guidelines (based on literature) on what to look for in a celebrity in order to increase their usefulness for the brand in question. The desired characteristics are attractiveness, trustworthiness, expertise, level of involvement, number of endorsements and audience characteristics. Here again, the notion is clear that the success of the celebrity also depends on the cultural characteristics of the audience. Biswas *et al.* (2009) undertake a cross-cultural study in India and the US in order to detect if celebrity endorsement has an equal appeal to citizens of both countries. They point to several cultural differences between the acceptance of the use of celebrities in US and Indian ads. Petty and D'Rozario (2009) find out that nowadays technology makes the appearance of dead celebrities possible, which is actually an advantage for the advertising industry since they are often cheaper to use and have an already established image that cannot change anymore and thereby damage the product in question. However, here trademark rights have to be settled with the heirs of the celebrity.

Taken together, all authors agree upon the fact that the chosen celebrity has to appeal to the consumer. This can only be the case if the celebrity and the consumer share a similar cultural background.

R3: Is Napoleon seen as conveying the meaning of the brand?

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METHODOLOGY

In order to research the global understanding of culture-free ads, Red Bull commercials were chosen. Red Bull standardizes commercials, often using no words at all except for the marketing slogan "Red Bull gives you wings" which is translated. Sometimes a song is added to the cartoon with lyrics describing the action in the movie. In the frame of this paper, we intend to perform an pretest as start for a larger survey which will then be mainly quantitative. For this first exploratory step, we developed a questionnaire to give us a direction on which type of questions to ask. We selected 5 English and 5 French people coming from the respective cultures and asked them to interpret a Red Bull cartoon with lyrics from a famous French rapper and describing the history of Napoleon. This cartoon was chosen because it represents national symbols and stands for certain aspects of French culture that people from other nations might not understand. However, apart from France the ad was screened in several other countries, including UK. The in-depth interviews, based on a structured questionnaire lasted approx. 30 minutes each and took place in March / April 2015. The commercial was displayed twice in order to understand the wording correctly and the respondents were asked about the main and secondary message of the cartoon as well as their understanding of Napoleon. For a better understanding, the cartoon is displayed in figure 1 and the English lyrics can be found in figure 2.

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Figure 1. *Red Bull Napoleon Cartoon (http://energydrink-fr.redbull.com/publicite#video/2515781548001)*

Now he was just a boy from Corsica. A math student with a decent score-sica. Then he helped all the big guys storm the Bastille, which made some people think he was the real deal. From Austria to Egypt and Italy, if you wanted something done he was the man to see. "I am the French emperor" he liked to say, the ones who disagreed well they didn't get to stay. Outnumbered by his enemies he found himself banished, to a place called Elba where he basically vanished. He managed to escape 'cause he knew a few things, like for instance Red Bull gives you wings.

Figure 2. *Red Bull Napoleon Cartoon Lyrics(own transcript)*

Comparing the French and English commercial, it has to be stated that they are not exactly alike. The pictures are identical. To keep the rhymes, the lyrics in French and English are similar but no exact translations. In English the word "score-sica" does not exist, it has been invented to rhyme better with "Corsica". In addition, the French ad is performed by a famous rapper (Kaaris) with a strong accent showing his immigrant (Arab) origins. The English song is also a rap, but with a standard British accent and no particular well-known performer.

The sample size of only ten persons is very small. The study was intended to pre-test the survey format for a larger research which will span different commercials in various countries to better test the understanding of global advertising. Thus, results with regard to content can only be indicative.

DISCUSSION OF RESULTS

Looking at the first research question ("Do French people associate more or different meanings with the Red Bull advertisement since it uses symbols of French Culture?"), the five interviewed French people indeed had a deeper understanding of Napoleon and interpreted the cartoon differently than the five British persons. The ad shows characteristics of Napoleon (position of his hand, shape of his hat, dress code, facial expressions, people around him, places where he is pictured) that are part of French history. Non-French people are not very familiar with these symbols. Whereas three of the British

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interviewees never noticed his facial expression and one person never recognized the people around him, in the French case only one person missed one of the characteristics, i.e. the shape of hat. On the other hand, the French recognized systematically the positioning of his hand (three persons) and the places where he was pictured (three). In the British case three persons noted systematically his dress code, the other artifacts and symbols remaining unnoticed. Overall, the French people recognized more symbols since they convey certain specific meanings that are listed below:

- The positioning of the hand is a symbol of good manners during the times that Napoleon lived in. It was not seen as being educated to have your arms hanging down. Since his clothes had no pocket he always stuck one hand in his coat. (La Salle, 1788)

- The shape of his hat was the typical French military hat during revolutionary times. He thus illustrates his closeness to the ideals of the French revolution. (Scully, 2011)

- His dress code is also a very typical military outfit of the times. Napoleon was very close to the military, entered military school at the age of ten and was always fond of the military. He is well known for his great strategies and his good command of the army. (Asprey, 2000)

- The people around him all symbolize parts of his life or his career. His first wife Joséphine is pictured as well as noble people dying on the guillotine. Even though Napoleon was from a noble family, he proclaimed his beliefs in a meritocratic society where everything was achievable. He himself did not live this ideal since he promoted his entire family to power once he had proclaimed himself emperor. (Lyons, 1994)

- The places where he is pictured conform to the phases of his life. He won battles in Egypt and Italy and was exiled to the Island of Elba from which he escaped, however, died later on without family and support on the island of St. Helène. (Prévot, 2011)

The five French respondents were able to recognize more of these symbols and interpret them correctly, contrary to the five Brits.

Asked for the main message of the cartoon, four of the five British interviewees answered that "Red Bull gives you wings" or "Red Bull gives you the ability to do the impossible". In the French case, two persons saw that "Red bull gives you wings" and three that "Red Bull gives you energy to overwhelm difficult situations". Thus, in this sense, both groups conform in their opinions.

Concluding, the French indeed see more meanings in the ad than the British people. Moreover, both groups agree on the main message which is central to Red Bull. Thus, the advertisement is not

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completely culture-free. It follows a glocal approach as suggested by Duncan and Ramaprasad (1995). This finding confirms the viewpoint of Czarnecka *et al.* (2013) and contradicts Cervellon and Dubé (2000). Despite different interpretations of the cartoon, both groups arrive at identical understandings.

The second research question asked if French and English customers associate equal feelings with the Red Bull commercial. When asked about their feelings, the British answered unanimously that the cartoon was "funny" or "entertaining" without interpreting other feelings into the ad. The French group differed in their feelings towards the ad. Even though at first glance most (three) commented that it was funny, after a moment they added other feelings, as for instance "it is shocking since the guillotine is nothing humorous", "original because Napoleon is well known but died without power and recognition", it is "incredible" or "ridiculous". Here, feelings differ between both groups. In any case, positive feelings were mostly cited.

This finding actually runs contrary to the suggestions of Domzal and Kernan (1994). The ad evokes universally positive (but different) feelings even though it uses rather complex wording (especially in the French case where the accent of the rapper makes understanding difficult) and metaphors that are not universally understood. Napoleon is known in both cultures but in both countries he is remembered for different deeds. Also, feelings among the British are neutral and therefore only the funny side of the commercial is seen. French people have a differentiated knowledge about Napoleon and do not only see the funny side of the commercial.

With the third research question, it was asked if Napoleon is conveying the meaning of the brand, i.e. gives you wings. Asked, if the commercial gave them wings, all respondents except for one French person answered "No". According to literature, the brand Red Bull can be characterized by the following adjectives: "energetic", "adventure loving", "recreative", "levity", "youthful", "brave / daredevil", "cool", "innovative", "nothing can stop you", "the world has no limits" (N.N., 2012). Except for "youthful" and "innovative" the respondents indicated that they could visualize all these aspects in the cartoon. Napoleon on the other hand is remembered for "meritocracy", "structure", "order", "military", "war", "despotism" (Bradley, 1975).

In this case the historic truth of Napoleon actually contradicts the meaning of Red Bull. These historic facts about Napoleon were only barely known by the British. For them Napoleon stands for "a small guy who achieved great things", "great French dictator who couldn't beat the British", "the French equivalent to Churchill". The French had a more differentiated viewpoint. This is actually conform to the statements of Scott (1991). For the French interviewees, the cartoon symbolizes a critique to the existing French society. Napoleon in their point of view stands for meritocracy, structure, mathematics,

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military and no tolerance (the old French ideals) whereas the rapper who sings is the exact opposite standing for opposing the rules and denying meritocracy. Kaaris has an immigrant background and stands for the hopeless youth of the poor Parisian suburbs. Thus, the juxtaposition of contemporary rap music performed by an assimilated-French person with a cartoon featuring establishment and structured life of Napoleon actually brings also the French interviewee to get the message "everything is possible (with Red Bull)".

Concluding, it can be said that for British persons Napoleon does indeed convey the meaning of the brand, whereas for French people only the combination of Napoleon and Kaaris convey the meaning of the brand.

CONCLUSIONS

Red Bull is known for its globally standardized provocative style of advertising and does not shy away from controversial topics. With the Napoleon cartoon, a glocal approach is chosen since only some elements of the commercial are standardized (advertising copy, lyrics, slogan) whereas others are not (language, performance, countries screened). Still, the ad does contain different meanings and implies different feelings in the consumer when looking at his / her cultural background. Napoleon, used as a celebrity to convey the meaning of the brand, also evokes different interpretations by the French and British customers.

Obviously, this study has certain limitations. The sample size is too small and results can only be indicative. In addition, results have neither been differentiated by age groups (knowledge of Napoleon might be higher among elder people), nor by consumer / non-consumer. Future research should include these aspects and also research why the cartoon has not been selected to be displayed in all markets served by Red Bull (the German speaking main market of Red Bull has been excluded as well as other European countries).

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 ISBN: 978-9963-711-37-6

INNOVATION IN FAMILY FIRMS: AN ITALIAN SURVEY

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ABSTRACT

Our main aim is to emphasise the relevance of innovation strategy, especially for small and medium-sized companies, to achieve long-run value creation and to guarantee the survival of the firm. In particular, relying on De Massis et al. (2012) and Gudmundson, Hartman and Tower (1999), we tried to understand how technological innovation investments can differ within family firms (FFs) and non-family firms (NFFs).

Using a quantitative approach, we combined the insights of the literature on innovation strategy in FFs and NFFs with the findings observed in empirical research.

This paper shows that FFs are more attracted to innovative strategy, as several scholars stated. In particular, FFs differ from NFFs in terms of their dynamism in innovation strategy, due to a mix of factors, such as their particular business activities and the flexibility of organizational structure, especially if the FF is a small or medium-size business.

This study has both theoretical and practical implications, as this issue is relevant both for the practitioners and for the literature, especially in a context characterised by economic crisis, as it indicates the importance of innovation strategy to FFs in achieving competitiveness.

Keywords: *family firms; non-family firms; family businesses phenomenon; innovation strategy; R&D investments*

INTRODUCTION

Family firms (FFs) are a world-wide phenomenon in Italy, as well as in Europe (Acquaah, 2013; Bresciani et al., 2013a and 2013b; Contò et al., 2014; Garcìa-Ramos and Garcìa-Olalla, 2011; Viassone, 2009; Vrontis and Viassone, 2013) and so many researchers have paid attention to this topic (Astrachan and Shanker, 2003; Claessens et al., 2000; Culasso et al., 2012 and 2013; Faccio and Lang, 2002; IFERA, 2013; La Porta et al., 1999; Morck and Yeung, 2004). For this reason, FFs are increasingly considered a driving force by both public opinion and policy-makers (AIDAF, 2011; Bresciani and Ferraris, 2012; Colli, 2013; Ferraris and Grieco, 2014; Mediobanca, 2013).

(Bresciani et al., 2013a and 2013b; Contò et al., 2014; Viassone, 2009; Vrontis and Viassone, 2013).

 ISBN: 978-9963-711-37-6

One of the dominant research topics in the family business phenomenon is innovation strategy. Innovation strategy may be considered as an instrument to achieve company growth (Bresciani, 2009 and 2010; Giacosa, 2012; Kraus, Pohjola and Koponen, 2012), help develop competitive advantages in the long-term (Galunic and Rodan, 1998; Geroski, Machin and Van Reenen, 1993; Greve, 2009; Menguc and Auh, 2006; Porter, 1985; Webb, Ketchen Jr. and Duane Ireland, 2010) and support the long-term survival of a company (Bresciani, Vrontis and Thrassou, 2013a; Brown and Eisenhardt, 1995; Carrasco-Hernandez and Jimenez-Jimenez, 2012; Drucker, 1985; Greenwood and Miller, 2010; Greve, 2007; Thompson, 1965).

For this reason, our main aim is to emphasise the relevance of innovation strategy, especially for small and medium-sized companies, to achieve long-run value creation and to guarantee the survival of the firm. In particular, relying on De Massis et al. (2012) and Gudmundson, Hartman and Tower (1999), we tried to understand how innovation investments can differ within family firms (FFs) and non-family firms (NFFs).

We focused on technological innovation in family businesses, which is a type of innovation which has been a popular topic of management research in recent years (Block, 2009; De Massis, Frattini and Lichtenthaler, 2013; Hoy and Sharma, 2010; Miller and Le Breton-Miller, 2005).

Using a quantitative approach, we combined the insights of the literature on innovation strategy in FFs with the findings observed in empirical research. We consider this issue relevant both for the practitioners and for the literature, especially in a context characterised by economic crisis, as it indicates an important role of innovation strategy in FFs to help improve competitiveness.

In this article, we first outlined the theoretical background of the FFs, drawing particular attention to the main issues of our paper. Then we looked at our research method, in terms of the sample and research approach used. In the fourth section, the discussion of the results is presented together with the conclusion. Finally, the implications of the study are given, along with the limitations of the research.

THEORETICAL BACKGROUND

Different elements of observation

Many scholars have focused on the tendency of family businesses to innovate, according to different elements of observation. The different types of innovation used by family businesses is useful to understand the context in which our research fits. There are different types of innovation (Covin and Miles, 1999; Giacosa, 2011; Tidd and Bessant, 2009), such as strategic innovation, administrative and organizational innovation, and technological innovation (Blundell, Griffiths and Van Reenen, 1999;

 ISBN: 978-9963-711-37-6

Crossan and Apaydin, 2010; De Massis, Frattini and Lichtenthaler, 2013; Freeman, 1976; Geroski, Machin and Van Reenen, 1993; Hult, Hurley and Knight, 2004; Porter, 1990).

This research focuses on the technological innovation.

Many scholars have focused on the tendency of family businesses to innovate, according to different elements, usually defined in the literature as products and processes. Even if the distinction between products and processes is not always clear-cut, it has important theoretical and practical implications for innovation strategy. For this reason, it's useful to analyse the various ways in which innovation strategy has been defined by the literature:

a) firstly, the distinction between internal and external innovation: the company may carry out the innovative strategy internally (with or without the help of external consultants) or externally, or adopt a hybrid solution (Chesbrough, 2003; Cohen and Levinthal, 1990; Pistrui, 2002; Re et al., 2014; Schilling, 2009):

b) secondly, the distinction between products and processes: the researchers analyzed the opportunities of the family business in terms of product and process innovation. Product innovation means a new product or an improvement of the intrinsic qualities of an existing product, producing a greater utility for the consumers compared with the existing products.

The tendency of family businesses to innovate

The literature focuses on the tendency of family businesses to innovate. Even if this topic could not be assessed in general, as it requires an in-depth analysis for an analyzed company (Hülsbeck et al., 2012; Uhlaner, Wright and Huse, 2007), we can group the researchers into two categories (Craig and Moores, 2006; Ducassy and Prevot, 2010; Culasso et al., 2013):

- researchers who claim that family businesses are less attracted by innovative strategies than non-family businesses: family businesses are less attracted by innovative strategies than non-family businesses, due to an aversion (Block, 2012; Chen and Hsu, 2009; Naldi et al., 2007) to an uncertain and risky innovative investment. This aversion is caused by several factors: the concentration of ownership in a few individuals (such as only family members or family members and managers) (Romano, Tanewski and Smyrnios, 2000; Schulze et al., 2001); a different long-term vision (Broekaert, Andries and Debackere, 2014; Chen and Hsu, 2009; Chrisman and Patel, 2012; Miller, Le Breton-Miller and Lester, 2011; Munari, Oriani and Sobrero, 2010; Naldi et al., 2007), the investment of all or a relevant part of the family assets in the business as major stakeholder (Anderson and Reeb, 2003; Anderson and Reeb, 2004), and the desire to maintain control after the generational handover and avoid debt financing (Le Breton-Miller and Miller, 2006). These factors cause more conservative behaviour as regards innovation (Chrisman and Patel, 2012; Cyert and March, 1963; Goel et al., 2012; Kellermanns et al., 2012; Stockmans, Lybaert and Voordeckers, 2010);

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- researchers who claim that family businesses are more attracted by innovative strategies than non-family businesses: family businesses consider innovation as a critical leadership imperative (Dana and Smyrnios, 2010; Poza, 2007), through which they can future-proof the family business (Bergfeld and Weber, 2011), develop and integrate new knowledge and competencies, and achieve good performance (Allison, McKenny and Short, 2014; Habbershon and Williams, 1999; Levinthal and March, 1981; Levinthal and March, 1993; Miller and Le-Breton Miller, 2006; Sirmon and Hitt, 2003; Spriggs et al., 2013; Uotila et al., 2009; Veider, 2014). A long-term vision (Cassia, De Massis and Pizzurno, 2012; Chua, Chrisman and Bergiel, 2009; Sirmon and Hitt, 2003; Uotila et al., 2009; Zellweger, 2007; Zellweger, Nason and Nordqvist, 2012) impacts on innovation strategy, as technological innovation is considered a means of achieving or maintaining the competitive advantage and growth in a long-term perspective (Astrachan, 2010; Cefis and Marsili, 2005; Zahra, Hayton and Salvato, 2004; Zahra, 2005; Zahra et al., 2008).

Lastly, we analysed the connections between research and development (R&D) activities and innovativeness in family businesses. R&D investments have been considered a primary source of innovation, due to their importance in creating new products and processes or improving current ones (Ahuja and Lampert, 2001; Bresciani, Vrontis and Thrassou, 2015; Bresciani and Ferraris, 2014; Hargadon and Sutton, 1997; Re et al., 2014). Even if these investments require time to produce effects (Bresciani, Vrontis and Thrassou, 2014 and 2015), family firms prioritise R&D investments, and benefit from these investments in the long-term (Zahra, Hayton and Salvato, 2004).

The development of R&D investments is supported by creating networks between the company and external parties, such as clients, suppliers, other companies, and universities and research centres (Ahuja and Lampert, 2001; Hargadon and Sutton, 1997). The creation of network permits to obtain higher benefits from the innovation investments, also in terms of brand perception (Thrassou and Vrontis, 2008; Thrassou and Vrontis, 2009; Thrassou and Vrontis, 2010; Vrontis, 1998; Vrontis and Paliwoda, 2008; Vrontis and Papasolomou, 2007; Vrontis and Thrassou, 2007; Vrontis and Thrassou, 2011; Vrontis, Thrassou and Czinkota, 2011; Vrontis, Thrassou and Pavlides, 2011; Westling, 2001).

METHODOLOGY

The research method

The aim of our work was to understand the relevance of innovation strategy, especially for small and medium-sized family firms. In particular, relying on De Massis et al. (2012) and Gudmundson, Hartman and Tower (1999), we compared FFs to NFFs in terms of their innovation investments. In line with the research objectives, the following research question has been developed:

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RQ: What is the intensity and what are the main features of the innovation strategy in FFs compared to NFFs?

The aim of this RQ was to understand what are the characteristics of the innovation strategy in FFs compared to NFFs, especially considering the Italian context. As we stated in the Introduction section, the FFs phenomenon is widespread in Italy, as well as in Europe, whose economic environment is characterized by the presence of numerous small and medium-sized companies, often family-firms (Mediobanca, 2013), having a positive impact on the country competitiveness.

The research methodology was structured around the following phases:

- in the first phase, we made a literature review on innovation strategy in FFs and on the role of R&D investments in these processes. This literature review highlighted the relevance of R&D investments as a primary source of innovation, due to their importance in creating new products and processes or improving the current ones;

- in the second phase, we conducted an empirical analysis using questionnaires, randomly selecting companies operating in the Piedmont area, located in the north-west of Italy. The approach used was both qualitative, analysing the empirical evidence, and quantitative, measuring information.

The questionnaire was composed of quantitative and qualitative data, managed by a particular software called Monkey Survey, and analysed using statistical tools. It allowed us to collect a significant amount of data, which permitted statistical analysis and drawing up generalizations (Zimmerman, 2001). The questionnaire was created in June 2014 and sent to the companies in the months of July, August and September 2014. The questionnaire was structured in two sections: first section: focused on general data of the companies (corporate name, number of employees, revenue, economic sector, legal form, year of foundation, and the distinction between FFs and Non-Family Firms, NFFs); second section: collected information on research and development (R&D) investments (% in R&D investments, employees involved in R&D projects, aims and scope of R&D projects).

In the questionnaire, companies indicated their own activities allowing us to classify the companies into different sectors. Furthermore, as instructed by guidance in the questionnaire companies made clear whether they belonged to the FF group or the NFF group. The following research focuses on the FF and NFF groups with the intention of analysing their R&D activities.

The following variables are considered for analysis: R&D investments in the last 5 years; the percentage of the R&D investments as compared to the total revenue; the reasons for internal R&D activity; the reasons for external R&D activity.

The sample

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Our sample was made up of 3.900 companies (thanks to the collaboration of Chamber of Commerce of Turin in June, 2014). We considered only active companies (that were not in closure or in settlement procedure) whose legal head office was in Piedmont, a region in the north-west of Italy), with revenues between 5 and 250 million (referring to CE 364/2004, adopted in Italy on the 1st of January 2005, that separates companies into four different groups based on their size). The sample companies belonged to different economic sectors (manufacturing, services, trading, craftsmanship, agriculture and farm animals).

We excluded micro-companies and the smallest ones (< 5 mln € of revenues), as we wanted to focus on small to medium-sized firms, due to the low incidence of big companies in the sample (about 3%). We then chose randomly chose the 1.800 companies using software to which the questionnaire should be sent.

Finally, 309 companies (18%) returned the filled questionnaire using the same software. So, our final sample was made up of 309 companies. Compilation time was about 3 months.

In terms of the revenue of the companies, the highest percentage of frequency per revenues grouping (2013 fiscal year) is between 5 and 20 mln € (11.5%). Beyond 20 mln € percentages gradually decrease, till there are only 3% of companies that exceed 100 mln €.

In terms of employees in 2013, half of the companies have between 10 and 49 employees (50.20%). A significant percentage of the firms have between 50 and 249 employees (34.9%). A very low percentage of the companies have more than 250 employees (6.02%). This confirms that the sample mainly consists of small-medium firms.

We asked to the companies of the sample to indicate if they belonged to the FFs group rather than to NFFs one, following a specific criterion explicated in the Guide of the questionnaire. The criterion was a mix criterion (Chua, Chrisman and Sharma, 1999), that is:

- a control participation in the capital by the family/ies; and
- the presence in the Board of at least one family member.

Once distinguished the sample in FFs and NFFs, the research focused on the FFs group compared to NFFs with the intention of individualising their features of innovation strategy.

Only 276 companies indicated their belonging to the FFs/NFFs group and 132 (47,8%) of them declared to be a FF (see Table 1).

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	Response Percent	Response Count
FFs	47.8%	132
NFFs	52.2%	144
Answered questions	276	
Skipped questions	33	

Table 1. The final sample

FINDINGS

In this section, the findings are presented in relation to the following points:

- The relevance of R&D investments comparing FFs to NFFs;
- The different configurations of innovation comparing FFs to NFFs.

The relevance of R&D investments comparing FFs to NFFs

We stated before that the literature outlined the relevance of R&D investments with regard to innovation. For this reason, we verified this assumption in our sample, also comparing FFs to NFFs.

First, we compared FFs and NFFs in terms of their R&D investments in the last 5 years (see Table 2).

	FFs		NFFs	
	Response Percent	*Response Count*	*Response Percent*	*Response Count*
Yes	66.0%	62	56.6%	64
No	34.0%	32	43.4%	49
Answered questions	94		113	
Skipped questions	38		31	

Table 2. R&D investments in the last 5 years

It can be seen that FFs are more likely to invest in R&D than NFFs: 66% of the FFs made R&D investments in the last 5 years, against 56.6% of NFFs. This demonstrates that innovation is considered to be a critical factor for FFs (Dana and Smyrnios, 2010; Poza, 2007), thanks to its future-proofing (Bergfeld and Weber, 2011) and developing new knowledge and competencies (Allison, McKenny and Short, 2014; Habbershon and Williams, 1999; Levinthal and March, 1981; Levinthal and March, 1993; Miller and Le-Breton Miller, 2006).

This evidence has been thoroughly analyzed, with the aim of quantifying the R&D investments in terms of the total revenue (see Table 3).

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	FFs		NFFs	
	Response Percent	Response Count	Response Percent	Response Count
0-2%	47.9%	34	54.5%	42
2-5%	32.4%	23	28.6%	22
5-10%	18.3%	13	14.3%	11
10-20%	0.0%	0	1.3%	1
20-50%	1.4%	1	1.3%	1
20-50 %	0.0%	0	0.0%	0
Answered questions	71		77	
Skipped questions	61		67	

Table 3. The percentage of the R&D investments on the total revenue

It emerged that FFs are more inclined to innovation strategy than NFFs: 32.4% of FFs have made R&D investments at the level of 2-5% of the total revenue (against 28.6% of NFFs). 18.3% of FFs fit into the range of 5-10% of the total revenue, against 14.3% of NFFs. 1.4% of FFs fit into the range of 20-50% of the total revenue, against 1.3% of NFFs.

This demonstrates long-term vision in the FFs investments strategy (Cassia, De Massis and Pizzurno, 2012; Chua, Chrisman and Bergiel, 2009; Sirmon and Hitt, 2003; Uotila et al., 2009; Zellweger, 2007; Zellweger, Nason and Nordqvist, 2012), as technological innovation is a means of achieving or maintaining the competitive advantage in the long-term (Astrachan, 2010; Zahra, Hayton and Salvato, 2004; Zahra, 2005; Zahra et al., 2008).

The different configurations of innovation comparing FFs to NFFs

Several researches distinguished between internal and external innovation, or a mixed solution (Chesbrough, 2003; Pistrui, 2002; Re et al., 2014; Schilling, 2009). We then analyzed these different configurations in our sample (see Table 4).

	FFs		NFFs	
	Response Percent	Response Count	Response Percent	Response Count
Internal innovation	40.6%	26	61.6%	45
External innovation	7.8%	5	5.5%	4
Both	51.6%	33	32.9%	24
Answered questions	64		73	
Skipped questions	68		71	

Table 4. Who performs the R&D activities in the company

FFs prefer a mixed solution (51.6%), while internal innovation is chosen in 40.6% of the cases and external innovation in 7.8% of the cases. NFFs prefer internal innovation (61.6%); external innovation is chosen in 5.5% of the cases and the mixed solution is preferred in 32.9% of the companies.

Referring to *RQ*, we then looked at the reasons for different configurations of innovation strategy:

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- internal configuration;
- external configuration;
- mixed configuration.

A) Internal innovation

The reasons for this internal innovation strategy are then illustrated (see Table 5).

	FFs		NFFs	
	Response Percent	Response Count	Response Percent	Response Count
High competences	50,0%	11	56,7%	17
High effectiveness	13,6%	3	20,0%	6
High reliability	9,1%	2	0,0%	0
Strategical reason	22,7%	5	13,3%	4
Small dimension	4,5%	1	10,0%	3
Answered questions	22		30	
Skipped questions	110		114	

Table 5. The reasons for an internal R&D activity

In FFs, internal innovation is chosen for several reasons: firstly, the innovation activities require high competences (50%) and effectiveness (13.6%) and reliability (9.1%): a high level of control over the product development process, and a total perception of the activity and results. In addition, internal innovation is preferred for strategic reasons (22,7%). Lastly, a small-sized family firm could prefer internal innovation to save money: when the company belongs to a particular economic sector, using external consultants may be expensive. The need to save money may have an impact on this choice.
Choosing internal innovation emphasizes the role of ideas from employees belonging to several functional areas and incentivising them (Bresciani, Vrontis and Thrassou, 2012), increasing the perception of the value of the brand by the family members (Abdellatif, Amann and Jaussaud, 2010; Webb, Ketchen and Ireland, 2010) thanks to an improved customer perception of that brand (Appel, 2001; Keller, 2003; Thrassou and Vrontis, 2008; Thrassou and Vrontis, 2009; Thrassou and Vrontis, 2010; Vrontis and Thrassou, 2007; Vrontis and Thrassou, 2011; Westling, 2001).

B) External innovation

We then verified the reasons for using external innovation (see Table 6).

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	FFs		NFFs	
	Response Percent	Response Count	Response Percent	Response Count
High competences	71.4%	5	0.0%	0
Introduction of new competences	14.3%	1	0.0%	0
A continuous investment is not possible	14.3%	1	33.3%	1
A specific company of the group is dedicated	0.0%		33.3%	1
Effectiveness	0.0%		33.3%	1
Answered questions	7		3	
Skipped questions	125		114	

Table 6. The reasons for an external R&D activity

The reasons are several: firstly, the higher competences of the external parties (71.4%), especially when it's necessary to introduce new competencies (14.3%). Lastly, when a continuous internal investment is not possible, it's better to use external solutions.

Comparing the recourse to internal or external solutions, it emerged that FFs of the sample don't prefer external solutions, as family firms wish to maintain ownership and control of the firm and the innovation strategy and avoid any conflicts of interest (Gomez-Mejia, Makri and Larraza-Kintana, 2010; Kim and Lee, 2008). There are several reasons: firstly, the protecting the brand, avoiding the risk that the external parties may not be aligned with company values and to company characteristics; secondly, the risks that the external parties may not be able to integrate with the firm's organizational framework (Teece, Pisano and Shuen, 1997), generating useless or less effective results.

C) Mixed solution

The majority of the FFs of the sample prefer a mix of internal and external innovation, as it allows the business to combine internal resources and attitudes with the assistance of external experts. This solution permits both an attachment to the family values and traditions, and the benefits of the external parties' attitudes, increasing the likelihood of a higher degree of innovation.

A mixed solution can come from a strong relationships between the company and external research institutions and/or universities. These relationships are more widespread in FFs than NFFs. Creating networks between the company and some external entities (such as external research institutions and universities) may be considered a source of development and competitiveness for the company, thanks to a combination of different resources, skills and attitudes (Colombo et al., 2012; Flatten, Greve and Brettel, 2011; Giacosa, 2012; Nieto and Santamaría, 2010).

CONCLUSIONS, IMPLICATIONS AND LIMITATIONS

Innovation represents a key factor to obtain and increase company competitive advantages. It influences the knowledge and resources available to a family firm and positively impacts on the productivity of the innovative efforts made.

ISBN: 978-9963-711-37-6

Many scholars have analyzed the family business tendency to innovate, aiming to correlate entrepreneurial orientation with innovativeness. A first group of studies stated that FFs are less attracted by innovative strategies than NFFs: this is due being more risk averse, as innovative investments tend to be risky and uncertain. A second group of studies claimed that FFs are more attracted by innovative strategies than NFFs, due to a greater long-term vision.
When considering a small-sized family firm with limited resources, a mixed solution of internal and external innovation may create a close and profitable interaction, improving mutual knowledge between employees and external parties, sharing the company values and the innovative external ideas.

This paper shows that FFs are more attracted to innovative strategy, as several scholars stated. In particular, FFs differ from NFFs in terms of their dynamism in innovation strategy, due to a mix of factors, such as their particular business activities and the flexibility of organizational structure, especially if the FF is a small or medium-size business. The involvement of family members impacts on the innovativeness of the company, influencing the decision-making process, both in managerial and creative terms.

Thanks to a more long-term vision in their investment strategy than NFFs, the innovation activity is a factor for competing in a complex contest, as the corporate brand is a long-term asset which needs a long investment for its valorization. Due to its frequent specialization, the company has to possess strong attitudes and skills, also in innovative context, without which it will not perform better.

Lastly, the majority of the FFs in the sample prefer a mix of internal and external innovation, creating great relationships with other external parties concerning their R&D activity.

This choice allow them to combine internal resources and attitudes with the assistance of external experts: maintaining an attachment to the family values and traditions, whilst obtaining the benefits of external parties, increases the possibility of a higher degree of innovation. When this relationship with external parties is based on trust, these relations allow the company to access a series of important resources owned by those parties, increasing the likelihood of company survival.

This study has both theoretical and practical implications, as this issue is relevant both for the practitioners and for the literature, especially in a context characterised by economic crisis, as it indicates the importance of innovation strategy to FFs in achieving competitiveness:

- the theoretical implications are linked to the relevance of innovation investments for FFs against NFFs: using a quantitative method, this paper confirmed that FFs are more attracted to innovative strategy, as several scholars stated. The present paper can be considered as a development in the

 ISBN: 978-9963-711-37-6

research studies of the family business phenomenon and, in particular, it contributes to the literature concerning the role of the innovative strategy in FFs.

- the practical implications of our study are relevant for family businesses operating. The study confirmed the relevance of innovation efforts in terms of products and processes throughout the production and distribution chain, which could impact on the company competitive advantage. This information is useful for the family, the management and the external consultants, to understand the effects on innovative investments and for making a more conscious decision making process, also adjusting the theoretical best practices on innovation management to the family firm's features.

In order to overcome the limitations of this study, suitable econometric models could be used to simulate the impact of a series of exogenous and endogenous variables on the innovative strategy. Additionally, it would also be interesting to differentiate product innovation from process innovation, as these activities are characterized by different aspects and difficulties. Lastly, it would be so interesting to divide the sample in terms of the company size, distinguishing small-sized from medium-sized FFs and NFFs.

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 ISBN: 978-9963-711-37-6

CHINESE DIRECT INVESTMENTS IN GERMANY: DEVELOPMENT AND IMPLICATIONS

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ABSTRACT

During the last decade China increased its foreign direct investments significantly. Following the governmental strategy of "Swarm out" mergers and acquisitions took place all around the globe including a significant number of investments in Germany. These investments were discussed in German Mass Media controversially. Where some protagonists assume economic growth and benefits for the companies involved others have the fear of a huge knowledge drain from Germany to China. This led to the idea to do some research on the development and implications of Chinese direct investments in Germany. To investigate the development different statistics were analyzed. To learn more about the implications semi-structured interviews were conducted on the basis of a semi-structured questionnaire. Out of the total M&A´s undertaken by Chinese investors in Germany during the period of 2000 and 2013 seven interview partners were chosen. The findings are promising, a huge portion of the interview partners is convinced that the Chinese investment led more or less to a win-win-situation for both sides. Based on the main findings a conclusion is drawn and an outlook is given.

Keywords: *China, Germany, FDI, M&A*

INTRODUCTION

The People's Republic of China (PRC) is the most populous country and one of the biggest economies worldwide. In the past, China wanted to attract foreign investors for different reasons which are the creation of new jobs, the access to know-how and technology and the raise of the standard of living (Fung et al, 2004 and Britzelmaier and Xu 2012). The policy changes concerning foreign direct investments (FDIs) were incremental. Starting in 1978, the first step was the establishment of special economic zones, like the provinces of Guandong and Fujian or the cities of Shantou, Shenzhen, Zhuhai and Xiamen, which were opened for foreign investments. This first stage was followed by policy incentives, like the Provisions of the State Council of the People's Republic of China for the Encouragement of Foreign Investment, beneficial tax policies and financial support. In 2001, China joined the World Trade Organization (WTO) which is seen as a starting point for an extensive liberalization of their economy (Fung et al, 2004 and Ministry of Commerce, 2010).

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走出去 – Zou Chu Qu - "Swarm out!": This was the obligation for Chinese companies by the People's Republic of China after it joined the World Trade Organisation (WTO) in 2001. Furthermore, it was the strategy behind China's Going Global Policy introduced in 2000 to enhance investments abroad.
China's outward foreign direct investments (OFDIs) increased by 1,833.05% from 2000 to 2012 (Berners and Fritz, 2012). Thus, the development of Chinese OFDIs accelerated considerably since 2000 and the direction of FDIs between Germany and China has changed from one-way direction to a two-way direction (German Federal Bank, 2014) In Germany Chinese OFDIs have risen by 884.08% between 2001 and 2012 (German Federal Bank, 2014). Up to now there is no study having investigated and analysed the impact of Chinese OFDIs on German companies. The primary purpose of this paper hence is to analyse the implications of Chinese OFDIs on German companies. In order to analyse these implications, qualitative semi-structured interviews were conducted. The experiences made by German companies with Chinese investors are basis to derive implications of Chinese M&A transactions with German companies.

CHINAS OUTWARD FOREIGN DIRECT INVESTMENTS

The internationalisation process as shown in figure 1 and described by *Rugman/Collinson (2009)* explains that foreign markets can be entered in different ways. The final stage of foreign involvement - associated with high cost, high risks and opportunities as well as high control - is undertaking FDI (Rugman and Collinson, 2009;Stonehouse et al, 2000). According to the free market view, FDI is an instrument to increase overall efficiency of the world economy (Hill, 2012).

Figure 3: Foreign market entry: the internationalisation process (Rugman/Collinson (2009), p. 42.

Rising trade liberation enhances international business by the way of FDI flows (Rugman and Collinson, 2009; Rugman and Verbeke, 2009). Consequently, FDI undertaken by Multinational

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Enterprises (MNE) is described as the engine of globalisation (Baßeler et al, 2010). Figure 2 shows a remarkable rise of OFDIs since 1997 with a heavy decline between 2000 and 2002. This development can be explained by increasing M&A transactions of MNE (Fuchs and Apfelthaler, 2009). Through the course of history, foreign investments had been restricted tremendously. In the 1960s and 1970s, states were willing to expropriate and nationalise the property of foreign investors. Today, countries are competing to attract foreign investors by offering preferential treatments or financial incentives (Spar, 2009).

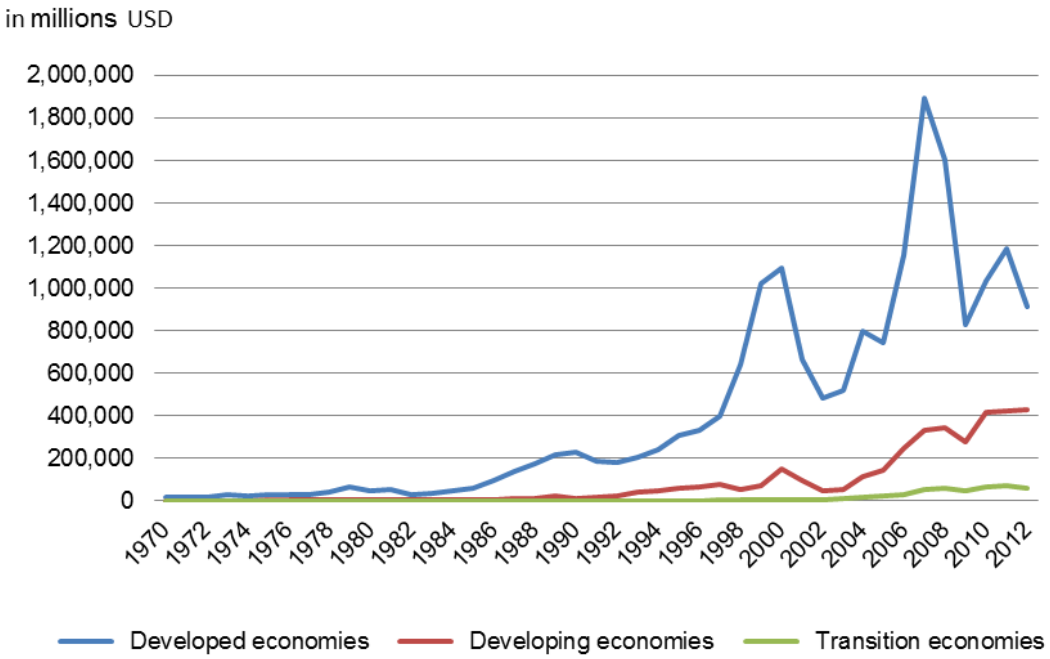

Figure 1. Development of OFDI from 1970-2012 (http://unctadstat.unctad.org/TableViewer/tableView.aspx)

FDI is often seen as an outcome of existing location advantages (Rugman/Verbeke (2009);Fuchs/Apfelthaler (2009) and Dunning (2000)) differentiate between four intentions for the engagement in FDI as the following:

1) natural resource seeking FDI
2) market seeking FDI
3) efficiency seeking FDI
4) strategic asset seeking FDI

Beside listed main FDI motives, literature reveals some more motives. Rugman/Verbeke (2009) specify escape investments and trade supporting investments. The latter is undertaken to promote home country imports or exports on the basis of host country location advantages. Escape investments are

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intended to prevent restrictions in the investor's home country which are not existent in the host country, e.g. restrictions on animal tests or restrictions on financial services provided to customers.

The development of Chinese OFDIs can be divided into the following five stages:

1. Internationalisation - Open-Door Policy (1979-1985)
2. Liberalisation and Encouragement (1986-1991)
3. Expansion and Regulation (1992-1998)
4. Implementation - Going Global Policy (1999-2001)
5. Post-WTO period (since 2001)

In figure 3, these five stages and consequently, the development of China´s OFDI is visualised. Especially since 2001, the Post-WTO period, an intense growth is notable. According to OECD's annual World Investment Reports, data for China do not include those for Hong Kong Special Administrative Region (Hong Kong SAR), Macao Special Administrative Region (Macao SAR) and Taiwan Province of China.

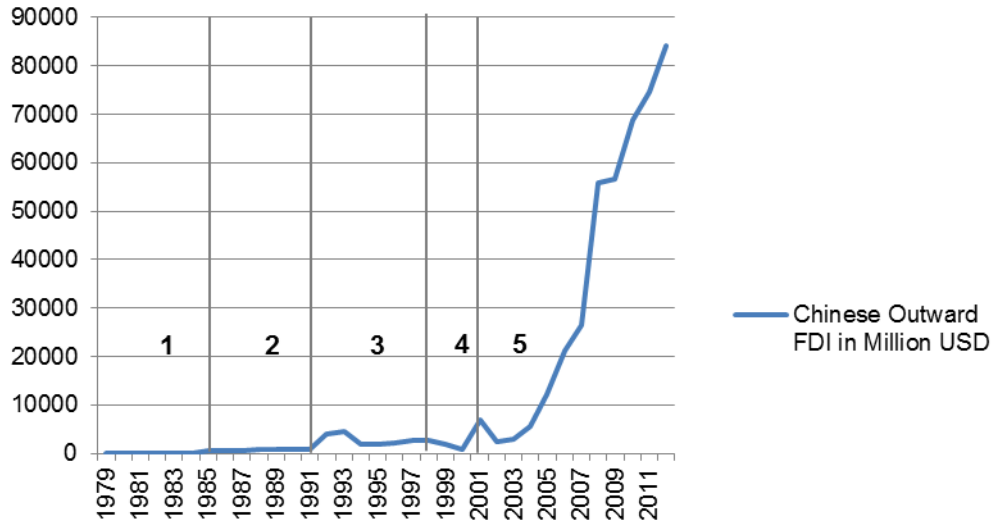

Figure 2: Development Chinese OFDIs since 1979 (http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=88)

The development of China´s OFDIs from 2001 to 2012 is shown in figure 4. Since 2001 a strong and consistent increase of Chinese OFDIs can be recognised. Ultimately in 2012 they achieved a volume of approximately 84 billion USD.

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Figure 4: Post-WTO period (http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=88

Regarding the development of China's OFDI stock by industries which as released by the Chinese Ministry of Commerce as illustrated in figure 5, it shows that the most OFDIs are contributed to the Leasing and Business Service Sector. However, the sector Banking, Real Estate, Lodging and Scientific Research experienced the highest rise, especially due to the Banking sector. Third position reaches the Manufacturing, production and logistics sector followed by Mining, Wholesale and Retail Trade, Information Technology and the Social sector which aggregates several sub-sections such as Services to households and water conservancy, environment and public facilities management to name the most important ones. The sectors conclude with Agriculture, forestry, husbandry and fishing.

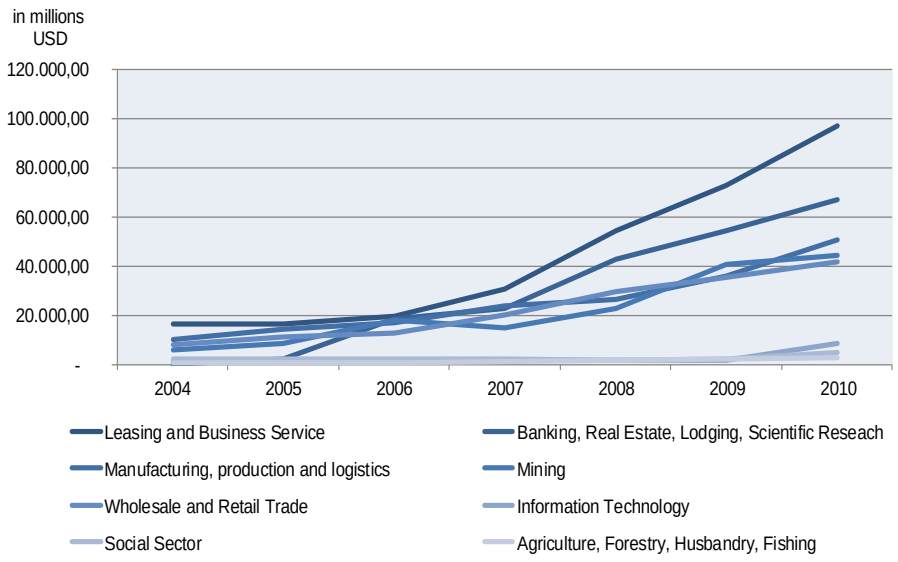

Figure 5: Development of China's OFDI stock by industries (http://images.mofcom.gov.cn/hzs/accessory/201109/1316069658609.pdf)

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GERMANY AS A TARGET DESTINATION FOR CHINESE OFDIS

The European attractiveness survey created by Ernst & Young in 2011 shows that especially in a fast changing business environment, international decision-makers are looking for investments which are protected by the rule of law, a location with a well-developed logistics and telecommunications infrastructure as well as potentials to increase the productivity of the company. The results of the survey with 812 respondents are displayed in the following figure.

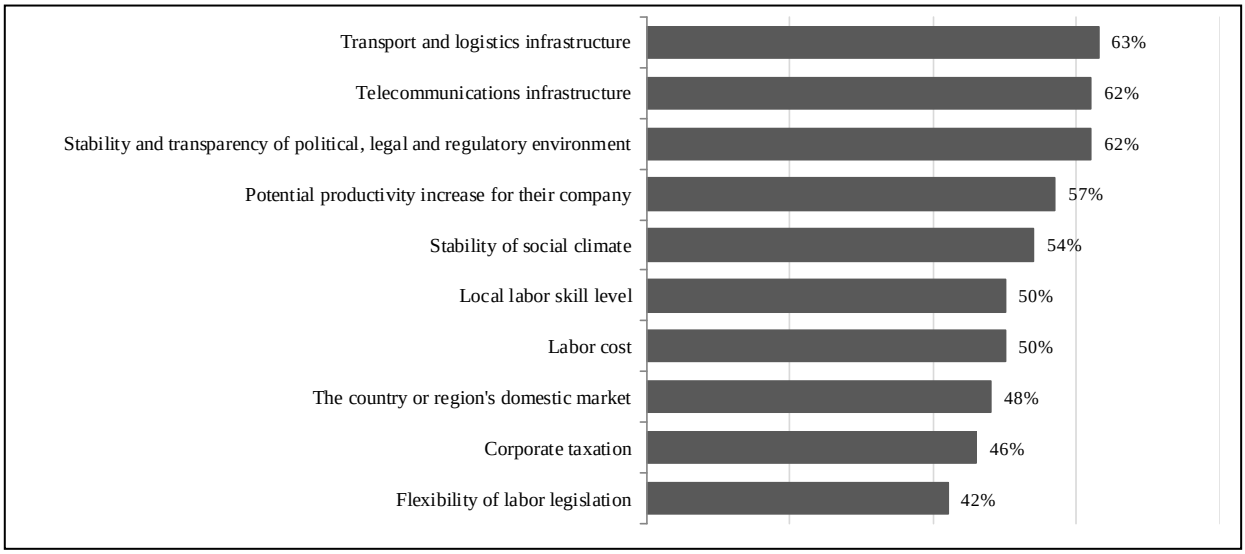

Figure 6:. Crucial factors for decision on a location to establish operations (Ernst & Young, "Restart – Ernst & Young's 2011 European attractiveness survey," Ernst & Young, 2011. http://www.ey.com/Publication/vwLUAssets/Europe_attractiveness_2011_web_resolution/$FILE/Europe_attractiveness_2011_web_resolution.pdf).

Another survey based on 814 international decision makers about the attractiveness of investments regions figured out, that Western Europe is the second most attractive region worldwide after China, followed by Middle-East Europe and North America. Looking at the development of attractiveness, Western Europe lost its top position successively. In 2006 68% of respondents assessed Western Europe as the most attractive region in the world, whereas in 2010 this percentage declined to 38. The attractiveness estimation of Germany in this time slightly reduced from 18% in 2006 to 12% in 2010. Focusing on single countries Germany is ranked on the 5th place after the emerging countries China, India and Russia and the economy of the USA. The attractiveness of a region in this case is determined by the factors image, trust of investors and the estimation that the region offers the most potential for the foreign investor (Englisch, 2010). Looking at the European countries foreign direct investments went in 2011, the United Kingdom maintained its position as leading FDI destination but fell by 7%. Germany ranked on 2nd position and therefore outpaced France. Germany benefits from its position as

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leading economy in Europe, from strengths in manufacturing and exporting and a positive economic outlook (Ernst & Young 2012). Last named is also reflected by the expectation of decision makers, that Germany will profit by a high degree of the financial crisis (Englisch, 2010). Table 1 shows the Top 5 European countries for FDI in 2011 and the recent development.

Rank	**Country**	**Number of projects**					**Number of jobs 2011**
		FDI projects 2010	FDI projects 2011	Change 2010 vs. 2011	Change 2009 vs. 2010	Share of total FDI 2011	
1	United Kingdom	728	679	-7%	7%	17%	29,888
2	Germany	560	597	7%	34%	15%	17,276
3	France	562	540	-4%	6%	14%	13,164
4	Spain	169	273	62%	-2%	7%	9,205
5	Netherlands	115	170	48%	6%	4%	2,229
	Others	1,632	1,647	1%	N/A	43%	86,062
	Total	**3,757**	**3,906**	**4%**	**14%**	**100%**	**157,824**

TABLE 1. TOP 5 EUROPEAN COUNTRIES FOR FDI (Based on Ernst & Young 2011 and 2012)

More than one third of all FDI project can be allocated in the three main engines business services and software, automotive as well as innovation and technology. As requirements for these engines, investors expect a high educational level, high research and development expenditures and well-developed automotive industry (Ernst & Young 2012). The discussion shows, that especially the infrastructure, the qualification of the employees, the availability of research and development are crucial factors for the attractiveness of an investment region. The survey of Ernst & Young identified for the German economy a high assessment in the location factors logistic infrastructure (85% very appealing or fairly appealing), communications infrastructure (82%), qualification level of employees (82%) and in the availability and quality of R&D (78%). This estimation is also verified by a study of the *American Chamber of Commerce in Germany (2012)* and is reflected by the development of Chinese ODIs in Germany which is displayed in Figure 7.

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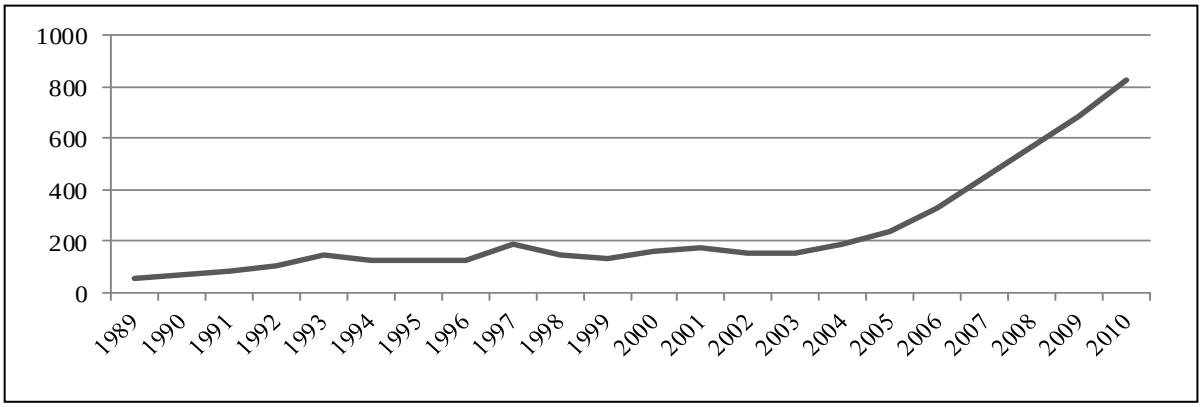

Figure 7: Chinese ODI in Germany (unit: DM/EURO millions)

RESEARCH DESIGN

The objective of the study is to analyse the implications of Chinese OFDIs on German companies. To meet the target, qualitative primary data is raised through semi-structured interviews with German companies which have a Chinese investor.

In the study, investors from China's mainland are considered and hence, FDIs from Hong Kong, Taiwan and Macao are ecluded. Furthermore, M&A transactions are analysed whereas greenfield investments are excluded because of the lack of a German company history.

Therefore, the Sino-German M&A transactions from 2000 until 2013 were identified. On this basis, a sample according to branches was specified and a semi-structured questionnaire as guideline for the telephone interviews was developed. Consequently, qualitative primary data was raised. In order to validate and check the comprehensibility and the clearness of the questions, the qualitative interview guideline has been pre-tested with one company. After the pre-test, marginal changes have been undertaken. Thus, the interview guideline is validated and the pre-test could be included in the analysis as well. The final version for the semi-structured questionnaire is presented in the appendix.

An interview request has been sent to the companies of the. Finally eight company representatives could be interviewed.

Findings

By aggregating all challenges into one illustration as shown in figure 8, it becomes obvious that examined challenges are categorised more often as very big and big challenge compared to small challenge or no challenge. Consequently, participating companies still face considerable challenges with the linguistic and cultural challenge at the top. Due to significant differences between Chinese and German culture, approaching the Chinese investor demands a totally different thinking. According to one respondent, doing business requires to understand the Chinese investors' organisation and

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subsequently to stick to the rules of the Chinese investor. Consequently, doing business with the Chinese investor starts running well.

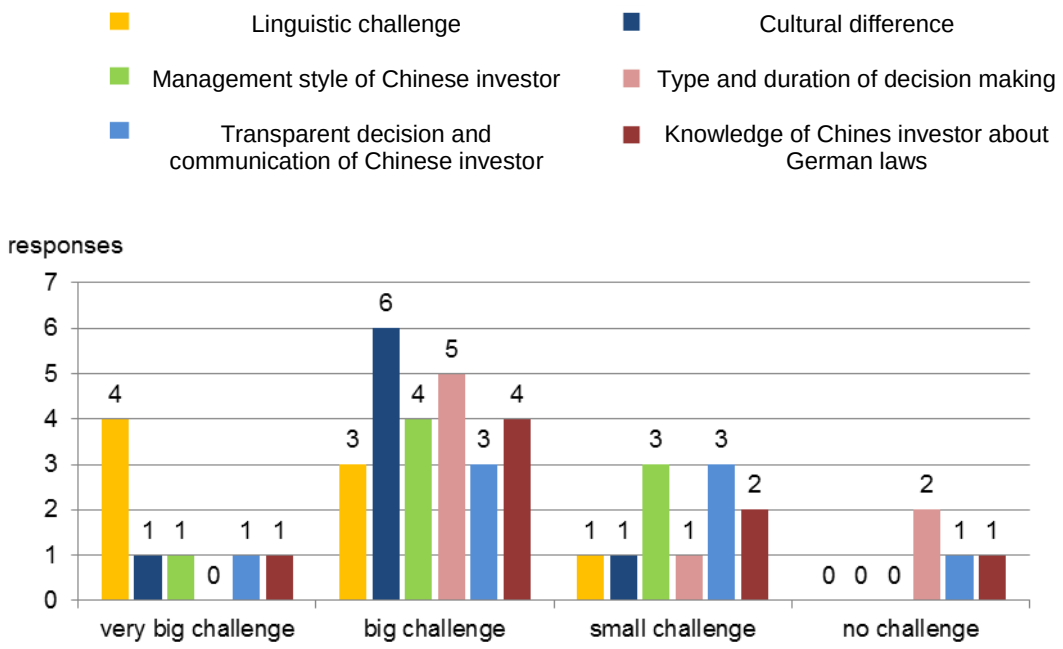

Figure 8: Challenges of collaboration with Chinese investors

As indicated in figure 9, the collaboration with the Chinese investor was classified by five respondents as positive, by two even as very positive and one does not specify the collaboration. With regard to the classification not specified, the answer implies that the collaboration is not seen positively in order to avoid a negative answer. Although considered challenges are categorised more than twice as very big or big challenge compared to the answer possibilities small and no challenge, the collaboration is perceived positively by the majority of the respondents. Consequently, as long as the willingness and continuing efforts by German and Chinese company is ensured, the Sino-German collaboration works.

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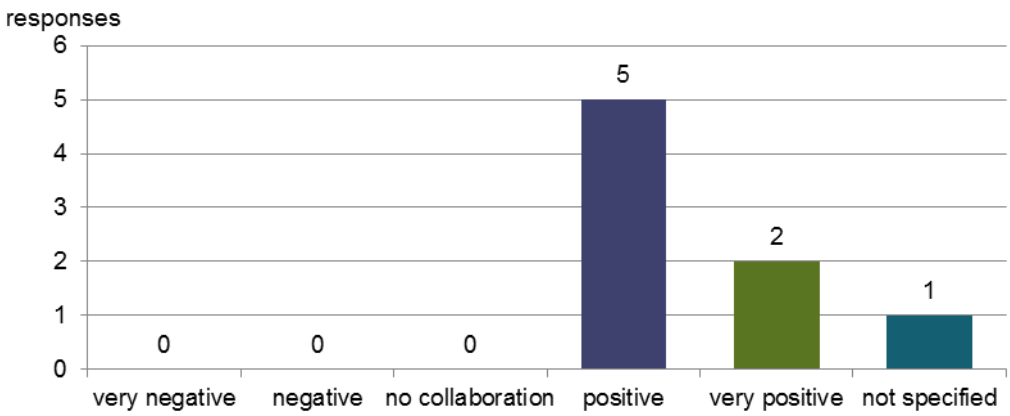

Figure 9: Chinese-German collaboration

By aggregating the results of examined key figures, figure 10 shows that the influences on the German company through the M&A transaction with the Chinese investors are all perceived either as positive or no influence on corresponding key figure could be derived solely due to the M&A deal. Moreover, the positive assessment clearly outweighs the category no influence.

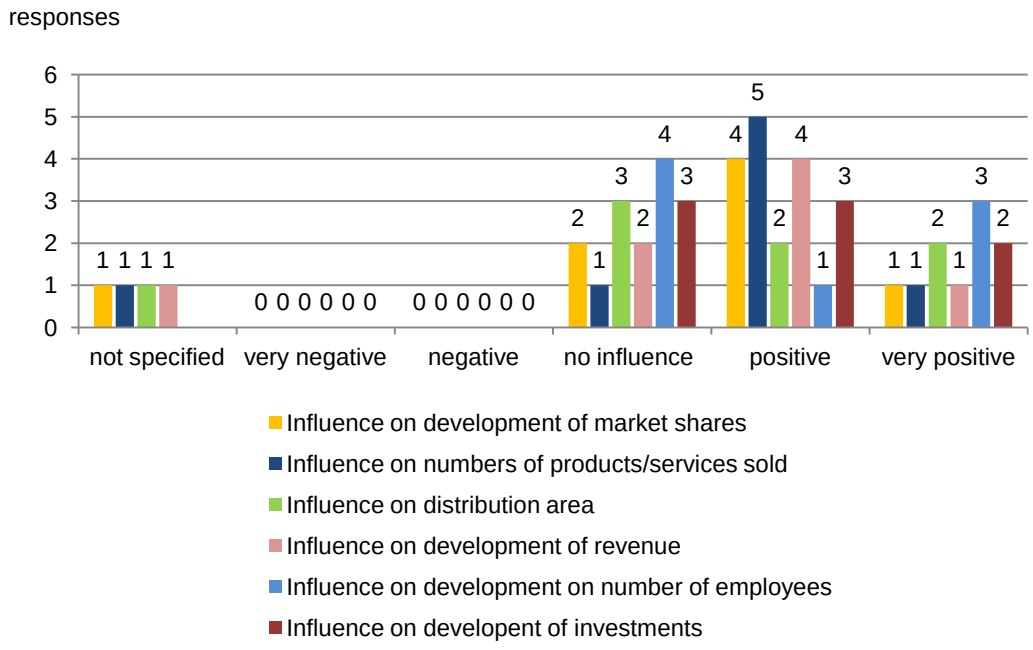

Figure 10: Influence on the development of key figures

With regard to job security for German employees as well as location guarantee for German locations which is shown in figure 11. Three of the participating companies were given job security and four a guarantee for the German location for example via letter of intent. Job securities and locations guarantees last at minimum three years which is specified through contracts safeguarding the German

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location with its employees. Other participants report from indirect job guarantees because the German company intended to give their employees a guarantee and the Chinese partner agreed to their resolution. German companies were given medium to long-term location guarantees but even when the guarantee is ending, respondents see no indicators that the Chinese investors change their strategy.

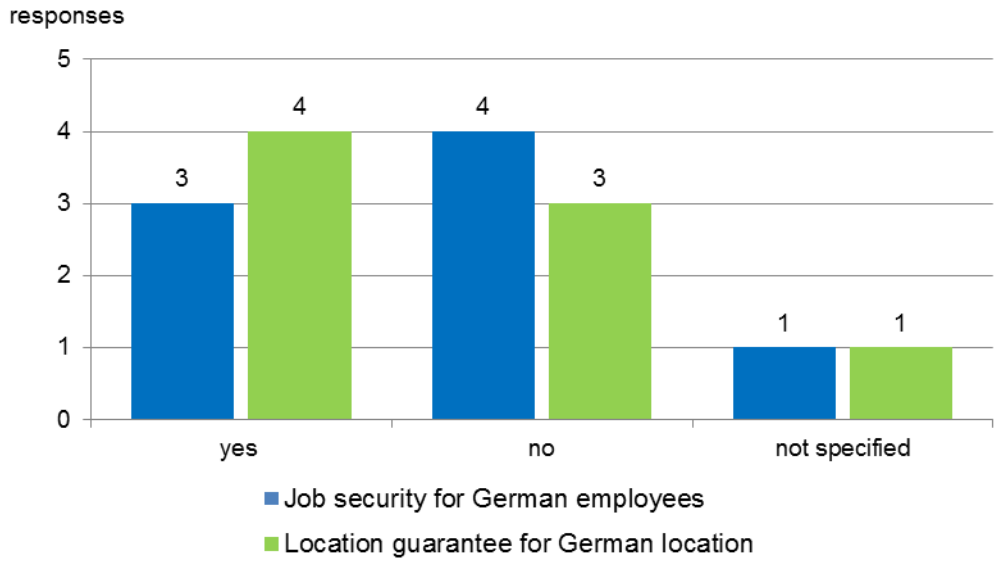

Figure 11: Job security for German employees & location guarantee for German location

As illustrated in figure 12, six out of the eight investigated companies report to have achieved synergy effects whereas two respondents answer negatively. The latter is explained that synergy effects could not be realised until the interview but are scheduled to be reached in future. In this case, distribution is targeted to realise synergy effects as well as production. Especially production requires that the Chinese company raise quality standards in order to utilise products from the Chinese parent company in the production facility in Germany.

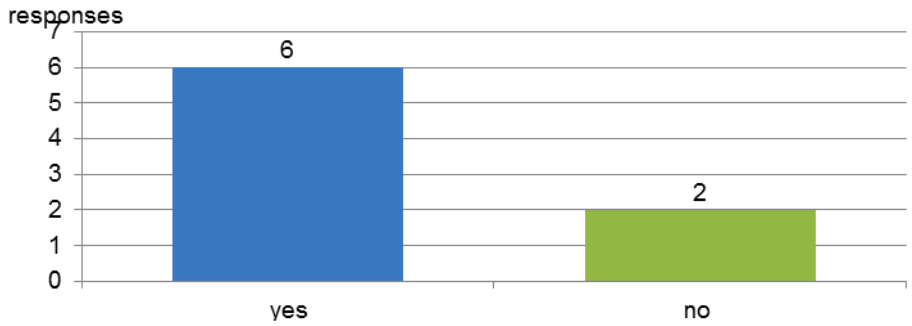

Figure 12: Achievement of synergy effects

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Regarding the areas of synergy effects as demonstrated in figure 13, most stated areas are R&D and distribution (each mentioned four times) followed by production, technology and the reduction of costs (each mentioned three times) and marketing (mentioned tow times).

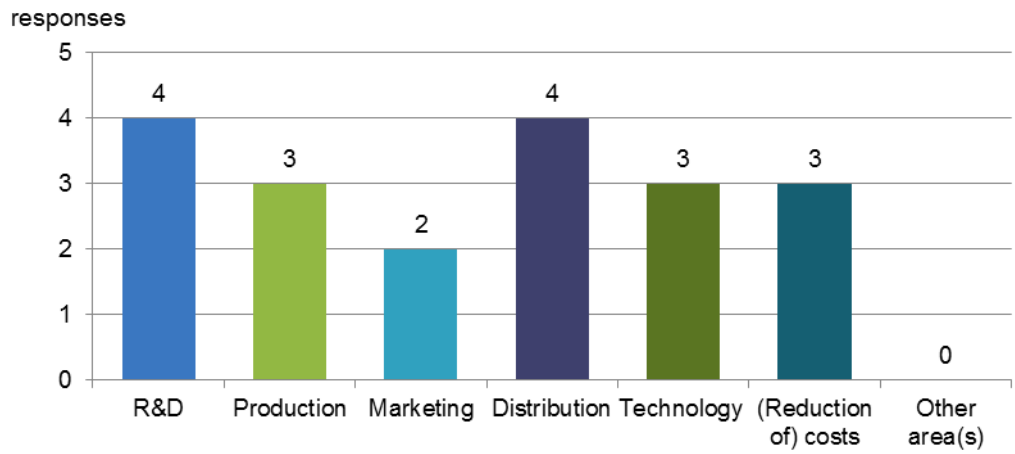

Figure 13: Areas of synergy effects

Following section focus on the Chinese investment strategy which is illustrated in figure 14. The impact of the strategy of the Chinese investment on German companies varies which is discussed in the following.

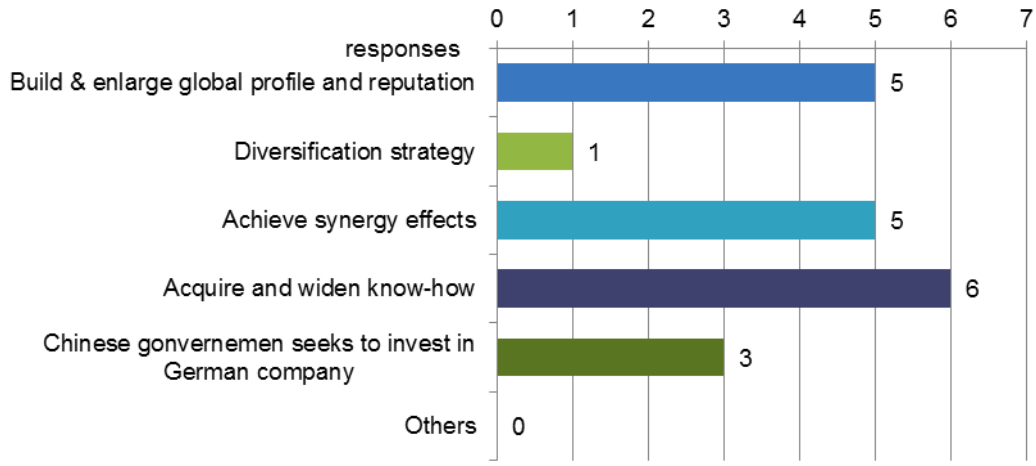

Figure 14: Strategy of Chinese investment

The most often mentioned strategy is the acquisition and widening of know-how which first of all highlights German companies' top position regarding technology and know-how. This strategy as background allows deriving two implications. On the one hand, this strategy results in the technology-transfer from German to Chinese company. On the other side, the Chinese long-term orientation in business relationships results in further investments in the German locations or rather results in

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focussing the German company on R&D. Consequently, the Sino-German business relationship creates mutual benefit.

Additionally, in the context of the overall move towards more market orientation of Chinese SOEs which are still subject to achieve planned target figures, the aspect of gaining managerial knowledge in order to compete in a changing business environment has to be considered. Three respondents state that the intention of the Chinese company was that he Chinese government seeks to invest in a German company. The impact on the German company is primarily of financial nature. SOEs are linked with financial strength due to the support of the Chinese government with funding projects. Finally, one respondent mentions diversification as the Chinese investor's strategy. This strategy is primarily linked with enlarging the Chinese companies' product profile which in turn can result in intra-group production or R&D orders.

Figure 15 summarizes the most essential issues experienced by the German company with the Chinese investors. This clearly demonstrates that communication and language barriers are seen as the most important issue mentioned by seven respondents. It is closely followed by cultural diversity (mentioned six times), the leadership style (mentioned four times) and quality standards (mentioned three times). Other issues such as the new vision & strategy, the integration process, insufficient knowledge, problems with the worker's council or other problems such as the due diligence by the Chinese company are mentioned once. In particular, issues in executing due diligence highlights again the Chinese information lack to comply and conduct defined procedures.

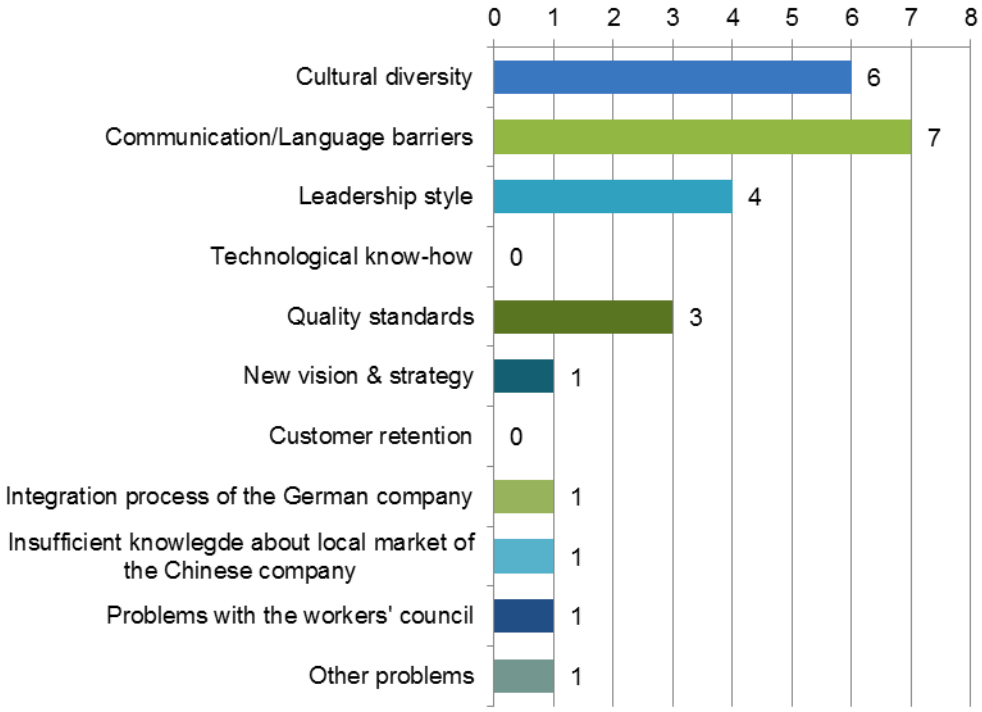

Figure 15: Summary of issues of German company with Chinese investor

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The final assessment of the M&A transaction is illustrated in figure 16.

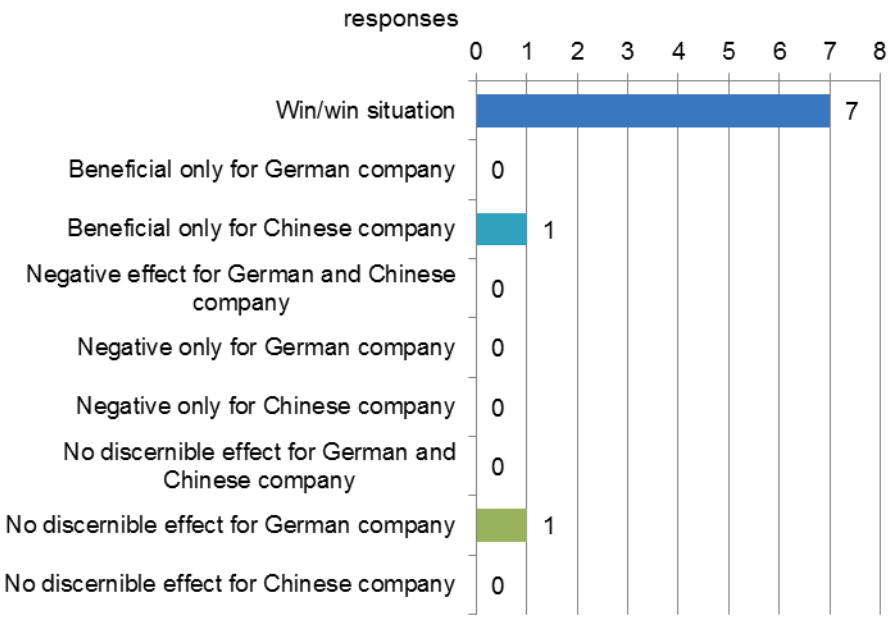

Figure 16: Final assessment of M&A transaction

Seven respondents classify the M&A transaction as a win/win situation for both German and Chinese company. According to one company, the Sino-German business relationship is beneficial only for the Chinese company and simultaneously has no discernible effects for the German company. On the whole, Chinese investors have only positive effects on German companies or the effects can be described neither positive nor negative.

CONCLUSION AND OUTLOOK

"Swarm out!" – Regarding the total stock of OFDIs in Germany, the Chinese OFDIs account only to 0.23%. Nevertheless, the Chinese OFDIs in Germany have experienced a remarkable increase since China's accession to the WTO in 2001. Hence, the Chinese investors appreciate Germany as FDI location which fosters the increasing attractiveness of Germany as FDI destination. The motives for the engagement in FDI are natural resource seeking, market seeking, efficiency seeking as well as strategic asset seeking. All motives are relevant regarding Chinese investments abroad. Especially the seeking of strategic assets gains in importance because China's government tries to transform the Chinese economy to a high-technology industry. Hence, Chinese companies target industrialised countries. Particularly, Chinese companies focus on industries such as the high-end manufacturing, the information technology, the environmental protection and the new energy sector.

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Germany is well-known for the automotive industry, the engineering and the manufacturing industry – branches which are targeted by the Chinese investors. The research study includes participants of the machinery sector (38%), the machine tool industry (37%) and the automotive suppliers (25%).

The analysis of the implications on the German company through the Chinese investment based on conducted semi-structured interviews lead to following key findings:

- The main reasons for the decision of the German company for a Chinese investor are the search for an external funding source and the growth strategy.
- The intensity of integration of the German company in the Chinese organisation is described as low. Hence, the German companies stay relatively independent which is consistent with the evaluation of the strategic influences on the German company which are mainly evaluated as moderate. Furthermore, the analysis shows that the corporate management stays exclusively in the German company.
- The technology and knowledge transfer predominately takes place from German to Chinese side but actually not vice versa.
- On the whole, the Sino-German collaboration is assessed as positive and even outweighs existent challenges which are mainly evaluated as big. Most important challenges are the linguistic and the cultural challenges.
- The comparison of the economic situation at the M&A deal and the future forecast of the economic situation of the German company shows a positive development which can be traced back to the Chinese investment. In case of companies which were subject to insolvency recovered.
- The influence of M&A transactions on key figures clearly shows that only positive effects can be derived or the M&A has no discernible effects on examined figures.
- The Chinese investors are willing to give job and location guarantees which underlines the Chinese long-term orientation.
- The majority of participating companies realises synergy effects through the Sino-German business combination.

In one case the M&A transaction has no discernible effect on the German company. Considering all other companies, the M&A transactions are evaluated as win/win situation – a mutual benefit for both companies.

Chinese companies swarm out to compete within stiff competition and consequently raising quality standards are required which are represented in those companies they invest. Hence, they are not

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interested to buy out the German companies – they are rather interested to learn from them how to build up the ability to innovate on their own as German companies are able. Therefore, the German management is mostly left on the German side. It cannot be neglected that the Chinese companies benefit from the German company especially by technological and know how transfer. The technological and know how transfer is not necessarily to the detriment of the German company. As most respondents highlight that high-end production and R&D stays or is focused in Germany the following statement is supported: The most important aspect is the ability to innovate which cannot be bought – it is a process of learning. Hence, the implications on German companies by Chinese investors have to be considered in long-term. Chinese companies are not yet able to compete with "Made in Germany" but they are learning rapidly. "Within five to ten years, they will be able to do so", one respondent stated.

As a result and summary of considered implications of Chinese investors on Germany, German companies should focus in building up technological know-how and focus on innovation – the main aspect to remain and improve competitiveness.

China's continuing process of economic reform has led to lessen control and limit OFDIs. Moreover, by the Going Global Policy, Chinese government encourages and promotes companies financially to invest abroad. According to a study released by the Bertelsmann Stiftung in May 2014, Chinese organisations will focus and reinforce ODFIs in order to entry new markets and to gain and enlarge technology and management know-how (Jungbluth, 2014).

Figure 17 shows data according to the MOFCOM and illustrates the considerable increase of Chinese OFDIs since 2003 as well as the forecast from 2013 until 2020. Referring to this projection, Chinese OFDIs will triple and reach a volume of 2.2 billion USD.

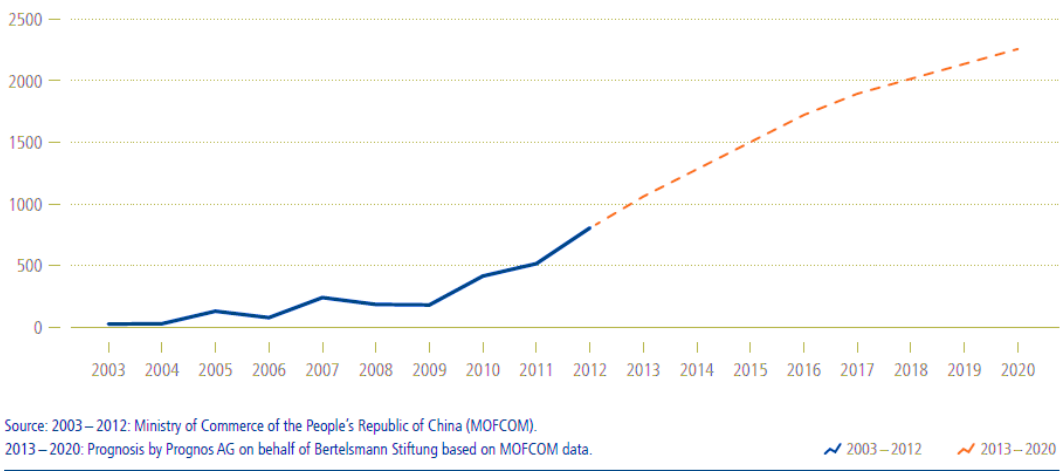

Figure 17: Projection of Chinese OFDI flows to Germany 2003 - 2020: (Jungbluth, 2014)

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Germany can benefit from OFDIs through fresh capital flows to the economy and thus, jobs can be safeguarded or even new business strategies can be developed. Therefore, Germany has to stay attractive as FDI destination to further strengthen its economy.

The contribution of the foreign exchange stock towards China´s OFDI engagement has to be overviewed since the stock will probably decrease. Furthermore, it is interesting how China´s OFDIs develop in combination with the country's foreign exchange stock. On the basis of the latest publication of the German Federal Bank regarding the foreign direct investment stock, the current Chinese OFDI stock amounts to 0.23% in Germany. Consequently, the further development of Chinese OFDIs in Germany, the implications on the German companies and the long-term implications of Chinese OFDIs on the entire German economy are highly interesting.

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 ISBN: 978-9963-711-37-6

APPENDIX: SEMI-STRUCTURED QUESTIONNAIRE FINAL VERSION

ISBN: 978-9963-711-37-6

Qualitative Interview on "Chinese Direct Investments in Germany"

1) What is the name of the German company in which a Chinese entity invested?

---

2) In which sector does the German company operate? (Multiple choice possible)

- ☐ Machinery
- ☐ Automotive
- ☐ Energy
- ☐ Chemistry
- ☐ Pharmaceutical
- ☐ Electricity
- ☐ Other sectors:
- ☐ Bank & Investment Property
- ☐ Building & Construction
- ☐ Logistics & Transportation
- ☐ Cloth
- ☐ Textile

---

3) How was the economic situation of the German company at the M&A transaction?

- ☐ Very negative
- ☐ Negative
- ☐ Solid
- ☐ Positive
- ☐ Very positive

4) What reasons led to the decision for a Chinese investor? (Multiple choice possible)

- ☐ Growth strategy
- ☐ Search for an external funding source
- ☐ Reorganisation of the German company
- ☐ Company succession
- ☐ Other reasons:

---

5) What is the name of the Chinese investor who invested in the German company?

---

6) What kind of Chinese investor invested in the German company?

- ☐ Chinese State-Owned-Entity
- ☐ Chinese Private-Owned-Entity

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7) In which sector does the Chinese company operate? (Multiple choice possible)

- ☐ Machinery
- ☐ Automotive
- ☐ Energy
- ☐ Chemistry
- ☐ Pharmaceutical
- ☐ Electricity
- ☐ Other sectors:
- ☐ Bank & Investment Property
- ☐ Building & Construction
- ☐ Logistics & Transportation
- ☐ Cloth
- ☐ Textile

_____

8) When did the M&A deal take place?

_____

9) What is the level of participation of the Chinese investor in the German company (in %)?

_____

10) How do you evaluate the planning of the M&A deal through the Chinese investor?

- ☐ Very negative
- ☐ Negative
- ☐ Positive
- ☐ Very positive
- ☐ Not necessary

If planning evaluated negatively:

11) Based on what aspects do you evaluate the planning of the Chinese investor as negative? (Multiple choice possible)

- ☐ No early initiated planning process
- ☐ No/insufficient knowledge of German laws
- ☐ No/insufficient knowledge of German market
- ☐ No/insufficient knowledge of cultural aspects
- ☐ Language barriers
- ☐ Other aspects:

_____

If planning evaluated positively:

12) Based on what aspects do you evaluate the planning of the Chinese investor as positive? (Multiple choice possible)

- ☐ Early initiated planning process
- ☐ Good knowledge of German laws
- ☐ Good knowledge of the German market
- ☐ Good knowledge of cultural aspects
- ☐ Other aspects:

_____

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13) Did an integration planning after the M&A transaction take place for the German company?

☐ Yes
☐ No

If an integration planning took place:

14) How was the integration planning conducted? (Multiple choice possible)

☐ External consultants were included
☐ In-house, international team was build
☐ Other strategies:

_____

15) How do you evaluate the integration planning through the Chinese investor after the M&A transaction?

☐ Very negative
☐ Negative
☐ Positive
☐ Very positive
☐ Not necessary

16) How strong do you evaluate the integration of the German company in the organisation of the Chinese investor?

☐ No integration
☐ Low integration
☐ Strong integration
☐ Very strong integration

17) How often does the Chinese investor visit the German location(s)?

☐ Permanently at the location(s)
☐ Monthly
☐ Quarterly
☐ One to three times a year
☐ Never

18) How huge are the differences from the reorganisation since the M&A transaction took place?

☐ No reorganisation
☐ Minimal differences
☐ Moderate differences
☐ Significant differences
☐ Complete reorganisation

19) Did a technology and knowledge transfer from the German side on the Chinese investor take place?

☐ Yes
☐ No

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20) Did a technology and knowledge transfer from the Chinese side on the German company take place?

☐ Yes
☐ No

21) Does the Chinese investor exercise strategic influence on the German company?

☐ No influence
☐ Minimal influence
☐ Moderate influence
☐ Medium influence
☐ Strong influence
☐ Maximal influence

If the Chinese investor exercises strategic influence:

22) On which areas does the Chinese investor exercise strategic influence in the German company? (Multiple choice possible)

☐ Vision, mission statement & philosophy
☐ Operating sector(s)
☐ Location(s)
☐ Production
☐ Products & services
☐ Distribution
☐ Other strategic influences:

_____

23) How does the Chinese investor exercise strategic influence in the pre-agreed areas on the German company?

_____

_____

24) Does the Chinese investor exercise operational influence on the German company?

☐ No influence
☐ Minimal influence
☐ Moderate influence
☐ Medium influence
☐ Strong influence
☐ Maximal influence

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If the Chinese investor exercises operational influence:

25) On what areas does the Chinese investor exercise operational influence in the German company? (Multiple choice possible)

☐ Production methods
☐ Work methods
☐ Leadership of employees
☐ IT-systems
☐ Other operational influences:

_____

26) How does the Chinese investor exercise operational influence in the above mentioned areas on the German company?

_____

27) How are decisions of corporate management with the Chinese investor made?

☐ Chinese Investor states corporate management
☐ Constructive decision process (compromise)
☐ Corporate management stays exclusively in the German company

Please evaluate subsequent aspects in relation to the collaboration with the Chinese investor:

28) Linguistic challenge

☐ Very big challenge
☐ Big challenge
☐ Small challenge
☐ No challenge

29) Cultural differences

☐ Very big challenge
☐ Big challenge
☐ Small challenge
☐ No challenge

30) Management style of the Chinese investor

☐ Very big challenge
☐ Big challenge
☐ Small challenge
☐ No challenge

31) Type and duration of the decision making

☐ Very big challenge
☐ Big challenge
☐ Small challenge
☐ No challenge

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32) Transparent decision and communication of the Chinese investor

- ☐ Very big challenge
- ☐ Big challenge
- ☐ Small challenge
- ☐ No challenge

33) Knowledge of Chinese investor about German laws

- ☐ Very big challenge
- ☐ Big challenge
- ☐ Small challenge
- ☐ No challenge

34) How do you evaluate the collaboration with the Chinese investor?

- ☐ Very negative
- ☐ Negative
- ☐ No collaboration
- ☐ Positive
- ☐ Very positive

The following questions consider implications on the German company.

35) How did the M&A transaction influence the development of market shares?

- ☐ Very negative (reduction)
- ☐ Negative (reduction)
- ☐ No influence
- ☐ Positive (increase)
- ☐ Very positive (increase)

If the M&A transaction influenced the development of market shares:

36) Where (e.g. China/Asia, Germany/Europe) did the market shares change and how (in %) did they change?

_____

_____

37) How did the M&A transaction influence the numbers of products/services sold?

- ☐ Very negative (reduction)
- ☐ Negative (reduction)
- ☐ No influence
- ☐ Positive (increase)
- ☐ Very positive (increase)

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If the M&A transaction influenced the numbers of products/services sold:

38) Why (e.g. new customers, new distribution areas, new marketing strategy, smaller/richer range of products) did the number of products/services sold change and how (in %) did it change?

_____

_____

39) How did the M&A transaction influence the development of the distribution area?

☐ Very negative (diminishment)
☐ Negative (diminishment)
☐ No influence
☐ Positive (enlargement)
☐ Very positive (enlargement)

If the M&A transaction influenced the development of the distribution area:

40) Where (e.g. China/Asia, Germany/Europe) did the distribution area change and how (in %) did it change there?

_____

_____

41) How did the M&A transaction influence the development of revenue?

☐ Very negative (reduction)
☐ Negative (reduction)
☐ No influence
☐ Positive (increase)
☐ Very positive (increase)

If the M&A transaction influenced the development of revenue:

42) Why (e.g. new customers, new distribution areas, new marketing strategy, richer/smaller range of products) did the development of revenue change and how (in %) did it change?

_____

_____

43) How did the M&A transaction influence the development of the number of employees?

☐ Very negative (reduction)
☐ Negative (reduction)
☐ No influence
☐ Positive (increase)
☐ Very positive (increase)

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If the M&A transaction influenced the development of the number of employees:

44) Why (e.g. new locations, close of locations) did the development of the number of employees change and how (in %) did it change?

_____

_____

45) How did the M&A transaction influence the development of investments?

☐ Very negative (reduction)
☐ Negative (reduction)
☐ No influence
☐ Positive (increase)
☐ Very positive (increase)

If the M&A transaction influenced the development of investments:

46) Where (e.g. machinery, production facilities) did the Chinese investor invest/disinvest and why does he invest/disinvest (strategy)?

_____

_____

47) Did the Chinese investor give job security to the German employees?

☐ Yes
☐ No

48) *If Yes*: How long does/did the job security last? *If No:* Was a job security discussed (in advance)?

_____

_____

49) Did the Chinese investor give a security for the German location(s)?

☐ Yes
☐ No

50) *If Yes:* How long does/did the security for the German location(s) last? *If No:* Was a security for the German location(s) discussed (in advance)?

_____

_____

51) Did the M&A achieve synergy effects?

☐ Yes
☐ No

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If the M&A transaction achieved synergy effects:

52) In which of the following areas did the M&A achieve synergy effects? (Multiple choice possible)

- ☐ Research & Development
- ☐ Production
- ☐ Marketing
- ☐ Distribution
- ☐ Technology
- ☐ (Reduction of) costs
- ☐ Other area(s):

_____

53) How have the particular synergy effects been achieved?

_____

54) What is/was the strategy/objective of the Chinese investor of its investment in the German company? (Multiple choice possible)

- ☐ Build & enlarge global profile and reputation
- ☐ Diversification strategy
- ☐ Achieve synergy effects
- ☐ Acquire and widen know-how
- ☐ Others:

_____

55) In which areas did the German company experience issues after the M&A deal? (Multiple choice possible)

- ☐ Cultural diversity
- ☐ Communication/Language barriers
- ☐ Leadership-style
- ☐ Technological know-how
- ☐ Quality standards
- ☐ New vision & strategy
- ☐ Customer retention
- ☐ Integration process of the German company
- ☐ Insufficient knowledge about local market of the Chinese company
- ☐ Problems with the workers´ council
- ☐ Other problems:

_____

56) Can you explain the issues more detailed?

_____

_____

_____

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57) How do you forecast the economic situation of the German company in the next four to five years?

- ☐ Very negative
- ☐ Negative
- ☐ Solid
- ☐ Positive
- ☐ Very positive

58) How do you evaluate the M&A in general? (Multiple choice possible)

- ☐ Win/win situation for German and Chinese company
- ☐ Beneficial only for German company
- ☐ Beneficial only for Chinese company
- ☐ Negative effect for German and Chinese company
- ☐ Negative only for German company
- ☐ Negative only for Chinese company
- ☐ No discernible effect for German and Chinese company
- ☐ No discernible effect for German company
- ☐ No discernible effect for Chinese company

ISBN: 978-9963-711-37-6

HOW ITALIAN SMES MANAGE AND CONTROL THEIR PERFORMANCE?

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ABSTRACT

Appropriate managerial tools are relevant in firms' management, especially for the improvements and growth of firms in this turbolent international scenario. Regarding this topic, mainstream studies in management literature focus more on large firms; however, in some countries such as Italy, small and medium firms play an important role. So, this research investigates management and implications issues with regard to the performance measurement systems (PMSs) in Italian SMEs. Thus, using survey tool and a sample of 309 Italian SMEs, the aim of this paper is to deeply understand the use of management accounting tools in Italian SMEs. In particular, findings concern the use of management control tools and the analysis of management issues are conducted through both the main national and international literature and empirical evidences. Finally, this study contributes to better understanding the behavior of SMEs with regard to the management and control of their performance. In particular, this research highlights the budget is still as an important managerial tool for SMEs

Keywords: *management control, Italy, budget, SMEs, managerial issues.*

INTRODUCTION

In the literature is often underlined that management accounting tools empower managerial capabilities, but these tools are not so widespread and adopted in the correct way by firms, especially if these are of small and medium size (Aram and Cowen 1990).

The Management Control System is the basis for the performance measurement system that supports the decision-making process, not only the financial and taxation areas, and that is why, in the last years, some advanced tools were developed. Also in the Smes the management complexity is growing and they increasingly need some advanced tools to overcome managerial difficulties, also considering the crisis period.

 ISBN: 978-9963-711-37-6

Consequently, it is interesting to understand how the management accounting system is evolving in these particular kind of firms, considering that appropriate managerial tools have an important influence in the firms' management.

This research is supported also by Chenhall (2003), which, in his survey of contingency-based research on management control systems, points out that only few studies on management control systems include size as a contextual variable, contributing to better understand the behavior of small and medium size firms, which play an important role in the economy, not only in Italy, but also in the Europe and United States.

This research is structured as follows: a theoretical framework about Smes, Management Control System theories, the description of the research method and the sample, findings, conclusions and implications of the study, along with its limitations.

LITERATURE REVIEW

Smes

In the literature, there is attention about Smes especially because they are considered making change in social and attitudinal engineering, conforming and legitimizing self- employment and promoting new venture creation and entrepreneurship (Braker et al., 1986; Dangayach and Deshmukh, 2001; Ferraris, 2013).

Analyzing the literature, the SME researches focused on (Augustine, B., Bhasi, M., & Madhu, G. 2012): ownership and decision making, ownership and production control (Lyles et al, 1993); management style and firm performance (Bhutta et al., 2008); organizational culture and productivity (Ritchie et al.,2005); levels of organization structure and production performance; stakeholder's characteristics (Bhutta et al., 2008); matching production methods with environment (Jonsson et al. 2003) and use of innovation and training (Soderquist et al., 1997; Bresciani, 2010; Omerzel and Antoncic, 2008).

Some studies (Ritchie et al., 2006 and Kraus et al., 2008) underlines as SME owner/managers follow autocratic and egocentric management style so that the performance level is very low and competitive advantage of SMEs depends on IT infrastructure, cultural dimensions and strategic use of forecasting planning and control methods.

Consequently the strategic use of forecasting planning and control methods play an important role in Smes, also if some researches underlines the poor management of SMEs in many countries.

 ISBN: 978-9963-711-37-6

In order to better understand the management control system in the Smes it is useful to identify their features. An interesting study (Ates A., Garengo P., Cocca P., Bititci U., 2013) describes the Smes as follows. SMEs have a flat structure, which allows clear, uninterrupted streams of communication; in addition performance measurement in SMEs is limited by barriers of limited resources and strategy oriented processes.

Ates et al. (2013) found that SMEs are more focused on internal and short-term planning, paying less attention to long-term planning. They suggest an appropriate, balanced use of strategic and operational practices and relevant measures to make performance management practice more effective. Therefore, managerial activities such as vision, mission and values development, internal and external communication, change management and horizon scanning represent recommended areas for improvement.

Frequently Smes, to operate in a more flexible manner and to be more reactive to market changes, operate with less resources and managerial expertise (Garengo, 2009). Indeed not having the skills to understand or apply the information (Reddaway, Goodman, Graves, 2011) SMEs make a not optimal use of accounting information (Marriott & Marriott, 2000; Sian & Roberts, 2009).

Also other studies identified the factors, which in the Smes, obstacle the adoption of management control tools (Garengo, Biazzo, Bititci, 2005) strictly tied to less resources. Some researchers identified the lack of human resources which are always involved in the operative activities (Hudson et al. 2000), other ones the lack of Managerial capacity (Marchini 1995), or limited capital resources, poor strategic planning (Marchini 1995), lack of a managerial system and formalized management of the processes (Jennings and Beaver 1997), the perception that management accounting systems are a cause of bureaucratization (Hvolby and Thorstenson 2000).

Indeed, analyzing the management control tools more adopted by Smes, it emerges that these are the ratio analysis and the analysis of the items which compose the financial statement; in particular the attention is focused on taxation issues and on the results more relevant for banks (Broccardo, 2009; Bresciani and Oliveira, 2007).

In addition, also if, in the recent years, the studies about Smes are increasing, little attention is given to these firms and the main studies about management accounting system in Smes are conducted in Australia, Finland and Denmark (Garengo, Biazzo, Bititci, 2005).

Management Control System

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The management control system has been defined by Simons (1994) as "the formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities". In this way control is a policy or procedure that facilitates an organization to ensure that its goal and objectives are reached. Management accounting control acts setting a standard, receiving feedback on actual performance and taking corrective action whenever actual performance deviates significantly from the planned performance. In doing so, the control actually Later, Simons (1999) suggested the levers of control framework for studying the implementation and control of business strategy.

Management Control System (MCS) provides information to managers, creating conditions that motivate the organization and assist the managers in making decisions according to their plans and objectives to achieve (Fisher, 1998).

MCS was important especially for organizational growth, when coordination and control problems could not be solved through informal interaction. MCS then emerged to formalize this learning by codifying routines and liberating management attention from repetitive tasks (Jamil, C. Z. M., & Mohamed, R. 2013; Thrassou et al., 2014).

Hilton (2009) explained that management accounting plays a broader role in organizations by providing a framework and tools for planning and management control. He listed five major goals of management accounting to include:

- providing information for decision making and planning;
- assisting managers in directing and controlling operational activities;
- motivating managers and other employees toward the organizational goals;
- measuring the performance of activities, subunits, managers and other employees within the organization; and
- assessing the organization" s competitiveness by working with other managers to ensure long term survival.

RESEARCH QUESTION AND METHOD

Method

The research has been conducted through survey by questionnaire (Corbetta, 1997), which allows to collect a significant amount of data that allows statistical analysis and draw up generalizations (Zimmerman, 2001).

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Before to send the questionnaire we contacted the Investor Relation Directors, in order to identify the employees most skilled in Administration and Management Control. Subsequently, the questionnaire, together with a letter of presentation and a compilation guide, was sent by mail, to the CEO, CFO, and to controller or, in small companies, directly to the entrepreneur.

The data, both quantitative and qualitative, were collected with an online questionnaire, managed by a particular software called Monkey Survey, and analysed using statistical tools. The questionnaire was created in June 2014 and data collection ended in November 2014.

The final document was structured in three main section:

- General data of the Company (Section I);
- organizational structure (Section II);
- Organizational aspects of Management Control and tools of Management Control (Section III).

The questions focused on different performance measurement systems, their organizational features and implementation methods. In addition, the questionnaire included also some "test questions" to verify the coherence of answers. In accordance with the main literature on these topics (Chenall, 2003), the evidences have been analyzed using descriptive statistics.

Sample

The sample focuses on Italian small and medium enterprises, with the registered office in the North West of Italy, and operating in different industries to avoid the sector influence. The original sample was composed by 3.901 companies, we made a random and casual section obtaining 1.800 companies to which send the questionnaire. Due to the response rate of 18%, in line with the main literature (Lucianetti, 2006), the final sample is characterized by 309 Italian companies.

The main characteristics of the sample are summarized in the following figure.

Industries	*(%)*
Manufacturing	60.28
Services	22.76
Trade	8.48
Transport	4.02
Building and construction	4.02
Agriculture	0.44
Total	*100*
Dimensional features	**(%)**
Revenues between 5-10 mln €	43.10
Revenues between 10-20 mln €	29.60
Revenues between 20-50 mln €	27.30
Total	*100*

Figure 1: characteristics of the sample

Research question

The main research question arised from an extensive analysis of the literature is the following:

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RQ1: What are the main features of management control system in the in the Italian Smes?

FINDINGS

About the first research question "*RQ1: What are the main features of management control system in the Italian Smes?*" we analyzed the following data collected by the questionnaire.

First of all it emerges that the 84,50% of the sample adopt some managerial accounting tools, and only the 15,20% affirms that in the company there are no ones.

Does the company adopt managerial accounting tools?		
Answer Options	Response Percent	Response Count
Yes	84,8%	190
No	15,2%	34
answered question		224
skipped question		85

Exhibit 1. Managerial Accounting tools Adoption

Consequently, it was interesting to investigate about the motivation of no adoption of managerial accounting tools and, in particular, it emerges that the 40% of the companies consider these tools too much expensive, probably without to evaluate the benefits.

If no, why?		
Answer Options	Response Percent	Response Count
the company does not know these tools	17,1%	6
too much costs	40,0%	14
tools too much difficult to use	14,3%	5
these tools are not useful	17,1%	6
other answers	17,1%	6
answered question		35
skipped question		274

Exhibit 2. No adoption of Managerial Accounting tools

In general, the management control is carried out internally (75,9%), because the information are considered reserved and it is possible to use internal capabilities, saving costs.

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Management control is handled		
Answer Options	Response Percent	Response Count
internally	75,9%	154
esternally	3,0%	6
both	21,2%	43
answered question		203
skipped question		106

Exhibit 3. Managerial Control internal/esternal

About the timing to carrying out the management control, it emerges that the great part of the sample develops it monthly (60,2%) and quarterly (20,9%), showing an high attention and interest to the information emerging by Management Control. This evidence, about the frequency use of management control, underlines how the management control tool are involved in the company management. These companies really utilize data and information emerging by management control process to conduct the firm and to take operative decision along the year.

Reporting and Management Control timing		
Answer Options	Response Percent	Response Count
monthly	60,2%	121
two months	2,0%	4
quater	20,9%	42
four months	3,0%	6
semester	2,5%	5
yearly	3,5%	7
when there is a need	8,0%	16
answered question		201
skipped question		108

Exhibit 4. Managerial Control timing

Due to the importance given by the companies about Management Control data and information we investigate about the scope of Management Control assigned by companies. We discover that it is used in a strategic way, to capture information to take better the decisions (89,5%) and to define the future strategic goals (55%) and in the operative way to define the selling price (45,5%) and to better draw up the financial statement (43%).

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In your company the management control is used		
Answer Options	Response Percent	Response Count
to better draw up the financial statement	43,0%	86
define the selling price	45,5%	91
to have information to take better the decision	89,5%	179
to evaluate managers	17,5%	35
to define the future strategic goals	55,0%	110
other	1,5%	3
answered question		200
skipped question		109

Exhibit 5. Managerial Control scope

Despite it emerged that the management control tools are used in a strategic way, the diffusion of advanced management accounting system is not so widespread (see the following table), as expected. Indeed the "advanced" tools (Balanced Scorecard, Strategy map and more in general business performance models), that represent the tools more able to consider the long time perspective, are adopted only by 14,3% of the sample.

Management Accounting Systems	Frequency	Percentage	Cumulative percentage
None	39	17,4	17,4
Basic	60	26,8	44,2
Relevant	93	41,5	85,7
Advanced	32	14,3	100,0
Total	224	100,0	

Figure 2: diffusion of management accounting systems

Indeed using the data and information for strategic scope, we also expected that the tools adopted were more advanced. Consequently strategic decisions in these companies are based on information obtained by traditional tools (Budget, ratio analysis, etc.), that are not lead tools to help management into the strategic vision.

To better understand the use of Management Control in the sample, in particular adopted not only as a forecast or as a simulation tool, but especially as a tool guide for management, we investigate about its use as a tool to make responsible the managers, and the 66,7% answered in a positive way.

Is the management control used as a tool to make responsible the managers?		
Answer Options	**Response Percent**	**Response Count**
yes	66,7%	130
no	33,3%	65
answered question		**195**
skipped question		**114**

Exhibit 6. Management Control: tool to make responsible

In particular, the responsibilities focus on the center results (65,4%), the costs composition for each center (64,7%) and actions undertaken in each center (64,7%).

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If yes, how the managers are made responsible		
Answer Options	Response Percent	Response Count
sanctions	3,0%	4
center results monitoration	65,4%	87
cost analysis for each center	64,7%	86
corrective actions in each center	64,7%	86
number of work hours	18,0%	24
other	3,8%	5
answered question		133
skipped question		176

Exhibit 7. Managerial Control responsabilities

CONCLUSION AND FUTURE DEVELOPMENTS

This study reveals a widespread implementation of management accounting tools in Italian Smes, also if it emerges that the not adoption of these tools is due to the too much cost perceived by companies, probably without to evaluate the future economic advantage that could be derive.

The Management Control System relevance emerges mainly by monthly frequency of use that demonstrate the true utilization of information in the daily management.

What it is interesting to underline is that the information derived by management control are used for strategic scope and to set future strategic goals, but the tools adopted are the traditional one and not the advanced one.

This evidence confirms the main literature (Ates et al., 2013), that suggest to adopt more appropriate strategic and operational practice to make performance management more effective, and identifies vision, mission and values development recommended areas for improvement. Barriers of strategy-oriented processes limit indeed performance measurement in SMEs.

Future development could enlarge the sample and comparison with other countries. In addition it could be interesting to investigate about the limitation perceived by the companies about the actual Management control structure.

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 ISBN: 978-9963-711-37-6

EXPLORING RELEVANCE IN SCHOLARLY TOP JOURNALS OF MANAGEMENT: FIRST STEPS OF A RESEARCH

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ABSTRACT

The amount of management knowledge published each year in academic journals is really remarkable. Although such a production should be, at least partially, addressed to real-world managers and deal with their actual issues and concerns, we don't know what managers really know and think about it. In this paper we present a framework developed in order to collect the views of practitioners about the impact of the research published in leading scholarly management journals on their practical activity. The study hasn't been carried out yet but, given the importance relevance has in management research, we think it is all the same worth presenting it both to share and improve our framework and to possibly deploy it in geographical areas different than Italy.

Keywords*: management research; relevance; academic journals; managers' opinion*

INTRODUCTION

Over the last few years, management as a field of academic study and research has been going through a period of change that is almost as intense as that characterising enterprises and their managers themselves. The production of managerial knowledge has progressively increased in terms of annual output and continues to add to that provided by previous publications, as is reflected by the albeit difficult to quantify increase in the number of academic management journals, and the parallel increase in the number of Conferences, Workshops, Symposia and Colloquia designed to disseminate the results. Furthermore, as each journal publishes at least three issues a year and each issue contains an average of about six articles, the amount of knowledge available is still increasing at a remarkable rate. The result is that every aspect of company management, every corporate function and many industries has at least one (and often more than one) dedicated journal publishing its own studies, which are in turn naturally sub-divided into their own areas, sub-areas and lines of research. There are inevitably multiple reasons for this, although there is no doubt that one of the most significant is the role that the mechanism of "publish or perish" plays in a researcher's career.

 ISBN: 978-9963-711-37-6

The destinees of this considerable effort can be divided into two main groups. The first consists of other academics insofar as the production of knowledge can be seen as a closed circuit in which the same people play the roles of researchers/teachers and students at different times. In fact, one of the main criticisms often made of this aspect of the system is its self-referential nature or the absence of third parties: authors, editors, reviewers and readers are all members of the same essentially closed community, and are unable to dialogue with outsiders.

The second consists (or should consist) of managers, who would also seem to be natural targets of the process of producing managerial knowledge. Although it would be more precise to say that not all of the scientific research produced is intended for managers (for example, the institutional aims of basic research do not include the production of directly applicable knowledge), many journal nevertheless explicitly include managers in their target audience and declare their intention to publish papers that will have an impact on management practices. Furthermore, this is often not only one of the planks of their editorial platforms, but also one of the criteria used for the acceptance of manuscripts.

However, although (at least theoretically) researchers and managers represent the two sides of the same market, it seems that one of the critical factors preventing them from meeting has long been the question of the "relevance" of scientific research to managerial practice. It is true that not everyone agrees that the purposes of management research include operational usefulness: some say that the aim of research is to seek the truth rather than efficacy (Vicari and Gambardella 2014), and others that it should concentrate on encouraging reflection and creating awareness, and therefore does not need to provide immediately applicable indications. However, it is generally accepted that relevance should be considered an important aspect because the study of management has always been oriented towards practice, partially as a means of differentiating itself from the competing approaches offered by micro-economics and other organisational disciplines (Rullani 1989).

However, it must be said that calls for greater relevance have become more frequent and intense over the last few years as can be seen for example in the paper by Gupta et al. (2014) on Theory + Practice in Marketing (TPM) in the Conference special section of Marketing Science, or the recent editorial in the Journal of Consumer Research whose very title highlights the need for "meaningfulness" (Dahl et al. 2014).

Nevertheless, even if it is accepted that managerial research can and should be seen in the light of its practical implications, there is still the problem of the need to safeguard its scientific rigour, which raises the question of the balance between the two aspects that has become one of the main subjects of epistemological and methodological discussion among management scholars. The debate concerning

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rigour and relevance has long divided academics and, as can be seen in the literature review below, has given rise to a substantial number of publications.

To describe it in the most summary terms (even at the risk of over-simplifying what is undoubtedly a much more intricate question), the supporters of rigour affirm that scientific research should give priority to respecting investigational procedures in such a way as to guarantee objectivity, internal and external consistency, reliability, and the reproducibility of the results, whereas the supporters of relevance assert that research has sense only if it is capable of having some weight and usefulness for the people directly involved in managing entrepreneurial organisations.

However, although this debate provides the main theoretical framework for this study, its aim is not to argue in favour of one or the other of these positions nor to reason on the basis of logic and principles in order to decide the superiority of one over the other. Given that the question cannot be reserved in rigidly dichotomous terms, it assumes that rigour and relevance are clearly both necessary. In any case, it seems that the question itself is destined to remain confined to the academic world as it is only rarely that an attempt has been made to ask managers what they actually think of the results of scientific research (e.g. Wilkerson 1999).

The aim of this exploratory study was to collect the views of practitioners concerning university scientific research by administering a questionnaire to a sample of Italian managers in order to obtain their judgements concerning the interest and usability of some papers published by a selection of the most authoritative international management journals. This was an ambitiously complex project above all because it required a considerable commitment on the part of respondents who, by definition, are always very busy and have very little time to dedicate any activities that are not strictly related to their work. However, with all of the limitations that will be explained below, we believe that this is the only way of verifying the real degree of interest of practitioners in the activities of scholars.

In terms of structure, the paper begins with a review of the literature concerning the rigour/relevance debate, extended to the broader question of the distance between the scientific and managerial worlds, which will be followed by a description of the method used and the framework of the survey, and finally by a discussion of the limitations of the study and the prospects for future research.

LITERATURE REVIEW

The debate regarding the scientific rigour and practical relevance of management studies (for a brief of history, see Gulati 2007) began in the mid-1980s (e.g. Choudhury 1986; Shrivastava 1987), but has recently become more intense (e.g. Hodgkinson and Rousseau 2009; Kieser and Leiner 2009; Baccarani

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and Calza 2011; Brunetti 2011; Donaldson et al. 2013; Hernes 2014; Kieser et al. 2015) and involved scholars of general management (Starkey and Madan 2001; Booker et al. 2008), strategy (McGahan 2007), marketing (Ankers and Brennan 2002; Varadarajan 2003), supply chain management (Flynn 2008; Kaufmann and Denk 2011; Thomas et al. 2011; De Beuckelaer and Wagner 2012), and accounting (Ahmed and Falk 2006; Helden and Northcott 2010; Parker 2012; Richardson 2012).

The widening gap between rigour and relevance is reflected in the positions adopted, for example, by Kieser and Leiner (2009), who argued that it is impossible to produce research that is simultaneously rigorous and relevant because of the differences between management science and practice, whereas Hodgkinson and Rousseau (2009) claimed that the gap is not unbridgeable if researchers collaborate with practitioners in order to generate knowledge that is academically rigorous and socially useful. However, this latter opinion is not generally supported in the literature or society, and practitioners, government agencies and ministerial representatives have all accused academics of favouring scientific rigour over practical relevance (e.g. Wolf and Rosenberg 2012). In other words, scholars are mainly accused of concentrating on careful conceptualisation, well-structured research, detailed consideration of previous studies, methodical stringency, a data-based quantitative orientation, and narrowly focused investigations (e.g. Wolf and Rosenberg 2012), and neglect the practical relevance of their research results in terms of innovativeness, usefulness (e.g. Starkey and Madam 2001) and applicability (e.g. Serenko et al. 2011; Benbasat and Zmud 1999; Marcus et al. 1995). For example, in a study of 840 articles published in 30 journals, White (2002) pointed out that the state of management research in Asian contexts is fundamentally based on simplistic comparisons and correlational analyses that do little to develop management theory and have limited relevance to management practices.

While scholars agree on defining scientific rigor as methodological soundness (Gulati 2007), their definitions of the concept of practical relevance are more varied. Nicolai and Seidl (2010) identified three forms of practical relevance: a) instrumental relevance (i.e. functionality); b) conceptual relevance (i.e. efficiency); and c) legitimative relevance (i.e. effectiveness). Thomas and Tymon (1982) suggested that relevance should be understood in terms of descriptive analysis, goals, operational validity, the absence of obviousness, and timeliness, whereas Van de Ven and Johnson (2006) more generally argued that "relevance is (…) found in the (research) question, rigor in the method applied to provide the answer" (p. 979).

Integrating scientific rigour and practical relevance in management studies means addressing issues of research content, process and dissemination (Starkey and Maden 2001, p. S3), and scholars have proposed various ways of making academic studies more relevant. Van de Ven and Johnson (2006)

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fundamentally maintained that the relevance of academic research depends on producing useful and relevant knowledge, and transferring it to practitioners.

In terms of knowledge production, some managers feel that research does not contribute directly to their managerial roles (Starkey and Maden 2001) and, given that research should be applicable in practice (Serenko et al. 2011), it would be expected that scholars would increase practitioners' contributions to the development of knowledge, whereas the opposite is true (Serenko et al. 2010). Academics could make their research questions more relevant to reality by emphasising practitioners' paramount concerns, such as the general problem of design (Van de Ven and Johnson 2006) or the production of income (Kieser and Leiner 2009). However, gap-spotting is the most widely used approach to generating research questions, although Alvesson and Sandberg (2013) pointed out that narrowly focusing on this technique and implementing it by relying on rigour more than relevance does not generally lead to interesting questions (or questions that are of interest to many people), or provide novel and influential contributions to theoretical developments. On the other hand, Donaldson et al. (2013) argue that rigour can be considered a source of both theoretical and methodological creativity.

Hernes (2014) suggested that "soul of relevance" within management studies depends on four tenets: practice as constitutive of organisation (i.e. academics should apply pragmatist logic to management); time as ontology (i.e. academics should better understand the notions of the past and present when elaborating decisions, for example, about future strategies); becoming as essence (i.e. academics should study businesses in a continuum of becoming); and the heterogeneity of factors (i.e. academics should consider human actors and material artefacts in their research because artefacts constitute a means of stabilising any human intent).

There are fundamentally two problems associated with disseminating knowledge: a) translating scholarly results into a form that is understandable to practitioners; and b) transmitting them to those who want to learn and apply them through appropriate channels. Practitioners say that academics' scholarly contributions are "outdated, narrow in scope, and not easy to read" (Serenko et al. 2011, p. 1; Starkey and Maden 2001), and that academic research is written in a style that tends to alienate them (Kelemen and Bansal 2002), and this means that they are rarely drawn to academic materials (Pearson et al. 2005) but could be exposed to a number of communication insights by means of conferences, consultations, the media, books and scholarly publications (Serenko et al. 2011).

The distance between academics and practitioners has therefore historically hindered any form of mutual collaboration (Giaretta 2013), mainly because of differences in their objectives and interests

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(Muscio and Pozzali 2012), limitations in absorptive capacity (Arvanitis et al. 2007), an information and perception gap concerning research studies and their value (Bessant 1999), cultural dishomogeneity (Bruneel et al. 2010), self-reference, cognitive distance and heterogeneous linguistic codes (Corsten 1987; Muscio and Pozzali 2012), a reciprocal lack of interest in other's questions and priorities (Barnes et al. 2002; Nelson 2004; Arvanitis et al. 2008), and distrustful attitudes (Giaretta 2014).

METHODOLOGY

This paper describes the initial stage of a broader empirical research that has the aim of quantitatively exploring the Italian business community's knowledge of the scientific management research published in leading international management journals, and their view of the extent of its applicability. The business community will be represented by a sample of entrepreneurs and senior managers belonging the main business organisations; although it will initially be restricted to the Veneto region, but the intention is to extend it the rest of the country and, possibly, internationally. The data will be collected by means of a questionnaire accompanied by the full texts of four articles taken from selected journals that each respondent will be asked to read and evaluate. Given the time necessary to read the articles, the number of articles has been limited to four in order to increase the probability of responses.

As the field research has not yet been carried out, we will first describe the hypotheses underlying it and the study protocol, and then explain in detail how the journals were chosen, the criteria used to identify the sample of practitioners and select the articles, and the plan for administering the articles and questionnaire.

As it simply describes the initial stage of the research, the paper is therefore not conceptual in nature and, at the moment, not even empirical. However, we believe that the importance of the subject for all management scholars makes it worth presenting even in this outline form, not least because this will allow us to receive suggestions for improvements in terms of its logical construction and practical application.

If the research framework is accepted, it could also be used to carry out similar field studies in other geographical contexts after making any necessary adjustments. Given that academic management scholarship is international – as well as management readership – the broader the geographical range of the study, and the greater the amount of collected data, the more valid the conclusions.

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STUDY FRAMEWORK

This section describes the main elements making up the framework of the research: the criteria and methods used to establish the samples of journals and practitioners; the procedures used to select and administer the articles; the contents of the questionnaire; and the approach to be adopted when analysing the collected data. Finally, it summarises the framework of the research as a whole.

The sample of journals

The journals were selected in November-December 2014 from among the leading international scientific management journals as determined using the parameters of the Italian National Agency for the Evaluation of Universities and Research (ANVUR). Beginning with the ANVUR ranking (class A journals, VQR 2004-2010), a list of those relating to management was drawn up on the basis of the indications of the Italian Society of Management (SIMA). This led to the creation of a database of 115 of the 663 classified in the broader area of business/economics journals (area 13-B), which covers the fields of Microeconomics, Business Management, Organisation, Financial Markets and Institutions, and Merceological Sciences. These were then further filtered by eliminating: a) journals in specific subject areas (services, ethics, marketing, retail, consumer behaviour, etc.); b) journals with geographical connotations (British, Asian, California, European, etc.); and journals with a special focus on internationalisation (such as the Journal of World Business, the International Business Review, etc.). This shortened the list to the following 18 journals: 1) Academy of Management Journal; 2) Academy of Management Review; 3) Administrative Science Quarterly; 4) Business Horizons; 5) Entrepreneurship Theory and Practice; 6) Harvard Business Review; 7) International Journal of Management Reviews; 8) Journal of Business Research; 9) Journal of International Business Studies; 10) Journal of Management; 11) Journal of Management Inquiry; 12) Journal of Management Studies; 13) Long Range Planning; 14) Management Science; 15) Omega – International Journal of Management; 16) Sloan Management Review; 17) Strategic Management Journal; and 18) The Journal of Management Development.

This list was further reduced by applying additional selection criteria, such as scientific relevance (in terms of impact factor, the absence of which led to the exclusion of The Journal of Management Development) and a generalist orientation (Entrepreneurship Theory and Practice, Long Range Planning, and Strategic Management Journal were excluded because of their focus on a particular subject area). Subsequently, the "aims and scope" of the remaining 14 journals were analysed in order to determine whether they were oriented towards practice or exclusively aimed at academics and/or concerned with basic research, which excluded Academy of Management Review, Administrative Science Quarterly, International Journal of Management Reviews, and Journal of International Business Studies. Finally, it was decided to consider only the journals characterised by double-blind, peer review

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processes, which led to the exclusion of the albeit influential and practise-oriented Harvard Business Review and Sloan Management Review.

Table 1 summarises the reasons for excluding these ten journals and highlights in grey the eight double-blind, peer reviewed, generalist, practitioner-oriented but also theoretical international scientific journals with an impact factor.

International general management highly ranked journals, without geographical characterization / focus on internationalization	*Exclusion criteria*
1. Academy of Management Journal	
2. Academy of Management Review	Only theoretical/not for practitioner
3. Administrative Science Quarterly	Only theoretical/not for practitioner
4. Business Horizons	
5. Entrepreneurship Theory and Practice	Focus on a specific subject
6. Harvard Business Review	Only theoretical/not for practitioner
7. International Journal of Management Reviews	Only theoretical/not for practitioner
8. Journal of Business Research	
9. Journal of International Business Studies	Only theoretical/not for practitioner
10. Journal of Management	
11. Journal of Management Inquiry	
12. Journal of Management Studies	
13. Long Range Planning	Focus on a specific subject
14. Management Science	
15. Omega – International Journal of Management	
16. Sloan Management Review	Only theoretical/not for practitioner
17. Strategic Management Journal	Focus on a specific subject
18. The Journal of Management Development	No impact factor

Table 1. *Selected (grey) and excluded journals*

Table 2 summarises the overall process of selection and successively applied criteria on which it was based.

1. VQR Anvur (2004-2010), A journals (n = 663)
2. Journal list Sima (n = 115)
3. General management, no geographical characterization, no international focus (n = 18)
4. Impact factor (n = 17)
5. No specific subject (n = 14)
6. Practitioner oriented (n = 10)
7. Double-blind peer reviewed (n = 8)

Table 2. *Selection process*

Table 3 shows the final list of eight journals, together with information relating to their publishers and affiliations (when appropriate), year of foundation, and number of issues per year.

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Journal title (Aims and Scope)	2013 5-Year IF	Publisher (Affiliation)	Started in	Issues per year
Academy of Management Journal "All articles published in the *AMJ* must also be **relevant to practice**. The best submissions are those that identify both a compelling management issue and a strong theoretical framework for addressing it. We realize that practical relevance may be rather indirect in some cases; however, authors should be as specific as possible about potential implications"	8.443	Academy of Management	1958	6
Business Horizons "The editorial aim is to publish original articles of interest to business academicians and practitioners. (…) Ideally, articles will prompt readers to think about **business practice** in new and innovative ways. *BH* fills a unique niche among business publications of its type by publishing articles that strike a balance between the practical and the academic. To this end, articles published in *BH* are grounded in scholarship, yet are presented in a readable, non-technical format such that the content is accessible to a wide business audience"	1.962	Elsevier (Kelley School of Business, Indiana University)	1957	6
Journal of Business Research "The JBR applies theory developed from business research to actual business situations. (…) Published for executives, researchers and scholars alike, the Journal aids the application of empirical research to practical situations and theoretical findings to the reality of the business world"	2.341	Elsevier	1973	12
Journal of Management "*JOM*, peer-reviewed and published bi-monthly, is committed to publishing scholarly empirical and theoretical research articles that have a high impact on the management field as a whole. *JOM* encourages new ideas or new perspectives on existing research"	8.027	Sage (Southern Management Association)	1975	7
Journal of Management Inquiry "*JMI*, peer-reviewed and published quarterly, is a leading journal for scholars and professionals in management, organizational behavior, strategy, and human resources. *JMI* explores ideas and builds knowledge in management theory and practice, with a focus on creative, nontraditional research, as well as, key controversies in the field"	1.775	Sage (Western Academy of Management)	1992	4
Journal of Management Studies "JMS publishes innovative empirical and conceptual articles which advance knowledge of management and organisation broadly defined, in such fields as organization theory, organizational behaviour, human resource management, strategy, international business, entrepreneurship, innovation and critical management studies. JMS has an inclusive ethos and is open to a wide range of methodological approaches and philosophical underpinnings"	5.196	Wiley	1964	8
Management Science "MS is a scholarly journal that disseminates scientific research focusing on the problems, interests, and concerns of managers. (…) Its audience includes academics at business and engineering schools and managers open to the application of quantitative methods in business"	3.458	Informs	1954	12
Omega – International Journal of Management "Omega reports on developments in management, including the latest research results and applications. (…) Omega is both stimulating reading and an important source for practising managers, specialists in management services, operational research	3.626	Elsevier	1973	8

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workers and management scientists, management consultants, academics, students and research personnel throughout the world. The material published is of high quality and relevance, written in a manner which makes it accessible to all of this wide-ranging readership. Preference will be given to papers with implications to the practice of management. Submissions of purely theoretical papers are discouraged"				

Table 3. *The finally selected journals*

The sample of respondents

The study population should ideally consist of every member of the Italian business community, particularly the entrepreneurs and managers at the top of their company hierarchies. In practice, in order to obtain a representative random sample, it will have to be assimilated to the members of the various management associations collaborating with the project: the Verona Chamber of Commerce (CCIAA VR), the Verona branch of the National Federation of Industrial Company Managers (Federmanager), and the Association of Veronese Economics Graduates (Alvec). A random sample will be extracted from the lists provided by these associations, stratified on the basis of gender, hierarchical level, educational qualifications, company function, and the size of the company, with the caveat that all of the subjects have to belong to different companies. At least during this initial phase of the research, the sample will be geographically limited to north-eastern Italy. Assuming a response rate of slightly more than 30%, it has been calculated that a sample size of about 300 subjects will guarantee that the results of the analysis will have reasonable confidence limits.

The selection and administration of the articles

For reasons of economy, it was decided to choose only one article from each of the eight selected journals. The articles from the two journals with the highest impact factor were chosen on the basis that they were the most frequently cited, as indicated by the journals' websites; the others were those in the third place of the index of the third issue published in 2014.

Table 4 shows the system chosen for the administration of the articles, which is designed to ensure that each respondent is asked to read four articles, and that each article is read by a minimum number of readers.

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Groups	Group size	Selected article							
		A1	A2	A3	A4	A5	A6	A7	A8
M1	25	25	25	25	25				
M2	25	25	25		25	25			
M3	25	25	25			25	25		
M4	25	25	25				25	25	
M5	25	25	25					25	25
M6	25	25	25	25					25
M7	25	25	25	25		25			
M8	25	25	25		25		25		
M9	25	25	25			25		25	
M10	25	25	25				25		25
M11	25	25	25	25				25	
M12	25	25	25		25				25
Total	300	300	300	100	100	100	100	100	100

Table 4.

Table 5. *Plan for the administration of the eight articles to the 12 groups of practitioners in the sample*

As can be seen, after randomly dividing the 300 subjects into 12 groups of 25 subjects each, two articles (the most cited of the two journals with the highest impact factor) will be sent to the members of all of the 12 groups, whereas the other six (the third in the third issue of 2014 of each of the remaining journals) will each be examined only by the members of four groups (i.e. 100 subjects, or one-third of the sample). It was decided to do this in order to ensure that all of the subjects would express their opinion concerning at least one sub-set (albeit limited to two articles), and guarantee a statistically significant number of judgements for at least one sub-set. The allocation of the other articles as shown in Table 3 allows the related subjects to evaluate six further articles without over-burdening with them with work, and without the requirement that each article is judged by a statistically acceptable minimum number of subjects. In brief, each practitioner will receive a total of no more than four articles: the two that will be read by all 300 participants, and two that will also be read by the members of only three other groups.

Table 5 shows the final list of the eight articles to be sent to the sample of practitioners in accordance with the copyright conditions of the respective journals.

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Most cited	• Huselid, M.A. (1995), "The Impact of Human Resource Management Practices on Turnover, Productivity, and Corporate Financial Performance", *Academy of Management Journal*, Vol. 38 No. 3, pp. 635-672. • Barney, J. (1991), "Firm Resources and Sustained Competitive Advantage", *Journal of Management*, Vol. 17 No. 1, pp. 99-120.
Casual selection	• Evaristo, R. and Zaheer, S. (2014), "Making the Most of your Firm's Capabilities", *Business Horizons*, Vol. 57 No. 3, pp. 329-335. • Jamal, A. and Shukor, S.A. (2014), "Antecedents and Outcomes of Interpersonal Influences and the Role of Acculturation: The Case of Young British-Muslims", *Journal of Business Research*, Vol. 67 No. 3, pp. 237-245. • Hudson, B.A. and Okhuysen, G.A. (2014), "Taboo Topics Structural Barriers to the Study of Organizational Stigma", *Journal of Management Inquiry*, Vol. 23 No. 3, pp. 242-253. • Collet, F. and Philippe, D. (2014), "From Hot Cakes to Cold Feet: A Contingent Perspective on the Relationship between Market Uncertainty and Status Homophily in the Formation of Alliances", *Journal of Management Studies*, Vol. 51 No. 3, pp. 406-432. • Lim, N. and Ham, S.H. (2013), "Relationship Organization and Price Delegation: An Experimental Study", *Management Science*, Vol. 60 No. 3, pp. 586-605. • Schulz, T. and Voigt, G. (2014), "A Flexibly Structured Lot Sizing Heuristic for a Static Remanufacturing System", *Omega*, Vol. 44 No. 3, pp. 21-31.

Table 6. *List of selected articles*

Questionnaire

The judgements will be collected by means of a questionnaire. Each practitioner will be personally contacted by e-mail in order to describe the objectives and summary contents of the research, and the methods of collaboration. By means of a link, he or she will be invited to respond to a very brief questionnaire consisting of eight closed-response questions (see Table 6) loaded on the *Lime Survey* open source platform. Questions 3-6 are to be answered using a Likert scale ranging from 1 (low) to 5 (high).

1.	Do you know the journal in which the article was published?	yes / no
2.	Is the article/subject interesting?	□ 1 □ 2 □ 3 □ 4 □ 5
3.	Is the article comprehensible?	□ 1 □ 2 □ 3 □ 4 □ 5
4.	Is the article/research useful (even only potentially)?	□ 1 □ 2 □ 3 □ 4 □ 5
5.	Is the article/research usable or might it have an impact on company management?	□ 1 □ 2 □ 3 □ 4 □ 5
6.	Would you subscribe to this journal?	yes / no
7.	Do read any other national or international management journals?	yes / no

Table 7. *The questionnaire*

Data analysis

The collected data will first be analysed in order to obtain estimates (and confidence intervals) of proportion of respondents judging the articles favourably or otherwise on the basis of their answers to the questionnaire. The data will allow us to verify some hypotheses concerning the different articles. If it is considered necessary, the collected data could be used in a resampling phase to correct any distorsions in the original sample. If possible, we also intend to analyse the data using some models in line with the item response theory. This will allow a joint evaluation of *ability* of the subjects (i.e. their

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interest in or positiveness towards academic articles) and the *difficulty* of the articles (i.e. the difficulty or the irrelevance of the articles for real applications), so that the subjects and articles to be ranked accordingly. Table 7 summarises the framework of the study.

SELECTION OF JOURNALS	• Academy of Management Journal • Business Horizons • Journal of Business Research • Journal of Management • Journal of Management Inquiry • Journal of Management Studies • Management Science • Omega - International Journal of Management
SELECTION OF ARTICLES	• year 2014 • 8 articles (one per journal) • 2 most cited (journals with the highest impact factor) • 6 chosen on the basis that were the third article in the third issue
SELECTION OF STUDY SAMPLE	• 300 practitioners • owners/managers • north-east italy • national databases (CCIAA, Federmanager, ALVEC,...)
E-MAIL CONTACTS	• E-mail for each interviewee • 4 articles (full text) for each interviewee: two the same for all participants (most cited) + two selected on a rotation basis
QUESTIONNAIRE (on-line platform)	• Know journal? yes / no • Article/subject interesting? Likert scale • Article comprehensible? Likert scale • Article/research useful (even only potentially)? Likert scale • Article/research usable or might have an impact on company management? Likert scale • Read other national/international management journals? yes / no • Would subscribe to this journal? yes / no
ADMINISTRATION, COLLECTION AND PROCESSING OF RESULTS	Second Step Of The Research

Table 8. *Plan of administration of the 8 articles to the 12 groups of practitioners in the sample*

DISCUSSION AND CONCLUSIONS

As already pointed out, the study has not yet been carried out. However, regardless of the collected data and obtained results, it is already possible to say that, to the best of our knowledge, this is the first study aimed at understanding the opinions of some practitioners concerning the usability of academic management research.

Knowing how practitioner assess academic management research and whether they consider it useful is very important in order to understand whether, and to what extent, researchers and academic

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institutions fulfil their mission or at least a significant part of it. In other important fields of knowledge such as medicine, clinical trials are fundamental means of evaluating the output of knowledge production, and extending this practice to management research could be useful: ours is a first step in this direction.

So, this is not a paper aiming at filling a knowledge gap or at adding incremental theoretical knowledge *strictu sensu*, but it can all the same make a contribution, because it deals with the way management research is judged by managers. In a sense, one could say that this is a meta-theoretical paper, in the sense that it tries to reflect on the usage of management knowledge from its recipients , or at least from a part of them.

Though managers should read academic articles (Stadler, 2015), as a matter of fact the way real world seems to go is rather different. It's therefore highly valuable to develop research on the fortune of management research in the business community.

In this paper our endeavour has been to rigorously build a framework, systematic enough but at the same time easy to be implemented, able to measure or assess the impact of scientific management research and of the journals where is published.

The practical implications of this study are not immediately obvious but, if it helps to encourage an increase in the relevance of the research strategies of academics and the editorial policies of journals, it will have made a real contribution. Hopefully, at the very end of the path we're moving along, practitioners will be able to find in academic journals articles that, keeping untouched their scientific rigor, will be more adherent to real-world interests and needs.

Our framework has many limitations. First of all, there are the quantitative limitations related to the number of practitioners in the sample, the number of journal considered, and the number of articles assessed: it is clear that a larger number of interviewees, journals and articles would be very beneficial. On a more substantial level, there two fundamental points that need to be made. The first is that the interviewees may simply not be interested in the subjects of the papers they receive to read. Although every effort has been made to identify practitioners at the highest levels of company management, and select journals with the broadest possible scope, considerable caution is necessary when making generalisations about the relevance of scientific output. Furthermore, our study essentially concentrates on supply insofar as we have tried to construct a protocol that provides a representative compendium of scientific managerial production; little is known about the demand side or the attitude of managers to scientific research.

 ISBN: 978-9963-711-37-6

There are just as many prospects for future research. In addition to studies aimed at overcoming or reducing the effects of the above limitations, it would be very interesting to extend the research internationally in order to see whether there are differences between countries and, if so, why. It may also be useful to compare the findings with those relating to other, similar disciplines. Depending on the degree of usability revealed by the survey, it would certainly be very interesting to examine in greater detail how practitioners use scientific knowledge in their everyday activities. One final research line could be to examine the production/distribution/consumption pipeline as a whole in order to understand how to avoid the risk of self-referencing inside the community of scholars, and how to integrate the production and use of knowledge further, which would clearly benefit not only the people directly involved, but also the entire economic system.

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ISBN: 978-9963-711-37-6

FIRMS' ENTRY CHOICES IN FOREIGN MARKETS: EMPIRICAL EVIDENCE FROM M.E.N.A. COUNTRIES

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ABSTRACT

The present paper addresses the factors influencing the firms' choice of entry mode in international markets. In particular, the paper aims to explore two factors: one related to the external environment, and one dependent on firms. The first is the institutional context, intended as the whole of formal and informal rules of the country target. The second is the market commitment, intended as a construct of three factors: a) the resources committed in a particular market area, b) market knowledge meant as the result of the experience firms get in foreign market, c) and a general attitude of the decision makers to maintain the international presence for a long period of time.

The theoretical analysis is completed by an empirical exploration performed by a Multiple Case Study analysis, of four European companies internationalized in the MENA. The results show that the kind of institutional context (hostile vs welcome) strongly impacts on the amount of resources involved in the internationalization process, while the level of market commitment (low vs high) impacts more on the complexity – and intensity - of the process.

Keywords: *entry choices, internationalization process, institutional context, market commitment*

INTRODUCTION

The choice of the entry mode in foreign markets is a key component of internationalization strategies, and different theoretical and empirical studies have focused on this issue. This field of research owes its origins to three main backgrounds: the economic theories, the theories of foreign direct investment, and the internalization theories. However, the recent trend has been to adopt a more eclectic approach, and to involve strategic and behavioural variables. While the traditional contributions given on entry mode focus on the Transaction Costs Theory (Williamson, 1985, 1991), recent contributions refer to the resource-based perspective, and focus on firms ability to move and to strengthen both internal and external resources and capabilities, which are rare and difficult to imitate or substitute (Barney, 1991, 2002).

A new input to the interpretation of firms' entry choices has derived from the application of the institutional theory, and from the consideration of cultural values as something affecting international

 ISBN: 978-9963-711-37-6

relationships and managerial practices (Brouthers, 2002, Arregle et al, 2006). According to the authors, entry choices are often driven by a combination of transaction costs variables, institutional and cultural characteristics. All operations outside domestic boundaries involve the interaction between different systems of cultural and social values; moreover, including cultural variables in International Business studies implies that cultural differences between countries increase the costs of firms entry in host country and inhibit the ability of companies to transfer knowledge and skills (Palich et Gomez - Mejia, 1999).

This study wants to contribute to this debate, by analysing the effects of some external and internal factors on entry choices. We consider: a) the market commitment, intended as the incremental and sequential commitment of a firm to foreign markets (Millington and Bayliss, 1990; Luostarinen and Welch, 1990) and, b) the institutional context, distinguishing welcome and hostile host markets. The basic idea is that firms' entry choices depends on the institutional environment, which above all in emerging markets and transition economies can represent a huge limitation to foreign firms' choices, but firms' action do not depend just on the external environment, but to the extent of firms' involvement in international activities, and on their previous experiences (market commitment).

The paper begins with a discussion about the institutional theory and the concept of market commitment and its appropriateness to be linked to entry mode strategies, then it continues with a discussion about the congruence of using a multiple case study research and it presents the case of European firms internationalized in MENA area.

INSTITUTIONAL CONTEXT AND ENTRY MODES

When firms choose an entry mode, they have to consider a double pressure and should strive to achieve the right balance between internal rules and adaptation to local environmental needs (DiMaggio and Powell, 1983), having to respond to the need to achieve legitimacy in both networks (Kostova and Roth, 2002). The internal pressures drive companies to adopt structures and practices that have proved successful in previous experiences, and which can facilitate the transfer of funds and resources between subsidiaries.

The external pressures are represented by local rules, both formal and informal, and by the unwritten rules that define what is "right" and "wrong." An entry strategy is legitimate as far as it is perceived as legitimate by those who are involved both in the context of corporate internal and external environment. Firms tend to conform to the rules and regulations at the local level based, in most cases, on the social expectations and influences which firms have to interact to, in order to gain legitimacy and improve their ability to survive and thrive (Ferreira et al., 2009).

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Institutional theorists (DiMaggio and Powell, 1983; Scott, 1995) claim that the organizational actions are driven by the desire of social justification, of a positive judgment of stakeholders (shareholders, customers, governments, public interest groups), which assess the appropriateness or legitimacy of the strategic activities from their point of view. According to institutional theory, strategic and economic activity is embedded in a social context and the regulatory framework motivates the economic actors to seek the legitimacy or the approval of actors on which they depend for access to physical, human, financial, and reputation (Amburgey et al., 1996; Oliver, 1996).

Social legitimacy is connected to the institutional framework (government, business, groups), too. Institutions have a key role in a market economy to support the effective functioning of the market mechanism, allowing firms to engage in market transactions, without incurring undue costs or risks (Peng *et al*., 2008). These institutions include, for example, the legal framework, property rights, information systems, and regulatory regimes. According to Meyer (2009) institutions can be considered as "strong" if they support an effective mechanism of the market, on the contrary, the institutions can be seen as "weak" if they fail to support effective markets (McMillan, 2008).

Emerging markets are described as the countries that are restructuring their economy trying to direct it to the market and offer significant investment opportunities and opportunities in terms of technology transfer (Li and Peng, 2008). In some of them however, Governments have mitigated restrictions on foreign direct investment, reformed the banking sector, reduced bureaucracy, accelerated privatization programs, and have made many other changes that have affected both the market and the operational strategies of multinational enterprises (Demirbag *et al*., 2007). The institutional environment has a direct influence on internationalization choices and entry modes, posing barriers or facilitating the entrance of foreign investors. The institutional theory represents consequently a solid basis for explaining the internationalization of companies in emerging economies, since the institutional differences are particularly important for companies operating in more institutional contexts.

Studies show that companies decide to take cooperative entry modes, rather than competitive mode, where the institutional framework is very weak (Meyer *et al.*, 2009): acquisition is an entry mode often used where markets are efficient, while countries with weak institutions are characterized by a lack of transparent financial data, or a lack of other kind of information on firms, or a shortage of financial intermediaries. This increases costs of negotiations, so it is possible to suppose that in such a situation, firms will prefer cooperative entry mode able to overcome market transactions difficulty.

 ISBN: 978-9963-711-37-6

MARKET COMMITMENT

The concept of market commitment referring to internationalization process was introduced in Uppsala model (Johanson and Vahlne, 1977). The Authors assumed that market commitment consists of two factors. The first is the resources committed in a particular market area that sometimes can be easily sold or transferred to other purposes. Market commitment is high when these resources are integrated within the firm; while it is low when integration do not occur. Johanson and Vahlne (2009) have revised their own model, by introducing market knowledge as a further influencing factor: market knowledge is the result of the experience firms get in foreign market, and the growth of market knowledge drives to a growth in market commitment, which promotes a further enhancement in market knowledge.

Market commitment, substantially, "...represents a dynamic force in the internationalisation process"(Luostarinen and Wel1 1990, p. 269), and it "...is an essential ingredient for successful long-term relationships".

Commitment is a wide concept including psychological, attitudinal and temporal elements (Gundlach *et al.*, 1995). So, market commitment could involve not only resources, but also the attitude or the intention of the decision makers (Lamb and Liesch, 2002), and it may concern the inclination to build strategic alliances (Cullen *et al*., 2000), business-to business relationships (Zabkar and Brencic, 2004), and cross border relationships (Styles *et al.*, 2008).

Market commitment influences entry choice, because different choices imply different level of costs, risks and involvement, and requests different degree of knowledge and experience. While export does not require any kind of international investment, as the goods are not produced in the country of destination, foreign direct investment require a huge amount of resources. The decision to set up a wholly owned subsidiary provides the benefits of full control of local activities (Kuo et al., 2012), and full freedom of decision, without having to worry about potential partners and opportunistic behaviour. At the same time, however, it implies a higher degree of risk of course (Hennart, 2000). The collaboration with local partners through the establishment of joint ventures with foreign partners can facilitate the transfer of knowledge to local partners and reduce administrative costs (Teece, 1981). However, the choice of joint venture is not without risk. The foreign partners can behave opportunistically if they have the opportunity (Hennart, 2000), since human beings are subject to bounded rationality and acquiring enough information to predict the behaviour and to avoid the potential for opportunism is very difficult. Consequently, the decision to establish a joint venture entails, ex ante, high costs for the selection of a suitable partner, the drafting of a contract that sets out the terms of the agreement and ex post adaptation, cost control and monitoring.

 ISBN: 978-9963-711-37-6

International experience has great influence on the decisions of entry into the foreign market. At the beginning of the internationalization process, companies do not have enough experience, perceive high uncertainty, overestimate the risks and underestimate the returns, thus avoiding making significant use of resources in the destination country (Anderson and Gatignon, 1986).

When a multinational company enters a foreign market, rules, values and beliefs of the foreign country often pose major challenges for communication and management; consequently, the organizational and administrative costs could be higher when the firm does not have international experience. On the contrary, the comparison with local actors through collaboration and joint management of resources through joint ventures with partners familiar with local business practices, allows a foreign company to fill the gaps and to avoid conflicts.

Anand and Delios (1997) suggest that multinationals in foreign countries will have to face the most difficult challenges represented by the barriers to the transfer of knowledge, and by the high cost of the transfer of knowledge from the parent company to the foreign subsidiaries in a country with a different culture; but these problems can be overcome with a collaboration agreement. In such circumstances, the sale of part of the control of the foreign branch and the involvement of a local partner to form a joint venture seems to be the best solution, because the foreign managers may be able to facilitate the absorption of knowledge in JV (Wang and Schaan, 2008).

A FRAMEWORK EXPLAINING ENTRY CHOICES

Considering institutional context and market commitment is useful to understand both internal and external factors, which affect entry choices. When companies expand their business in the overseas market, they have to choose between several options: they can start their own businesses, through green-field investment, may acquire existing businesses or draw up an alliance with local partners. These three options involve the company in a tough strategic choice, since it cannot be changed in a short time and require huge commitment resources (Kogut and Singh, 1988).

Uncertainty on the foreign market influences the decisions of managers on how to invest abroad: firms prefer entering the foreign market through a wholly owned subsidiary when the host country and the country of origin are culturally and institutionally similar (Makino and Neupert, 2000). In addition Meyer et al (2009) found that multinational companies prefer to form a joint venture or acquire a 'local company than Greenfield investments, when the need of local resources is strong, in order to improve competitiveness. Uncertainty and resources are key elements of entry choices, and in transition economies, foreign investors have to think about alternative ways of entry, because the institutional framework of the host country could present obstacles or impose special forms of relationships with local actors.

 ISBN: 978-9963-711-37-6

Figure 1 synthesizes our model: institutional context is evaluated on the basis of five factors: a) the extent to which local regulatory influences the activities of foreign firms in the host country (the extent to which the state hinders the development of business); b) the state control (the extent to which the control exercised on companies distorts competition); c) the restriction on investment (the extent to which investment in the economy are directed by the government); d) the bureaucracy of local government, protectionism, fiscal policy; and e) the cultural barrier meant as closeness towards outsiders and unequal treatment of foreigners (the extent to which foreigners are treated unequally compared to local citizens, and the cultural boundaries).

The second dimension, market commitment, is the result of two factors: a) a possible mimetic attitude, which would prompt companies to adopt an entry mode rather than another because it has been successfully used in the experiences of other companies; b) the focus on previous experience of the company analysed, whether it had already consolidated experience in international markets.

Market Commitment

High	**Joint Ventures - Partnerships** **I**	**FDI/ Wholly owned subsidiary** **II**
Low	**Indirect Export** **III**	**Trade Internationalization** **IV**

Hostile Welcome

Hostile Welcome

Institutional Context

Figure 1. *Proposed Framework*

Based on the institutional context aspects we distinguish the countries covered in the analysis: hostile and welcome. According to the collected information, we consider as hostile those countries, which are less opened to foreign investments, with pretentious and very strict tax. Considering the MENA area, these countries are generally high-context cultures, where the western are perceived often as culturally distant, and sometimes as a threat (Calza *et al.*, 2009; 2010; 2013). We consider as welcome, instead, those MENA countries where the tax regime and the interference of Governments are mild, and authorities encourage and attract foreign investment, through the introduction of a number of exemptions and reduced state holdings. Culture does not represent a barrier, and the interaction with partners and local stakeholders is much easier because the cooperation with foreign company is seen as an opportunity more than as a risk.

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With regards to market commitment, a high market commitment means a general attitude by firms to invest resources in foreign markets. Firms with a high commitment will be inclined to preserve cooperation, and to keep their presence in international markets (Gundlach, *et al.*, 1995). On the contrary, a low market commitment means the opposite attitude. It is typical of firms that pursue spot opportunities, and internationalize for commercial objectives or to strengthen sales performance.

When contexts are hostile and the commitment is low, firms try to limit the risks deriving from the high institutional uncertainty and the low experience, and the entry choice is expected to imply a low involvement of resources, that is why we hypothesize an inclination towards indirect export. On the contrary, when contexts are welcome, and the market commitment is high, firms have a deep experience, a high inclination to persist in foreign markets, which from an institutional point of view are low risky. In this situation, firms are expected to choose a stable and long-term oriented mode, such as foreign direct investment.

In addition to the two opposite situations, we have two intermediate cases. When contexts are hostile, but the commitment is high, this means that firms have a strong intention to enter the markets because they see opportunities, which are probably higher because of the experience they already have. The context is however risky, and this can explain the choice of stable, but less resource-intensive modes, such as partnership. Joint ventures are sometimes an obliged way, because of the laws imposed by local Governments. Last but not least, when the commitment is low, but contexts are welcome, firms can act in the host markets to consolidate theory knowledge. They usually start from a trade opportunities, and try to get a good position in the market, exploiting the facilities it presents.

METHODOLOGY

Given the complexity of the issue and the variability of situations, we use a multiple case studies analysis of European companies, involved in international operations in countries of the area MENA. We can found the basis of this methodology in Yin's work (2009), who outlines a roadmap for the construction and development of theories based on case studies.

Case-studies analyses allow getting a better knowledge and a deep understanding of a complex problem, because they allow to consider social processes and to get knowledge about managerial complexity, as it is in the reality. According to Eisenhardt (1989), we have reviewed the contributions on the topic, and chosen the methodology (Miles and Huberman, 1984) which fits better with our aims, which is the understanding of two main questions related with entry choices: How and Why (Yin, 2009),

After having selected the sample, we have proceeded with a desk analysis of secondary data, collected through the "literature-counting method" (Hagedoorn & Narula, 1996), which has been widely used

 ISBN: 978-9963-711-37-6

and accepted in the literature on international alliances (Miotti and Sachwald, 2003). Data were collected from a variety of sources annual reports, corporate websites, and archives of articles from business magazines, and with interviews, when possible.

This paper is part of a wider research on MENA countries, and we consider here four case studies, which well represent the situations explained in figure 1.

BP

BP is one of the largest energy companies in the world. It produces about 9 billion cubic feet per day of gas and sells more than 22 billion cubic feet per day to 28 countries worldwide. The business model of BP is to create value across the entire value chain of energy production: the company deals with all phases, starting from energy exploration to the supply.

The main feature of the production model of the BP is therefore the high degree of integration of all stages of the energy chain. Much of the success of BP is related to the ability to build a wide range of strong relationships and long-term collaboration with the national oil companies and the International Oil Company, with universities and governments in order to improve the available technologies and to develop new technologies.

BP has been in Algeria since the mid-1950s and is one of the largest foreign investors in the country. Algeria has been characterized by a restrictive fiscal system and regulation of the oil industry for a long time, and only recently the government has promulgated a hydrocarbon law that allowed greater access to foreign capital through production sharing agreements, joint ventures and service contracts that mitigated significantly fiscal terms, reducing the tax rates and royalties. The socio-cultural context is not stable, and both cultural conflicts and terroristic attacks affect production levels and safety of workers.

In order to overcome these obstacles, BP has built a strategic alliance with Sonatrach, thus getting to opportunity to reduce institutional ambiguity and uncertainty typical of countries in transition. BP is a partner with Sonatrach and Statoil and has a 33.15% interest in the project, along with Statoil (31.85%) and Sonatrach (35%). Through the In Salah gas project, which came into operation in July 2004, BP provides large volumes of gas for sale in Europe and the Mediterranean as well, allowing to compete for a growing share of the Spanish gas market.

The main advantage of cooperation for Bp is the opportunity to gain access to oil and gas reserves, estimated among the most abundant in the world, plus the ability to conduct studies and exploratory research on a wide slice of uncharted territory. Furthermore, the agreement and the consequential production potential would make BP among the leaders for the export of energy sources in Europe. Finally, the agreement allowed a foreign company to circumvent the regulatory obstacles that prevent or at least restrict the access of foreign companies in the territory.

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Mainetti Group

The Mainetti Group is a world leader in the production and marketing of hangers. The firm was founded in May of 1961, by four brothers from Emilia Romagna Italy: Gianni, Luigi, Romeo and Mario Mainetti. Romeo Mainetti who worked as a mechanic Marzotto firm, when had the idea to start producing plastic hangers leveraging the expertise of one of the brothers who worked in a local firm operating in plastic molding.

The main feature of the Mainetti business model consists of a strong degree of product differentiation, characterized by a high level of customization. Much of the success of the Group is related to a consolidated and coordinated presence in Europe and the US and to the ability to capture the most important customers.

Mainetti Group has been in Morocco since 2008 with a wholly owned subsidiary, that was the result of an incremental internationalization process, characterized by an increasing involvement of the firm in foreign markets. Opening the new factory, the firm wants to increase significantly its operations, in order to produce and deliver both locally and globally. The textile industry in Morocco is competitive and the new factory reaffirms the commitment to the region and can provide all customers with a locally produced high quality and in line with the quality standards.

Much of the success in its internationalization in Morocco is related to the firm increasing commitment in the new market; strengthen its market, technological and organizational competences. Firstly, the firm has implemented a strategy of related diversification in order to offer to customers a global production (realized nearby to the production facilities of the items) and complete (not only hangers but also other accessories). As the technical capabilities (product and process) in the last years, in line with the process of internationalization, increased a lot: the firm is constantly engaged in huge investments searching for new materials to be used for the production of hangers in order to enhance the aesthetics and functionality. Finally, as the organizational competences, the firm has adopted a divisional organization, strengthening the interdependence between the local units and working in a coordinated way in order to offer to customers a comprehensive service through coordination between the various divisions of the area. Furthermore, Mainetti Group locally commits resources and knowledge in recycling, waste and renewable energy, in order to incorporate in the factory all new generation technologies such as power plants with low energy usage designed for greater exploitation of solar energy and natural ventilation. In recent years the incentive policies for foreign investment combined with the economic and political stability, have attracted major groups from all over the world.

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The social and economic changes of the last decade have transformed Morocco in a very welcome country, ideal for "business"men, who can invest safely, and are protected from the unreliability of global financial markets. Morocco is the host market of many textile-manufacturing companies, and the tax benefits granted to foreign investors are interesting.

Carthusia

Carthusia is an ancient and small firm of South Italy, working in perfume industry. It was founded in 1948, in the island of Capri, by the Prior of the Charterhouse, who found the old perfume formulae and, revealed them to a chemist from Piemonte in the North of Italy, creating the smallest perfume laboratory in the world. The firm, thanks to a deep restyling and an innovative and strategic policy, has managed to become the industry leader not only in the whole south of Italy, but also to position itself as a cutting-edge brand in foreign markets. The idea is to create the first chain of artistic perfumery, selective Italian, to export the smells and the colors of Capri Island. Through exports, the firm able to sell in foreign markets, such as Russia and the East, promoting a brand recognizable around the world; valued and appreciated.

The firm has begun to sell in Saudi Arabia only in recent years: the export situation has just beginning and it is early to evaluate performance. The firm avails itself on a distributor located in Dubai. The choice of the distributor carries out logistic tasks (the firm ship to a warehouse and the trader ships them to different countries), and at the same time it is a necessity since it allows to perform quick registration practices of the products. In fact, regarding relations with European Union, there remain difficulties that prevent the adoption of a FTA EU-Gulf Cooperation Council (GCC). The six Gulf monarchies, while opposing inclusion of a clause on respect for human rights desired by Brussels, maintain a position of closing on European demand to reduce export duties. Furthermore are increasingly recurrent cases of non-tariff barriers on goods entering the country (InfoMercati Esteri, Saudi Arabia, 2015). To the contrary, a Saudi trader who imports goods, equipment, machinery and products for a use limited to the exercise of his business, is not required to have the certification of Saudi Standards, upon presentation of the relevant contract to demonstrate the adequacy of the quantity imported and the amount specified in the contract.

From a socio-cultural perspective, Saudi Arabia is an absolute monarchy, with a political and institutional system based on Islamic religious law (Sharia) and on a conservative interpretation of Islam mold (Wahhabi). The chronic immobility of the political system, the uncertainties related to the succession to the throne and high unemployment are the main challenges to the long-term stability of the country. Business men in Saudi Arabia should be prepared to adhere to Islamic laws and practices,

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even if they are not Muslims. Most important are moments of prayer, in which all activities will stop, and a set of social rules, codes of food and clothes to meet.

CARTHUSIA has been conducting a gradual internationalization strategy as the large part of SMEs. The firm is penetrated in foreign market, through a commercial internationalization, because of the lower experience and knowledge, as well as limited resources, than large firms. Moreover, the firm implements such strategy through a direct channel in familiar markets, and through an indirect channel, in the distant and unfamiliar markets.

Ferrero Legno

FerreroLegno is an Italian company specialized in wood products. The name of the company refers actually to the original family name and to the passion for wood, which are the two key-elements of its identity. The company has its headquarters in Magliano Alpi, in Piedmont, where the family Ferrero started an artisan lab that designed cutting-edge doors, which has gradually transformed into a manufacturing factory.

Ferrero Legno emphasize the Italian design as a key element of its competitive advantage, which is based also on a continous innovation aimed at sustainable production. FerreroLegno doors feature a core originating from forests managed in a sustainable way. Panels ensure minimum levels of formaldehyde emission, and almost every product is lacquered and painted with water based paints. Last but not least, the factory takes energy from a photovoltaic system. Ferrero legno has gradually opened to international markets, looking for partners who could help the company to present and sell its products abroad. Italian furniture are appreciated in the MENA area, and according to the necessity to enlarge its market, Ferrero legno has started to export in Tunisia. Tunisia represents a welcome context: laws allow the commercialization of foreign products, and Italian brands are very appreciated by local customers. The cooperation with Italian firms is well established and even from the point of view of industrial specialization, there are many similarities between Italy and Tunisia, with increasing opportunities for Italian firms to delocalize in the country.

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Ferrero Legno is not inclined to foreign direct investment. The production is based on the made in Italy value, and commercial activities are managed trying to reduce the risks of uncertainty. That's why, in order to exploit the opportunities arising in Tunisia, without investing too much, Ferrero Legno has exploited the opportunity of a trade partnership with Fino, a trading company specialized in importation of fine furniture. Fino started its activity in 1935 in Malta, and today with over 450 square meters of display area, it offers perfect Showplace for fine Italian furniture brands, such as Veneta Cucine, Foster, Ditre Italia, Santa Lucia, Ferrero Legno doors and office furniture by Della Valentina Office and Emmegi.

DISCUSSION AND LIMITATIONS

Our paper gives an insight into the entry choices of international firms, considering the institutional contexts of host market, and the market commitment of international firms. The idea is that when contexts are welcome (such as Morocco and Tunisia) firms can employ more complex entry modes, that is invest more resources, and choose for a more stable presence in the market. However, the degree of involvement depends also on the experience and inclination of the firm (market commitment), which will prefer foreign direct investment when commitment is higher, and commercial internationalization when the commitment is low. On the contrary, when markets are hostile (such as Saudi Arabia or Algeria), firms will choose less risky entry modes, and invest less resources. When the commitment is high, firms can decide to internationalize production or other core activities, but they will prefer to cooperate with local partners, in order to reduce risks. When the market is hostile and the company has a low commitment, internationalization will probably be temporary or at least will involve the minimum of resources, such as for indirect export. This happens even when the commitment is high, and in this case the choice is probably dependent on the kind of barriers existing in the market.

While interesting and confirmed by several case studies, our framework suffers of some limitations. First of all, measuring market commitment is not easy. It's a complex construct, which can be interpreted in different ways. Second, the institutional context seems to have a higher influence than market commitment, and this will be explored in the future. The choice of partnership can be for example a direct effect of rules and restrictions existing in the host market, and the same can be for indirect export. Last but not least, the analysis is mostly based on a desk analysis of secondary data, and this can lead to misinterpretations. Interviews will be improved in the future, to get a deeper insight into the cases.

Taking up the framework and applying it to business cases analysed, the different behaviours can be summarized as follows:

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Market Commitment

High	Joint Ventures - Partnerships I **(BP Algeria)**	FDI/ Wholly owned subsidiary II **(Mainetti Morocco)**
Low	Indirect Export III **(Carthusia Saudi Arabia)**	Trade Internationalization IV **(Ferrero Legno Tunisia)**
	Hostile	Welcome

Institutional Context

Hostile Welcome

Institutional context

Figure 2. *Entry choices internationalized firms*

In the first quadrant, there are situations where companies show a high commitment to international markets, and they have formed alliances in countries that have less acceptance towards foreign investment, operating in hostile cultural and institutional contexts.

In the second quadrant, there are situations where companies experience positive performance related to a leadership position in the international markets, in countries that have a larger acceptance of foreigner and in general of diversity.

In the third quadrant, are instead those companies that due to the lack of adequate resources, even because of the limited size, are not able to choice a challenging entry mode such as FDI or JV, and have to use local distributor in order to overcome legal and cultural obstacles.

Finally in the fourth quadrant, are those companies, like Ferrero Legno, that could commit resources and use a consolidated knowledge of international market but, because of the limited knowledge and the perception of uncertainty, prefer to use a trade entry mode in order to increase sales. In addition, to get this goals, they prefer to enter market with a high market potential, where it is not difficult doing business, thanks to the openness of regulatory and cultural system.

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 ISBN: 978-9963-711-37-6

THE EFFECT OF NETWORK PARTICIPATION ON FIRM PERFORMANCE: A MATCHED-PAIRS ANALYSIS

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ABSTRACT

This article presents a matched-pairs analysis of the evolution of performance in firms that have joined a network compared to that of firms not participating in a network. The literature on networks and performance highlights a positive effect of networks on firm survival, growth, and general success. We tested this hypothesis with reference to a specific kind of agreement among firms: the business-network contract, which was recently introduced into Italian regulation to develop the innovative and competitive capabilities of firms. Our results demonstrate that the distribution and the median of performance indicators (e.g., sales growth, investments, productivity and financial position) are significantly different for network firms (compared to non-network firms) in the years following the agreement to participate in the network. In particular, network firms demonstrate a better reaction to the difficult situations that have been experienced by a majority of Italian firms in the past several years of economic downturn (e.g., decrease in sales, investments, productivity, and bank credit). Further research should test these results over a longer period and should consider the specific factors that influence value creation and the distribution process within the networks, thus determining different performance effects at the firm level.

Keywords: *business network contracts, contratti di rete, firm performance, matched pairs analysis*

INTRODUCTION

Growing competitiveness, technological turbulence and the emergence of new markets have deeply affected the world business economic situation and the key value drivers of competitive advantage. Within this new and volatile environment, inter-organizational networking can be a key strategy by which to explore and exploit opportunities for growth and success (Gomes-Casseres, 1994).

Inter-organizational relationships are driven by many needs, for example, improving production efficiency, sharing research and development skills, and gaining access to new markets. Each of these aspects has become increasingly important, particularly for small to medium enterprises, whose

 ISBN: 978-9963-711-37-6

resources are often significantly constrained (Burt, 1997; Ahuja, 2000; Davies, 2009; Håkansson *et al.*, 2009).

Among the different network forms and agreements, both structured and informal, this study focused on a tool introduced in 2009 by the Italian law to improve firms' competitiveness and innovative attitudes. It is a new type of contract termed a "contratto di rete" ("business-network contract"), and is a private agreement between two or more firms aiming to exchange information or services, collaborate in specific areas or for specific issues, or jointly manage common activities. The business-network contract was conceived to allow flexible cooperation within a structured institutional framework, thus allowing firms to share information, resources, and activities while maintaining their legal autonomy and independence. Since its introduction, an increasing number of business-network contracts have been drafted. In January 2015, registered contracts in Italy numbered 1,927, with 9,662 firms involved. Within the context of the recent economic downturn, inter-firm networks are considered an important model of organizational development to enable firms to grow, create value, and survive (Jarillo, 1988; Lorenzoni and Ornati, 1988; Venkatraman and Van den Ven, 1998).

The aim of this article is to analyze the effects of networking on firms' performance by comparing the evolution of some accounting indicators in two samples of comparable firms, divided only by the characteristic of being or not being part of a business-network contract. The analysis, conducted using matched-pairs technique, demonstrates that firms that are part of a network experience better evolution in their financial performance: in growth, investments, productivity, and financial position.

This article is structured as follows: in the next section, we briefly review the literature that frames our analysis of networking and firm performance. The methodology will then be described and our findings will be discussed. Finally, concluding remarks and suggestions for future research will be provided.

EFFECT OF NETWORKS ON FIRM PERFORMANCE

Among the different issues stemming from the proliferation of networking arrangements, the analysis of the effect of networking on firm performance has become a key question for academics, business managers, and policy makers.

Some research discusses the manner in which networking affects a single firm's performance and its achievement of competitive advantage (Dyer and Singh, 1998; Gulati *et al.*, 2000; Koka and Prescott, 2002). Other studies focus on the antecedents of the relationship between networks and firm performance (Christoffersen, 2013). Attention has also been given to the manner in which the value co-created within a network affects the performance of the focal firm (Gulati, 1998; Folan *et al.*, 2006).

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Although researchers agree on the idea of "network effects" on firm performance, there is disagreement on what "performance" actually means (Franco, 2011).

As Gulati (1995) notes, the implications of networks on single-firm performance are an interesting but unanswered issue, first because a clear and univocal definition of performance is not easy to find. Performance is a multidimensional construct that has several perspectives of analysis that generate different meanings and implications (Venkatraman and Ramanujam, 1986). The difficulty of finding a definition of performance is coupled with the difficulty of finding a clear consensus on techniques for its measurement (Glaister and Buckley, 1999).

Some researchers define firm performance in the context of networks by referring to a subjective perception of the network's success, and evaluate performance through a qualitative measure of the network partners' satisfaction (Arino, 2003; Geringer and Hèbert, 1991; Kawai, 2012). Other researchers define firm performance as the stability of the relationship among the firms in the network (Davenport *et al.*, 1999; Lu and Beamish, 2006).

Some measures of firm performance in the context of networks are more objective. For example, some researchers associate performance to a commercial perspective and operationalize it through variables such as sales growth, products and services growth, and market share (Huggins, 2001; Kandemir *et al.*, 2006; Abramson and Ai, 1999; Kawai, 2012).

Some research focuses attention on the innovation dimension of performance, arguing that because innovation is a key aspect of competitiveness, it can be a significant variable for measuring firm performance (Alvarez *et al.,* 2008; Baum *et al.,* 2000). Adopting this view, different authors operationalize firm performance through measures such as research and development (R&D) intensity (i.e., R&D investment on sales), and R&D spending growth and patenting rate (Alvarez *et al.,* 2008; Baum *et al.,* 2000; Huggins, 2001).

Attention has also been given to profitability as a definition of performance and, adopting this perspective, the common variables used to measure firm performance are Return On Assets (ROA), Return On Sales (ROS) and Return On Capital (ROC) (Hill *et al.,* 1992; Combs and Ketchen, 1999; Goerzen, 2007; Miller and Eden, 2006). Various researchers also use the concept of productivity as a definition of performance and evaluate it by adopting labor-productivity variables (e.g., sales/employees) (Koka and Prescott, 2008; Nair and Kotha, 2001; Koka and Prescott, 2002; Gronum *et al.,* 2012). Other economic and financial measures such as market-to-book value and market valuation have been considered valid expressions of performance (Montgomery *et al.*, 1984; Lavies, 2007).

Beginning from the rich and diversified literature, we first decided to select accounting measures of performance. This choice was motivated by two facts. The first was related to the fact that even if firms have multidimensional goals, economic and financial objectives are fundamental requirements for

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firms' survival. The second was the fact that even if accounting measures are often imperfect operationalizations of the constructs they want to represent (Gong *et al.,* 2005), they are the most useful and accessible tools for measuring firm performance (Beamish and Lupton, 2009; Baker, 1992, 2000; Budde, 2007). Moreover, given that we focused on Italian firms only, there were no differences in accounting standards between the firms studied, allowing us to consider accounting variables comparable measures of performance.

Due to the relevance of the multidimensional nature of performance, in line with prior research, we considered different performance variables to obtain an overall valuation; these were growth, intangibles, productivity, profitability, and financial situation.

Using these variables, we analyzed the networking effect on firm performance by testing the different performance evolution demonstrated by firms that have joined a business-network contract versus firms who do not belong to a network.

METHODOLOGY

This study applies a matched-pairs technique to analyze the evolution of performance in firms that have drafted a business-network contract compared to those that have not joined a network.

The matched-pairs technique is mainly used in medicine to compare the reactions of patients receiving a specific treatment with the reactions of those not receiving it within experiment research designs. However, this technique is also often used also in management studies, for example, to compare differences in the performance of ethical and non-ethical funds (Kreander *et al.,* 2005); exporting and non-exporting firms (Westhead, 1995); firms with different competitive strategies (O'Farrell *et al.*, 1993); family versus non-family firms (Westhead *et al.*, 1997); and green innovative firms versus non-green firms (Aguilera-Caracuel and Ortiz-de-Mandojana, 2013).

To perform the comparison, we first created the sample of network firms, beginning with firms that had entered a network in the years 2010–2012. We used the database of network contracts available on the "contratti di rete" website[1] and matched this data with the AIDA database of Bureau van Dijk to ensure we considered only companies that had a financial statement available for the period 2011–2013. In the second step, we selected a group of comparables that did not belong to a network. For each of the network firms we selected, we also selected from the AIDA database a firm in the same industry (using the economic activities ATECO code, requiring at least the same four-digit code) that was also similar in size (measured by sales). For the firms in a network, the year of reference for the selection was the year of drafting the network contract because we were interested in analyzing the evolution from the

[1] http://contrattidirete.registroimprese.it/reti/

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point in time in which the two matched firms (i.e., the network firm and the similar non-network firm) began to be different.

As we did not know the time by which the effects of network participation on firm performance would appear, we analyzed the evolution of performance indicators with three different lags: one year, two years and three years after the network-contract drafting. In the end, we used data for the one-year and two-year lags because the group of the three-year lag had too few observations to be used, and only a few tests demonstrated significant results.

According to a multidimensional definition of firm performance (Gulati, 1995), the indicators used in the analysis refer to different constructs of firm performance: growth, intangibles, productivity, profitability, and financial situation. In keeping with prior research for measuring growth, we considered the evolution in size, measured by total sales and total assets (Kandemir *et al.,* 2006; Abramson and Ai, 1999). Focusing on the innovation aspect of firm performance, we followed the approach adopted by several researchers and considered the intangibles' item as a relevant variable to assess firm performance. In line with Huggins (2001) and Baum et al. (2000), we also considered that R&D and patent-investment incidence on total assets as a measure of intangibles. In line with Gronum *et al.* (2012) and Kawai (2012), we also used the productivity dimension, measuring it using the "sales-per-employee" ratio. In addition, we adopted some widely used (Goerzen, 2007, Miller and Eden, 2006; Combs and Ketchen, 1999) profitability measures such as ROA (earnings before interest and taxes [EBIT]/total assets), ROS (EBIT/sales), and asset rotation (hereafter indicated as ROT) (sales/total assets). Finally, for the financial aspect of firm performance, we considered the solvency ratio (equity/total assets), the net financial position (financial debts minus liquidity) and the debt/equity ratio.

With the aim of comparing the differences in performance between firms that had signed business-network contracts and firms that had not, we compared the percentage variation of each indicator in the two groups of paired firms by using two non-parametric tests: the Wilcoxon ranksum test (also known as Mann–Whitney two-sample statistic) (Wilcoxon, 1945; Mann and Whitney, 1947). The Wilcoxon ranksum is used to test whether two independent samples are from populations with the same distribution, and the median is used to test for the null hypothesis that the samples were drawn from populations with the same median. The tests were performed with Stata software, using the "ranksum" and "median" command.

ANALYSIS AND DISCUSSION

The results of the one-year lag tests are presented in Table 1. The first column presents the variables, which were analyzed in percentage variation from the year of network creation to the following year.

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The second column presents the two tests performed: for each variable, there are two lines containing the results of each test. The third column presents the p-value of the tests. The fourth and the fifth columns present the number of firms in the two samples (network firms and non-network firms) whose variables were available for the test. The final two columns present the median of the variables for the two groups.

variables (% variation)	*test*	*p-value*	*n. network firms*	*n. non-network firms*	*median network*	*median non-network*
sales	ranksum	0.01	1,559	1,559		
	median	0.00	1,559	1,559	-1.97	-4.51
total assets	ranksum	0.54	1,415	1,396		
	median	0.25	1,415	1,396	1.45	0.63
intangibles	ranksum	0.01	321	239		
	median	0.03	321	239	-20.74	-11.30
labor productivity	ranksum	0.01	1,252	1,192		
	median	0.01	1,252	1,192	0.00	-2.21
ROS	ranksum	0.15	1,285	1,242		
	median	0.59	1,285	1,242	0.73	-1.40
ROT	ranksum	0.05	1,400	1,384		
	median	0.03	1,400	1,384	-2.54	-4.73
ROA	ranksum	0.43	1,410	1,394		
	median	0.47	1,410	1,394	-2.65	-5.26
solvency ratio	ranksum	0.02	1,393	1,370		
	median	0.08	1,393	1,370	0.99	2.22
net financial position	ranksum	0.06	1,225	1,222		
	median	0.06	1,225	1,222	-2.92	-6.59
debt/equity	ranksum	0.04	994	884		
	median	0.07	994	884	-6.13	-10.55

Table 1. *One-year lag tests*

For the growth indicators, Table 1 demonstrates a significant difference in the two groups in the distribution and median of sales variation. For each group, the median is negative, indicating that a majority of firms had suffered a reduction in turnover, but for the network firms, the median was lower (–1.97% compared to –4.51%). This would indicate that belonging to a network gave firms the strength to better withstand the period of economic crisis. The variation in the total assets appears not to be significant; however, the median in this variation is higher for the network firms.

The intangible indicator (R&D and patent investment on total assets) decreased for both groups of firms, but the median of the network firms was worse than that of the other group (–20.74% compared to –11.30%), indicating a higher cut in intangible investments. It should be noted that only the R&D and patents acquired upon payment are included in the assets, which means that all the implicit knowledge acquired is not considered by this indicator. Within networks, knowledge sharing that comes from the

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business experience of the other network members is free of charge, and it is likely that a certain amount of network experience (i.e., of years of cooperation within the network) is required before this informal knowledge has a demonstrable effect on network firms' innovation investment.

The distribution and the median of variations in labor productivity are significantly different in the two groups. In a period of economic crisis, the group of network firms appears to have maintained the level of labor productivity in median, while for the others the median variation is negative (–2.21%); this result seems to be related to that of growth, indicating better resilience in network firms compared to non-network group.

No significant results were found with reference to the majority of the profitability indicators. In the first year after network creation, firms do not perform significantly better or worse than those who have not joined a network. These data are not surprising because profitability is a performance measure that is affected by a large number of determinants, and for most of them, demonstrable effect is likely to be delayed. The only indicator that demonstrated a significantly different evolution in network firms was assets rotation (ROT). In a period of limited investment opportunities, determined by financial constraints, network firms appear to have softened their decrease in turnover, thus enabling network firms' resources to move better than those of non-network firms.

The last area of performance comparative evaluation is that of financial indicators, relating to solvency (the incidence of equity on total assets), net financial position (financial debts minus liquidity), and debt/equity ratio. The medians of the variables for network firms indicate a lower increase in solvency (0.99 compared to 2.22), and a lower decrease in financial position (–2.92 compared to –6.59) and debt/equity ratio (–6.13 compared to –10.55). All the tests are significant at least at the 10% level. These results must be considered in context of a period of "credit crunch" for the majority of firms. As such, the tendency of network firms to have higher leverage is a sign of better credit worthiness compared to non-network firms. This could be a very interesting result, considering that the interest of banks in business-network contracts is particularly focused on determining whether the network has a positive effect on firms' financial rating.

Table 2 presents the results of the tests conducted on the two samples of firms, for which a two-year variation was available (i.e., for network firms whose networks began in 2010 and 2011, and whose indicators where compared respectively with the years 2012 and 2013).

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variables (% variation)	*test*	*p-value*	*n. network firms*	*n. non-network firms*	*median network*	*median non-network*
sales	ranksum	0.09	324	324		
	median	0.39	324	324	-11.35	-15.64
total assets	ranksum	0.00	276	266		
	median	0.00	276	266	5.69	-2.52
intangibles	ranksum	0.08	69	50		
	median	0.31	69	50	-43.82	-7.15
labor productivity	ranksum	0.48	232	206		
	median	0.21	232	206	-2.81	-7.38
ROS	ranksum	0.93	240	230		
	median	0.64	240	230	-8.73	-3.57
ROT	ranksum	0.17	273	263		
	median	0.04	273	263	-10.67	-5.74
ROA	ranksum	0.41	276	265		
	median	0.21	276	265	-19.73	-5.62
solvency ratio	ranksum	0.05	274	258		
	median	0.05	274	258	2.45	7.65
net financial position	ranksum	0.05	236	235		
	median	0.07	236	235	2.18	-10.00
debt/equity	ranksum	0.65	196	174		
	median	0.92	196	174	-12.50	-14.28

Table 2. *Two-year lag tests*

Nearly all indicators confirmed the evolution already noted in the one-year lag tests for network firms compared to non-network firms (i.e., network firms' lower decrease in sales, higher increase in total assets, higher decrease in intangible-assets intensity, lower decrease of labor productivity, lower increase in solvency, higher increase in financial net debt, and lower decrease in debt/equity ratio); however, a smaller number of tests appear to be significant (nine tests compared to 14 for the one-year lag). For the profitability indexes, only the median test on assets rotation appears to be significant; however, compared to the results of the one-year lag test, at the two-year lag, the network firms demonstrate a higher decrease in this indicator compared to the non-network firms.

To better explain the relationship between the one-year and the two-year variations, we also conducted the tests on two constant samples of network and non-network firms, so that the one-year and two-year variations were calculated on the same two groups of firms (only those that had both one-year and two-year variations available). Table 3 presents the results of these tests.

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variables (% variation)	*test*	*one-year lag*			*two-year lag*		
		p-value	*median network*	*median non-network*	*p-value*	*median network*	*median non-network*
sales	ranksum	0.02			0.09		
	median	0.03	-3.36	-8.97	0.39	-11.35	-15.64
total assets	ranksum	0.00			0.00		
	median	0.00	3.33	-0.60	0.00	5.69	-2.52
intangibles	ranksum	0.09			0.08		
	median	0.35	-21.99	-8.14	0.31	-43.82	-7.15
labor productivity	ranksum	0.04			0.48		
	median	0.05	-3.31	-7.75	0.21	-2.81	-7.38
ROS	ranksum	0.98			0.93		
	median	0.96	-6.96	-3.89	0.64	-8.73	-3.57
ROT	ranksum	0.35			0.17		
	median	0.26	-4.87	-6.21	0.04	-10.67	-5.74
ROA	ranksum	0.88			0.41		
	median	0.57	-7.35	-11.81	0.21	-19.73	-5.62
solvency ratio	ranksum	0.03			0.05		
	median	0.15	1.26	5.25	0.05	2.45	7.65
net financial position	ranksum	0.41			0.05		
	median	0.58	-0.38	-3.55	0.07	2.18	-10.00
debt/equity	ranksum	0.88			0.65		
	median	0.83	-10.00	-10.85	0.92	-12.50	-14.28

Table 3. *Tests based on two constant samples of firms (network and non-network) with one-year and two-year lags*

The variables whose test on distribution and median had a significant result for both year lags indicate a persistent effect of network participation on performance after one and two years for sales, total assets, intangibles, and solvency ratio. For asset rotation and net financial position, the test is significant only in the second year of analysis, while the difference in productivity appears to be statistically significant only for one-year lag tests. For the direction of the difference, indicated by the comparison of the median in the two groups, Table 3 confirms the higher growth (or lower decrease) in sales and assets, the higher reduction in intangible intensity, the lower reduction in productivity, and the positive variation in indicators referring to debt for network firms compared to non-network firms. Only the effects on profitability do not appear to be significantly and univocally different (in direction) for network firms compared to non-network firms.

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CONCLUSION

Business-network contracts were introduced in Italian regulation to promote the development of small and medium enterprises, with particular reference to their innovative and competitive capabilities. They were introduced in a period of economic downturn, creating an opportunity for companies to reduce the negative effects of the crisis, cooperating to survive (Cantele and Vernizzi, 2014).

Therefore, a relative better performance is expected when considering firms cooperating in a network compared to firms facing the crisis alone. Among the expected positive effects of belonging to a network, we analyzed growth, intangibles, productivity, profitability and financial position.

Recent years have witnessed a difficult situation for many Italian firms, with a median reduction in sales, productivity, profitability and credit line form the banks (Cerved, 2014). The decrease in sales, which has not been offset by a decrease in costs (in particular, fixed costs such as those of personnel) has created a reduction in cash flow; this in turn has caused low feasibility for new investments, exacerbated by the credit crunch imposed by the bank system. Within this context, we demonstrated that networking firms experienced lower decreases in sales, productivity, investments (total assets), and in their financial position. The distribution and the median of these variables appears to be significantly different in network firms compared to non-network firms in the same years.

Considering that business-network contracts were introduced quite recently in 2009, with the first agreements signed in 2010, this study did not have a long period of observation of the results of the networks. As such, a limitation of this study is that it was only able to consider the effects of one-year and two-year lags on the indicators. Further studies should test the persistence of the hypothesized positive effects of networks firms' performance, either in the long term, or by applying regression models in which different variables can be tested by their effects on profitability or other indicators.

Performance is a complex construct to define, and its measurement is a difficult task, in particular when the analyses consider two levels of inquiry, that of the network and that of the firm. As such, further studies should address understanding the value creation and distribution processes within the networks, and the factors that influence these processes.

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ISBN: 978-9963-711-37-6

ROLE OF EXPECTED AND LIVED EXPERIENCES IN SHAPING PLACE IMAGE

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ABSTRACT

The increase in recognisability and distinctiveness is the ambition of many cities, aiming to provide visitors with memorable experiences. This study aims to assess the most important components in characterising the perceived image of a city by current (Experienced) and potential (Inexperienced) visitors and explore differences in lived and expected experiences. The city of Verona (Italy) is the case study. A survey by questionnaire was undertaken involving 1,005 respondents from Germany, the most important country for Verona's tourist incoming. The questionnaire was designed to collect judgments about city's characteristics through direct and indirect importance measures. The study identifies the most relevant city image components using a Discrete Choice Experiment. German visitors show high price sensitiveness. Favourite lived and expected experiences arise from the most attractive tourist sites of the city and its supply in terms of typical food and wine. However, they received different importance weights and willingness to pay among Experienced and Inexperienced visitors. Interest in events and shows has been highlighted as an important driver of visitor's loyalty. Concrete elements of the visit are preferred to intangible ones. Historicity and entertainment emerge as underlying factors of interest.

Keywords*: city image, place branding, discrete choice models, tourist experiences, tourist expectations, destination management, willingness-to-pay.*

INTRODUCTION

For different reasons, the increase in recognisability and distinctiveness is the ambition of many places. They aim to foster an integration process of their resources and supplies able to be a source of originality and diversification and to enhance opportunity for investment, business relations or entrepreneurial initiatives for different typologies of stakeholders.

According to Hankinson (2009), destination branding practices are more widespread in implementing external than internal branding activities. The latter, more than the former, involve both public and private subjects, implying the establishment of long term partnerships and efforts in increasing

 ISBN: 978-9963-711-37-6

knowledge and commitment within the community. The communication of an image is no longer sufficient and a management able to 'make the brand promise a reality' is required (Hankinson, 2009, p. 111).

Place branding is a dynamic process interconnecting internal and external views of a place: it is an identity-based process, reflecting place culture and image, which continuously influence and are influenced by place identity (Kavaratzis and Hatch, 2013). According to Kalandides (2011), place identity is a process rather than an outcome.

Starting from the case study of the city of Verona, this research intends to contribute to the current literature on place branding, proposing a new approach to the elicitation process of a city identity. It focuses on the analysis of the city image as perceived by tourists and tries to capture the sources of obtained or expected utility carrying out a Discrete Choice Experiment. This study illustrates the contribution of Discrete Choice Models in exploring the image components of a destination brand, assessing their importance weights and measuring visitors' willingness to pay.

LIMITATIONS OF THE CURRENT CITY IMAGE LITERATURE

The core of destination branding is to build a positive image that identifies and differentiates the destination by selecting a consistent mix of brand components (Pike, 2009; Qu *et al.*, 2011). According to Baloglu and McCleary (1999), impressions of a place derived from cognitive, affective and overall image factors and many scholars confirmed their role in influencing destination image (Mackay and Fesenmaier, 2000; Baloglu and Mangaloglu, 2001; Hosany *et al.*, 2007).

Much research pointed out that, while some aspects of city image are crucial for various stakeholders, others are specific for each stakeholder (Gilboa *et al.*, 2015). Concerning tourist perceptions, which is the focus of this study, an extensive literature analyses the components of city image (Oguztimur and Akturan, 2015). However, an important issue remains unresolved: the generalisability of city image dimensions (Gilboa *et al.*, 2015).

Lucarelli and Berg (2011) argued that, the process of city branding is characterised by a high degree of multi-disciplinarity, and its theoretical basis is very fragmented and lacking in terms of its own analytical and empirical research body, based on different cases and robust estimates.

Gilboa *et al.* (2015) raised other issues: i) it is unclear whether the dimensions obtained by analysing big and well-known cities are also valid for small and little-known cities; ii) different scales and dimensions are developed, but a set of dimensions common to many cities is hardly to be identified; iii) studies are deficient in terms of validation and statistical reliability and mainly use convenience samples.

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Zenker (2011) also highlighted some research limitations on place marketing and branding, given by the prevalence of a descriptive-exploratory approach. Many issues arise in establishing a comprehensive place brand measurement and classifying different dimensions in general categories. Some gaps were pointed out in the classification between tangible and intangible elements and in the evaluation of place through positive or negative measures (Parkerson and Saunders, 2004; Trueman *et al.*, 2007). Zenker (2011, p. 48) suggested that 'a combination of qualitative and quantitative approaches is necessary for evaluating a place brand'.

Focussing on the contest of heritage destination, Lu *et al.* (2015) emphasised the need of methods able to capture emotional aspects of a destination image, since the analysis of cognitive aspects still prevail in extant studies.

In the light of this, the main contribution of this research lies in the analysis method. It applies discrete choice models to analyse city image and assess indirect importance measures of the city characteristics for the first time to our knowledge. This method embeds a stochastic component and supplies reliable estimates, determining the utility of actual and potential visitors and their willingness to pay. It weighs the importance of different characteristics of a place in visitors' perceptions and therefore measures their contribution to place image.

OBJECTIVES

The idea of this study is that city image is drawn from visitor's lived or expected experiences. Therefore, it aims to compare experienced and potential visitors and verify their structure of perceptions and preferences.

Furthermore, the study intends to give an innovative contribution to the analysis approach, applying discrete choice models. They allow the study to assess the most important components in characterising tourists' perceived city image. They estimate the utility provided to current and potential visitors and their willingness to pay, overcoming the main limit of extant research, namely the limited statistical validation.

Discrete Choice Model outcomes, defined as indirect importance measures in this study, are compared with direct importance measures, collected through questions assessed by respondents through Likert scales.

From an empirical point of view, this research aims:

- to understand the role of tangible and intangible factors in determining the perception of city image, when expressed as tourist attraction sites, emotional components and experiences;
- to weigh the contribution of lived or expected city attributes to generate interest in the city and intention to visit the city (for Inexperience visitors) or to revisit the city (for Experience visitors);

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- to determine the visitor's willingness to pay for the different tourist attraction sites, emotional components and experiences.

The analysis will identify the preferred city image components for the two types of visitors providing public institutions, DMOs, travel agencies and other tourist services businesses with an increasing awareness about the possibility to build tourism packages for different audiences.

METHOD

Choice experiment

The city of Verona was chosen as tourist destination. Verona entered the World Heritage list of UNESCO in 2000; its attractiveness is mainly due to its pedestrian Old Town with monuments covering the major Italian historical periods and its geographical location, close to Venice, Milan and the Garda Lake.

In 2013, Verona has registered 789 thousand arrivals and 1.6 million of overnight stays. The foreign tourism flow plays a relevant role, representing 60% of arrivals and 59% of overnight stays. Germany is the most relevant country, with 151 thousand overnight stays in 2013 (Camera di Commercio Verona, 2014). For this reason, the focus of this research is the German tourist.

A survey by questionnaire was developed to achieve the research aims. The questionnaire aimed to collect judgments about place through direct and indirect importance measures (Mueller *et al.*, 2010).

Concerning direct importance measures, respondents were asked to rate different tangible and intangible elements characterising Verona through a seven-point Likert scale.

Indirect importance measures have been assessed through the application of a discrete choice experiment (DCE) (Louviere and Woodworth, 1983). The experiment consists of a finite number of alternatives that make up hypothetical choice situations, called scenarios. Each respondent chooses the preferred alternative for each scenario. In this study, stated choices were collected for alternative tourist packages (with different price levels), including activities to do and emotions to live during a hypothetical day spent in Verona. Activities and emotions consisted of attributes and each attribute of levels. Their combination generated different hypothetical choices.

A preliminary exploratory analysis was performed to identify attributes and levels of the experimental design. Five attributes, characterised by different levels, were identified: location (Arena; Juliet's balcony; squares; churches); activity (typical wine and food; guided tour to a museum or an exhibition; shopping card -15% for purchases in the city; ticket for a concert or a theatrical event); atmosphere (lively; quiet; elegant); experience (escapism; esthetics; education; entertainment); price (30.00 euros; 60.00 euros; 90.00 euros).

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A D_b-optimal Bayesian efficient design identified 12 choice sets composed by four unlabelled alternatives (Ferrini and Scarpa, 2007).

The proposed choice scenario was: "Imagine deciding how to spend a day in Verona. Please choose your preferred travel package for each of the 12 groups". An example of a proposed travel package, graphically represented as a travel agency's flyer, is: " 'Enjoy Verona': visit the Arena of Verona, taste typical wine and food, walk on the most elegant streets of the city, for only 30.00 euros".

Data collection and sample

A structured questionnaire was built including five sets of questions concerning:

1) tourism attitude;
2) salience for Verona;
3) assessment of the main elements characterising Verona;
4) choice experiment;
5) socio-demographics.

Data were collected through an online survey hosted by a panel company. The questionnaire was online administrated among panel members living in Germany. A quota of 1,000 respondents and a screening question on the awareness of the city of Verona were set. The final sample consists of 1,005 respondents.

The main characteristics of the sample are summarised in Table 1. The sample depicts the structure of German population by gender and family income distribution (Statistisches Bundesamt, 2015).

Socio-demographic characteristics	Levels	n	%[a]
Gender	Male	499	49.7
	Female	504	50.1
Age class	less than 30 years old	148	14.7
	30-39 years old	172	17.1
	40-49 years old	189	18.8
	50-59 years old	251	25.0
	60-69 years old	192	19.1
	70 years old and more	53	5.3
Education level	Primary school	5	0.5
	Secondary school	141	14.0
	High school	635	63.2
	University	221	22.0
Job	Worker	81	8.1
	Office worker	444	44.2
	Freelancer	78	7.8
	Manager	32	3.2
	Housewife	73	7.3
	Retired	169	16.8
	Unemployed	39	3.9
	Student	75	7.5
	Other	11	1.1
Family income	less than 14,999 €	174	17.3

ISBN: 978-9963-711-37-6

15,000-29,999 €	240	23.9
30,000-44,999 €	222	22.1
45,000-74,999 €	231	23.0
more than 74,999 €	130	12.9

[a] *Given that some missing data have occurred, relative frequencies are calculated on the total sample (N=1,005).*

Table 1. *Sample characteristics*

Sample individuals have a higher education level than the population average (85.1% of the sample has a university or high school diploma against 65.3% of the population, Statistisches Bundesamt, 2015) and office workers prevail in the sample. The distribution of age in the sample favours the weight of young and mature classes compared to the elderly class (24.4% of the sample is at least 60 years old against 33.1% of the population, Statistisches Bundesamt, 2015).

Data analysis

One-way ANOVA was applied to capture differences in direct importance measures among respondents having already visited Verona and respondents never been in Verona.

Discrete choice models were applied to measure utility of attributes and levels composing the designed tourist packages preferred by respondents (Train, 2009), and to draw differences among respondents having already visited Verona and respondents never been in Verona. They also allow for the estimation of the willingness to pay (WTP) of the two groups of respondents for the different attribute levels. According to Wu *et al.* (2011), discrete choice models are suitable to study tourism products being composed by a bundle of different kinds of characteristics that the visitor chooses to have the highest utility. Most applications of discrete choice models on tourism were mainly focused on the recreational dimension of environmental resources (Scarpa *et al.*, 2007; Hearne and Salinas, 2002; Beharry-Borg and Scarpa, 2010). In our knowledge, this is the first study applying discrete choice models in a destination branding perspective.

Discrete choice models are in line with the Lancaster's (1966) theory and the random utility theory (Thurstone, 1927). The former states that the utility of a good is not given from the good itself, but from the set of attributes that compose it. The latter postulates that the utility of an individual n, who assesses for t times j alternatives and chooses alternative i (U_{nit}) is a stochastic function, composed by a deterministic part (V_{nit}), function of the attributes of the good, and a stochastic part (ε_{nit}), that includes the heterogeneity of consumer preferences.

Different discrete choice models come from different specifications of the density function of the stochastic part. This study applied the Multinomial Logit (MNL) model. An independently and identically Gumbel distributed (Extreme Value Type I) error term gives rise to the choice probability of the MNL model, which assumes that preferences are homogeneous across all observations and individuals.

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RESULTS

A share of 34.9% of the sample has already visited Verona and were called 'Experienced' visitors, while 65.1% of respondents has never been to Verona and were called 'Inexperienced'. The interest in the city is confirmed by the fact that 77.2% of Inexperienced stated that they would visit Verona and only 3.7% of Experienced have had a negative experience with the city and would not recommend their friends to visit it.

Table 2 shows results obtained from the assessment of the city image through direct importance measures.

The main tangible element associated with Verona by Experienced visitors concerns the general context of visit, namely the characterization of the city through its squares and streets.

	Mean score	F	p-value	Experienced (mean score)	Inexperienced (mean score)
Tangible elements characterising Verona					
Roman monuments	5.0	43.6	<0.001	5.4	4.8
Medieval monuments	4.9	37.3	<0.001	5.3	4.7
Squares and streets	5.4	54.1	<0.001	5.8	5.2
River and bridges	4.9	21.1	<0.001	5.2	4.7
Romeo and Juliet	5.1	42.0	<0.001	5.5	4.8
Churches	5.0	30.8	<0.001	5.3	4.8
Opera	4.9	69.3	<0.001	5.5	4.6
Shows and events	5.0	51.6	<0.001	5.5	4.8
Street games	4.5	12.4	<0.001	4.7	4.4
Fair	3.8	7.2	<0.010	4.0	3.7
Garda Lake	4.6	44.9	<0.001	5.0	4.3
Wine	5.0	27.5	<0.001	5.4	4.8
Food	5.2	27.5	<0.001	5.5	5.1
Intangible elements characterising Verona					
Small	3.4	0.3	ns	3.4	3.4
Tidy	4.4	18.6	<0.001	4.6	4.3
Relaxing	4.7	7.7	<0.010	4.8	4.6
Elegant	4.8	13.3	<0.001	5.0	4.7
Hearty	5.3	34.6	<0.001	5.7	5.2
Romantic	5.4	26.3	<0.001	5.7	5.3
Lively	5.4	30.3	<0.001	5.7	5.3
Crowded	4.8	28.0	<0.001	5.1	4.6
Accessible	5.0	31.6	<0.001	5.3	4.9
Ludic	4.5	11.6	<0.001	4.7	4.4

ns = not significant

Table 2. *Main tangible and intangible elements associated with the city of Verona by Experienced and Inexperienced visitors (using a 7-point Likert scale from 1=not at all to 7=extremely characteristic)*

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The positive perception of the city also takes place through its entertainment supplies and its typical wine and food. Inexperienced visitors have the same order of preferences of Experienced ones; statistically significant differences concern the intensity of assessment, given that the mean scores assigned by Inexperienced visitors are always lower than those assigned by Experienced visitors.

Experienced and Inexperienced visitors highlight the same preference structure also concerning intangible aspects. The destination is mainly associated with some affective elements. Significant differences among visitors derive from the fact that the previous visit and the lived experience provide Experienced visitors with awareness in giving a higher score to every element characterising Verona than Inexperienced ones.

Tables 3, 4 and 5 illustrate the assessment of the city image through indirect importance measures.

Table 3 reports the MNL estimates for the overall sample. Part-worth utilities (Table 3, third column) have been calculated to assess the importance of attributes and coefficients (fourth column) have been estimated for attribute levels to determine visitor preferences.

Attribute	Level	Importance	Coefficient	SE
Experience		5%		
	Escapism		-0.046***	0.017
	Esthetics		0.038 **	0.017
	Education		-0.049***	0.017
	Entertainment		0.057 ***	0.017
Location		18%		
	Arena		0.212 ***	0.020
	Squares		-0.108***	0.024
	Juliet's balcony		0.040 **	0.018
	Churches		-0.144***	0.019
Activity		25%		
	Typical wine and food		0.205 ***	0.016
	Guided tour to a museum or an exhibition		-0.015	0.021
	Shopping card -15% for purchases in the city		-0.295***	0.021
	Ticket for a concert or a theatrical event		0.105 ***	0.018
Atmosphere		4%		
	Lively		-0.049***	0.015
	Quiet		0.013	0.015
	Elegant		0.036 **	0.016
Price		47%		
	€ 30.00		0.445 ***	0.015
	€ 60.00		0.047 **	0.022
	€ 90.00		-0.492***	0.018

Asterisks indicate significant differences from 0 at ** $p<0.05$ and *** $p<0.01$. Log likelihood=-15,699.47; BIC=31,488.81; r-squared=0.06

Table 3. *Multinomial Logit Model applied to the stated choices of tourist packages by the overall sample (N=1,005)*

The model shows that the attractiveness of a tourist package for German visitors mainly comes from

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its price and the proposed activity. These two attributes are able to explain more than two third of the visitor's utility. Considering price, respondents strictly follow the demand law in their choices, preferring packages at a low price. Concerning the preferred activities, a dominant role is played by typical wine and food, followed by musical and theatrical events. The negative propensity of respondents to spend is confirmed by the negative impact of shopping cards on utility. The location to be visited is the third attributes in importance, influencing 18% of the total utility of a tourist package. The nature of the experience and the atmosphere play little importance on the utility of a tourist package.

Table 4 shows MNL models applied considering Experienced and Inexperienced visitors subsamples. Tourist package attributes obtain the same importance rank for the two groups of visitors, reflecting the same choice structure of the overall sample. Conversely, differences can be highlighted considering attribute levels.

Experienced visitors seem to be mainly attracted by a tourist package offering aesthetic or entertainment experiences, characterised by passive absorption of stimuli. Escapism experience plays a negative role on utility perception of these visitors.

Attribute	Level	Experienced (n=351)			Inexperienced (n=654)		
		Importance	Coefficient		Importance	Coefficient	
Experience		7%			5%		
	Escapism		-0.072	**		-0.030	
	Esthetics		0.069	**		0.022	
	Education		-0.055			-0.046	**
	Entertainment		0.057	**		0.054	**
Location		19%			17%		
	Arena		0.218	***		0.213	***
	Squares		-0.160	***		-0.083	***
	Juliet's balcony		0.100	***		0.008	
	Churches		-0.157	***		-0.138	***
Activity		28%			26%		
	Typical wine and food		0.142	***		0.242	***
	Guided tour to a museum or an exhibition		-0.107	***		0.035	
	Shopping card -15% for purchases in the city		-0.291	***		-0.294	***
	Ticket for a concert or a theatrical event		0.255	***		0.016	
Atmosphere		4%			4%		
	Lively		-0.049	**		-0.050	***
	Quiet		0.022			0.007	
	Elegant		0.027			0.043	**
Price		42%			48%		
	€ 30.00		0.386	***		0.477	***
	€ 60.00		0.062			0.041	
	€ 90.00		-0.448	***		-0.519	***

Asterisks indicate significant differences from 0 at ** $p<0.05$ and *** $p<0.01$. Log likelihood=-16,305.22; BIC=32,797.09; r-squared=0.06

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Table 4. *Multinomial logit model applied to the stated choices of Experienced and Inexperienced visitors for alternative hypothetical tourist packages*

Inexperienced visitors are attracted by entertainment as well, and their utility is depressed by an experience involving the educational sphere. In addition, they do not seem to be interested in escapist and esthetic experiences. Therefore, Inexperienced visitors are not attracted by tourist packages letting them actively absorb from an intellectual point of view.

Concerning location, Experienced and Inexperienced have about the same preferences. They prefer the most popular sites, while squares and churches, probably requiring a greater intellectual engagement, depresses their utility.

Concerning activity, Experienced visitors are able to discriminate among a wider portfolio of activities than Inexperienced ones.

Experienced visitors appreciate concerts or theatrical events and typical wine and food tasting, while shopping cards and guided tours have a negative impact on their utility. The attraction of entrainment against education is once again confirmed by the analysis. Events and shows hosted by the city and typical wine and food supply become therefore pivotal for visitor loyalty. Offering attractions characterised by variety of stimuli appears a relevant factor to keep visitors' interest in an urban destination. Local food and wine supply represents an attractive factor able to arouse curiosity about the city among the Inexperienced visitors.

City atmosphere plays the lowest importance. Only Inexperienced visitors seem to obtain positive utility from an elegant atmosphere. Both Experienced and Inexperienced visitors negatively judge a lively atmosphere.

Both groups are price-sensitive; price dominates the choice, especially for Inexperienced, concentrating almost half of the utility generated by tourist packages.

Table 5 shows the WTPs of Experienced and Inexperienced visitors for the different attribute levels characterising the tourist packages. It was computed by estimating two MNLs, setting price as a numeric variable and the other attribute levels as dummy variables. For each attribute, a level has been chosen as a reference to determine the price premium or penalty attributable to each attribute level by the visitor. The WTP is given by the reciprocal of the negative ratio between estimated level coefficient and price coefficient. This computation allows for the comparison of preferences between the two groups of respondents.

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Attributes	Levels	Experienced	Inexperienced
Experience	Education (reference level)		
	Esthetics	€ 7.86	ns
	Entertainment	€ 7.15	€ 5.61
	Escapism	ns	ns
Location	Arena (reference level)		
	Squares	-€ 22.31	-€ 15.17
	Juliet's balcony	-€ 7.40	-€ 11.70
	Churches	-€ 26.49	-€ 20.83
Activity	Typical wine and food (reference level)		
	Guided tour to a museum or an exhibition	-€ 19.90	-€ 13.52
	Shopping card -15% for purchases in the city	-€ 28.80	-€ 31.05
	Ticket for a concert or a theatrical event	€ 9.65	-€ 12.85
Atmosphere	Quiet (reference level)		
	Lively	ns	ns
	Elegant	ns	ns

ns = not significant

Table 5. *Willingness to pay for the different attribute levels by Experienced and Inexperienced visitors*

Results shows that Experienced visitors are more willing to pay than Inexperienced ones for the experience provided by tourist packages.

Concerning location, both type of visitors are more willing to pay to visit a specific site of the city than sites that imply a more complex approach to the visit of a city (in this case, churches and squares).

The proposed activities cause high differentiation in terms of WTP between Experienced and Inexperienced visitors. Experienced visitors are willing to pay 9.65 euros more for a theatrical event or a concert than for tasting typical food and wine; conversely, Inexperienced visitors confirm to prefer typical food and wine than the other types of activities.

No kind of atmosphere is able to generate WTP by both categories of visitors. This highlights that generating value through intangible elements implies a complex marketing approach that should be able to concretely differentiate the destination.

DISCUSSION AND CONCLUSION

This study highlights that direct importance measures result to have poor discriminatory power and limited ability to study the structural relationships among them. Concerning the role of tangible and intangible attributes, the study shows that Experienced and Inexperienced visitors are characterised by the same structure of preferences; however they assesses tangible and intangible attributes using different intensity of judgment, higher for the former than for the latter.

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Concerning the indirect importance measurement, Table 6 summarises the best and the worst tourist packages for Experienced and Inexperienced visitors as results of the levels obtaining respectively the highest positive and the lowest negative estimates coefficients.

	Experienced	Inexperienced
Best tourist package	€ 30.00 Ticket for a concert or a theatrical event Visit to the Arena Esthetical experience	€ 30.00 Typical wine and food Visit to the Arena Entertainment experience Elegant atmosphere
Worst tourist package	Lively atmosphere Escapism experience Visit to the squares Shopping card -15% for purchases in the city € 90.00	Lively atmosphere Educational experience Visit to the churches Shopping card -15% for purchases in the city € 90.00

Note: levels are sorted by importance (for the best tourist packages) and unimportance (for the worst tourist packages).

Table 6. *Best and worst tourist packages for Experienced and Inexperienced visitors*

German visitors show high price sensitiveness and aversion to be involved in activities concerning shopping. Events and shows seem to play a twofold role: to increase visitor loyalty and to stimulate interest in new visits.

Typical food and wine supply plays an important role in attracting new visitors, and can represent a pivotal component of city identity.

Visitors show to prefer concrete elements of visit to intangible elements like atmosphere and experience. The latter is more attractive when it implies a passive absorption, which should take aesthetic connotations to leverage on visitor loyalty, and entertainment implications to attract new visitors.

This study confirms that urban destination image should be linked to elements embodying historicity, authenticity and uniqueness (Lu *et al.*, 2015), as well as entertainment. This suggests practical implications for DMOs. They should be able to diversify the tourist supply, rediscovering and promoting little known typical locations and activities. Their connection with the main attractiveness of the city could generate a new interest and visit reiteration, favouring the development of intangible

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elements. Another practical implication emerges in entertainment perspectives. The care in selecting and promoting events and shows represents a focal request to emerge in the competition among destinations and become top-of-mind of visitors.

The main limitations of this study lay in the analysis of only one provenance of visitors and in the collection of stated preferences for tourist packages. Future development of the research will focus on the enlargement of the survey to different markets, some close to the destination, other identified as emergent markets.

ACKNOWLEDGMENTS

This research was funded by the University of Verona and ASS.IM.P. Verona. The project entitled "New models for the assessment of visitor well-being: establishment of a permanent marketing observatory 'To Be Verona. The Italian Lifestyle Taste' to survey perception of Verona in the world (2BEVR)" is promoted by the University of Verona under the initiative 'Joint Project 2012'.

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 ISBN: 978-9963-711-37-6

THE ROLE OF CELEBRITY ENDORSEMENT IN LUXURY BRANDS ADVERTISING PROCESSING AND ITS IMPACT ON WILLINGNESS TO PAY

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ABSTRACT

This paper aims to analyse the endorser selection process and its impact on consumer advertising processing. The literature review acknowledges the influence of several independent variables: a) celebrity related factors; b) socio-cultural trends; c) advertising copy strategy. 100 undergraduate students participated in a self-administered questionnaire in order to assess the best print ad copy strategy and the response to five luxury brands (DKNY, Moschino, Chanel, Gucci and Boss). The most preferred ad composition comprises the use of a couple of brunette Caucasian endorsers in a "close-up" photo, with sexy body language and an indirect smiling gaze in an urban landscape. Multiple regression models that predict the willingness to pay for a perfume bottle were built for each brand. The hypothesis that brand-consumer congruence, consumer-endorser congruence and brand-endorser fitness are all positively and significantly correlated with the willingness to pay for a bottle of perfume was only partially confirmed.

Keywords: *celebrity endorsement, advertising processing, brand personality, brand equity, glamour, post-feminism self-sexualisation*

1. INTRODUCTION

During the traditional celebrity endorsement process, brand managers have to undertake a casting in order to select the endorser that fits better with the brand personality.

According to Manning (2010, p.36) "the recent quasi-animistic discourses treat the brand as a "person" in which the pervasive associations based on the role that brands play in consumers' lives are transformed into actual anthropomorphic characteristics imputed to brands understood as holistic, organic, living, growing entities with which consumers can form actual social relationships directly". Therefore, the study of the influence of celebrity endorsement upon the consumer advertising processing and the perceived brand equity is a very relevant research issue.

 ISBN: 978-9963-711-37-6

The definition of celebrity is discussed by Alexander (2010), who treats it as an iconic form of collective representation central to a meaningful construction of contemporary society. For Alexander (2010, p.324) "the celebrity-icon is structured by the interplay of surface and depth. The surface is an aesthetic structure whose sensuous qualities command attention and compel attachment; the depth projects the sacred and profane binaries that structure meaning even in postmodern societies".

This paper aims to discuss the influence of celebrity perceived personality and its transference to brand personality, but also other antecedents that may interact with celebrity-brand congruence. The implications for the perceived brand identity and brand image are also acknowledged. Authors designed an experimental study in order to assess the influence of the relevant independent variables upon the celebrity endorsement advertising processing within the perfume (luxury) market. Some recommendations will be provided to brand designers, brand managers and advertisers.

2. LITERATURE REVIEW

Since the literature review of celebrity endorsement made by Erdogan (1999), some aspects have been widely studied by celebrity endorsement researchers. However, this paper suggests a new conceptual model (see Figure 1) for the consumer advertising processing considering the influence of some antecedents that are unexplored. This section will classify and explain the contribution of these antecedents to consumer decision-making and behaviour.

2.1- Celebrity/ endorser related factors

First, we will compile the celebrity/ endorser related factors already explored in literature:

a) celebrity gender (male, female, androgyny), age and nationality;
b) celebrity attractiveness (Caballero, Lumpkin and Madden, 1989); body shape (D'Alessandro and Chitty, 2011); ideal self-image of women beauty (Bjerke and Polegato, 2006);
c) celebrity-brand meaning transfer (Erdogan, Baker and Tagg, 2001) and bidirectional transfer brand-celebrity (Halonen-Knight and Hurmerinta, 2010);
d) celebrity credibility which is related to celebrity expertise and celebrity category: singer, actor, TV entertainer/ presenter (Rossiter and Smidts, 2012), top-model, athlete, socialite or experts;
e) the benefits of using celebrity endorsement: impact on brand equity and consumers response (Spry, Pappu and Cornwell, 2011);
f) the celebrity product match-up (Erdogan,1999); the influence of product category and involvement.

2.2- Brand/manufacturer related factors

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This paper will be focused at the influence of brand identity and, more precisely, the influence of brand personality and its importance on brand-celebrity fitness and brand-consumer self-congruence. In order to assess the celebrity-brand-consumer congruence (CCC) we need to compare the dimensions of human personality (provided by the different human personality scales) with the brand personality dimensions (provided by the brand personality scales).

The Big Five framework of personality traits from Costa & McCrae (1992) emerged as a robust model for understanding the relationship between personality and various academic behaviours. The Big Five factors are: 1)- Openness (inventive/ curious vs. consistent/ cautious); 2)- Conscientiousness (efficient/ organized vs. easy-going/careless); 3)-Extraversion (outgoing/ energetic vs. solitary/ reserved); 4)- Agreeableness (friendly/ compassionate vs. cold/ unkind); 5)-Neuroticism (sensitive/nervous vs. secure/confident).

One useful tool is provided by E-Poll Market Research who developed the E-Score Celebrity Index. Gergaud and Ginsburgh (2010) described the 46 attributes comprised in the index. Only 22 are evoked as most popular attributes for the 49 celebrities analysed.
They are aggregated into six groups: (1) Talent (talented); (2) Intelligence (intelligent); (3) Beauty (attractive, beautiful, cute, handsome, sexy, stylish); (4) Physical attributes (physically fit); (5) Other attributes, positive (confident, distinctive voice, experienced, funny, good energy, influential, interesting, trend-setter, trustworthy, warm) and (6) Other attributes, negative (aggressive, kooky/wacky, over-exposed).
On the other hand, the Brand Personality Scale of Aaker (1997) is the most popular brand personality measurement tool comprising five dimensions: (1) sincerity; (2) excitement; (3) competence; (4) sophistication and (5) ruggedness. However, over the years it has been criticized by several authors. Therefore, Heine (2010) developed a new scale (LBPS) to measure the personality of luxury brands, comprising 52 traits which were categorized by five major personality dimensions: (1) modernity – the temporal perspective of a brand; (2) eccentricity – the level of discrepancy from social norms and expectations; (3) opulence – the level of conspicuousness of the symbols of wealth; (4) elitism – the level of status and exclusivity; (5)- strength – the level of toughness and masculinity.

2.3- Socio-cultural trends: self-sexualisation, scopophelia and glamour

Besides the importance of glamour theory (Hautala, 2011), celebrity endorsement is also influenced by new socio-cultural trends in fashion branding advertising such as:

a) the self-sexualisation (Gill, 2007);

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b) the commodification of feminine and post feminism (Lazar, 2011);
c) the role models and socially dominant construction of femininity (Read, 2011).

The notion that the use of sexual content in advertisements can increase the advertising effectiveness and ultimately sell products has been confirmed by several studies (Aaker & Stayman, 1990; Brown & Stayman, 1992). According to Coy and Garner (2010), the sexual images of women in mainstream advertising and popular culture have shifted, depicting women as actively embracing, celebrating and enjoying sex-object status (Gill, 2008). Young women increasingly view glamour modelling and lap/pole dancing as attractive career options, embedded in the discourse of empowerment and the notion that positive self-identity can be built on reclaiming the sexualized portrayals that modern feminism has sought to challenge.

Gill (2007, p.151) describes sexualisation as "the extraordinary proliferation of discourses about sex and sexuality across all media forms … as well the increasingly frequent erotic presentation of girls', women's and (to a lesser extent) men's bodies in public spaces". The postfeminist media culture conveys often the following notions: women can use their bodies for profit as a means to power; the importance of individual choice; makeovers as re-inventions of the self; a focus on biological differences between men and women.

These trends feed the consumers' scopophelia behaviour (Lacan, 1970/2005; Soukup, 2009) Metz (1977) theorized, the inherent voyeurism of film spectatorship is analogous to ''the keyhole'' (p. 95). The Freudian notion of Scopophilia is ''the pleasure of looking at the body of an other"(Naiman,1998, p. 334). While still recognizing the importance of gaze and desire in film spectatorship, these scholars emphasize ''the gaze as object a relationship not of identification but of desire'' (McGowan, 2003, p. 30) a desire that is also evoked (for men and women, homosexual and heterosexual spectators, etc.) via the ambiguities of sexual difference and submissiveness, not exclusively the desire for mastery.

When film embraces the conventions of advertising, the scopic desire is intensified. Kilbourne (1999) clearly summarized the focus of advertising: '' . . . [it] fetishizes products, imbues them with an erotic charge . . . '' (p. 271). Ultimately, clear and explicit fetishization, particularly in terms of gender, is essential to this scopic gaze in advertising.

The luxury brands are also often associated with "glamour". Hautala (2011) argues that glamour is "a myth that becomes activated through a system of signs". It depends on the use of celebrity personas, on an exclusive media treatment, and on the circulation of signs which connote luxury and feminine sexuality always with a fresh, contemporary touch. Gundle (2008, p.390) defined glamour as "an image that attracts attention and arouses envy by mobilizing desirable qualities including beauty, wealth, movement, leisure, fame, and sex". The concept of glamour has a close relationship to

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consumer culture and advertising; it can be seen as an offshoot of a new era based on consuming and visual spectacle.

2.2- The influence of advertising copy strategy.

In addition, the elements of print advertising copy strategy may also be manipulated to communicate the celebrity brand. In order to further decode the cultural and social meanings of the images, Hautala (2011) used a semiologist's checklist by Lacey (2009) and Gillian Dyer (1982) and approach each image by tracing the following points: representation of bodies (age, gender, race, hair, look); representation of manner (expression, gaze, pose); representation of activity (touch, body movement, positional communication); and props and settings.

The influence of visual elements of print advertising on consumer's response, accordingly to Toncar and Fetscherin (2012), has recently received more attention after the recognition of its importance by Rossiter and Percy (1978), and McQuarrie and Mick (1999), amongst others. Pieters and Wedel (2004) concluded that the three key ad elements (brand, pictorial, and text) each have unique superiority effects on attention to advertisements', which are on par with many commonly held ideas in marketing practice.

of its size. The text element best captures attention in direct proportion to its surface size. The brand element most effectively transfers attention to the other elements.

We also acknowledge the influence and the semiotic implications of these visual and nonverbal elements: advertisement layout; body language, dressing code, sex-appeal and eroticism (Oswald, 2010); facial expression and gaze direction (Oswald, 2010); smile appeal (Azevedo, 2009); photographic camera angle (Meyers-Levy and Peracchio, 1992); the semiotics of branding (Manning, 2010) and advertising (Mick, 1987); the advertising rhetorics and metaphors (McQuarrie and Mick, 1999); Other visual elements and symbolic cues embed in the ad "landscape" (Kilyeni, 2009).

Finally, some *consumer individual variables* may also moderate his/her advertising processing such as: consumer gender, self-monitoring, advertising knowledge and celebrity awareness, advertising involvement or fashion leadership.

3. CONCEPTUAL FRAMEWORK

This paper suggests a new conceptual framework described at

. According to this model the antecedents discussed in the literature review influence the cognitive/emotional response and the semiotic analysis of the advertising stimulus. The advertising processing is then moderated by the celebrity-brand-consumer congruence.

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The advertising response model is based on the hierarchical sequence of effects Attitude toward the ad, (Aad)- attitude toward the brand (Ab)- purchase intention (PI) proposed by several authors (Batra and Ray, 1985; Mackenzie, Lutz and Belch, 1986; Metha, 1994). The brand equity concept is represented by the willingness to pay (WTP) which measures the price sensitivity to the brand.

3-Method

An experimental study was designed to assess and validated the relationships postulated in the conceptual model.

3.1- Sample

100 undergraduate students (67% female; 33% male) aging from 18 to 40 years old (M=22,65; SD=5,22), with an average disposable income of 1426,00€ (SD=1011) and with a monthly spending on perfumes of 12,88€ (SD=17,76) were invited to participate in a self-administered questionnaire in order to assess:

a) Type of beauty pattern (blonde Caucasian; brunette Caucasian, oriental, African, female and male androgyny).
b) Type of ad layout: one female endorser, one male endorser, male/female pair; group or only product bottle; (see Figure 5);
c) Type of advertising copy strategy (cool, smile appeal, sex-appeal and disruptive) see Figure 6)

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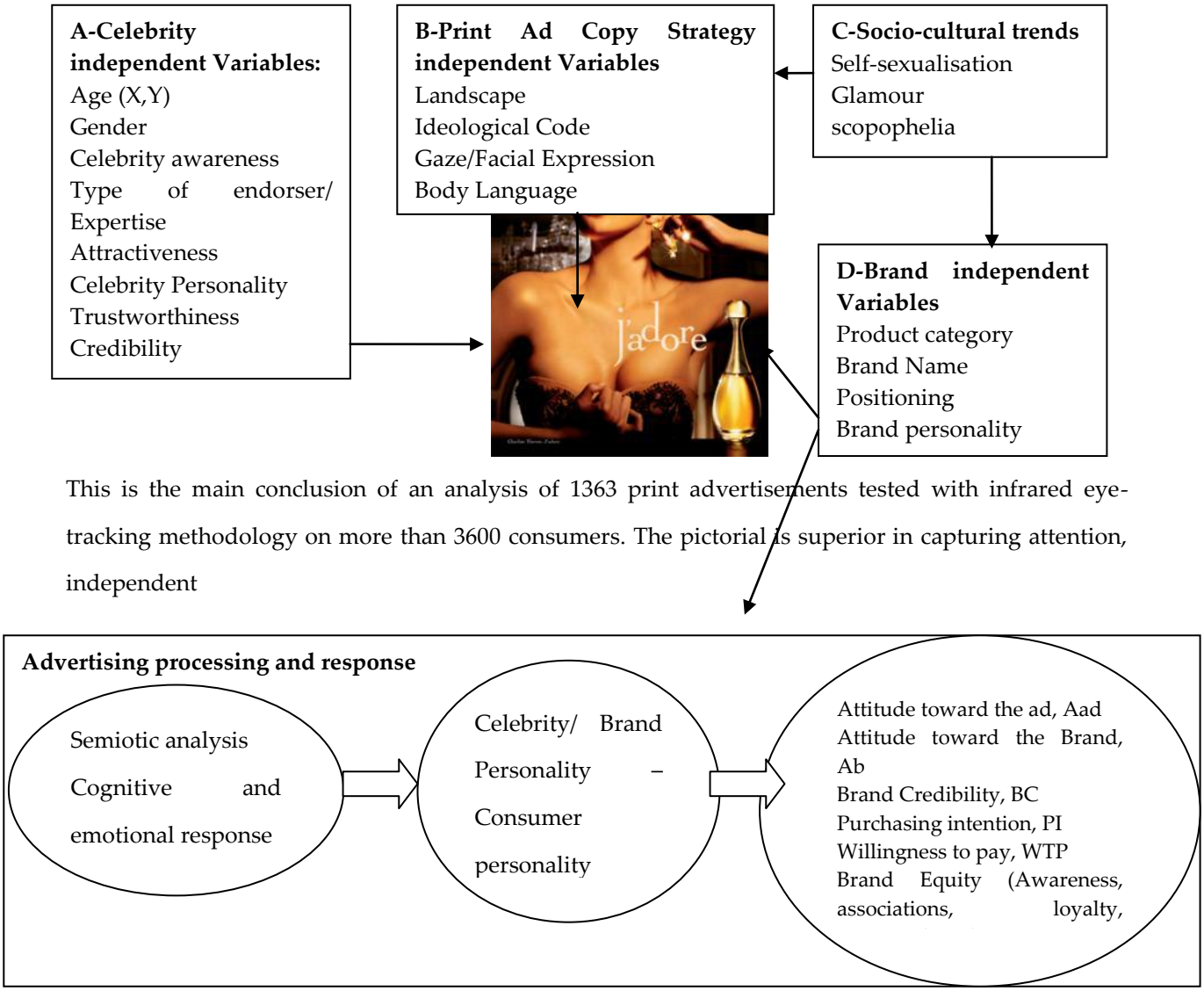
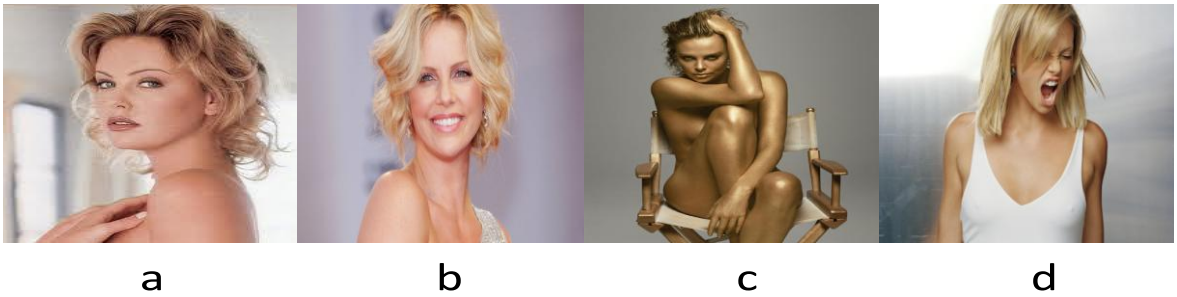
Figure 4- Conceptual framework.



This is the main conclusion of an analysis of 1363 print advertisements tested with infrared eye-tracking methodology on more than 3600 consumers. The pictorial is superior in capturing attention, independent

Figure 6- Type of advertising copy strategy (cool, smile appeal, sex-appeal and disruptive).



d) Type of body language/ photographic code (sit-down, lie down, "close up" or bottle only); (see Figure 7)

e) Type of gazing (direct vs. indirect);

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f) Type of landscape (urban, luxury, country, ocean, interior, wild nature).

Figure 7- Type of body language/ photography code.

a b c d

Authors then selected five luxury fashion brands print ads based on the classification made by Heine (2010) using his brand personality scale (see Figure 8). The respondents described qualitatively: the endorser considering their awareness (celebrity versus unknown endorser/consumer); the ad landscape, the body language/facial expression and perceived brand image associations. In order to confirm the expected brand personality, respondents classified the brand ads according to Heine's scale dimensions using a five points bipolar scale (traditional versus modern; respectful versus eccentric; discrete versus opulent; democratic versus elitist; sensitive versus strong). Afterwards, they assessed (in a 0-10 Likert scale) the following endorser's characteristics: credibility, trustworthy, attractiveness, congruency between the celebrity and consumer self-concept and brand-endorser fitness degree. The moderating influence of glamour and scopophelia was verified. Finally, the respondents evaluated each brand in terms of: attitude toward the ad, attitude toward the package, attitude toward the brand, brand reputation, brand glamour, consumer brand congruence, brand image, purchasing intention, and willingness to pay (as brand equity indicator).

Figure 8- Selection of print ads: DKNY/Lara Stone; Moschino/Ashley Smith; Chanel/Keira Knightley; Gucci/ Evans+Rachel Wood; Boss/ Gwineth Paltrow.

4. DISCUSSION AND CONCLUSION

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The most preferred print ad composition is presented in Table 1 and comprises the use of a couple (male/female) of brunette Caucasian actor endorsers in a "close-up" photography with an urban landscape. The endorsers must adopt a sexy/seductive body language with indirect smiling gaze.

The one-way ANOVA tests revealed some LSD significant effects of the advertising copy variables (nominal variables) on the dependent variable, attitude toward the ad (Aad). For example for Gucci ($F_{4,95}$=3,93), the respondents who prefer young endorsers (ageing less than 25 years old) rated a more favourable Aad (M=8,6; SD=1,35; N=10) than the respondents who prefer older endorsers (above 35 years old) (M=6,0; SD=2,14; N=8). Although Gwineth Patrow is over 35 years old, the same pattern occurred with and Boss's Aad ($F_{4,95}$=3,34). The gaze is also an important variable for Boss ($F_{7,92}$=2,08), as the respondents who prefer direct smiling gaze (which is the case for the Boss ad) rated a higher Aad (M=7,90; SD=1,10; N=10), than the respondents who prefer indirect cool/ disruptive gaze. Again for Gucci, the photo code/ lay out is important ($F_{3,94}$=2,83) as the respondents who prefer ads with "lie down" celebrities (M=7,61; SD=1,53, N=23) rated the Aad more favourably than the ones who prefer "close-up" photos (M=6,09; SD=2,66;N=32).

Table 1- Best copy strategy: frequencies of the preferred print ad copy variables (endorser category, beauty pattern, photo code, copy strategy, gaze and landscape).

endorser category	**%**	**beauty pattern**	**%**	**Ad composition**	**%**	**photo**	**%**	**Copy**	**%**	**Gaze**	**%**	**Landscape**	**%**
Actor/ Actrice	47,0	brunette caucasian	59,0	woman+man	45,0	Close-up	32,0	sexy/ seduction	35	indirect smile	24	Urban	37
Model	30,0	blonde caucasian	13,0	woman	21,0	Half body	25,0	smile appeal	30	Direct sexy	21	Beach	24
Athlete	6,0	without endorser	12,0	several people	20,0	Lie down	23,0	cool	20	Direct disruptive	18	Luxury	16
Intelectual	6,0	oriental	7,0	product only	8,0	product only	18,0	disruptive	15	Direct cool	11	Coutry	12
Singer	5,0	african	6,0	men	6,0	N/r	2,0			Direct smile	10	Wild nature	8
Consumer (unknown)	5,0	cartoon	2,0							indirect disruptive	8	Interior	3
Jet-set	1,0	androginia-man	1,0							indirect cool	4		
		androginia-woman	,0							indirect sexy	4		
Total	**100**	**Total**	**100,0**	**Total**	**100**	**Total**	**100**	**Total**	**100**	**Total**	**100**	**Total**	**100**

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The type of ad composition seems to influence the Moschino's Aad ($F_{4,49}$=5,37) because the respondents who prefer the ad with a group of models rated more favourable Aad (M=7,55; SD=1,70; N=20) than the ones who prefer a only man/bottle composition.

However, other variables such as the endorser nationality, copy strategy (body language) and ad landscape didn't showed any significant effects upon brands' Aad. The advertising response is described in Table 2. Keira Knightley (Chanel) has got the highest scores in terms of beauty, credibility, trustworthy, seduction power, consumer-brand congruency and endorser-brand fitness. This Chanel ad uses a female celebrity endorser with a sexy/sensual direct gaze in a neutral landscape (see Figure 6). Except for the attitude toward the perfume bottle, Chanel was the brand more positively evaluated which is also expressed in the highest willingness to pay (M=50,14 euros; SD=22,98).

According to Heine (2010)'s dimensions, in this paper DKNY was classified as Modern; Moschino is Modern/Elitist; Chanel is Opulent/Strong; Gucci and Boss are modern/strong. This results only confirm the DKNY profile when comparing to the classification assessed by Heine (2010)'s study.

Table 2- Endorser and brand image evaluation.

	DKNY Lara Stone		**Moschino Ashley Smith**		**Chanel Keira Knightley**		**Gucci Rachel Wood**		**Boss Gwineth Paltrow**	
Age	Y		Y		Y		Y		X	
Gender	Female		Female		Female		Couple		Female	
Awareness in sample	26%		19%		71%		29%		83%	
Expertise/endorser category	Model		Model		Actress		Actress		Actress	
Endorser description	Beautiful, sensual, simplicity		Beautiful, sensual, sexy, fragile		Sensual Seductive Sexy		Sensual Beautiful Provocative		Simplicity Beautiful Sophisticated	
Landscape/ Ideological code	Green Simplicity Forbidden Fruit		Intimacy Summer Flowers		Simplicity Neutral Mystery		Intimacy Attractive Sexual power		Urban Night life Elegant	
Body Language/ Facial expression	Sensual, desire, sexy		Power Tender Possessive		Seductive Sensual Sexy		Pleasure Sensual Exciting		Simplicity Discrete Static	
Brand associations	Fresh, young, delicious		Young, Sophisticated Strong		Elitist Strong Sophisticated		Strong Seduction power sensual		Strong Modern Sophisticated	
	M	SD	M	SD	M	SD	M	SD	M	SD
Endorser beauty	5,79	2,33	7,73	1,75	**8,02**	1,51	7,88	1,52	6,85	1,84
Credibility	5,50	2,00	6,88	1,55	**7,86**	1,54	7,10	1,78	7,45	2,01
Thrustworthy	5,55	2,07	6,91	1,61	**7,64**	1,69	6,96	1,75	7,59	1,93

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Endorser seduction	5,96	2,58	7,53	1,78	**8,07**	1,67	7,96	1,74	6,34	2,29
Consumer-endorser selfcongruency	3,07	2,62	5,73	2,67	**6,42**	2,44	5,55	2,61	5,32	2,74
Endorser-Brand fitness degree	5,94	2,52	7,39	2,01	**7,72**	1,93	7,29	2,11	6,65	2,61
Attitude toward ad	5,53	2,47	6,78	2,07	**7,17**	2,00	6,90	2,12	6,48	2,51
Product	**7,15**	2,24	6,17	2,76	6,29	2,27	6,58	2,38	6,66	2,24
Attitude toward brand	6,33	2,51	6,14	2,59	6,76	2,34	6,61	2,24	**7,21**	2,04
Purchase intention	4,26	2,94	4,59	2,71	5,06	2,80	5,14	2,75	**5,15**	2,71
Brand glamour	5,61	2,30	6,74	2,00	**7,97**	1,68	7,21	2,10	7,19	1,92
Brand reputation	6,98	1,92	6,95	2,01	**8,21**	1,70	7,87	1,69	7,96	1,46
Consumer-brand selfcongruency	5,17	2,74	5,11	2,81	5,58	2,79	5,37	2,88	**6,30**	2,69
Brand image	6,42	2,29	6,79	2,06	**7,78**	1,89	7,33	1,99	7,57	1,89
Willingness To Pay	38,28	17,27	42,89	20,49	**50,14**	22,98	46,33	21,34	45,46	22,77
Modernity	**4,29**	,72	**3,41**	1,26	3,08	1,57	**4,20**	,98	**3,74**	1,38
Eccentric	3,33	,90	2,97	1,14	2,99	1,56	4,05	1,07	2,48	1,24
Opulence	3,13	1,04	3,19	1,03	3,87	1,20	4,15	,87	2,66	1,22
Elistism	2,86	,93	**3,40**	1,11	**4,18**	,94	4,07	,92	3,19	1,06
Strenght	3,36	1,01	2,90	1,31	**4,16**	1,01	**4,27**	,80	3,33	1,25
Brand personality	Modernity		Modernity/ Elistim		Elitism Strenght		Strength Modernity		Modernity Strenght	
B.Personality (Heine,2010)	Modernity		Eccentric		Opulence		Elistism		Strenght	

In order to assess the variables that predict the willingness to pay (WTP), a multiple regression model was developed for each brand (see Tables 3 and 4). All models have ANOVA F significance (p<0,001).The most relevant independent variables selected by the stepwise method are: monthly spending in perfume (which is a common predictor in all brands); attitude toward the brand (Ab), brand image and brand reputation. Brand personality dimensions and endorser-brand fitness were significant predictors only for DKNY.

Table 3- Multiple regression correlation coefficients for the regression models that predict the willingness to pay for the brand's perfume.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
DNKY	,770	,593	,550	11,33994	,040	4,571	1	47	,038	1,642
Moschino	,779	,607	,583	13,94848	,047	5,808	1	49	,020	1,872
Chanel	,747	,557	,518	15,37019	,060	6,149	1	45	,017	2,178
Gucci	,742	,550	,514	14,51248	,075	8,322	1	50	,006	1,781
Boss	,753	,568	,549	14,78506	,223	23,732	1	46	,000	1,899

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In terms of relevance of social cultural trends, the results show that post-feminism self-sexualisation and scopophelia (see Tables 4 and 5) were not significant predictors. However, glamour as a lifestyle and associated to heritage are significant predictors for Gucci's willingness to pay. In addition, women power relation is also a predictor of DNKY's willingness to pay.

Table 4- Beta coefficients of the multiple regression models.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
DKNY	(Constant)	29,540	8,992		3,285	,002					
	Brand image	3,984	,717	,522	5,555	,000	,550	,630	,517	,980	1,021
	Monthly spending	,409	,095	,437	4,283	,000	,376	,530	,398	,831	1,204
	Eccentric person.	-5,460	1,548	-,337	-3,528	,001	-,231	-,458	-,328	,947	1,056
	Women Power	-4,739	1,644	-,294	-2,883	,006	-,040	-,388	-,268	,831	1,203
	Strenght person.	3,319	1,552	,215	2,138	,038	,247	,298	,199	,858	1,166
Moschino	(Constant)	-32,426	10,710		-3,028	,004					
	Brand image	5,709	1,206	,484	4,732	,000	,620	,560	,424	,768	1,302
	Monthly spending	,536	,108	,446	4,944	,000	,446	,577	,443	,984	1,016
	Ashley_Moschino	3,426	1,422	,247	2,410	,020	,438	,326	,216	,764	1,310
Chanel	(Constant)	-2,686	15,366		-,175	,862					
	Chanel reputation	5,619	1,402	,407	4,007	,000	,526	,513	,397	,952	1,051
	Monthly spending	,503	,135	,419	3,738	,001	,442	,487	,371	,782	1,279
	Chanel Ab	2,607	,965	,279	2,702	,010	,443	,374	,268	,919	1,088
	Women Power	-5,652	2,279	-,269	-2,480	,017	-,128	-,347	-,246	,837	1,195
Gucci	(Constant)	-15,711	13,563		-1,158	,252					
	Monthly spending	,560	,116	,480	4,822	,000	,461	,563	,457	,908	1,102
	Gucci reputation	5,588	1,181	,452	4,731	,000	,457	,556	,449	,987	1,013
	Heritage/glamour	-5,814	1,977	-,292	-2,942	,005	-,090	-,384	-,279	,914	1,094
	Lifestyle/glamour	6,548	2,270	,277	2,885	,006	,348	,378	,274	,975	1,026
Boss	(Constant)	-1,023	7,703		-,133	,895					
	Boss Ab	5,287	1,041	,501	5,080	,000	,587	,599	,493	,968	1,033
	Monthly spending	,613	,126	,480	4,872	,000	,570	,583	,472	,968	1,033

Dependent variable: Willingness to pay for a bottle of perfume.

Table 5- Sociological trends: Scopophelia, glamour and selfsexualisation

ISBN: 978-9963-711-37-6

	Mean	SD
Scopophelia-"I feel some sexual pleasure (voyeurism) when I see a perfume ad"	1,8700	1,04112
Selfsexualization1- "In advertising there is too much exploration of the sexuality and female body"	3,1800	1,19240
Glamour1- "The glamour is conveyed by life style and the scenario of ad that make us dream"	4,0800	,82487
Selfsexualization2-"It is individual option of woman to use her body to get profit"	3,9100	1,23987
Women Power - "the use of seduction in advertising is a form of power of women over the consumer"	3,3900	1,09078
Glamour2- "the brand glamour is determined by the beauty and sexual attraction of the endorser"	3,0000	1,02494
Glamour3-"the brand glamour is determined by the awareness and fame of the endorser	3,3100	1,05117
Glamour4-"the brand glamour depends on brand heritage"	2,7100	1,02784

Table 6- Spearman correlation coefficients for: endorser-consumer self-congruency (E-CSc) versus endorser-brand fitness (E-BF); E-BF- versus consumer-brand self-congruency(C-BSc); C-BSc versus willingness to pay (WTP).

	DKNY	Moschino	Chanel	Gucci	Boss
Endorser-consumer SC versus Endorser-brand Fitness	0,495**	0,586**	0,504**	0,619**	0,615**
Endorser-brand Fitness Versus Consumer brand SC	0,303**	0,337**	n.s.	0,417**	0,248*
Consumer brand SC versus WTP	0,283**	0,344**	0,386**	0,313**	0,393**

** (p<0,001)

The hypothesis that brand-consumer congruence, consumer-endorser congruence and brand-endorser fitness are all positively and significantly (p<0,05) correlated with WTP (see Table 6) was only partially confirmed, because consumer-endorser congruence is not significantly correlated with WTP for the Chanel print ad processing. Considering the awareness of the endorser of Chanel (Keira Knightley), who received a very positive evaluation, the explanation for this finding may be addressed to the importance of other significant predictors revealed on Table (4).

Although this study has some limitations regarding the sample dimension, it provides deep insights to luxury/fashion brand managers because it reveals the ideal combination for the copy advertising strategy, and it analyses the advertising processing response toward different brands considering different brand personalities.

Luxury brand managers and advertisers must acknowledge the influence of the variables considered in the conceptual model during the endorser selection process and in copy strategy definition. Further research may provide more information about the influence consumer individual variable such as gender, age or income.

 ISBN: 978-9963-711-37-6

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 ISBN: 978-9963-711-37-6

ANTECEDENTS AND EFFECTS OF CSR IMPLEMENTATION: A MULTIDIMENSIONAL CONCEPTUAL FRAMEWORK

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ABSTRACT

Corporate Social Responsibility (CSR) is a concept with increasing importance for both global and local organisations. Despite its importance, there is still a lack in the understanding of its role by individuals within and outside organizational boundaries. The present study proposes a conceptual framework for examining the intention of management to implement CSR policies. The proposed conceptual framework is tested, using a structured questionnaire, in a sample of 80 large private Greek organizations. The reliability and the validity of the questionnaire were thoroughly examined, while research hypotheses were tested using the "Structural Equation Modelling" (SEM) technique. The findings suggest that there are some factors ('CSR awareness', 'relevant cost of CSR' and 'categories of CSR strategies') that directly affect managements' intention to use CSR, while one factor ('knowledge of CSR') has an indirect effect (through 'CSR awareness'). On the other hand, the implementation of CSR has a positive impact on 'employee commitment', 'customer satisfaction' and 'reputation of the organization'. It should be stressed that these results reflect the opinions expressed by the top management of the participating organizations. The study is empirical (based on primary data), explanatory (examines cause and effect relationships), deductive (tests research hypotheses) and quantitative (analyses quantitative data collected via a structured questionnaire).

Keywords*: Corporate Social Responsibility, Customer Satisfaction, Employee Commitment, Reputation, Structural Equation Modelling, Intention to Use.*

INTRODUCTION

Since the middle of the 20th century, companies have been "attacked" because of their size, power and, most of all, for their environmentally and socially unfriendly practices. Confronted with social outcry, certain clear-sighted executives have advised their enterprises to voluntarily use their power and influence for social aims and not just for achieving increased profitability.

 ISBN: 978-9963-711-37-6

Nowadays firms are under a lot of pressure (by law) to enhance and develop ethical business actions and practices (Kanji and Chopra, 2010). They enjoy social rights proportional to those of individuals and "*as society requires, companies should comply, to a certain extent, with prevailing norms and values which, according to Billaudot (2008), are both facilitative and restrictive*" (Quairel-Lanoizele, 2011, pp. 78). However, a socially responsible organization should not only comply with the obligations that derive from the law, but also invest more in human capital, in the environment and in the relations with its social partners.

Although corporate social responsibility (CSR) has emerged relatively recently and has gradually become a mainstream activity (Wagner *et al.*, 2009), it still cannot be defined with precision. CSR has been defined as the obligation of an enterprise to respect peoples' rights and promote human welfare in its operations (Oppewal *et al.*, 2006).

Usually, most employees believe that their bosses should be socially responsible, while most consumers prefer socially responsible products (Greening and Turban, 2000). At the same time, many investors are searching for companies implementing CSR policies in order that they can invest and be socially responsible at the same time (Munoz-Torres *et al.*, 2004).

This research attempts to expand our knowledge of how companies perceive and adopt the idea of CSR and of the degree to which it is implemented in Greek industry. Although a great number of relevant studies have been conducted in the past, the main contribution of this research is the simultaneous examination of many interrelated issues concerning CSR, and the development and empirical testing of a new conceptual framework concerning the intention to use and implement CSR. The general goal of this research is to examine how the concept of corporate social responsibility is perceived and implemented by Greek businesses.

Previous studies have found that although many large Greek companies consider that CSR is a very important issue (Kontaxi, 2004), almost every company has a different perception of what CSR is about. Overall, very little is known about the role and importance of CSR and the focus is always on the stock price (Giannarakis *et al.*, 2009). It would be very interesting, though, to examine whether CSR is still gaining ground among Greek companies, now that Greece is facing a huge financial crisis. This is important since it is recognized that an organization could be protected against financial crises by undertaking CSR practices (Haigh *et al.*, 2010).

 ISBN: 978-9963-711-37-6

LITERATURE REVIEW

For years, there have been many who have supported the view that the only purpose of an enterprise is to satisfy its shareholders by maximizing their returns, and that an enterprise does not have to take any responsibility for society as a whole. However, some, like Margolis and Walsh (2003, pp. 270), have claimed that "*corporate social responsibility and shareholders' wealth are innately incompatible objectives*". The first well-perceived and understandable approach to corporate social responsibility was announced in 1953 by Howard R. Bowen who defined the term corporate social responsibility (CSR) as the obligation of companies to make decisions and operate in a way that is socially and environmentally desirable (Rahman, 2011).

CSR has mainly attracted global interest relatively recently, that is over the last two decades (Hildebrand *et al.*, 2011). Although CSR refers to a firm's activities, organizational processes, and status in relation to its perceived societal or stakeholder obligations, there is no universally accepted definition (Silberhorn and Warren, 2007), and often the concept of CSR means different meanings to different bodies, while it also continuously changes as the expectations of society also change.

McWilliams and Siegel (2001) concluded that firms that undertake CSR practices will obtain the same level of profit as firms that do not incorporate such actions, and numerous authors have identified many benefits that arise from the implementation of CSR, some of which are purely financial (monetary), while some other are not (non-monetary; Weber, 2008). Some of the benefits are as follows:

- Improved financial performance. Over the last decade an increasing number of researches argue that this relationship exists (Fafaliou *et al.*, 2006).
- Decreased functional costs. Certain CSR initiatives (e.g. improvement of the environmental record) that decrease operational costs are possible (Sprinkle and Maines, 2010).
- Increased prestige of brand and positive reputation (Tencati *et al.*, 2004).
- Increase in sales and loyalty of customers (Weber, 2008).
- Increased attractiveness to skilled workforce (Giannarakis *et al.*, 2009; Weber, 2008).
- Decreased regulatory monitoring. Enterprises that satisfy and comply with the requirements of regulating principles enjoy greater freedom of movement.
- Entry into new markets (Giannarakis *et al.*, 2009; Tencati *et al.*, 2004).

ISBN: 978-9963-711-37-6

HYPOTHESIS DEVELOPMENT

An essential prerequisite for the adoption of CSR-related practices by a firm is the perception and understanding of the concept of corporate social responsibility. The breadth of knowledge and the enterprises' perceptions of CSR are considered to be important factors affecting the intention to use and implement such practices. An enterprise which is well informed about CSR-related issues is making the decision to adopt CSR practices easier, and it is more likely to incorporate such practices in its operations (Lichtenstein *et al.*, 2004).

H1. Knowledge of CSR has a positive impact on the Intention to Adopt CSR.

Because CSR activities do not offer direct benefits to companies, most of them hesitate to adopt and implement such practices unless they are very socially sensitive. A business which is not sensitive to social or environmental issues will decide to implement CSR actions only if it anticipates material gains. Therefore, it is essential for CSR promoting institutions to focus not only on the introduction of the concept to more companies but also to persuade them of its significance and necessity. Companies, before starting to act in socially responsible way, must understand that the idea of CSR is of extreme importance for them (Maon *et al.*, 2009).

H2. CSR awareness has a positive impact on the Intention to Adopt CSR.

The higher a company's CSR level, the higher the expenses and the lower the corporate financial performance (Giannarakis *et al.*, 2009). CSR practices indirectly affect the gains, reputation and customers' behaviour, without having a direct impact on sales, since it takes a long time for a company's reputation to be transformed into measurable benefits. As a result, the more expensive the adoption of CSR activities is, the more hesitation the company will have about deciding whether to be socially responsible (Longo *et al.*, 2005). "Corporations will be less likely to act in socially responsible ways when they are operating in a relatively unhealthy economic environment where the expenses for a CSR practice are extremely high and the possibility for near-term profitability is limited" (Campbell, 2007).

H3. The Relevant Cost of CSR implementation has a negative impact on the Intention to Adopt CSR.

Each enterprise appears to be more sensitive in one specific CSR category (Giannarakis *et al.*, 2009). As a result enterprises mostly focus on one of the three following areas, according to what they consider as more important: the environment, the community or the working environment (Giannarakis *et al.*, 2009). This, usually, leads companies to adopt CSR strategies that are more suitable to the specific

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category they emphasise on. In this study it hypothesised that all three categories of CSR strategies have an impact on CSR implementation.

H4. All categories of CSR strategies have a positive impact on the Intention to Adopt CSR.

A company that is strictly committed to CSR may have an improved ability to attract and retain better employees, and gain their commitment, although this can be a costly activity because of the expense of recruitment and the cost of training. It is suggested by Cropanzano *et al.* (2003) that, according to the employee perception theory, if employees feel that they are treated fairly in their working environment, then they will be more effective and they will not turn against their employers. For example, if they are satisfied with their salary, the level of absenteeism will be lower and the level of commitment will be higher (Colquitt, *et al.*, 2001). Also, employees usually judge and criticize a company's performance if their personal values are not aligned to those of the company they work for (Turker, 2009). The majority of the results of empirical studies have demonstrated a positive relationship between human relations and corporate financial performance (Hansen and Dunford, 2011).

H5. The implementation of CSR practices has a positive impact on Employee Commitment.

According to Galbreath (2010), reputation is "how a corporation meets its commitments and also how effectively its performance fits with its socio-political environment" (Brown and Logsdon, 1999). Several scholars (Brammer and Millington, 2005) have stated that positive reputation can be an important key strategic asset, which can benefit the company in terms of helping it to remain competitive and sustain competitive advantage.

However, the underlying theory advocates that reputation formation can be widely perceived as a signalling process in which company's strategic choices send signals to stakeholders (Weigelt and Camerer, 1988) and stakeholders then use these signals in the formation of impressions about these companies (Boulstridge and Carrigan, 2000). CSR is increasingly relevant to strategic choices (Porter and Kramer, 2006) and is a part of firms' signalling processes.

To sum up, CSR activities provide shareholders with signals which contain and infer various positive characteristics about companies (Gray *et al.*, 1998). So, CSR can be assumed to be a key mechanism by which a firm can build its reputation. According to Roberts and Dowling (2002, pp. 1078), a "*reputation–performance effect may operate in both directions: a firm's financial performance affects its reputation and its reputation affects its performance*".

H6. The implementation of CSR has a positive impact on the Reputation of the Organization.

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Customer satisfaction is a cumulative, overall evaluation of the organisation and an important indicator of past, current, and future performance (Oliver, 1997). As such, succeeding in customer satisfaction has become one of the most important goals of companies, and it is an essential focus of corporate strategy (Homburg *et al.*, 2005). In order to search for the link connecting CSR and customer satisfaction, equity theory is used (Galbreath, 2010). As long as customers feel that they are fairly treated by firms they are willing to purchase their products and, as a result, firms' profits will be increased. This is actually why companies continuously attempt to find ways to improve their customers' satisfaction.

H7. The implementation of CSR has a positive impact on Customer Satisfaction.

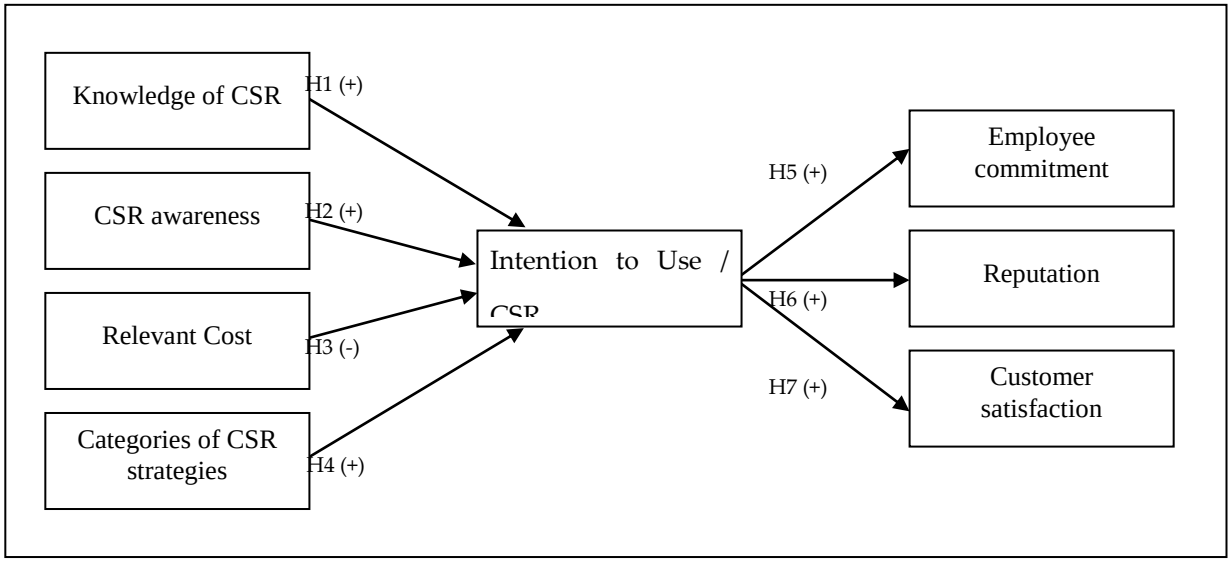

Figure 1. Research framework

RESEARCH METHODOLOGY

A structured questionnaire was designed and used to collect the primary data needed to empirically test the validity of the proposed research framework. The questionnaire consisted of 43 questions grouped into 8 sections (Table 1) and was distributed by email through the Greek Institute of Corporate Social Responsibility. The target population of the present study consisted of large Greek organisations. Large organisations were selected because they have shown an increased sensitivity towards CSR issues and also because they all implement, more or less, CSR initiatives. Initially the questionnaire was developed in English and then, for practical reasons, it was translated into Greek. Then, it was validated by three independent scientists (from relevant fields). The final draft was used in a pilot-testing process, in which five executives from three different organizations participated. The initial

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target population consisted of the 150 largest manufacturing, commercial and service companies operating in Greece, of which 80 finally participated in the empirical study.

Factors	**Items**	**Supporting Literature**
Knowledge of CSR	1. Is a company considered socially responsible when it supports good causes? 2. Does a socially responsible company reduces its profits to protect the environment and make charity? 3. Do CSR companies offer high quality products and services? 4. Do CSR companies develop innovative services? 5. Do you think social responsibility is a way for companies to become competitive?	Giannarakis *et al.*, (2009) (+)
CSR awareness	*Rate how important are the following factors when deciding about implementing CSR:* 1. Improve corporate image. 2. Increase corporate efficiency. 3. Increase customer satisfaction. 4. Increase employee satisfaction. 5. Decrease of unit production cost. 6. Fulfil social and environmental requirements.	Maon *et al.*, (2009) (+)
Relevant Cost	1. CSR strategies increase production cost. 2. CSR strategies increase overall cost. 3. CSR strategies increase employee salaries. 4. Do you think that spending a lot of money in CSR strategies is worthwhile?	Campbell, (2007) (-) / Longo *et al.*, (2005) (-)
Categories of CSR strategies	*Community* > 1. Offering money to charities is an appropriate CSR strategy. 2. Helping improve the quality of life in the community is an appropriate CSR strategy. 3. The financial support of community activities (arts, culture, sports) is an appropriate CSR strategy. 4. The financial support of the education in the community is an appropriate CSR strategy. *Environment* > 1. Being environmentally responsible is an appropriate CSR strategy. 2. Keeping in line with government environmental regulations being is an appropriate CSR strategy. 3. Financially supporting environmental initiatives is an appropriate CSR strategy. 4. The measurement of the organization's environmental performance is an appropriate CSR strategy. *Employees* > 1. The fair treatment of all the employees is an appropriate CSR strategy. 2. Providing satisfying employee salaries is an appropriate CSR strategy. 3. Providing help to employees in order to coordinate their private and professional lives is an appropriate CSR strategy. 4. Taking under consideration the opinions of all employees is an appropriate CSR strategy.	Giannarakis *et al.*, (2005) (+), (2009) (+)
Intention to Use / CSR implementation	1. My company implements CSR practices to a large extent. 2. My company will continue to implement CSR practices in the future. 3. My company implements CSR practices because it is considered a part of its overall strategy. 4. My company always tries to be social responsible, no matter the financial cost.	Colquitt, (2001) (+) / Galbreath, (2010) (+)
Employee commitment	1. What this organization stands for is important to me. 2. Since joining this organization, my personal values and those of the organization have become more similar. 3. The reason I prefer this organization to others is because of what it stands for, its values. 4. My attachment to this organization is primarily based on the similarity of my values and those represented by the organization.	Colquitt, (2001) (+) / Galbreath, (2010) (+)
Reputation	1. Our firm is viewed by customers as one that is successful. 2. We are seen by customers as being a very professional organisation. 3. Customers view our firm as one that is stable. 4. Our firm's reputation with customers is highly regarded.	Galbreath, (2010) (+)
Customer satisfaction	1. Compared to competitors, our customers find that our products/services are much better. 2. Our customers are very satisfied with the products/services we offer. 3. The likelihood that our customers will recommend our products/services to others is high. 4. Our customers are very satisfied with the quality of our products/services.	Galbreath, (2010) (+)

Table 1.Construct Measurement

 ISBN: 978-9963-711-37-6

RESULTS

5.1 Factor analysis

Exploratory factor analysis was carried out to test the validity of the factors used (see Table 2). The main indicators examined in the evaluation of the results of the factor analysis are: (a) KMO test, (b) total variance explained (TVE), and (c) Cronbach's alpha. According to Malhotra (1999) and Taher *et al.* (2010), KMO must be higher than the 0.6 threshold (Kaiser, 1974), TVE must have values higher than 60.000 (60%), and the loadings of each variable should be bigger than 0.7. However, scores as low as 0.5 and 50%, for the KMO and TVE respectively, are considered acceptable.

The reliability of the factors was also examined by using Cronbach's alpha score. Cronbach's alpha ranges from 0 to 1, while scores higher than 0.6 mean that there is consistency and reliability in the way the factors are measured (De Vellis, 1991). The results of the factor analysis indicate that, even marginally, all the factors examined fulfil the above prerequisites and, hence, they can be used for testing the validity of the model and the relative hypotheses.

Factor	**Subfactor**	**Final and Initial number of Items**	**KMO**	**TVE**	**Cronbach alpha**
Knowledge of CSR	-	3 (5)	0.637	64.963	0.717
CSR awareness	B1	3 (3)	0.564	57.920	0.628
	B2	3 (3)	0.574	51.687	0.629
Relevant Cost	-	2 (4)	0.500	74.694	0.648
Categories of CSR strategies	D1	2 (4)	0.500	76.026	0.681
	D2	2 (4)	0.500	74.318	0.653
	D3	3 (4)	0.689	72.052	0.784
Intention to Use / CSR implementation	-	3 (4)	0.628	54.783	0.685
Employee commitment	-	4 (4)	0.691	57.938	0.752
Reputation	-	4 (4)	0.776	60.833	0.781
Customer satisfaction	-	4 (4)	0.729	55.895	0.736

Table 2. Factor Analysis

5.2 Hypothesis Testing

To evaluate the fit of the overall model a variety of indicators are used, such as a chi-square to the degrees of freedom ratio (CMIN/DF=2.360), goodness-of-fit index (GFI=0.905), comparative fit index (CFI=0.872), and root mean square residual (RMR=0.063). Many authors (Chin and Todd, 1995; Gefen *et al.*, 2000; Kuo *et al.*, 2009) have suggested that in order to claim that a perfect match of data and model exists, the CMIN/DF score should be smaller than 3, the GFI and CFI values should be higher than 0.9, while the RMR must not be higher than the 0.06 threshold. In the present study, all indices fulfil these

 ISBN: 978-9963-711-37-6

prerequisites except for the CFI, which is lower than 0.9, maybe due to the relatively small sample size.

From Table 3 and Figure 2 it can be easily seen that six out of the initial seven hypotheses are accepted. The only exception is Hypothesis 1 which assumed a direct relationship between Knowledge of CSR with the Intention to Use CSR. This is probably because there is another mediating factor between Knowledge and Intention to Use. More specifically, SEM's Modification Index suggests the inclusion of a relationship between Knowledge of CSR and CSR awareness (see Figure 2). In other words, it could be reasonably assumed that H1 is still valid, but not in the form of a direct relationship, but rather an indirect relationship through CSR awareness. This implies that only after companies are informed about CSR will they understand that it is extremely important and that necessary actions need to be implemented.

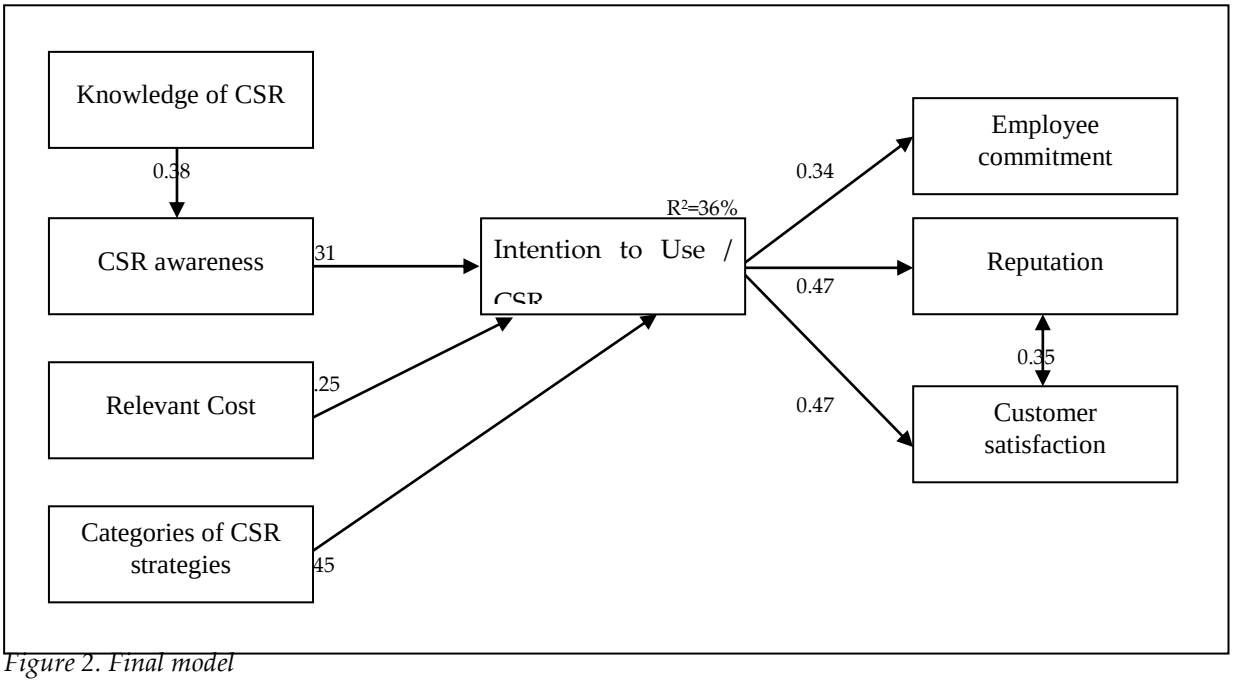

Figure 2. Final model

Hypotheses	Effect	Results
H1: Knowledge of CSR →Intention to Use/ Implementation of CSR	-	Rejected
H2: CSR awareness →Intention to Use/ Implementation of CSR	0.31	Accepted
H3: Relevant Cost →Intention to Use/ Implementation of CSR	-0.25	Accepted
H4: Categories of CSR Strategies →Intention to Use/ Implementation of CSR	0.45	Accepted
H5: Intention to Use/ Implementation of CSR →Employee commitment	0.34	Accepted
H6: Intention to Use/ Implementation of CSR →Reputation	0.47	Accepted
H7: Intention to Use/ Implementation of CSR →Customer Satisfaction	0.47	Accepted

Table 3. Hypothesis Test Results

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In addition, the modification index proposes the creation of a new relationship between Reputation and Customer Satisfaction. This suggestion is also supported by the literature. More specifically, Benjamin *et al.* (1999) stated that companies with a high reputation are more likely to persuade customers to trust them. When consumers assess companies' performance or the quality of their products, a good reputation usually impacts on their confidence and minimizes any risk perception (Hall, 1993). In other words, corporate image enhances consumers' expectation that firms will fulfil their promises, provide good quality products, and be reliable and trustworthy (Fombrun, 1996). All in all, customers may relate their expectations and satisfaction to the seller's reputation (Keh *et al.*, 2009) in order to assess the benefit and cost of transacting with the seller (Barone, *et al.*, 2004). Finally, according to Roberts and Dowling (2002), a "reputation–performance effect may operate in both directions: a firm's financial performance affects its reputation and its reputation affects its performance". Overall, the proposed model can be considered valid, since most of the factors included were found to play a significant role in explaining business behaviour as far as their Intention to Use/Implement CSR policies (in line with the results of Galbreath's study). To support this claim, it was found that the model can explain 36% of the variations of the value of the dependant factor (Intention to Use/Implement CSR policies).

DISCUSSION

The main aim of this research was to enhance our knowledge of how management perceives the concept of CSR and how this awareness impacts its success. First of all, it was concluded that companies that are aware of the CSR concept, and those that have been persuaded of its importance, are more willing to incorporate CSR practices into their operations, in line with the results of Vitell *et al.*'s (2003) study. Moreover, it is confirmed that the Relative Cost of CSR initiatives seem to negatively affect a company's Intention to Implement such activities, which is also consistent with the result of other studies (Longo *et al.*, 2005). Businesses, whose main focus is to increase their financial performance, admit that they hesitate to adopt CSR behaviour because they do not want to spend extraordinary amounts of money and take great risks. Further, the initial hypotheses supporting that CSR activities not only affect employee commitment but also company reputation and customer satisfaction, are confirmed, while the reliability of the employee perception theory, the signalling theory and the equity theory (Galbreath, 2010) are also proved. Although employees are not directly connected with companies' socially responsible behaviour, they seem to prefer working in a responsible company because CSR principles demand better working conditions, fair treatment, improved salaries and so on, and as a result their productivity is enhanced too (Hansen and Dunford, 2011). Reputation, or in other words corporate image, plays a leading role in a company's financial

 ISBN: 978-9963-711-37-6

performance, since it is directly related to customers' satisfaction. So, the implementation of CSR practices affects customers' behaviour both directly and indirectly (through reputation).

CONCLUSIONS

The findings of this research posit that there are many factors affecting Intention to Use CSR. The knowledge and the understanding of the importance of CSR, the costs involved in adopting such policy, as well as the actual CSR strategy required seem to be among the most important determinants affecting CSR adoption decisions. In previous studies (e.g. Galbreath, 2010) companies have been asked to identify the main benefits of the incorporation of CSR into their operations; they have replied that reputation, customers' satisfaction and employees' commitment are three of the most important benefits. This research has attempted to examine whether the same applies to Greek industry and the results seem to confirm that this is the case. More specifically, this research has confirmed that CSR initiatives implemented by firms strongly influence the purchasing behaviour of consumers, which leads to increased sales.

MANAGERIAL IMPLICATIONS

From a managerial standpoint, the present study offers specific guidelines to business executives. Firstly, CSR initiatives should not be only considered as a significant cost centre. The conceptual framework that was proposed in the present study highlighted that numerous positive outcomes derive from implementing a coherent CSR strategy. Therefore, the cost of implementing CSR practices is smaller than the expected benefits in employee commitment, company reputation and customer satisfaction. Moreover, according to Davis and Stephenson (2006), CSR activities represent a robust strategy, particularly when stakeholders (like customers and employees) have increased social concerns. Secondly, the present study found that CSR implementation has a statistically significant impact on employee commitment, meaning that Human Recourse executives should use CSR as a means of acquiring and retaining employees. In order to enhance the above relationship, companies should involve employees directly the planning and executing CSR initiatives, thus enhancing trust and further developing their commitment. Thirdly, companies should not limit the communication of their CSR initiatives to customers and other external stakeholders. On the contrary, CSR initiatives should be actively marketed to their own employees. Apparently, the implementation of CSR is a tool capable of winning the hearts and minds of employees (Hansen and Dunford, 2011).

ISBN: 978-9963-711-37-6

MAIN LIMITATIONS AND FUTURE RESEARCH

The present study was conducted on a single country (Greece) and included only large organisations in its sample. Firstly, it would be interesting for this study to be replicated in other economies that face different economic realities than the ones in Greece. Secondly, small and medium companies should be included in the sample of future studies. Furthermore, a sample size of more that 200 questionnaires is strongly advocated. Finally, additional factors may be added in the proposed model (e.g. customer loyalty, trust towards the organisation, company valuation, etc).

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 ISBN: 978-9963-711-37-6

DISCOVER POTENTIAL SEGMENTS OF WINE SHOPS BASING ON SALES STRATEGIES BY CLUSTER ANALYSIS

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ABSTRACT

The HORECA channel is a very important for promoting high-quality wines. In fact, through this distribution channel, consumers can experience wines before purchasing, taste them also with foods and receive additional information. Market segmentation is very crucial for businesses; therefore specific criteria must be applied for a successful segmentation. In this study wine shop segmentation was carried out by explorative hierarchical Cluster Analysis in order to discover potential segments of wine shops and wine bars based on their sales strategies. Moreover, wine shop(s) role in dissemination of information about quality wines was investigated. A census was carried out in a selected Italian city. Results show that wine shops were clearly clustered in three main groups representing different business profiles. The majority of wine shops belong to the cluster *Quality-oriented*. This result may be interesting if compared with that of other Italian cities or geographic zones. This study not only provides scientific information for consumers to distinguish different wine shops in their market of reference, but also may be useful for wineries in order to know the role of wine shops within the HORECA channel for the distribution of quality wines in different cities or geographic zones.

Keywords: *business segmentation, target of consumers, census survey, hierarchical cluster analysis, HORECA channel*

INTRODUCTION

Marketing channels are different in the wine industry by type of wine distributed and by Country of sale (Hakansson and Persson, 2004; Bariteaux et al, 2006). According to Hall and Mitchell (2008) the actors of marketing channels belong to two main categories: 1. *Marketmakers* and 2. *Matchmakers*[1]. In

[1] Marketmakers take ownership of the product in the intermediation process making their money from the 'bid-ask spread' (i.e. the difference between what they can buy it from the supplier - the bid - and what they can sell it to a retailer - the ask), matchmakers make economic gain through commissions on the transactions.

 ISBN: 978-9963-711-37-6

most wine markets around the world marketmakers dominate, but in France matchmakers are more prominent. Due to high volumes dealt the *Marketmakers* category includes wholesalers, distributors, importers and exporters. These intermediaries use the HORECA trade channel (i.e. Hotel-Restaurant-Café/Catering) that includes also high-quality wine shops, restaurants, hotels and wine bars (Soressi, 2011). With regards to the wine sector, the HORECA channel is specialized in reaching consumers that like to meet at places where they can taste a wine or receive additional information about wines they want to buy (F.M.I., 2007, 2011) and often it involves journalists and critic's expert in the wine industry (Gaeta and Pomarici, 2001). The HORECA channel is an important communication vehicle for a wine with high quality characteristics (Pomarici, et al, 2012). The HORECA sector in Italy with regards to wines refers mainly to wine shops and wine bars that are also the new trendy places to drink wine outside. Today wine shops and wine bars are benchmarks for all wine lovers (Flamini, 2011), they offer a wide range of products to meet the needs of a modern wine consumer who looks for expert's advices about quality, origin (i.e. territory) combination with food and price (Mariani et al., 2011). Because of the above reasons wineries owners are aware that wine shops and wine bars within the HORECA channel are crucial to distribute high quality wines and to reach a *segment of consumers* more educated, well informed and aware of its own choices (Banks and Overton, 2010; Anderson and Nelgen, 2011). However, despite the increasing appeal of wine shops and wine bars for wine producers and consumers, the role that wine shops and wine bars play for disseminating information on quality wines has not been investigated so far through a structured approach. Looking forward this direction, wineries owners and wine producers may focus on wine shops and wine bars to enhance sales (Campbell and Guibert, 2007), especially in those cities where consumers may be more interested in educational aspects of wine and more sensitive to information about quality wines (e.g. cities located within regions or territories typically producing wines or global capitals and metros). A first step through this process of knowledge may be to assess the role that wine shop(s) and wine bar(s) plays in Italy for disseminating information on quality wines and to know if these retailers may influence consumer's taste and purchasing behavior. Secondly to assess wine shop(s) sales strategies and marketing tactics and to know potential homogeneous *profiles/segments*. Surveys can certainly be developed later to assess the role of wine shop(s) plays at a national level. According to the above premise the first hypothesis of this study (H_1) is that wine shops are aware to play an important role as intermediaries and retailers providing information about quality wines and adding value in educating consumers on wine. The second hypothesis (contrary hypothesis: H_2) is that wine shops do not have any influence on consumers or may have but they are not aware or interested about it. According to illustrious literature (Kotler and Keller, 2015) a *business segment* consists of a group of

ISBN: 978-9963-711-37-6

players/businesses who share a similar set of characteristics (e.g. needs, management, target markets, objectives, etc.). It is possible to differentiate business segments in several ways when there are no natural segments. Clustered entities are discovered when natural business segments emerge from groups of companies with shared characteristics (i.e. homogeneous) (De Luca, 2002; Kotler and Keller, 2009). Following these assumptions the objectives of this study are: (1) to discover potential *natural segments* of wine shops/wine bars homogeneous by sales strategies; (2) to assess wine shop(s) role in disseminating information about quality wines (in a *small* markets). Findings may suggest specific marketing strategies for wineries that want to sell and promote quality wines (Rouzet and Seguin, 2004).

MATERIAL AND METHODS

Study Design Reference Population and Samples Design

In this study the reference Population was the *number* of wine shops and wine bars in a selected city. The choice of the city appeared very relevant for the object of the study, so it was selected basing on some variables often used in marketing studies (Kotler and Keller, 2015) that were: 1. Size (i.e. > 400,000 residents), 2. Density (i.e. urban) and 3. Geographic zone (i.e. Italian territory with high number of wineries and high quantities of wine produced). According to official internal statistics (ISTAT 2011), wineries located in the northwestern area of the island of Sicily (southern Italy) are the largest producers of the country (more than 50% of Italian wine production), for this reason the study was conducted in Palermo, which met all the requirements (i.e. more than 400,000 residents; urban density; north-west Sicily). The list of wine shops and wine bars was obtained by intersecting the directories provided by the Italian Association of Wine Shops and the Italian Tax Authority. We selected wine shops including the following categories: wine bars, lounge bars and wine restaurants. Given the small size of the obtained Population (N = 15) a Census survey was carried out, this eliminated inferential problems of *estimates* and *test of hypothesis* (Vianelli and Ingrassia, 2000). Table 1. shows a categorization of the organizational framework of selected wine shops.

For the interviews to wine shops owners and managers (i.e. respondents) we selected a list of *variables* (Table 2) following the methods applied for marketing studies and market segmentation (Kotler and Keller, 2015) and related to attitudes toward product choice, sales strategies and consumer target (Ismea, 2008 and 2011). Moreover, a sample of 30 Italian wineries was properly selected for this study. The sample of n = 30 wineries was selected by reasoned sampling (Cicchitelli et al., 1992) from the major 2014 Italian Wine Guides where wineries were ranked on the basis of production of quality

 ISBN: 978-9963-711-37-6

wines and prizes awarded: 1. Very high quality wines and from 1 to 3 prizes awarded; 2. High quality wines and from 1 to 2 prizes awarded; 3 medium quality wines and at least 1 prize awarded.

Questionnaire

For the interviews a specific questionnaire was created containing 30 statements for the variables selected and the list of wineries. Respondents were asked to rank the variables basing the ranking on the following marketing factors of the wine shop: (1) sales strategies, (2) marketing tactics and (3) target of consumers and then they were asked to rank the wineries basing on the same marketing factors. In this case wineries were considered as a variable. Rankings were on a scale from 1 (the best/first) to 30 (the worst/last).

Clustering methodology

A *Cluster Analysis* was carried out with the aim to discover natural segments (Corbetta, 1992; Fabbris, 1997) of wine shops similar (i.e. homogeneous) for *selling strategies*. The cluster analysis, according to Kaufman and Rousseeuw (1990), is the art of flush out groups of objects in a database. In science, the procedures of clusters represent a very diverse family of methods and techniques for the construction of relatively homogeneous groups within them and basically differentiated between them (Corbetta, 1999). Groups can be well formed if within them units share common traits, i.e. if they show a greater proximity with respect to the units belonging to other groups. Cluster analysis can be a useful tool to perform exploratory data analysis, to thicken multivariate objects within a simplified configuration of classes or types without losing too much information, it allows to reveal characteristics not directly measurable or evolutionary dynamics not known a priori, however at the same time it can be effectively used to confirm previous theoretical acquisitions. Even in marketing these techniques have wide popularity (Rencher, 2002). In this study, basing on demographic and geographic characteristics or buying and selling approaches it is possible to discover homogeneous segments of wine shops in respect of which wineries (wine producers) can plan sales strategies or marketing tactics actions. In clustering procedures there is not distinction between dependent and independent variables, all variables have the same status of *independent variables*. Cluster analysis compress a series of records within multivariate classes, which are unknown a priori, that reduce the complexity of the original information, however, safeguarding the substantial and systematic components (Gordon, 1999). The researcher must choose the appropriate (1) *indicators,* (2) *rules for measuring distance or similarity* between objects, (3) *procedure for grouping* statistical units and (4) *give a sense* to the groups obtained. The choice of different variables and different classification algorithms leads to intercept different cluster configurations from which evaluation of practical utility may be done only ex-post (Everitt and Dunn

 ISBN: 978-9963-711-37-6

2001). As the number of variables increases the information content of the analysis increases as well. The procedures of cluster analysis can be divided into two broad general categories: (1) *hierarchical methods* and (2) methods of *repeated partition*. The *hierarchical methods* realize mergers (or divisions) of units in larger groups (or smaller group) hierarchically nested according to a classification rule or an objective function. The *repeated partition methods* divide observations in a number of non-overlapping groups and not hierarchically ranked. The hierarchical methods show high complexity of calculation (Kaufman and Rousseeuw, 1990), nevertheless for this study *Hierarchical Cluster Analysis* (HCA) appeared the most appropriate (Muller and Hamm, 2014). With *aggregative/agglomerative* procedures every object is a group in its own. At the second step the most neighbors two groups are merged into a single group. For this study we used the *aggregative procedure* because we wanted to start from a situation in which each wine shop is a cluster in itself and, step-by-step, the procedure operates subsequent fusions until the achievement of a single group including all wine shops. The sequences of fusions generated by agglomerative algorithms are displayed on a tree diagram namely the *dendrogram* and that is configured as a system of Cartesian axes with the ordinate the objects to be classified and in the degree of distance/proximity between the groups. Under the procedures of hierarchical clustering partitions are obtained by deciding a certain level of heterogeneity over which groups should be treated as entities not joinable (Everitt, 1993; Yi, et al., 2015). Agglomerative techniques result in different groupings depending on criteria used to measure the distance or similarity between two clusters, each of which may contain one or more objects (Everitt and Dunn 1999). Among the agglomerative methods known in literature, we chose the *average linkage* because it does not generate distortions of the space of distances between objects (Wajrock, et al., 2008). With this method the distance between the two groups (A and B) is obtained by averaging the distances between all pairs of objects of which the first belongs to the first group (A) and the second to the second group (B). Furthermore this method is particularly robust against outliers (Rencher 2002). The method of *average linkage* is a good compromise between the method of *single linkage* and that of the *complete linkage*, Kaufman and Rousseeuw (1990) consider the *average linkage* procedure as a robust and reliable method in most research situations. In our study normalization was not necessary because the variables have *only one ordinal scale of measure:* ranks from rank 1 (first place, the best) to rank 30 (last place, the worst). Ranks are preferred to scores because they allow comparison among datasets and are independent form subjective interpretation of scores (Wajrock, et al., 2008). The *Cluster Analysis* starts from a matrix (n x p) containing n objects measured on p variables, in our study the matrix was (15 x 60) with 15 wine shops and 60 rankings (of statements and wineries). In our study, i.e. metrics ordinal variables, we calculated indexes of distance. The distance between the points that describe the coordinates of a pair of objects can be computed using the *Euclidean Distance* that is sensitive to the scale of measurement of the

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variables. From a methodological viewpoint the chosen criteria result more appropriated to well-represent the phenomenon object of this study, with respect to discover links (i.e. similar characteristics) among each wine shop and the others. Exploratory cluster analysis was performed via the statistical program SPSS 19 with the data set of ranks given by respondents to the 30 wineries.

RESULTS AND DISCUSSION

Explanatory Hierarchical Cluster Analysis (HCA) was undertaken without standardization with Euclidean distance method and it involved a measurement of the similarity between 15 wine shops; groups with the maximum similarities were clustered preferentially. The *dendrogram* (Fig. 1) shows the hierarchy of cluster generation and agglomeration coefficients are shown in Table 4. Each cluster corresponds to one or more wine shops. Basing on clustering procedure and on analysis of respondents' answers to the 30 statements it was possible to discover 3 main Clusters or *Profiles* (i.e. segments) of wine shops (identified with fancy names): Cluster 1 - Quality Oriented; Cluster 2 - Consumer Oriented; Cluster 3 - Price Oriented. The 3-cluster solution is described in Table 3, followed by a description of the clusters' characteristics.

Cluster 1 - Quality Oriented profile

Wine shops in Cluster 1 focused on quality wines. They attach particular importance to origin of wines and wineries' characteristics. They appreciate innovative and traditional wineries with high standards of quality along the entire production process and also in later stages, that is packaging, attention to label's design, wines positioning on the market and care for environment and health of consumers. Wines preferred by this profile of wine shops are Regional, Italian and International wines of different types (i.e. red, white, sparkling and dessert wines). Managers and owners of these wine shops are open-minded about novelties, organic wines and specialties. They play a fundamental role in dissemination of information about quality wines and education of consumers about characteristics of wines and wineries. These wine shops applies *face-to-face communication strategies* and are particularly enthusiastic about promotion of high quality wines by organizing special events for 'wine lovers' like *wine tasting* or cultural events promoted by wineries. These wine shops do not care about quantities but high profit margins are achieved selling high quality wines at medium/high prices to a small segment of educated or well-informed consumers. This cluster includes six wine shops (P1-T8-N3-L15-K10-D13) and it is the largest of the three.

Cluster 2 - Consumer Oriented profile

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Wine shops in Cluster 2 sell standard wines. The quality of a wine is important to them, but they prefer to sell the types of wines requested by a consumer with scarce knowledge about wines, which plays a central role in the market. They do not care about quality brands of wines, they prefer to offer wines with good quality/price ratio for the consumer the most commercialized varieties and types (red and white wines) and they are often receptive to new products. This segment of wine shops cares about quantities, profit margins are achieved selling high quantities of wines at medium/low prices in order to satisfy a large number of consumers. These wine shops do not make use of *face-to-face communication strategies* or promotion activities. This cluster includes three wine shops (V4-E7-R14) and it joins the *Cluster 1 - Quality Oriented* profile at the fourth level of fusion of clusters, in particular with the wine shop named P1 with which there is the greatest similarity.

Cluster 3 - Price Oriented profile

Wine shops in Cluster 3 do not care about quality wines. Their sales strategies focus on low prices. They do not care about wine origin or wine brands but they select the wineries and wines basing on strategies of large profit margins at low prices. Their target of consumers is not educated about wine or informed about types and intrinsic characteristics but looks for low quality wines. These wine shops sell also local bulk/unbolted wine of different types (i.e. red, white, rose and sweet wine). Wine shops LaB6, F9 and C5 link other clusters at a high stage of agglomeration (with P1 wine shop of Cluster 1) that is considered too dissimilar to be considered as a cluster or a *segment/profile*.

CONCLUSION

The study demonstrated that wine shops and wine bars, within the HORECA channel, play an important role in delivering education and information about quality wines, so the first hypothesis was confirmed. Moreover, Cluster Analysis discovered *natural segments of wine shops homogeneous for sales strategies*, in fact the 15 wine shops of this census survey in the city of Palermo were clearly clustered in three main groups. The majority of wine shops belong to the Quality-Oriented profile which is the more prone to organize wine events that include educational aspects and to encourage newer wine drinkers to learn more about quality wine. These functions add further value to quality wines. This study not only provides scientific information for consumers to distinguish different wine shops in their market of reference, but also may be useful for wineries that want to know the role of wine shops in the HORECA Channel as intermediaries of quality wines in different cities or geographic zones. Therefore these results may be interesting if compared with those of other relevant cities. Future research may discover different wine shops segmentations in other cities and compare results.

ISBN: 978-9963-711-37-6

Multidimensional Scaling may be applied in future research to represent discovered Profiles in the Cartesian plane and see graphically proximities among objects.

TABLES AND FIGURES

Types of wine shops	Activity description	Experts of wine	Products	Additional functions or services
Wine shops	1. Wine tasting; 2. Wine sale.	NONE (Only the host)	1. Bulk wine; 2. Bottles of wine.	NONE (Only sales)
Wine shops and wine bars (wine offered also with food)	1. Wine tasting; 2. Wine sale; 3. Wine sale with gourmet products.	YES 1. Sommelier.	1. Bottles of wine; 2. Glasses of wine.	YES 1. Information about wines.
Wine shops and wine restaurants	1. Wine sale with gourmet products; 2. Wine sale with food (dinner or lunch).	YES 1. Sommelier; 2. Wine master.	1. Bottles of wine; 2. Glasses of wine; 3. Wine and food.	YES 1. Information about wines; 2. Wine events with educational aspects.

Table 1. *Organizational framework of wine shops*

Variable type	Variables	Variable description
Demographic variables	*Industry*: types of wineries selected	1. Traditional 2. Innovative
	Company size: size of wineries selected and size of wine shops	3. Small 4. Medium 5. Large
	Income: wineries selected and size of wine shops	6. Small 7. Medium 8. Large
	Location: geographical area of wine selected	9. Regional 10. Domestic 11. Foreign countries
Purchasing Approaches	*Nature of existing relationship*: Strong relationships established, Desirable companies	12. Consolidated clients 13. Open to new relationship

ISBN: 978-9963-711-37-6

	General purchase strategies: Furniture contracts *Purchasing criteria*: Price from wineries, type of wine, quality criteria (e.g. certifications)	14. Consolidated wine sales representatives 15. New wine sales representatives 16. Small price (<10€) 17. Medium price (10-25€) 18. High price (>25€) 19. Bulk wine 20. Bottled wine 21. White wine 22. Red wine 23. Rose wine 24. Sparkling wine 25. Sweet wine 26. CDO 27. CPDO 28. GIT 29. BIO 30. Other certification
Selling Approaches	*Selling criteria*: general sales strategies; Communication strategy	31. High margins 32. Low prices 33. Personal communication channel 34. Dissemination of information 35. Promotion 36. Events and experiences

Table 2. *Segmentation Variables and Indicators*

Profile/Cluster Name	Demographic characteristics	Purchasing Approaches	Selling Approaches
Cluster 1 - Quality Oriented	- Traditional and innovative industry; - Select small, medium and large wineries; - Medium and large income; - Regional, domestic and foreign countries wineries selection.	- Relationship with consolidated and new clients; - Furniture of consolidated and new wines; - Medium and high price of wine purchased; - Only bulk wine; - Only some types of wine; - All certifications.	- High margins strategies; - Face-to-face communication strategies: promotion, events, dissemination of information, etc.; - Mainly consolidated clients.

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Cluster 2 - Consumer Oriented	- Traditional and innovative industry; - Select medium and large wineries; - Small and medium income; - Regional and domestic wineries selection.	- Relationship with consolidated and new clients; - Furniture of consolidated and new wines; - Small and medium price of wine purchased; - Only bottled wine; - All types of wine; - GIT certification, some higher certification.	- High margins strategies; - Low prices; - Limited promotion activities; - Mainly not consolidated clients.
Cluster 3 - Price Oriented	- Traditional and innovative industry; - Select medium and large wineries; - Medium and large income; - Regional and domestic wineries selection.	- Relationship with consolidated clients; - Furniture of consolidated wines; - Low price of wine purchased; - Bulk and bottled wine; - All type of wine; - Some GIT certification.	- High margins strategies; - Low prices; - Mainly consolidated clients.

Table 3. *Profile characteristics*

Stages of cluster fusion	Units of clusters		Agglomeration Coefficients	Cluster generation stages		Next Stages of cluster fusion
	Cluster 1	Cluster 2		Cluster 2	Cluster 1	
1	4	7	112.000	0	0	2
2	4	14	130.000	1	0	4
3	1	8	506.000	0	0	4
4	1	4	595.333	3	2	6
5	10	13	614.000	0	0	8
6	1	3	683.400	4	0	7
7	1	15	879.167	6	0	8
8	1	10	1,036.571	7	5	11
9	11	12	1,454.000	0	0	10
10	2	11	1,673.000	0	9	11
11	1	2	2,012.444	8	10	12
12	1	6	2,326.000	11	0	13
13	1	9	4,394.308	12	0	14
14	1	5	5,054.571	13	0	0

Table 4 – *Agglomeration Programme*

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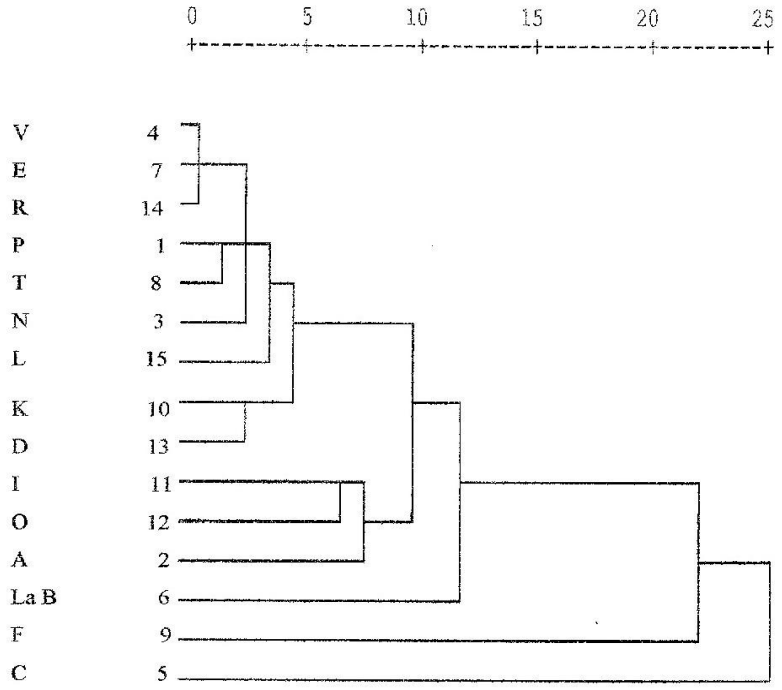

Figure 3. *Dendrogram. (Method: Average Linkage Between Groups)*

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 ISBN: 978-9963-711-37-6

CORPORATE SOCIAL RESPONSIBILITY AND BRANDING STRATEGY. A COMPARATIVE STUDY OVER BANKING SECTOR IN ITALY AND THE UK

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ABSTRACT

The research aims at investigating whether Banking Corporates use Corporate Social Responsibility (CSR) as driver to enhance their brand and pursue commercial value or to purely redefine their business priorities in accordance to the social shared value and consumers' behaviour evolution through a concrete strategy. It compares the situation in Italy and the UK.

The analysis has been conducted on a sample of six Banking Corporates, three from the UK and three from Italy by adopting the comparative case studies methodology, to obtain common criteria of investigation.

Many differences and some relevant similarities in the adoption of CSR as new strategic model and business function among countries and companies emerged, with UK banks showing a more formalized integration of CSR within their business strategy and serving as potential benchmarking for the Italian banks. The opportunity for the involved Banking Corporates is to share their emerged best practices over CSR to strive for a standardized model based on Corporate Shared Value as strategy for achieving commercial, financial, communication and social goals. The research is planned to be extended to the analysis of CSR from banking customers' perspective in the same countries at issue: Italy and the UK.

Keywords: *Corporate Social Responsibility, Branding, Social Concerns, Banking Sector, Italy, United Kingdom*

INTRODUCTION: PREMISES FOR A STRATEGIC MODEL OF CORPORATE SOCIAL RESPONSIBILITY

As extensively highlighted by academic literature and global researches, for the past three decades mostly, for-profit world has started realizing the importance of playing a role as good citizen in the society (Carrol, 1991; Ahmed and Machold, 2004) and including social, ethical environmental concerns and, sustainable and philanthropic activities in their business. Under the name of Corporate

 ISBN: 978-9963-711-37-6

Social Responsibility (CSR), these concerns and activities represent concrete responses to the on-going social, economic and environmental changes and challenges happening in the society (Candelo *et al*., 2014; Torres *et al.,* 2012; Vallaster *at al.,* 2012; Kuepfer and Papula, 2010; Xia *et al*., 2008; Freeman *et al.,* 2002; 2004; Macleod, 2001; Mohr *et al.,* 2001).

The vast characterizations and implications of CSR (Vallaster *et al.,* 2012) made it become a way for companies of positioning their business and building relations with the community (Macleod, 2001; Mohr *et al.,* 2001; Kuepfer and Papula, 2010; Freeman *et al.,* 2002; 2004). Clearly, as a set of multiple diverse activities addressed to ultimately increase society's well being, CSR has become one of the most impacting drivers in improving stakeholders' perceptions about a company's brand and make them identify with its values (Sen and Bhattacharya; 2001; Nascuddin and Bustami, 2007). A growing number of corporations with major evidence in specific sectors – like the banking one for instance – have strongly linked their brand image to successful CSR programmes aiming to reach a better impact within their audience. But if it is true that CSR has mostly been considered a driver of branding so far, responsible actions and activities will more and more appear and be perceived by customers as merely related to a commercial purpose, which ultimately will affect the corporate image negatively (Nascuddin and Bustami, 2007).

In order to turn brand perception to build good corporate reputation, theories and frameworks are being developed towards the implementation of CSR as strategic business model: the more CSR activities are connected to the companies' core competitive advantages the more they will create a *value* that, if *shared*, will bring benefits to the society and economic returns to the company at the same time (Porter and Kramer, 2002).

According to this perspective, the theory of Corporate Shared Value (CSV) put forth by Michael Porter (2002; 2011) and confirmed by extensive literature, sees CSR placed at the core business of corporates and, as consequence, brand becomes a witness of such activity by communicating the true purpose of companies' actions with transparency to a multiple and complex target audience (Polonsky and Colin, 2009).

Despite the huge literature about CSR and its innovative strategic implications, little has been told about the link between CSR and branding within the new paradigms of CSV.

Given the theoretical framework, the aim of the paper is to investigate whether CSR is still a driver of branding or the big move towards its implementation as strategic business model within the logic of Corporate Shared Value is being taken and to what extent, by banking corporates in Italy and the UK and ultimately point out differences and similarities between the two contexts.

The paper is structured to firstly underline the original characterisations of CSR and its link with branding to then re-think all the typical CSR activities within the logic of Corporate Shared Value; the

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authors will design a new framework for CSR as strategic model pointing out the changing role played by branding. The theories coming out from the theoretical part of the paper will be used as framework to conduct the empirical analysis over banking corporates in Italy and the UK and then discuss the findings.

The usefulness of the empirical evidence is to function as benchmark for those companies, which are still at an early stage of CSV implementation and, to strengthen the debate over the effectiveness of CSR as strategic business model and the various implications for branding.

THE RELATION BETWEEN BRANDING AND CSR: THE TRADITIONAL PARADIGMS TOWARDS INNOVATIVE MODELS

Companies' tendency to constantly rethink and replan their brand strategies is the output of several factors such as: evolutionary changes in economic, technological and social complex environment, growing mistrust and loyalty crises by customers, issues in creating a long-term good reputation, growing needs emerging from stakeholders that force the brand to meet more ethics and sustainable requirements and growth in the number of branded products. Accordingly, it is increasingly difficult to differentiate products through tangible items and it is consequently harder to communicate this differentiation.

In this scenario, the brand and the intangible values associated with it become the most effective way of differentiating (Aaker, 2009; 2010; Balmer, 2008; Tischler, 2004). Therefore CSR, by definition, has represented, during the past decades, a constant leveraging set of values that brands could use to enhance the perception and quality of companies' image, by adding value to products and services.

Traditionally, CSR imposes itself as a corporate mind-set including three main dimensions (Civera and Musso, 2012): *accountability*, referring to the way companies give evidence of their behaviour towards CSR through reports and codes of practices; *corporate philanthropy*, identified as the sum of activities carried out in order to respond to various community needs by supporting projects of social interest; and, *sustainability*, which is related to the inclusion of environmental, social and ethical concerns in process, goods/products and services.

In this traditional shape, CSR appears to be a strong driver for brand strategies and actions, in each of the dimension reported above.

Communicating responsible behaviours or the inclusion of social and environmental concerns in business has always seemed to be enough to provide a clear, unified and focused brand identity and, increase its perception among stakeholders (Allen, Root, 2004; Aaker, 2009; Wheeler, 2009).

In the past decade and mostly after the global severe economic and financial crisis hitting companies globally the previous statement needs to be revised. With the increasing information at

 ISBN: 978-9963-711-37-6

consumers' and, in general, stakeholders' disposal and the failure many brands have faced due to the gap and dystonia between promises and achieved performances (de Ven, 2008), companies' reputation is no longer based only on "good" brands communicating good behaviours; instead brands are asked to reflect concrete CSR actions and be strategic mouthpieces (Hur *et al,* 2014).

Acting strategically means that transparency and coherency become undisputable for brands in order to be able to impose a dialogue simultaneously with extended audiences (Kliatchko, 2008; Romoli Venturi *et al.,* 2014) with multidirectional connotations and reflect concrete CSR performances with the double purpose of improving society and strengthening corporates' image and reputation (Porter, 2011). Customers are positively influenced by companies that do not need to prove their CSR through branding anymore: at the opposite, they expect brands to prove concrete and valuable CSR actions and show homogenization between actions and communication, and specifically between promises and performances.

At this stage, CSR needs to turn to a strategic business model where programmes undertaken must be coordinated and coherent with corporates' core business and purposes and achievements communicated to a multiple target with transparency. CSV is the framework where CSR strategies become profitable and can buster corporates' competitive advantages by moving beyond business and social concerns trade-off to strive for community well-being and economic and image returns for the company at the same time (Porter and Kramer, 2011).

THE STRATEGIC MODEL FOR CSR: THE CREATION AND COMMUNICATION OF SHARED VALUE

Considering that CSR needs to evolve towards a strategic business model, it must become more than just a driver for corporates' brands to improve perceptions, in order to concretely build a good corporate reputation, which reflects consistency between actions and communication through brands (Hur *et al,* 2014). Perception is created by communication and solid brands; reputation comes out of actions and alignment of those with brands values. Therefore, the imperative for companies is to create and share value rather than just communicating it.

Under the innovative approach of Corporate Shared Value, corporates are asked to set up concrete strategies for ethics, environment, sustainability and philanthropy and place them in accordance to their core competitive advantages. Given that "the more a social improvement relates to a company's business, the more it leads to economic benefits as well" (Porter and Kramer, 2002), the breakthrough within the logic of CSV stays in the coherency through which companies place their responsible strategies within their core business and in the transparency when communicating them. The more the created value is consistent to corporates' business the easier to share it.

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In essence, Corporate Shared Value represents a change of mentality involving core processes/goods, services and communication. CSV takes shape from CSR but imposes its strategies in the form of a new business model. In particular, the CSR dimensions previously described evolve towards a strategic framework, as shown below:

Corporate Social Responsibility	as	Corporate Shared Value	as
From		To	
Accountability	Differentiation element to state companies' social compliances and involvement	Strategic Accountability	Compulsory activity to respond to the on-going challenges within society
Corporate Philanthropy	Cash donations, In-kind donations, Partnerships, Employees' volunteering and Cause Related Marketing to support single/one shot good causes and/or admired Third Sector Organizations	Strategic Philanthropy	Set of activities (Cash donations, In-kind donations, Partnerships, Employees' volunteering and Cause Related Marketing) to support social and good causes in areas of competitive advantage for the company and coherent to its mission and core business
Sustainability	Inclusion of environmental, societal and ethical concerns in process, goods/products and services	Sustainable Deliverables	Concrete development of sustainable processes, goods/products and services that meet social needs while achieving economic return

Table 1. *CSR-CSV Strategic Framework*

The strategic model of CSV imposes changes also to the shape of a brand strategy: from using CSR as driver to improve corporate image and merely transmitting corporate values, citizenship and sustainability or the compliance to national and international standards (Moore, 2014), in this new scenario brands are addressed to prove and witness concrete achievements within strategic accountability, strategic philanthropy and sustainable deliverables and spread them with double purposes: community and profit.

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Concrete examples from banks are, for instance, to be found in the design of social responsible funds, created with ad-hoc brands, which are recognized to meet social and environmental needs while simultaneously delivering a financial return.

Also philanthropy, in its strategic conceptualization, gives evidence of the extent to which companies manage to make branding and philanthropic activities homogeneous and competitive. Cause Related Marketing (CRM) activities, for instance, should be no longer addressed to the merely corporate image enhancement with brands partnerships built randomly; they need, instead, to link strategically to the company's core business and the effectiveness of brands connections, to achieve value creation both for the community and the company in a long-term perspective (Porter and Kramer, 2002).

If implemented as strategic business model with brands sharing concrete and strategic CSR actions and giving evidence to the value creation, CSR will benefit its main target made of stakeholders, society and community. Like in a virtuous circle, the audience will create positive brand associations between promised CSR purposes and achieved performances and that will have repercussions on financial results of the company (Werther, Chandler, 2005) by increasing brand equity, awareness and corporate reputation ultimately and so fulfil the goals of CSV (Porter, 2011). Profit and reputation can be improved not just through the brand and its values sharing, but mostly when the whole community perceives that the organization is really and strategically involved in Social Responsible matters (Pellicelli and Casalegno, 2014).

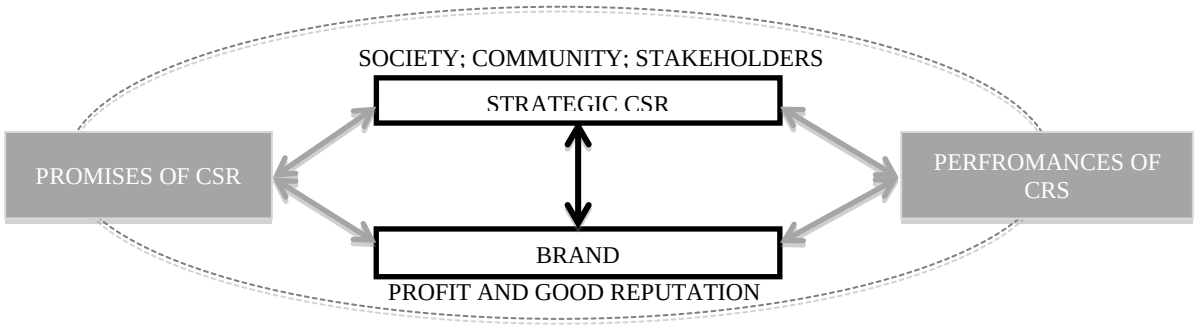

Figure 1.*Strategic Virtuous Circle*

Italy and the UK: common tendencies undertaken in different ways

Given the fact that the shape of CSR strategies hugely vary from country to country (Brammer and Pavelin, 2006), the choice of Italy and the UK has been driven by considering their intrinsic peculiarities and configuration of CSR as strategy to achieve economic and reputational benefits (Brammer and Millington, 2005) as well as societal (Porter, 2011). Italy and the United Kingdom present many similarities in their geographical contexts and economy – as far as population and gross and Gross Domestic Product are concerned (United Nation Data, 2012) – and, at the same time, quite

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remarkable differences in their cultural environments, where beliefs, personal attitudes and preferences of individuals are formed.

Therefore, the social conditions, institutional and historical settings (CGAP, 2011) and the culture particularly greatly differ between Italy and the UK, affecting the corporates' attitudes towards the implementation of CSR as strategic business model and attitude the communication of it.

As evidence shows, United Kingdom, for instance, has always revealed a stronger attitude towards charity both from private donors and corporates with consequent more formal and strategic partnerships between Third Sector and corporate world. Reasons why can be interpreted by the historical context favouring the role of business philanthropy as part of "social welfare provision in response to social, economic and political needs" (CGAP, 2011) in order to maintain the social and economic wealth of the UK (CGAP, 2011). In such a context, corporates have become active part in the process of creating societal changes through more responsible and sustainable practices.

At the opposite, in Italy, the growth and the weight of charitable and responsible activities have always been responding more to the influence of religion than societal and strategic achievements (Assifero, 2010).

What looks similar is the general attitude to investing in CSR policies, which appears to be positive and increasing in both of the countries as well as the communication of it. In particular, 73% of Italian companies with more than 80 employees state to adopt CSR programmes within the company (RGA, 2012). The number of companies involved in these kinds of activities has hugely increased from 2011 despite the effects of the financial crisis.

As far as the communication of CSR activities is concerned, researches (KPMG, 2013) clearly show that large companies in Italy, Spain and UK lead the world for the quality of their CR Reports.

Despite the common tendency to implement CSR programmes and communicate this strong involvement formally, the extent to which CSR is being undertaken as strategic tool, at a first glance, still differ between the countries at issue.

Firstly, the UK appears to be more involved financially in philanthropic and responsible activities ("UK Company Giving", 2011/2012), while in Italy the average amount of CSR investments per company decreases notably (Osservatorio Socialis, 2014).

Secondly, the "Report on Sustainability and Competitiveness" carried out by RGA in 2012 shows that in Italy corporates still find hard to integrate responsibility and sustainability into their business model and initiatives of CSR and corporate philanthropy are declared to be still more oriented to the idea of strengthening brand image and corporate reputation, impacting on business by attracting new customers and improving employees' satisfaction (Osservatorio Socialis, 2014). Data available for the year 2009 (RGA) compare Italy to 31 countries (including UK) evaluated for their responsible

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competitiveness and it is unsurprising that Italy is placed 26th in the ranking, while UK places itself at the 13th position.

Eventually, Italian companies still suffer of a lack of formalization in their CSR management, which makes more difficult to implement a strategic vision and model for CSR (Altis and ISVI, 2006; Istituto Italiano Donazione, 2012), with CSR projects still dependent on the Marketing and Communication Departments.

RESEARCH METHODOLOGY AND SAMPLE DESIGN

The present study is part of a wider two years research over the connection between branding and CSR and its strategic implication that the authors have been conducting within companies operating in several industrial sectors comparing the situation in Italy and the UK.

The object of the present study is to compare the matter of facts in two geographical areas, investigate a specific industrial sector, which presents its own contextual conditions relevant to the study and, point out how a particular behaviour from organizations is adopted. That is why the approach chosen to conduct the investigation is the case study methodology (Bryaman, 2004; Feagin *et al.*, 1991; Yin, 2003)

The purpose of the investigation through the case study methodology has aimed to be objective in both collecting information and showing results which are exploratory and not influenced by individuals' opinions over the topic, whether they are customers or corporates' management and/or employees. That is why it has been chosen to base it, voluntarily, on the set of activities that companies within the sample currently implement and communicate to their audience. As a consequence, any information, documents and records over CSR implementation and communication have been extracted from websites related to the company under investigation, companies' web sites and annual reports (Sustainability Reports, Social Reports, Code of Ethics, International Norms and Standards, creation of ad-hoc ethical products and services, type and amount of cash and in-kind donations to Third Sector Organizations, description of initiatives of social relevance, partnership and sponsorship in the field of CSR). The information have been collected at a single point in time in 2015 and gathered around the three dimensions of the CSR-CSV Strategic Framework and the relation between brand communication and CSR, specifically:

- Strategic Sustainability: including also the level of CSR strategy formalization concerning its governance and mechanisms of decision and control within the company;

- Strategic Philanthropy: including also the typology of adopted techniques in the field of Philanthropy and the intent they are communicated to serve (branding purposes for instance);

- Sustainable Deliverables

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- Relation between brand communication and CSR

The choice of investigation has been oriented to the banking sector since those corporates are the most involved and top spenders in CSR and mostly Philanthropy (Osservatorio Socialis, 2010; Istituto Italiano Donazione, 2010; UK Company Giving, 2011/2012; CEPC, 2010). Moreover, they are showing greater interest toward the subject at issue, as it is delicate and of primary interest for them to rebuild, increase and maintain a strong relationship with their customers: banking sector has felt the need to develop a one-to-one relationship with their investors and customers, by strengthening their local presence on the territory, activities toward the community well being and the communication of them, in order to add value to their service proposition and face the big challenge deriving from customers and investors' mistrust.

A total of six (6) companies (three in the UK and three from Italy) have been investigated empirically by producing a case study per each company based on the framework reported above.

Some precise criteria have been used to choose the companies within the sample and have varied depending on the geographical context the company belongs to.

UK Banking sector. Two criteria have been applied: the identification of the largest banks in the UK and – among those –the most involved in CSR. As a result, according to the rankings of the largest European banks and the top spenders in CSR (Relbanks, 2012; Guide to UK Company Giving, 2011), the sample is composed by: Royal Bank of Scotland, Lloyds TSB Group and Barclays PLC.

Italian Banking sector. Due to the lack of formal aggregated data analysing the amount of investments in CSR, only one criterion has been used to identify the three banks for the analysis at issue: the identification of the largest in the country (Relbanks, 2012). The top three (3) banks in Italy part of the sample are: UniCredit SpA, Intesa SanPaolo, and Banca Monte dei Paschi di Siena.

RESULTS ANALYSIS AND DISCUSSION

The findings are drawn and based on the case studies developed for each company part of the sample, whose objective was to collect relevant information about banking corporates' in order to investigate the extent to which their actions and behaviours around strategic sustainability, strategic philanthropy, sustainable deliverables and relation between brand communication and CSR meet the criteria of Corporate Shared Value as new business model to accomplish. Results are shown in the table below.

Investigated areas	Italy	United Kingdom
- Strategic Accountability		
Compulsory accountability for CSR	B1 B2 B3	B1 B2 B3

ISBN: 978-9963-711-37-6

CSR Governance formalization (mechanisms of control and decision, including brand governance)	B1 B2 B3	B1 B2 B3
- Strategic Philanthropy		
Philanthropy for competitiveness – Accountability and Financial Reports	B1 B2 B3	B1 B2 B3
Employees volunteering	B1 B2 B3	B1 B2 B3
Cause Related Marketing	B1 B2 B3	B1 B2 B3
- Sustainable Deliverables		
Development of branded services and processes	B1 B2 B3	B1 B2 B3
- Communication and CSR		
CSR for Commercial purposes - transparency	B1 B2 B3	B1 B2 B3

Table 2. *Summary of the Findings*

Despite the high common propensity to include CSR in their business concerns, differences emerge in the level of formalization and methods to implement CSR for achieving brand enhancement and fostering the community well being at the same time; in other words to implement the so called Corporate Shared Value (CSV). As explained above, the findings have been articulated around 4 issues of investigation part of the CSR-CSV Strategic Framework.

Strategic Accountability. Given the many corporates' scandals happening in the banking sector and the consequent reduced confidence from customers both in Italy and the UK, corporates part of the sample are showing more awareness towards their role in influencing and impacting customers' perceptions and access to services and are including ethics, sustainable, responsible and philanthropic goals in their mission, vision, strategic values and strategic plans part of their core business. CSR is perceived as an effective response to the on-going challenges resulting from the financial crisis. Accordingly, when analysing the Strategic Plan, Business Plan and any other formal communication message defining companies' *way of doing business* CSR values and strategy appear to be at the heart of corporates' decisions as core value compulsory to drive all the activities each company aims to implement with a local and global impact. Also the governance of CSR confirms what stated: all the players provide a high level of formalization with Corporate Social Responsibility Units or Committee becoming pure business departments/functions working closely with the Board of Directors and/or the Chairman directly. In UK, Units and Committees manage to handle strategic and operational duties even concerning the Brand governance, which is supposed to reflect and balance the economic

 ISBN: 978-9963-711-37-6

and social impact of responsible and sustainable strategies when reporting and communicating a certain programme for CSR.

Strategic Philanthropy. Creating a network of not for profit organizations and business realities similar or strategically complementary to the banking corporates seems to be the main driver to orientate the philanthropic choices of the sample in order to strengthen their voice and their brand in the society. Although, the execution of philanthropy as such appears to be more structured and standardized in the UK banks than the Italian ones: despite all the players formulate and communicate clear plans describing the nature and mechanisms of their community investments and partnerships development, in the UK philanthropic initiatives present a longer gestation and life cycle where economic and financial efforts and achievements are clearly stated in order to generate stronger relationships with partners, sponsors and clients as ultimate goal. All the UK companies within the sample have embraced the technique of employees volunteering for good causes for instance, proving the necessity for philanthropy to become a tangible strategy recognized and embedded at all levels and units in the company. UK players seem to have understood better than Italian ones that managing Philanthropy and its communication is much more than merely donating or choosing a good cause to associate the brand to; it is setting up a shared strategy that has to be effective in its establishment and communication, match with CSR goals and be coherent with the companies' brand strategy and values.

It is no surprise, accordingly, that despite all the banking corporates within the sample adopt Cause Related Marketing (CRM), the strategic implication of it greatly differ between the countries: Italian banking corporates' CRM projects appear to be not strategically connected with their core business yet and the logic behind their achievement seems to be more addressed to merely increase the perception of corporates' brands in a marketing-oriented process rather than having long-term impacts on both brand and community with positive repercussions on competitiveness, ultimately.

Sustainable Deliverables. All the companies part of the sample concretely develop processes, goods/products and services that meet environmental, sustainable and responsible requirements and create ad-hoc brands with the purpose of communicating those efforts. No differences emerge between the investigated countries, confirming a general will to move from the merely communication of sustainability and responsibility as principles to follow when doing business to the fulfilment of a strategic business model conducive to implement new processes and create and sell deliverables with sustainable and responsible characteristics: from the development of social responsible funds, investments in green and renewable energy projects to the activation of processes for suppliers' responsible selection and the creation of training programmes for human resources over sustainability and CSR.

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Relation between communication and CSR. The strategy for brand communication reflects the extent to which the investigated corporates are setting up their business model for CSR. Brand communication is adapting to the new business model for CSR, appearing to be more transparent and results-oriented. Clearly, all the players still have the tendency to use CSR as powerful lever for enhancing their brand perceptions but one of the changing element in the argumentation of CSV is that the brand admits the real purposes of companies' actions: which kind of responsible, sustainable and philanthropic activities are undertaken, for instance, with the aim of empowering corporates' brand awareness and perception as forms of advertising in the interest of the company first and then benefiting the society. Only UK corporates seem to have embraced this strategy: the majority of the players clearly state and communicate to their stakeholders which CSR activity is carried out primarily with a commercial intent and the purpose to strengthen their brands competitiveness.

CONCLUSIONS AND FURTHER RESEARCH

To conclude, evidence demonstrates that both in Italy and the UK, the banking sector is considering CSR differently than in the past (especially before the crisis) by undertaking its policies and programmes with the intent of driving the whole company towards the execution of a standardized strategy that combine business and non-business oriented actions that need to be effectively disseminated both inside and outside the company through the brand.

The role that banks play within their community - which must involve trust greater than other industrial sectors, no matter the country - pushes them to include the communication of their CSR initiatives in the dialogue with their investors, customers and employees. Being brands effectively defined by customers and their experiences (Uwins, 2014), it is a understatement to say that companies need to deliver valuable concepts rather than just products or services, intangible and tangible benefits from their activities and operations and, most of all, they must state the truth, with coherency and transparency.

What looks quite different from the traditional merely inclusion of CSR in corporates' activities is that nowadays CSR is not a driver of the brand anymore but these issues need to be embedded in the whole communication and brand strategy of the company, as they need to become companies' core competences and skills.

According to the logic of Corporate Shared Value, communicating values and value is very different than sharing them: in order to be effectively shared, values and value need to reflect the concrete effort of the company in CSR aspects; sharing is a result-oriented activity which becomes a company-wide endeavour giving customers reasons to believe that the responsibility stated by the brand is true and concrete.

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Throughout the paper we have underlined how these practices are starting being implemented in the banking sector, with a more formal CSR and branding business model in the UK based banks. Accordingly, the study is useful to function as a benchmarking for the Italian banking corporates and to develop a further discussion among the players of the sector in both countries about the CSV strategies for achieving commercial, financial, communication and social goals.

Eventually, being the customer the ultimate purpose of corporates, further developments of the research will be built over the investigation of the communication of CSR from the side of customers' analysing their perceptions. In particular, the phenomenon of over-communication will be considered and the authors' intention is to keep focusing on the comparative analysis between Italy and the UK in the banking sector. A spectrum of communication will be set up by empirically testing consumers' reactions to the communication of ethics: to what extent the pressure over the ethical content of a message is, in fact, starting to raise doubts about the brand reliability and veracity?

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ISBN: 978-9963-711-37-6

THE ADOPTION OF HEALTH LEAN MANAGEMENT PURSUING CHOOSING WISELY OBJECTIVES

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ABSTRACT

A new approach for facing the resources overuse in hospital was introduced in very recent years. It is labelled "Choosing wisely" (CW), referring to the need of choosing the most appropriate care based on patient needs and on a responsible use of hospital resources. Working in team, several organizations have participated in drafting lists of treatments to be avoided favoring others. However, ethical issues have been raised and the lack of a rigorous method in the generation and further implementation of the top lists have questioned the applicability of this approach. In literature, no particular emphasis has been attributed to the right approach supporting the definition and the selection of the appropriate care process, eliminating the unnecessary activities and the improper use of scant resources. In industrial sector, Lean management has permitted to streamline and standardize processes achieving interesting results mostly in terms of efficiency improvements. In healthcare, this managerial approach (Health Lean Management - HLM) is spreading over the world. Focusing on customer needs and on waste elimination, HLM could support the adoption of CW approach. Through a systematic literature review, this research investigates whether and how HLM could be implemented pursuing CW objectives. The extracted database demonstrates the originality of the topic, but also its enforceability. Results highlight the potentialities of HLM pursuing appropriateness in healthcare paving the way for outlining interesting future developments.

Keywords*: choosing wisely, care appropriateness, health lean management, process management, quality management*

INTRODUCTION

Choosing Wisely is an initiative of the ABIM Foundation, to encourage conversations between providers and patients about overuse of tests, treatments and procedures in order to make smart and effective care choices. This means choosing care that is: supported by evidence, not duplicative of other tests or procedures already received, free from harm, truly necessary, delivering the right care at the right time (www.choosingwisely.org; ABIM, 2013). When tests and procedures are repeated

 ISBN: 978-9963-711-37-6

unnecessarily, patients can be exposed to risks of harms; this is why Grady and Redberg (2010) emphasized that "Less is More": overuse of medical care may result in harm, and less care is likely to result in better health. Moreover, both from an ethical and pragmatic point of view, since the resources are finite, elimination of wasteful and non-beneficial interventions is mandatory (Brody, 2010). For this reason, physicians have to appropriately allocate scarce resources and scrupulously avoid superfluous tests and procedures (Cassel and Guest, 2012). They have to be engaged in improving quality and access to care, in fostering a just and cost-effective distribution of resources, and in maintaining patient trust and confidence by managing conflicts of interest (ABIM, 2002). In particular, ABIM (2002) prompts professionals feel responsible for resources right and proper utilization, to avoid therapies overutilization on patients. One of the CW aims is the creation of the Top 5 Lists: a set of the main procedures, treatments and therapies most commonly practiced and expensive, which, based on evidence-based recommendations, do not produce substantial benefits for the major categories of patients for whom they are commonly prescribed (Cassel and Guest, 2012). Such method grounds on the theory proposed by Brody (2010), according to whom the formulation of a list of the main clinical waste sources permits to improve patients safety, focusing on therapies utility rather than on a direct cost containment. In addition to the positive effect on the service quality, an analysis of the three lists proposed by the National Physicians Alliance (NPA, 2011) estimated potential savings of $5 billions if the items identified were removed.

Pursuing the objectives of CW, several organizations have worked on lists of "Things Providers and Patients Should Question" with evidence-based recommendations, in order to make wise decisions and provide the most appropriate care, according to the individual patient needs (www.choosingwisely.org). Up to March 2014, 52 medical organizations have joined the Choosing Wisely program, contributing to recommend around 290 tests and treatments potentially avoidable. Despite the CW impact on decreasing the healthcare wastes, ethical and economical issues are relevant: although expensive and not really beneficial tests might be commonly defined as "waste", it is complicated to make distinctions between high and low-value care, especially for those situations in which a therapy is more or less effective depending on the individual clinical case (Blumenthal-Barby, 2013). Moreover, the process of lists definition is not transparent and in some cases it is wanted (Dey et al., 2013): even if the listed therapies are evidence based, the selection of such treatments is mostly subjective and could overlook real patient needs because of other stakeholders' interests (Brody, 2010). Furthermore, physicians argue the difficulty to convert Top 5 Lists recommendations into practice, due to patient preferences and lacking of global consensus with other specialties cooperating in the process of care (Onuoha et al., 2014). The formulation of evidence-informed lists is a promising starting point for a direct action on clinical wastes, but in order to anticipate the reduction in no benefit added

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activities, it is necessary to develop tools that identify low-value therapies at the point of care (Elshaug et al., 2013). No particular emphasis is attributed in literature to the approach to be adopted for the definition and the selection of the right care process eliminating the unnecessary activities and the inappropriate use of scant resources. Such focus on value is rooted in Lean Thinking philosophy, whose principles, tools and practices have been successfully implemented for improving the organization of several hospitals (De Souza, 2009); it is usually applied as "best-practice" for improvement programs (Joosten et al., 2009). Despite the lacking of an univocal definition for "Health Lean Management" (HLM) in literature (Crema and Verbano, 2013; Dahlgaard et al., 2011; Joosten et al., 2009), scholars agree that its principles are based on process continuous improvement removing the "No Value Added" (NVA) activities, defined as "wastes" (Ohno, 1988), and adopting a patient-centered point of view.

Based on these considerations, filling the gap arisen from the literature and supporting the healthcare managers in finding a scientific method for CW, HLM could be selected as a systematic methodology for overutilization and other wastes detection supporting the emerging CW approach.

For this reason, the aim of this paper is to look into potential links between CW and HLM, in particular investigating how HLM can support CW. After describing the research design, the results will be presented and discussed. At the end of the paper, future research developments will be provided.

RESEARCH DESIGN

Based on the remarks in the previous section, the aim is to investigate the purpose of HLM adoption and the specific tools and practices exploited to pursue CW objectives. This general aim has been split into the following research questions:

- Can HLM be adopted to pursue CW objectives?
- If yes, how does HLM contribute to the achievement of CW objectives?

In response to the purpose of this paper, a systematic literature review has been accomplished based on the guidelines proposed by Kitchenham (2009). This methodology allows identifying, assessing and summarizing high quality data, gathered from primary research sources pertinent to the study under consideration.

Databases and keywords

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In order to seek relevant articles concerning the above-mentioned questions, a search has been performed into five scientific databases: PubMed, Business Resource Premier (EBSCO), MEDLINE, SCOPUS, Web of Science (WoS).

Keywords adopted for the analysis derive from HLM ("lean management", "lean thinking", "lean methodology", "lean production") and CW ("evidence-based medicine", "low-value care", "low-value service", "clinical management", "unnecessary testing", "unnecessary imaging", "overtreatment", "diagnostic tests", "appropriate therapy", "clinical cost-benefit", "choosing wisely") and have been selected because of their relevance with the research purpose. The investigation has been executed combining the two keywords lists with the Boolean operator "AND", in order to look into connections among HLM purposes and CW specific issues. After this searching process, 659 potentially valuable papers have been found out. As it is possible to note, due to the novelty of the topic, some generic keywords have been adopted in order to not exclude pertinent researches that are not still linked with a specific keywords. For this reason, many irrelevant works were firstly included and subsequently filtered.

Selection process

The process of papers selection is reported in Figure 1. All the articles not related with healthcare topics were excluded (such as analysis related to manufacturing industry). Afterwards, not peer-reviewed articles (e.g. books, chapters, proceedings) were discarded, except for scientific journals prefaces, viewpoints and leading articles in which gaps and/or future developments pertinent with this investigation were highlighted. From the experience based on previous researches, the word "lean", searched in healthcare topics, is also associated with studies regarding malnutrition concerns, which are not related with the aim of the paper: for this reason, articles filtered with "mass", "body", "diet", "obesity", "nutrition" keywords were removed. Further papers were eliminated after abstracts readings. In particular, articles focused on Choosing Wisely field with no clear HLM reference were omitted (e.g. publications centered on clinical workflow without taking the managerial issues into account) as well as studies about HLM aimed at general businesses (e.g. administrative problems, patients satisfactions). In addition, documents about social and ethical analysis of CW approach were rejected, as well as those including HLM studies concerning internal cultural changes. Moreover, all the articles related to healthcare efficiency and wastes elimination, in which clinical matters were not taken into account, have been considered inadequate (e.g. spaces reductions, minimization of pharmaceutical stocks). In conclusion, papers with no analysis for the elimination of NVA services were cut, together with studies not concerning treatments overutilization.

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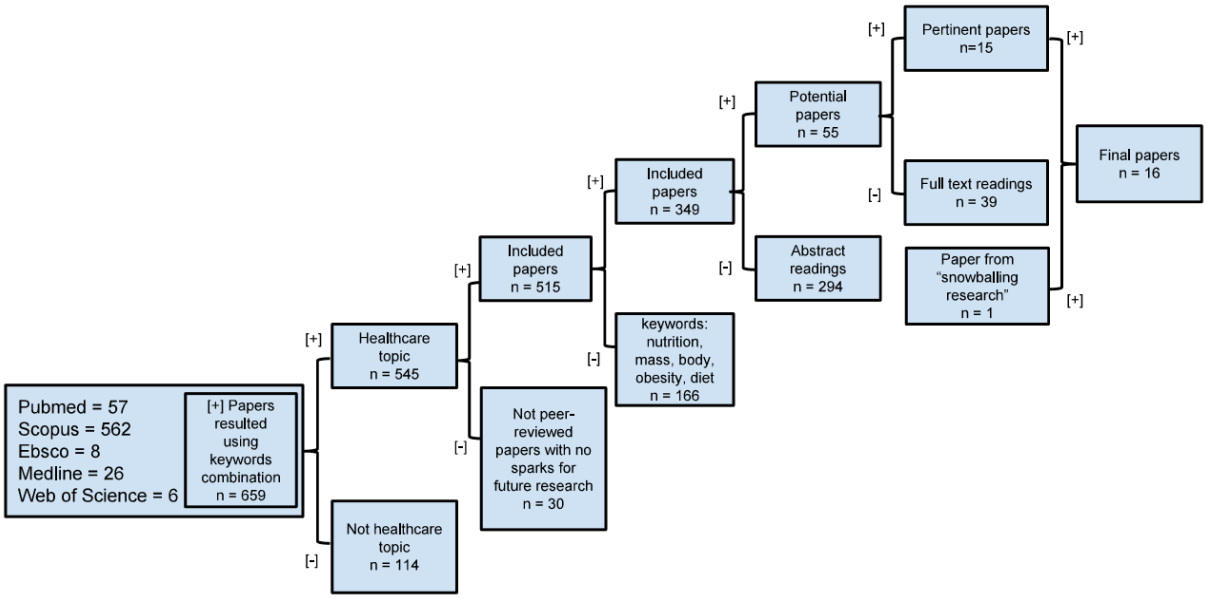

Figure 1. *Summary of the selection process*

Afterwards, 30 duplicated records were identified and therefore removed. After full text reading, additional articles were discarded because of incongruity with research questions.

Analyzing and comparing the contents of the papers, the work of Nicolay et al. (2012) was excluded as in their literature review there was only one cited paper considering the relations between HLM and CW, and it was already inserted in the database. In order to assure high quality of the papers selected also a short letter to the editor was excluded. The work of Schweikhart and Dembe (2009) was not included in the analyzed database, as it is not aligned with the CW definition. In this paper, there is a search for effectiveness, but it is not linked to the concept of appropriateness. Moreover, in order to guarantee an international impact of the selected researches, the paper not written in English language was excluded (Varela, 2013). Finally, in Van Citters et al. (2014) the references to HLM were scarce and not sufficiently defined to be used in the following analysis of this paper. At the end of this process, 16 papers were deeply examined. Finally, one extra study, extracted from papers references, was included thanks to the "snowballing" technique (Greenhalgh and Peacock, 2005), since pertinent to the objective under consideration.

Analysis of the selected papers

After a descriptive analysis of the obtained database, each paper has been studied considering its objectives, methods and results.

The analysis of the papers was carried out considering firstly the definition of CW. As emphasized in the introduction of this paper, one of the first CW aim is the reduction of overuse and the guarantee of

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the appropriate care to the patient. Coherently, papers have been categories into different CW objectives and into diverse HLM purposes adopted to solve CW issues. Furthermore, CW and HLM tools and practices were identified.

RESULTS AND DISCUSSION

Description of the obtained database

In order to describe the database, the following characteristics were considered: authors and year of publication, journal, field of application, country of analysis and research category. In Table 2, the final database is reported.

Authors / (Year)	Journal	Field of application	Country[a]	Research Category	Web of Science/ SCOPUS (2013)[b]
Bentley et al. (2008)	Milbank Quarterly	General[c]	USA	Conceptual	5.391/3.48
Biffl et al. (2011)	Joint Commission Journal on Quality and Patient Safety	Hospital[d]	USA	Case Study	-/1.5
Burkitt et al. (2009)	American Journal of Managed Care	Surgery	USA	Case Study	2.166 /1.43
Chassin (2013)	Health Affairs	General	USA	View Point	4.321/4.64
Dundas et al. (2011)	Journal of Molecular Diagnostics	Laboratory	USA	Case Study	3.955/1.97
Knowles and Barnes (2013)	Journal of Clinical Pathology	Laboratory	UK	View Point	2.551/1.17
Lim et al. (2010)	Annals Academy of Medicine Singapore	Laboratory	SG	Case Study	1.221 /0.44
Martens et al. (2014)	Plos One	Hospital	NED	Case study	3.534 /1.72
Montesarchio et al. (2012)	Journal of translational medicine	Oncology	ITA	View Point	3.991 /1.77
Ng (2013)	Clinica Chimica Acta	Laboratory	USA	Conceptual	2.764 /1.04
Pronovost et al. (2013)	Joint Commission Journal on Quality and Patient Safety	Hospital	USA	Case Study	-/1.5
Riley et al. (2012)	Transfusion	Transfusion	USA	Case Study	3.568/1.95
Shortell et al. (2007)	Journal of American Medical Association	General	USA	View Point	30.387/6.28
Rajan et al. (2012)	The Oncologist	Oncology	NED	Literature review	4.540/2.43
Vegting et al. (2012)	European Journal of Internal Medicine	Internal Medicine	NED	Case Study	2.300 /0.84
Venkatesh and Schuur (2013)	American Journal of Emergency Medicine	Emergency Medicine	USA	Conceptual	1.152 /0.59

[a]Country of analysis concerns the work country of the first author. [b]Impact factor/ Scimago Journal Rank indicator (SJR)

[c]Articles not focused on a specific healthcare specialty have been labelled as "general". [d]In "hospital", papers that adopted HLM approach for one or more hospital units were included.

Table 1. *Final database obtained at the end of the selection process*

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Although the selected papers are not so numerous, all the journals where they have been published are indexed in Scopus or in Web of Science and they score high values for impact factor. The database reports different authors for each paper, thus it is not possible to identify experts regarding the theme under consideration.

The analysis concerning the year of paper publication is far more important. Around 63% of the results derive from studies after 2011. Topic novelty is confirmed by the upward trend and the lack of articles prior to 2007. Journals heterogeneity does not suggest indications regarding leading research field: this data underlines a general need of clinical healthcare improvements and the adaptability of HLM to different contexts. The most studied wards are laboratories (4 papers) and in some cases literature reports the distinctive term "Lean Laboratory" (Dundas et al., 2011; Knowles and Barnes, 2013). Oncology is another field of application (2 cases) besides transfusion, emergency and internal medicine.

As regards journals, the high differentiation does not allow deeper investigations. Vice-versa, the distinction among the countries of the papers reveals that more than half of the studies were conducted in USA (63%), followed by Netherlands (19%), which together almost compose the entirely database (82% ca.).

CW motivations and objectives

The main motivations of the analysed researches concern the increase of general healthcare, specific ward and process costs, as well as their variability attributable to clinical cases heterogeneity (e.g. Vegting et al., 2012; Rajan et al., 2012; Knowles and Barnes, 2013; Biffl et al., 2011; Dundas et al., 2011), and sector resources wastes (Bentley et al., 2008; Montesarchio et al., 2012). From the clinical perspective, inadequate tests or treatments utilization (Chassin, 2013; Ng, 2013; Venkatesh and Schuur, 2013) and insufficient evidence-based therapies and practices adoption (Shortell et al., 2007) are other triggers that induce to consider CW and HLM. Several authors have highlighted the need to decrease diagnostic tests utilization (Vegting et al., 2012) and follow-ups, assessing their real benefits (Lim et al., 2010). Also different treatment dose strategies affect ward expenditure and it requires further in-depth analysis (Riley et al., 2012). Furthermore, patient safety has a central role among these studies: in various papers the necessity to intervene on such concern is outlined, and it is reported as a request to reduce wards infections (Burkitt et al., 2009), harms for patients due to therapies not based on evidence (Pronovost et al., 2013) and preventable deaths (Biffl et al., 2011).

Only in one paper (Montesarchio et al., 2012), the authors underline ethical issues of a "fair" healthcare resources utilization, both from the economic and clinical point of view.

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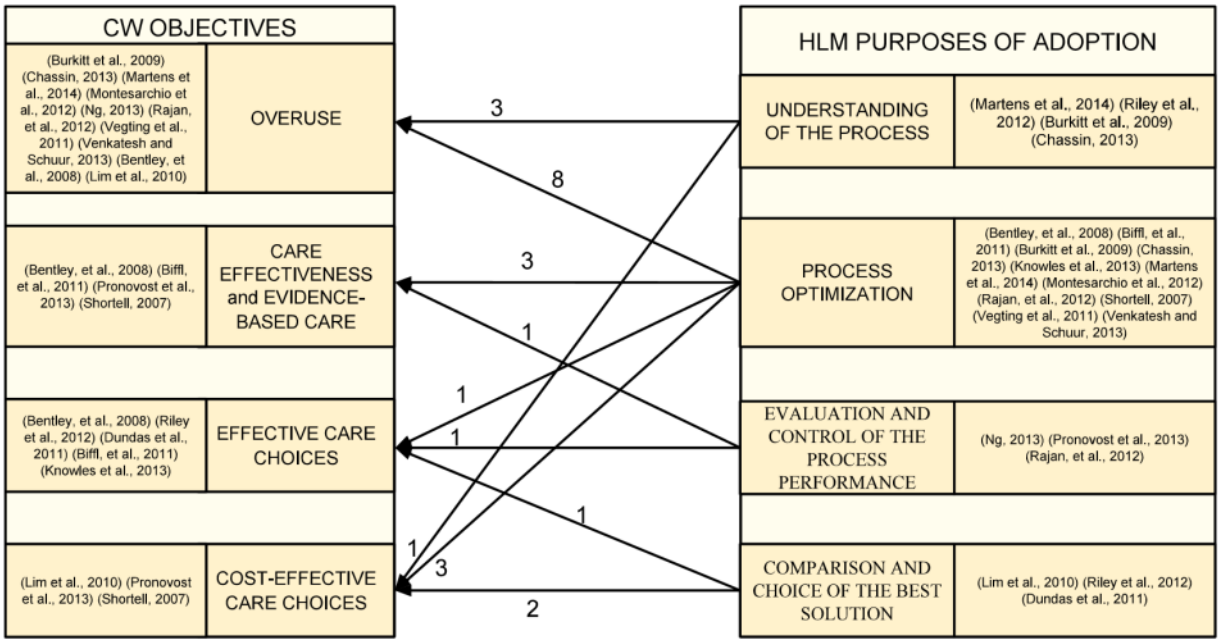
The CW objectives (categorized in Figure 2) confirm the alignment between CW and the need to assure care appropriateness. The last objective has been defined as "the outcome of a process of decision-making that maximizes net individual health gains within society's available resources" (Buetow et al., 1997, p.268). Also according to Lavis and Anderson (1996), this concept is associated with the effectiveness of a service for a particular type of patient; thus, appropriateness will be achieved when symptoms, physical findings and results of diagnostic tests will indicate that patient will have benefited from the service. On the other hand, an inappropriate service has the potential to harm the patient that in this case will need remedial actions (Buetow et al., 1997; Lavis and Anderson, 1996). Therefore, the interventions that benefit patients have to be chosen. Appropriateness occurs when expected health benefit exceeds the expected negative consequences by a sufficiently wide margin; that means the procedure is worth doing (Hemingway et al., 1999). For that reason, appropriateness regards first of all effectiveness, even if the assessment of this dimension is not straightforward and requires carrying out complex steps that are aligned with principles of evidence-based health care (WHO, 2000). Besides recognizing ethical principles and priority setting among the dimensions of appropriateness, WHO (2000) identified another variable: efficiency, measured as effectiveness per unit of cost. The importance that should be attributed to this dimension of appropriateness comparing to the others is controversial and it is linked with the fact that not all effective cares can be provided due to scant resources. In the examples reported by WHO (2000), appropriate care is identified where there is evidence that it is effective and cost-effective.



The numbers over the arrows show how many papers were found in each connection

Figure 2. *CW objectives and HLM purposes of adoption*

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The identified objectives of CW, in the literature analyzed, regard first of all the need to reduce overuse of resources, for what concerns for example the antibiotics use (Burkitt et al., 2009), over screening and overtreatment (Bentley et al., 2008), tests not necessary (Chassin, 2013; Lim et al., 2010; Ng, 2013) or both of the latter two (Vegting et al., 2012; Venkatesh and Schuur, 2013). Another aim of CW is to avoid the delivery of care not adequate to the patient needs, promoting treatment based on evidences in order to assure care effectiveness (Pronovost et al., 2013; Shortell et al., 2007; Biffl et al., 2011). Complying with the appropriateness definition, other two CW objectives are: the support of effective care choices and cost- effective care choices, as reported in Figure 2.

Links between HLM purposes and CW objectives

In the selected papers, HLM tools and practices are adopted firstly to analyze the steps of the patient process, in order to identify problems and tackle them, as reported in the paper of Chassin (2013). The main purpose of HLM adoption concerns the optimization of the care process (Figure 2). In particular, the aim is to design and implement improved care pathways (Martens et al., 2014), to eliminate wastes (Vegting et al., 2012; Bentley et al., 2008) including not useful therapies, simplifying the process and putting the patient at the center (Montesarchio et al., 2012). Optimizing the process means also streamlining it (Biffl et al., 2011; Rajan et al., 2012) and achieving efficiency improvement by reducing the wastes of scant resources (Shortell et al., 2007). In other cases, HLM is used in order to optimize the specimen process to not affect negatively the patient care, providing the wrong test at the wrong time (Knowles and Barnes, 2013).

In Ng (2013), HLM was useful for measuring the takt-time to control the processes of a laboratory, while in Rajan et al. (2012) it was adopted for evaluating the process of transactional research. In three cases, HLM favors the comparison among different procedures, tests and processes, in order to choose the best solution in terms of efficiency and effectiveness (Lim et al., 2010; Riley et al., 2012; Dundas et al., 2011).

As highlighted by the arrows in Figure 2, with the final aim of reducing resource overuse in health care, HLM is adopted for understanding and optimizing the process under analysis. In particular, several authors support the need to eliminate not value added therapies in order to prevent harm due to treatments overutilization (Chassin, 2013; Knowles and Barnes, 2013). In these cases, communication improvement and cultural change offered by Lean philosophy are considered essential for healthcare strategies designed to meet improved safety requirements. In papers where HLM tools and practices are adopted for the process evaluation and control, the CW scope was to achieve care effectiveness and an evidence-based care (EBC). Aiming at choosing the best effective care, HLM was implemented to

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optimize, evaluate and control the process and, finally, to compare diverse alternatives and choose the best solution. HLM tools of process understanding, optimization and comparison were used to support cost-effective care choices.

HLM tools, practices and interventions supporting CW

For each link between HLM purposes and CW scopes, the main HLM tools and practices have been identified. Burkitt et al. (2009) have adopted the Toyota Production System (TPS) techniques to define the process criticalities, identify evidence-based practices and publish specific guidelines. Interesting results in terms of appropriate perioperative antibiotics utilization were obtained pursuing the CW scope of reducing overuse. With similar CW objectives, Martens et al. (2014) have analysed the process through Present and Future State Maps, defined benchmark optimized diagnostic pathway, identified bottlenecks and defined action plans. The achieved results have highlighted a 59% reduction in the average time to diagnosis, a 75% increase in diagnostic yield, a marked reduction in repetitions of tests and improved prioritisation of them. In these cases (Martens et al., 2014; Burkitt et al., 2009; Chassin, 2013), the process understanding was considered the purpose of HLM, in addition to the process optimization. In other papers, HLM was adopted for this last purpose more than for the process understanding. However, also in some of these researches a map of the process was the starting point, before adopting the tools and practices for the process optimization.

Montesarchio et al. (2012), with the intention of promoting a patient-centred culture and compliance with the EBM principles, suggest the adoption of HLM to reduce non added value therapies in oncology, allowing streamlined healthcare processes and simultaneously preventing human errors' complications due to inappropriate services.

Other interventions with the aim to reduce overuse are reported in Vegting et al. (2012), Venkatesh and Schuur (2013) Bentley et al. (2008), Rajan et al. (2012). In particular, Vegting et al. (2012) have introduced posters in ward, pocket cards for physicians and general guidelines, through HLM implementation. The main findings have highlighted 13% test reduction compared with the previous year and a saving of $ 350k. In support of these outcomes, no changes occurred for mortality rate despite the decrease of diagnostic procedures. Other tools are proposed by Venkatesh and Schuur (2013) that, with the purpose of reducing inadequate medical practices, have introduced the "Top 5 List" of procedures to be avoided in Emergency Medicine and they suggested HLM as best-practice for healthcare wastes elimination.

The CW objectives identified in Bentley et al. (2008) regarded not only overuse reduction, but also the increase of care effectiveness and evidence-based care. They distinguished wastes into administrative,

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operational and clinical. HLM was recognized as a best practice to identify and remove mainly operational wastes, in particular NVA activities. According to these authors, the principles of HLM should be adopted also to identify care with low value in order to choose the most cost-effective care.

Also Biffl et al. (2011), with the aim to identify the best cost-effective care, have implemented HLM methodology to manage risks due to prophylaxis of venous thromboembolism (VTE) and they provided internal standards for treatments with low molecular weight heparin (LMWH). They have utilized several HLM tools (e.g. Rapid Improvement Events (RIEs), Value Stream Analysis (VSA), ANDON, A3, VSM, RCA, Poka Yoke).

Through process mapping and following assessment of internal expenditures, Dundas et al. (2011) have introduced a new tool for respiratory diseases diagnosis in paediatric ward, which has allowed reducing not value added services and improving diagnostic efficacy. With the same aim of supporting cost-effective care choices, using process maps and Spaghetti Chart, Riley et al. (2012) have performed an investigation regarding three transfusion procedures that have been proven to be equally effective in terms of care quality and patient safety. The results emerged from the study have let to identify the cheapest practice among those under consideration.

As regards Pronovost et al. (2013), the objective to provide recommended therapies for at least 96% of patients was achieved through the formalization of guidelines, after a specific analysis of clinical pathways according to Lean Management methodology.

With a more theoretical view, Shortell et al (2007) proposed HLM as a best practice of evidence-based management (EBMgt) to support EBM, meant as the approach for the identification of the most effective therapies. The EBMgt should identify the organizational strategies, the structures and the change management practices to provide EBM.

As laboratory services is concerned, Lim et al. (2010) performed kaizen events and process mapping to formulate guidelines for physicians. Among 8040 bone marrow cases of various haematological disorders performed between June 2003 and June 2008, 36.3% (2915 cases) had additional cell workup, the majority of which could be unnecessary: corrective actions provided for their reduction, allowed reallocating saved resources for more appropriate services.

Finally, several papers have studied specific solutions for a costs-benefits analysis of dispensed therapies, in order to support the choices of a cost-effectiveness care.

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CONCLUSION

Answering the defined research questions, HLM is adopted to achieve CW objectives, assuring an appropriate care to the patients. Firstly, HLM is used to reduce overuse, but also to assure care effectiveness and an evidence based care. HLM provides also a support for the selection of the most effective and cost-effective solutions comparing different alternatives. HLM acts aiding the CW through process understanding, optimization, evaluation and control, but also comparing different alternatives and choosing the most performing solution in terms of effectiveness and efficiency. Process optimization supports any CW objectives and the HLM tools and practices adopted include both classical ones (e.g. VSM, spaghetti chart, fishbone diagram, visual management tools) and those of organizational type supporting the changes (e.g. training, guidelines definition, reorganization of physician workstations).

The adoption of HLM to support CW objectives explicitly shines through the analysis of these linkages in Figure 2 and the scarce numerousness of papers found in literature emphasizes the HLM adoption for CW purposes is an opportunity for future investigations. Future perspectives should regard a broad development of best practices; in particular, a systematic utilization of HLM for wastes reduction, processes improvement and support to clinical decisions is desirable. Based on the results emerged and discussed from literature review, HLM is prospected as the main reference model not only to reduce administrative and operational wastes, but also the clinical ones; it is suggested as strategy for clinical practices management, especially as EBMgt methodology supporting a wide application of EBM. This opportunity is only hinted in literature, thus further researches are requested to deepen it investigating and valorizing the principles, the tools, the practices and the organizational aspects of HLM, considered as a successful EBMgt methodology. In the examined papers, the application of HLM has achieved first optimistic outcomes in terms of evidence-based therapies adoption and elimination of improper treatments utilization. In the future, the application of HLM for the understanding, and then the improvement and the evaluation of clinical processes seems destined to increase. Several authors of the analyzed database ask for a more constant and structured adoption of HLM for clinical services, in reference to different specialties or wards. Moreover, various papers suggest a direct application of HLM, specifically for diagnostic therapies and the right indication of tests to be performed, or rather for a “long range” implementation, involving other healthcare processes that were not included in their analysis. The adoption of HLM in combination with the Comparative Effectiveness Research (i.e. the analysis of different therapy procedures to compare clinical risks and benefits, assessing treatment’s efficacy and financial costs) offers good sparks for future in-depth studies. Therefore, in the future empirical researches should be carried out to develop and test how adopting HLM to support CW objectives.

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The main limitation of this research regards the small size of the sample, which is likely attributable to the very recent emergence of the investigated topic. However, the implications of the study are a matter of healthcare stakeholders interest. From an academic standpoint, this is a novel research for these methodologies, advancing future developments in process management field. As regards physicians, HLM and CW synergetic implementation could equip them with a transparent and reliable decision-making tool assured by EBM and EBMgt concepts integration, as well as a clinical "safe harbor" from defensive medicine concerns. With respect to patients and society in general, right and systematic application of evidence-based healthcare could provide a safer and improved service taking advantage from higher quality performances. Furthermore, for manager and local administrators, future strategies in NVA's elimination could achieve significant savings allowing more fair, equitable and transparent redistribution of resources.

ACKNOWLEDGEMENTS

The authors gratefully acknowledge the support from Padova University (project CPDA129273) and the contribution of the graduating student Michele Bazzoni for data collection.

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 ISBN: 978-9963-711-37-6

LEAN & SAFETY PROJECTS ENHANCING PERFORMANCES IN HEALTHCARE PROCESSES: THREE CASE STUDIES

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ABSTRACT

Affording the current socio-economic contingency and guaranteeing high level of care quality is particularly challenging in healthcare. Through an integrated adoption of emerging managerial solutions, projects that allow achieving both efficiency and patient safety improvements could be implemented, transposing the policy directives towards a more safe and sustainable healthcare system. For this reason, the purpose of this paper is to investigate the features of three Health Lean Management projects with unexpected patient safety results. Differences and similarities among the cases have been highlighted and relevant conclusions have been grasped. Even if pursuing similar objectives and benefiting from comparable support, the implementation process and the ICT adoption are different, and mostly, the obtained changes impact directly or indirectly on patient safety enhancement.

Keywords*: healthcare management, Health Lean Management, Clinical Risk Management, lean & safety projects, case studies*

INTRODUCTION AND THEORETICAL BACKGROUND

In the current macroeconomic situation, healthcare spending is difficult to afford, especially in the countries where healthcare is funded by government. At the same time, quality levels have to be guaranteed not only for obtaining accreditations, but mostly for complying with challenging ethical issues. Therefore, the aim is to manage healthcare in a more efficient and effective way, reducing healthcare wastes and improving at the same time quality of care and patient safety. In several cases, the main obstacles to provide timely and accurate therapies are connected with managerial questions, rather than clinical ones (Bensa *et al.*, 2010). This leads to no synchronization among the actors of the hospital causing emergency department overcrowding, beds shortage, delays, lack of proper material, high costs, wastes, errors (both administrative and clinical), excessive workload and inappropriate care setting, which negatively affect medical care. Advanced Operations Management models, such as Health Lean Management (HLM) (Womack and Jones, 2003), could be developed in health care to control process variability and to ensure a strategic alignment in the organization, achieving the

 ISBN: 978-9963-711-37-6

competitive advantages defined in the company's strategy (Slack and Lewis, 2002; Hines *et al.*, 2004). Other managerial approaches of quality improvement, such as Clinical Risk Management (CRM), could be a support for increasing the quality of care. CRM is a particular kind of risk management focusing on clinical processes directly or indirectly involving patients. It includes the organizational structures, processes, instruments and activities that enable hospital employees to identify, analyze, contain and manage risks while providing clinical treatment and patient care (Walshe, 2001; Briner *et al.*, 2010). Even if never studied, the development of synergic methodologies that combine different managerial approaches, such as HLM and CRM, could be a potential solution to obtain efficiency, effectiveness and safety enhancements at the same time. For this reason, first studies in literature have analyzed "Lean & Safety" (L&S) projects, defined as HLM projects reporting safety improvements (Crema and Verbano, 2015a); however, their features deserve to be deeply investigated. Although Waring and Bishop (2010) underlined perplexities and struggles for the translation of lean management into the clinical practice, this approach has demonstrated interesting results mostly in terms of productivity, cost and timely care delivery, but also of patient care improvement (Kollberg *et al.*, 2006; Toussaint and Berry, 2013). However, aiming at developing integrated value streams, HLM destroys the professional boundaries within which employees are customized to act; in this way, HLM influences the social organization of healthcare (Waring and Bishop, 2010; Joosten *et al.*, 2009). Several authors denoted the paucity of research on human elements of HLM adoption, such as motivation, team working, training, empowerment, and respect for people, which constitute the key factors for the long-term sustainability of any lean programs (Yang *et al.*, 2012; Hines *et al.*, 2004). For this reason, in the current study these dimensions are part of the analysis framework, where operational improvements, the outcomes of quality of care with the focus on patient safety effects, the impacts on organizational climate, and the employee satisfaction have been included. As Joosten *et al.* (2009) emphasized, all these aspects are rarely considered together and sociotechnical effects of HLM are neglected, even if HLM should favor employee well-being. In particular, top managers should support HLM in order to develop an environment where the collaboration and teamwork permit to achieve performance higher than those achievable by a single person. Hospital managers, at senior and local department level, should become leaders and facilitators of HLM and they should be sufficiently trained into 'Lean Thinking' in order to involve and enroll other clinicians and enact changes (Toussaint and Berry, 2013; Waring and Bishop, 2010). As demonstrated by Waring and Bishop (2010), if people are not involved they comply with the new procedures but in a superficial way, without demonstrating a profound conversion and inciting the return to the "as is" situation as soon as possible. Therefore, in the cases analyzed in the current research also the top management support and employee involvement will be investigated. Moreover, in each phase of the project implementation process the adopted tools and practices will be identified.

 ISBN: 978-9963-711-37-6

In literature, phases of HLM implementation are suggested by Poksinska (2010). In other cases, the steps of the Root-causes analysis and quality management system, such as PDCA (Plan-Do-Check-Act) are followed (e.g. Amin, 2012). Nevertheless, the implementation process of L&S projects has been never developed, thus, it will be rebuilt for the following three investigated cases through the analysis of the collected data.

OBJECTIVES AND METHODOLOGY

The purpose of this paper is to compare the main characteristics of "Lean & Safety" projects in different contexts interested by the same regional policy that fosters towards HLM principles. In particular, three cases from two hospitals (Alpha and Beta) have been selected, as they are HLM projects reporting unexpected safety improvements; two of them concern front-office processes, while the other is focused on back office process. The cases come from similar fields of application supporting the literal replication (Yin, 2009). After the definition of a designed research protocol (Saunders *et al.*, 2009; Yin, 2009; Voss *et al.*, 2002) to assure the analysis reliability, a key informant for each hospital has been contacted and informed about the research project, so that the "snowballing" could happen, individualizing the most appropriate people to interview (Harris *et al.*, 2009). In order to assure validity, transcripts of the semi-structured interviews have been triangulated with data from the web sites, reports, internal documentations and archival records (provided by hospitals or gathered online) (Eisenhardt and Graebner, 2007; Yin, 2009), as reported in Table 1, where also the information about the role of the interviews can be found.

CASE	FIELD OF APPLICATION	TYPE OF HOSPITAL	DATA COLLECTION	
			ROLES OF INTERVIEWEES	OTHER SOURCES
NV2SI	Internal medicine	University hospital	Economist lean specialist and a nurse (staff of HLM unit)	Internal documentation and reports about the projects and the HLM experience, documents from the hospital website
SIMED	Internal medicine	University hospital	Two management engineers (HLM unit staff)	Internal documentation and reports about the projects and the HLM experience, documents from the hospital website
LADT	Medicine dept.	Hospital of LHU	Economist and management engineer (staff of HLM unit)	Initial meeting with a brief presentation of the project and interventions of the general director, documents from the hospital website

Table 1. *Information about data collection*

Following a defined research framework (Crema and Verbano, 2015a), several features have been analyzed: organizational aspects, triggers and objectives of the project, followed phases, adopted activities, tools and techniques, outcomes, enabling and hindering factors of the project implementation. After coding and categories creating, a uniform variable matrix has been developed in order to report the results of the within case analysis (Miles and Huberman, 1994). The adoption of the

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same framework permitted to obtain three tables with the same format, allowing to compare the three cases based on the most relevant variables.

The context of hospital Alpha

Two L&S projects were selected from a hospital (Alpha) that began to adopt HLM only in 2012. Alpha is a university hospital of national relief and high specialization in Italy. It is a center of teaching and research built plenty years before 2000. With about 800 sleeps (beds) and 3000 employees it provides at local level basic and specialized services for about 120000 and 250000 citizens respectively; however, the presence of Medicine Faculty attributes to this hospital a national and international value, especially for the specialized services, increasing the number of the potential patients that can access the hospital.

The mission of the hospital is to assure the highest possible health level reconciling research and teaching, and making the organization comparable with the most prestigious university hospitals. Another aspect of the mission is to integrate its structure with the territory to guarantee the assistance continuity, and to create a climate of internal collaboration, emphasizing the principles of professionals' valorization and mutual respect. Listening, information and support are offered to the patients in a service that has to be global, personalized, safe and evidence-based. One of the hospital objectives is to improve the service level through high professionality and specialization, providing a service with value for the patient, in a safe and comfortable place and integrating high clinical assistance with attention on human and relational aspects. Therefore, the patient is the center and pathways have to be developed according to its needs.

The hospital is organized in eight departments and three separated units in staff of the hospital director are in charge of HLM, CRM and quality. From the first adoption of HLM, also thanks to a yearly competition that awards the best projects developed inside the hospital, more than 30 projects have been implemented. Moreover, the HLM unit has been providing HLM training courses at different levels (more than 300 people are already trained) in order to create an efficient and involving work environment that has to be continuously improved and that has to be cleaned of all wastes through HLM adoption. The so far realized projects aim mostly to reduce time, costs, movements, spaces, defects not directly linked with the patients (e.g. errors occurred reading bad hand-writing), but there are also previous projects whose objectives regarded the reduction of not appropriate services and whose results concerned patient satisfaction. However, HLM unit seems not integrated with CRM, which has not been involved in the two projects analyzed in this research. In addition, the quality unit has not been involved even if, among the others, it has to accredit also the procedures followed for the HLM adoption. Audit, checklists and questionnaires are used to monitor the respect of defined

 ISBN: 978-9963-711-37-6

standards and the quality unit supports the definition of assistance pathways. From the results of quality evaluations, improvement actions can be requested and carried out by the interested unit. The hospital follows the institutional accreditation, ISO 9001 and the accreditation for providing Continuous Medical Education.

The context of hospital Beta

A project has been selected from a hospital of a Local Health Unit (LHU) built more than 15 years ago. With more than 2500 employees and about 500 sleeps (beds), it serves a catchment area of approximately 200000 inhabitants. The LHU intends to guarantee among the others, the principles of: centrality and participation of the citizen; universality and equal access and Essential Assistance Levels managed by a unique healthcare system and financed by public funds; institutional subsidiarity and full involvement of local authorities in the policies of health promotion; free choice of the place where to be cared; professional evaluation of the employees. In particular, reflecting the objectives of its regional authority, it aims to improve the healthcare and the well-being of the population, the satisfaction and participation of citizens, efficiency and sustainability of the system. It has also started to redefine the assistance settings according to the intensity of care-based model, reorganizing the surgery area, the medical area, developing the model of assistance continuity through integration with the territory and defining the roles of medical tutor and referent. This LHU has reported great results in terms of quality of the healthcare processes, demonstrating the existence of adequate diagnostic and therapeutic pathways shared between emergency department and inpatient wards. Moreover, thanks to the integration with the territory the hospitalization rate of this LHU is lower than the regional mean. The management of admissions and discharges is evaluated well measuring indicators such as the hospitalization rate, the discharge rate, the percentage of hospitalization over 30 days.

The over mentioned results are obtained in an organizational structure that comprehends three units in staff of the general hospital director: the quality and accreditation unit, the CRM unit and the HLM unit. There is no integration among these units, even if the clinical risk manager has required at least the integration between CRM and the quality and accreditation unit. The latter one deals with all the activities concerning the institutional accreditation, the maintenance of the quality book and the procedures that regard the structure management. This LHU is also hardly committed to implement procedures for reducing clinical risks. The CRM unit executes audits (e.g. for adverse events with the highest impact, frequency and difficulty to be detected), verifies the adoption of good practices, assures the application of regional and national recommendations, besides the encouragement of preventive actions and monitoring of activities. Furthermore, it draws up a plan, a budget and a final report. Besides checking the execution of best practices, the compliance with protocols and procedures and the

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application of the ministerial recommendations, the same unit uses reference standards and compares the results with the literature. Moreover, claims and incidents are analyzed, incident reporting, the Mortality & Morbidity review and checklist for operating room are adopted, medical records are monitored, auto-evaluations are executed and the litigations are managed.

Since 2012, there is a team in a simple structure that manages HLM projects in the LHU.

RESULTS FROM THE THREE CASE STUDIES

NV2SI project

The first project selected in Alpha has been implemented in the emergency department.

The emergency service manages about 50000 patients per year. Thanks to regional funds, this project was implemented in order to improve the patient flow and reduce the waiting times enhancing in this way the patient service. The regional authority was a financial and technical supporter of this project. For this reason, no external consultants were enrolled in the project team in addition to the already trained people from the HLM unit. Another relevant support came from the hospital director that believes in HLM and has experience about this new managerial approach. The project team was constituted by referents of HLM unit, referents of management audit, a medical referent, an operator, a referent from the data processing center. As detailed in Table 2, after a planning phase, a training course of 4 hours was provided to all the employees of the emergency department. Other hospital staff and patients were informed through an article in a periodical journal and through leaflets distributed inside the hospital.

NV2SI PROJECT				
Motivation and objectives	Trigger	Regional plans and funds from the regional authority		
	Objectives	Improve patient flow reducing the waiting times and enhancing the patient service		
Organizational aspects	Key figures	Project manager: HLM manager Referent: referents of the ward	External support	No consultant Support and funds from the regional authority Regional community
	Top management support	Active support, as the direction believes in these projects; The hospital director has previous experience in HLM; Top management informed about the project	Employees involvement	Involved, consulted
	Training	Short (4hours), at the beginning for all the emergency department	Team	Multidisciplinary, Someone full-time at the beginning, then all part-time
	Role of CRM	Not involved	Meetings	Before, during and at the end of the project
Phases (Tools)				

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1. Planning (Gantt)				
2. Initial training (Training course at the first level for all the emergency department)				
3. Information to operators and patients (articles in periodic journal, leaflets inside the hospital)				
4. Identification and analysis of the process (Go to the Gemba (gemba walk); individuation of the critical patient (with flows matrix); measurements (analysis of times and methods); spaghetti chart; Value Stream Map)				
5. Identification of issues, value added and no value added activities (value stream map)				
6. Proposal of improvement actions (questionnaire to gather the employees suggestions)				
7. Intervention (One piece flow, visual management, check list, triangulation, fast track, facilitated paths, 5S, layout change, organization of workstations (standard operating procedures already in use))				
8. Results evaluation and monitoring (Questionnaires to employees and to the patients; Feedbacks from briefings and from direct contacts with HLM team, pictures before and after implementation; Indicators of the managerial dashboard (economic, related to the organizational system and to the muda, indicators from MeS))				
ICT:	Minitab + Visio + FirstAid + hospital information system			
Outcomes	Results	• + easy individuation of the patient • < movements • Improved organization of workstations and layout • More efficient organization • Improved service quality • < organizational errors • patient spends less time in emergency department so the infections risk is reduced • < exams executed more than one time		
	Changes of the organizational system	Little changes: new temporary employees in the HLM team and a new way to work		
	Changes of the organizational climate	Climate of trust, involvement logics, freedom for the operators to express their own opinions		
	Employees satisfaction	Increase of active participation and interest		
Sustainability, follow-up & lean continuity		Training to extend the culture: training course at the first level, but also plan of providing training courses at the second and the third level in order to foster the "cascade training". Time spent in the ward to create a HLM culture to increase the trust in the HLM team (go to the Gemba); transmit the concept that lean valorises operators; meetings with people from other departments		
Enablers	• Support of the top management • Presence of the team on the field • Bottom-up approach • Practical tools provided to operators • Meeting also with people from other wards • Positive climate that has been established • Utmost respect for the experience of operators: it was just asked "why"		**Obstacles**	• Low trained operators • Time wasted to explain again because of work shifts (difficulties of information exchange) • No reporting, no data • Use of traditional cost centre • Institutional bureaucracy • The mind-set of the physicians

Table 2. *Key characteristics of the "Lean & Safety" project NV2SI*

Afterwards, patient process was identified and analyzed and, in particular, critical issues, value added and no value added activities were recognized. Thus, HLM tools were adopted, such as one piece flow, visual management, checklist, triangulation, fast track, facilitated paths, 5S, layout change, organization of workstations for the process optimization. Feedbacks were gathered from questionnaires to the operators, but also through economic indicators, indicators related to the organizational system and to the muda, indicators from MeS (Management and healthcare – "Management e Sanità": an Italian laboratory) collected in a managerial dashboard. Feedbacks from patients were obtained through the MeS questionnaire. Efficiency increase was reported and indirectly the care appropriateness was improved through the reduction of exams executed more than one time. Moreover, spending less time in emergency department, patients are less exposed to the infections risk. Without using sophisticated

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ICT or other additional resources, the work climate improved spreading among the operators a feeling of trust, involvement and freedom to express their own opinions. Some of the recognized enablers that facilitated the project implementation were the support of the top management, the continuous presence of the team in the field and the utmost respect for the operators' experience by the HLM team. These factors have permitted the realization of the project in spite of the low HLM training of the operators, the difficulties of information exchange due mostly to the work shifts, the absence of data reporting, the institutional bureaucracy and the mind-set of the physicians still linked to their traditional way of working. In order to guarantee the sustainability and continuity of HLM adoption, besides time spent in the ward and the organization of meetings with people from other departments, training was considered fundamental, since it extends the HLM culture.

SIMED project

Some of the interviewees considered this project the continuation of the previous one. It was realized in internal medicine thanks to the input of regional funds. Also in this case external consultancy was not useful due to the existence of internal HLM competences. The team constituted by nine people involved staff of HLM unit, two referents from the ward, the head nurse and a nurse. Part of the team was at the beginning engaged full time. Training was provided firstly to referents and then to all the people of the ward through an initial training course and periodical meetings. The latter were organized at the beginning to inform and train the referents and operators, during the project realization to individuate issues, to obtain opinions and suggestions from operators, and at the end to monitor and communicate the results. As it is possible to note in Table 3, the objectives of the project regarded the optimization of the flows in order to reduce the average length of stay and consequently the costs, the improvement of the communication between physicians and nurses and the achievement of an image of high quality. They were pursued adopting different HLM tools. After a planning phase and the identification and analysis of the process of a typical patient, the two referents of the first involved medicine area drew the Value Stream Map with HLM staff, in order to better understand the context in which they worked.

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PLAN FOR THE PATIENT IN INTERNAL MEDICINE					
Motivation and objectives	Trigger	Regional plans: project fund by the regional authority			
	Objectives	• Optimize the flows to reduce the average length of stay and thus the costs • Improve the communication between physicians and nurses • Give an image of higher quality			
Organizational aspects	Key figures	Leader and project manager: Lean manager Referent: referents of the ward selected by the head physician	External support	No consultant Support and funds from the regional authority Regional community	
	Top management support	Active support, as the direction believes in these projects; The hospital director has previous experience in HLM; Top management informed about the project	Employees involvement	Involved, consulted	
	Training	Short, at the beginning for all the ward	Team	Multidisciplinary, Someone full-time at the beginning, then all part-time	
	Role of CRM	Not involved	Meetings	Before, during and at the end of the project	
Phases (Tools)					
1. Planning (action plan +Gantt)					
2. Identification and analysis of the process (Matrixes of flows to identify the typical patient, calculation of the time spent for individual activities, VSM, spaghetti chart, Demand map, analysis of frequencies)					
3. Information and training for the referents (Presentation of the project, training about VSM, drawing VSM, coaching on the field for 2 months)					
4.Development of the plan for every patient (meeting with all the referents of the 3 medicines defining the legend and the panel, the briefings, roles and responsibilities, individuation of the critical points to be monitored, suggestions of improvement)					
5. Information and training for all the staff (Presentation of the defined tool with 2 meetings + simulations)					
6. Use of the plan for every patient (Compilation of the panel with the plan for every patient and the detection of deviations, visual management, one piece flow, 5S, triangulation, check list, fast track, Heijunka)					
7. Problem solving (Individuation of the most critical points to be monitored; suggestions of improvement)					
8. Results evaluation and monitoring (detecting dashboards for the monthly evaluation: A3 sheets with indicators (mean of the length of stay and its statistical dispersion, use of the discharge room, time trend of admission and discharge from the ward, weekly trend of the daily discharges) in the briefing room; measurement of the deviations between planned and actual activities; Pareto chart; scatter chart; statistical analysis of the length of stay and control charts; survey to operators)					
9. Results presentation (presentation to all the staff when a result was achieved, presentation outside through workshops)					
ICT:	google doc for data registration + Minitab + Visio + hospital information system				
Outcomes	Results	• ↓ risk of error (< downtime, < useless complications, operator works calmer and this reduces the risk of error) • Induced by efficiency (< length of stay means < complications, < decubitus and falls, < risk of infections) • 5S leads to more order • care in the shortest time, more appropriate care (↓ potentially not appropriate DRGs) • control using indicators • the average length of stay has been reduced, improved organization of discharges (↑n° of discharges before 12 o'clock, ↑ n° of discharges), improved communication with relatives, ↑ timeliness for booking exams, ↓ organizational causes that could delay the discharges			
	Changes of the organizational system	The organizational structure of the ward is the same; temporary recruitment of some members of the HLM team; head nurse now is in charge of briefings			
	Changes of the organizationa	Proactive spirit matured; > collaboration among people with different roles; > communication; > sharing of the patient process			

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	l climate			
	Employees satisfaction	For the 50% of the staff the briefing is quite useful, for the 30% it is very useful; for the 42% of the staff the communication among practitioners has improved enough, for another 42% it has little improved; the 12.5% of the staff feels now a much more active part of the care pathway; the 58% feels now a quite active part of the care pathway; staff like the provided training courses		
Sustainability, follow- up & lean continuity		Training to extend the right culture: at the first level, but also with the plan to provide training also at second and third level in order to reach a "cascade training"; plenty of time spent in the ward to develop a lean culture and to increase the trust in the HLM team ("go to the Gemba"); the transmitted concept: lean valorises the operator; the support of the HLM team serves to guarantee the continuity of project		
Enablers	Availability and listening of the HLM team also for the aspects that not compete to them; continuous presence of the HLM team in the field in order to become a reference point; collaboration and coaching; human contact; avoid to judge the operator work asking only "why?", "what do you think about that?"; leave the final decision to the ward; training course; do not skip some crucial steps: sharing with the organization (with the hospital director, with the administrative and medical directors, with the several head physicians and with the staff of the wards); the head physician decides who participate (the referents); the coaching and explaining phases; the support of the top management; having a clear concept of planning; finding an agreement for the definition of briefing times	**Obstacles**	Closed mind-set and resistance to change (initial not acceptance of no medical staff); no support of the head physician; people that try to flinch and create a resistant group; lack of information/data and of the use of information systems (electronic medical records, digital signature, data in electronic form); no standardization for the exams requirement	

Table 3. *Key characteristics of the "Lean & Safety" project SIMED*

Therefore, referents from the other two areas that compose the internal medicine were involved to define the legend and the panel to be used for planning the patient service. After informing all the ward staff and after simulations, the defined tools were adopted by operators. Besides plan for every patient, visual management, one-piece flow, 5S, check list, fast track and Heijunka were adopted. Through these HLM tools, efficiency improvements have been obtained. The achieved results are monthly monitored measuring the mean of the length of stay and its statistical dispersion, the use of the discharge room, and other indicators for admissions, discharges and the planned activities as reported in Table 3. In particular, thanks to this project, it was possible to reduce the average length of stay, to care patient in shorter time and to enhance the management of discharges. One of the most significant results regards the reduction of potentially inappropriate DRGs (Diagnosis-Related Groups), which, according to Fetter *et al.* (1980), permit to classify and manage hospital cases based on diversifying variables. A better well-organized environment has led to decrease downtime, useless complications and organizational causes that could delay the discharges. Moreover, operators now work calmer, reducing indirectly the risk of erring. Surveying operators, briefing was considered useful and communication among practitioners seemed improved. Moreover, now operators share the patient process and feel themselves an active part of the care pathway. These outcomes were obtained with no additional resources and with few organizational changes, such as the briefings managed by the head nurse. One of the project enabling factors was the continuous presence of HLM team on the field and its availability, listening and ability to collaborate with operators without interfering with their daily work and leaving the final decision to the ward. Other key factors for the success of the project were the

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training course, the sharing with the organization, the support of the top management, and the adoption of clear concept of planning. Closed mind-set and resistance to change, no support of the head physician, lack of information/data and of the use of information systems were recognized as hindering factors.

In order to sustain HLM adoption, training is considered fundamental to extend the right culture, in particular reaching a "cascade training" (Jacobs, 2002). Moreover, it is important to transmit the following concept: lean valorizes the operator and the support of the HLM team serves to guarantee the continuity of the project.

LADT project

Different external experts have provided HLM training courses to the staff of hospital Beta constituted by people with diverse roles, such as physicians, nurses, directors. Therefore, no external consultants were involved in the examined project. For some years, the LHU has been working on a unique large project, with the intention of integrating different productive platforms. The first single project activated in medicine department began in a context of economic and financial resources reduction, in which the community requested to guarantee at least the same level of service for the patients and to adopt new tools for process optimization and for hospital performance evaluation. The project started with the aim to optimize the patient flow, guaranteeing a continuous flow and reducing the process variability due to organizational inefficiencies and the average length of stay. Favored also by the opening of the hospital in a new place and the reorganization of services and revision of internal processes, other project objectives were: elimination of local sub-optimizations through process governance with system logics, involvement of all the staff, multidisciplinary and multi professional integration, simplification of processes/activities, efficient and appropriate use of resources.

The project was entrusted to a new unit (HLM unit) dedicated full time on it. With the support of the hospital direction who believes in HLM, provides the strategic direction and makes available all the necessary resources, the first phase of the project realization was the demand analysis. As detailed in Table 4, after the study of the patient process, the critical issues were identified and analyzed, studying for instance the information exchange and the practitioners' agenda. The priority of interventions were defined with the hospital director and a testing phase was executed, simulating the sought screen on paper. People with different roles and diverse backgrounds were involved first of all through a training lesson at the beginning of the project and then they were coached on the field, thanks to a close contact with the HLM team especially during the first four days. Using the software ADT (Admission, Discharge, Transaction), beds are now managed through computerized visual management. Results are

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also continuously monitored adopting a dashboard with indicators, information about bed occupancy, use rates, waiting and response times, residual production capacity, system of process alerts, real-time representation of the work plans, and average length of stay. The latter has been moved from -0.17 to -0.52 (days respect to the previous year). The implemented system allows being more transparent. If before the project implementation there were no available beds at the time of the patient admission, now there are 10-15 vacant beds. Moreover, the problem analysis has been improved and duplications reduced, as the nurse has not to transcribe the patient data more than one time, decreasing time for this activity and the possibility to commit errors. Everything is computerized, thus it is not necessary that a person is physically in a place and phone calls are not required. In this way, besides simplification from a bureaucratic and administrative point of view, there is simplification and leaning of processes/ activities: inpatient unit is managed in emergency department by a unique manager of emergency admissions (a physician), discharges are performed in "3 clicks" and beds are managed in "2 clicks". Furthermore, employees have direct access to the area of labels and bracelets printing. Consequently, also the patient flow is more rapid. With few organizational changes, transparency has increased and a collaboration between operators and HLM team has been introduced.

<table>
<tr><td colspan="6">LADT</td></tr>
<tr><td colspan="2" rowspan="2">Motivation and objectives</td><td>Trigger</td><td colspan="3">– reduction of the economic and financial resources guaranteeing the same level of service for the patients
– new tools to evaluate the hospital performances
– focus of the healthcare politics on process optimization (regional project)
– opening of the new hospital, reorganization of services and revision of internal processes</td></tr>
<tr><td>Objectives</td><td colspan="3">Optimization of the patient flow, guaranteeing a continuous flow and reducing the variability and the average length of stay due to organizational inefficiencies. Elimination of the local sub-optimizations through process governance with system logics. Involvement of all the staff, multidisciplinary and multi professional integration. Simplification of processes/activities, efficient and appropriate use of resources. Focus on patient needs</td></tr>
<tr><td rowspan="4">Organizational aspects</td><td>Key figures</td><td>leader/ project manager: manager of the operative unit dedicated to HLM</td><td>External support</td><td colspan="2">No consultant
Support from the regional authority, training provided by other HLM experts, collaboration with a doctorate school</td></tr>
<tr><td>Top management support</td><td>The hospital direction believes a lot in lean, has previous experiences in HLM, provides the strategic direction and continues to make available all the necessary resources and to stress the importance of the structure in charge of HLM</td><td>Employees involvement</td><td colspan="2">Consulted and involved: all the opinion leader and all people with decisional power in the project have been involved (the director of the department), people with HLM experience because of the participation in a training course; evaluation with the operators
Coaching on the field</td></tr>
<tr><td>Training</td><td>Before the starting of the project, every day on the field</td><td>Team</td><td colspan="2">Multidisciplinarity: an economist, 2 management engineers, a nurse, a physician from the medical direction, 2 students in internship
Team: full time</td></tr>
<tr><td>Role of CRM</td><td>Consulted after first results</td><td>Meetings</td><td colspan="2">Briefing for the team in planning and measurement phases</td></tr>
<tr><td colspan="6">Phases (Tools)</td></tr>
<tr><td colspan="6">1. Demand analysis (study of the flows from the emergency department, definition of the takt time)</td></tr>
</table>

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2. Study of the flow (go to the Gemba, direct observations of the staff work, of their activities and the process from the patient point of view, VSM)				
3. Identification and evaluation of the critical issues (go to the Gemba, analysis of the information exchange, the practitioners' agendas etc., analysis of the context)				
4. Definition of the priorities of interventions (meeting with the hospital direction)				
5. Planning (Gantt, panel with post-its)				
6. Testing (test on paper of the sought screen)				
7. Information and training (lesson in the classroom and coaching on the field for the first 4 days, then ever more rarely)				
8. Implementation (bed management through computerized visual management, almost real time problem solving)				
9. Continuous monitoring (dashboard with indicators/information with bed occupancy/ use rates, waiting/ response times, residual production capacity, system of process alerts, real-time representation of the work plans, average length of stay)				
10. Feedback to hospital direction and results dissemination (workshops and reports besides the presentation of the indicators in the hospital report)				
ICT:	platform using ADT, application that provides alerts for the state of the paths in the emergency room (Managing the care pathway)			
Outcomes	Results	> transparency, improved problem analysis, improved average length of stay: reduction of the performance indicator of hospital average length of stay from -0.17 to -0.52 and the departmental result moves from +0.52 to +0.12; the nurse has not to write the patient name many times: ↓ transcription of patient data (time and errors), ↓ phone calls and "personalization" of the pathways, simplification of the practitioner work, elimination of "stop & go", simplification from bureaucratic and administrative point of view, simplification and leaning of processes/ activities: – direct admission from emergency room – discharge in 3 clicks – bed management in 2 click – direct access to the area of labels and bracelet printing, the patient flow is quicker		
	Changes of the organizational system	- a unit was built and dedicated to these projects - single manager of emergency admissions (a physician) that from the emergency room admits directly to the settings - change of procedures for bed booking		
	Changes of the organizational climate	- collaboration between the HLM team and operators that now appreciate the work of the people in charge of HLM, > transparency, > trust in HLM team		
	Employees satisfaction	Who has worked actively in the project is satisfied, even if not all the operators have accepted the changes		
Sustainability, follow- up & lean continuity	Integrate everything in a software, contact with operators, training, refresh, recall of information, continuous presence, PDCA, great motivation of the HLM team			
Enablers	Few elements to be monitored, use of ADT, support of the top management, systematic vision of the interventions, contact with operators, continuous presence, empathy with the professionals, no stress on the terminology (avoid to use the terms of HLM if necessary), motivation and determination		**Obstacles**	Resistance to change Certain professionals struggle to accept people who is implementing these projects; difficulties to accredit HLM procedures because of less HLM understanding by the quality unit

Table 4. *Key characteristics of the "Lean & Safety" project LADT.*

Moreover, even if not all the staff have accepted the changes, who took part actively in the project is now satisfied with it. The elements that enabled the project concern the use of ADT, which was already known in the hospital, the support of the top management, a system view of the interventions, the numerous contacts of the HLM team with operators and a strong motivation and determination. Nevertheless, there were also hindering factors. The first one was the resistance to change, as "it is difficult to change the organizational behavior" (according to the words of an interviewee). There are

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professionals that still struggle to accept the changes, especially those who lose part of their control. Moreover, the less diffusion of the HLM culture has provoked difficulties for the correct accreditation of the HLM procedures by the quality unit.

However, the examined project is the first one of a series of planned projects that will be realized in this LHU. The integration of all the projects in a unique software is a way to guarantee the continuity and the sustainability of HLM. Other tools and practices to be adopted to this extent are: training courses, contacts with operators, continuous refreshes and recalls of HLM information, the execution of cyclic activities thanks to PDCA, but mostly the motivation of the team in charge of the realization of HLM projects.

CONCLUSION

All the three analyzed projects were supported by the regional authority and they pursued efficiency objectives. As reported in Crema and Verbano (2015b), the emphasis of the interested regional authority on HLM adoption is evident and it emerges also from the analyzed projects and from the strategic direction of their hospitals that try to put into practice the transposed regional directives. Other similar features have to be emphasized. First of all, the projects demonstrate analogous hospital organizational characteristics. In particular, a unit dedicated to HLM is present in both of the cases and CRM is not involved in the projects, except at the end of the LADT, where the clinical risk manager was consulted after the reporting of the first results. According to the results of Crema and Verbano (2013)'s literature review, a key factor for the project success was attributed to the top management support; in all the cases, the hospital direction has previous HLM experience and he strongly believe in it. Thanks to the existing internal competences about HLM and to the regional community, which provides also technical support if requested, no external consultants were considered necessary for the project success. Besides similar efficiency objectives, in the second and the third case there is a need to improve also the communication between people with different roles in the hospital. In these projects, the involved employees intended also to improve the hospital image and the focus on patient needs, respectively. Notwithstanding a challenging change management ascertained in all the projects, similar results were obtained in terms of efficiency, internal collaboration and communication improvements, especially for the second and the third case. In particular, trust in the HLM unit has been increased after the realization of the projects. On the contrary, different characteristics regard the implementation process, the ICT adoption and the processes to be improved. As concerns the latter, the processes are front-office in the first two cases, as they are visible to patients, while in the last project the attention is focused on the flows of material and patient information and on the employees well-being, even if they indirectly impact on patient care. To this extent, the projects report dissimilar results; for instance, only

 ISBN: 978-9963-711-37-6

in the first two projects reduction of infection risks and of the potentially inappropriate DRGs was reported. There are phases of the implementation process that are the same, even if they are positioned in different sequences. For example, the planning and the information and training phases are postponed in the third case, but they are executed also in the others. Demand analysis and definition of intervention priorities were recognized only in the LADT project, while the investigated flow is identified and mapped at the beginning of the project implementation in all the three cases. As ICT support is concerned, while in LADT an electronic platform was designed, the interviewees of the second case claimed for the need of information systems to support the realization of L&S projects. Looking at the interesting results of the first two projects, the ICT adoption seems not fundamental to assure project success. However, considering the strategic aim, the final involvement of CRM and the ICT support, the potentialities of the third case are evident, and they will be concrete when a more attention will be dedicated to the front-office processes: only through the improvement of them, it is possible to achieve direct patient safety improvements.

ACKNOWLEDGEMENTS

The authors gratefully acknowledge the support from Padova University (project CPDA129273).

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 ISBN: 978-9963-711-37-6

FAMILY FIRMS AND PROFESSIONALISATION: A SURVEY OF ITALIAN SMALL-MEDIUM ENTERPRISES

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ABSTRACT

Salvato and Moores (2010) suggested underlining the drivers, the features and the effects in the adoption of Strategic Planning (SP) and Management Control Systems (MCSs) in family firms (FFs), as particular manifestation of the professionalization phenomenon. Indeed, researchers largely overlooked this topic, with few exceptions (Amat *et al.*, 1994; Giovannoni *et al.*, 2011).

This paper aims at investigating the characteristics of professionalization processes in Italian FFs, especially considering the implementation of formal SP and MCSs and the corresponding features in the adoption of these tools. We combined the insights of the literature and the findings observed with a survey made by questionnaire, in a sample of North-Italian FFs.

We considered this issue relevant both for the literature and for the practitioners as it suggests a direction of managerial innovation in FFs to manage competitiveness (Bresciani *et al.*, 2013; Songini *et al.*, 2013). Indeed, it emerges as managerial mechanisms are considered to generate benefits, especially in terms of support to the decisional process of the various organizational units of the firm. By this way the *company growth theory* is confirmed.

Keywords*: Family Firms; FFs; professionalization; Strategic Planning; SP; Management Control Systems; MCSs; decision making process; company growth theory*

INTRODUCTION

The importance of formal Strategic Planning (SP) and Management Control Systems (MCSs) to manage organizations is widely affirmed by literature (Anthony, 1956; Anthony *et al.*, 1965) and practitioners, even if companies demonstrate to use these tools in different ways and not with the same intensity, especially with respect to the group of family businesses (Chenhall, 2003). Salvato and Moores (2010) suggested to underline the drivers, the process, the characteristics and the effects in the implementation and evolution of these tools in family firms (FFs), especially if small and medium-sized, as particular manifestation of the professionalization phenomenon. Indeed, despite the fact that professionalization is a critical issue for the literature about family business, the topics concerning how SP and MCSs could

 ISBN: 978-9963-711-37-6

be affected by or affect professionalization have been largely overlooked by researchers, with few exceptions (Amat *et al.*, 1994; Giovannoni *et al.*, 2011).

Following this suggestion, this paper aims at investigating with an explanatory purpose the drivers and the characteristics of professionalization processes in Italian FFs, especially considering the implementation of formal SP and MCSs and the corresponding features in the adoption of these tools. In the context of a mixed approach, we combined the insights of the literature on professionalization in FFs and the findings observed with a survey made by questionnaire, in a sample of North-Italian FFs.

We considered this issue relevant both for the practitioners and for the literature, especially in a context characterized by economic crisis, as it indicates a possible perspective of managerial innovation in FFs to manage competitiveness, and, above all, as we have observed a gap in current frameworks concerning the role of managerial mechanisms in FFs (Bresciani *et al*., 2013; Songini *et al*., 2013). In this article, we firstly looked at the analysis of the theoretical background of the professionalization phenomenon in FFs, drawing particular attention to the main issues of our paper (the role of SP and MCSs). Then we outlined our research method and in the following section the discussion of the results is presented together with the conclusion of the work. Finally, implications of the study are given, along with the limitations of the research.

LITERATURE REVIEW

The professionalization of FFs is generally defined as "the process trough which professional managers become part of the family business at the management or ownership level. This process entails the adequate formal training and education of individuals (regarded as professional managers), but it may also result in an increasing adoption of formal mechanism and systems inside the family firm to support the business" (Giovannoni *et al.*, 2011). Professional managers are supposed to be "expert" in the field of management and to know what is "good" for the organization (Songini and Vola, 2015), as they have a specific degree and/or they have a particular previous experience in the field of business administration.

The main part of the literature considers the professionalization phenomenon in a FF as the entrance of an external subject, not belonging to the family, into the business, but it also happens that the same members of the family or employees become more "professional" trough specific educational process (Dyer, 1989; Hall and Nordqvist, 2008) and trough the adoption of managerial tools (Stewart and Hitt, 2011). Dyer (1989) proposes three different ways of professionalization that are: i) the professionalization of family members; ii) the professionalization of non-family members; and iii) the employment of outsider professional managers. The literature offers a wide range of considerations

 ISBN: 978-9963-711-37-6

about each solution of the above ways of professionalization, summarizing numerous advantages and disadvantages (Perez-Gonzales, 2006; Sciascia and Mazzola, 2008; Villalonga and Amit, 2006).

Many studies highlights how FFs are characterized by a low adoption of SP and MCSs, due to the fact that social and individual control fit more than the bureaucratic-administrative one in these enterprises (Moores and Mula, 2000). However, when the FF becomes more complex as it has been characterized by a successful growth, this enterprise adopts more frequently managerial mechanisms, that are considered as a typical manifestation of professionalization (Moores and Yuen, 2001).

Combining the previous studies, it emerges how the professionalization of FFs is usually related to one or more of the following elements: i) the involvement of non family members, the so-called professional managers, in the board of director or in the management of the company; ii) the formal training and educational process of employees already present in the company or of the family members; iii) the implementation of formal SP and management systems (MCSs, management accounting, performance measurement systems, rewarding systems, information systems, etc.) in the company.

In particular, concerning the implementation of formal SP and management systems in FFs and with regard to the drivers, the need and the effects of this process, it is possible to identify two main groups of theories (Songini, 2006): i) the group of theories that consider as positive the implementation of these formal systems in FFs; ii) the group of theories that consider as negative the implementation of these formal systems in FFs, explaining the reasons for which it should be avoided.

There are several theories that belong to the first group, and in particular we underline the agency theory and the company growth theory. The *agency theory* affirms that formal SP and management systems can be considered as agency cost control mechanisms, as they are specifically oriented to increase the economic performance of FFs (Gnan and Songini, 2003; Montemerlo *et al*., 2004; Shulze *et al*., 2001, 2003). Indeed, strategy maps, budgeting, reporting, enterprise resource planning (ERP), reward systems and incentives are considered capable to reduce the opportunistic behavior of agents, motivating them in achieving the organizational goals, that are the principals' objectives. Through the adoption of these systems, a FF can avoid some typical negative characteristics of its being a family business. As regard the *company growth theory*, it affirms that when FFs become more complex, especially in organizational terms, there is a greater involvement in professionalization phenomena, adopting formal control mechanisms in order to better decentralize the decision-making processes (Moores and Mula, 2000). It usually happens that a FF becomes more complex when it achieves a certain size or it arrives at a determined stage in its life cycle and the organizational complexity increases.

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The theories that consider as negative the implementation of formal managerial systems in FFs are the stewardship theory and the organizational control theory. The *stewardship theory* affirms that in a FF managers can be considered as stewards, as they tend to pursue the owner's goal, reducing the agency costs (Jensen and Meckling, 1976). For this reason, less formalized managerial systems are to be preferred, as they can substitute the control mechanisms (Whisler, 1988). With similar consequences the *organizational control theory* considers the "familiness" as a particular feature of family business and it affirms that the social control and the clan are more effective than the formalized systems of controlling (SP and MCSs), especially when the decision making process and the power are managed by a few people (Mintzberg, 1983; Uhlaner and Meijaard, 2004).

An inconclusive picture emerged from the analysis of theories, which point out both the advantages and the uselessness of professionalization in FFs. Furthermore, this literature review brought to light a lack on the role and the features of SP and MCSs in FFs; indeed, current studies didn't focus on the drivers of SP, management control and professional managers, such as the CFO (Songini *et al*., 2013) in FFs. For this reason, it emerges as interesting researches that are able to analyze the diffusion, the features, the objectives and the role of control mechanism in FFs (Songini, 2006).

METHODOLOGY

The research method

The aim of our work is to understand what are the drivers and the characteristics of professionalization in FFs, focusing the attention on the implementation and the use of SP and MCSs. With respect to the research objective and on the basis of the literature review, the following research questions have been developed:

RQ1: What is the diffusion and what are the main features of the professionalization phenomenon in Italian FFs, in particular considering the level of implementation and adoption of SP and MCSs in these companies?

The aim of this RQ1 is to understand the characteristics of professionalization, especially considering Italy. Indeed, the FFs phenomenon is widespread in this Country, as well as in Europe, and the economic environment is characterized by the presence of numerous small and medium-sized companies, often family-controlled (Mediobanca, 2003).

RQ2: Is there a correlation between the level of professionalization, the organizational complexity of the firms and the benefits correlated to the SP and MCSs adoption, especially in terms of improvements in companies' decision-making processes?

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The aim of this question is to verify the existence of a positive correlation between:

1. the level of professionalization, measured both in terms of presence of "professional managers" that become part of the family business at the management or ownership level and in terms of increasing adoption of formal mechanism and systems inside the FF to support the business (Giovannoni et al., 2011). In particular, we considered the presence of graduate employees as a proxy variable of the presence of "professional managers", indeed the main part of the literature considers the entrance of external professional with a specific educational process, and also the fact that the same members of the family or employees become more "professional" trough specific educational process as a professionalization phenomenon of FFs (Dyer, 1989; Hall and Nordqvist, 2008). Furthermore, we measured also the level of development in the tools of SP and MCSs, considering on one side the cluster of firms that adopt only the most traditional tools, and on the other side the firms, which have implemented also the most innovative and strategically oriented ones. Indeed, FFs that implement managerial mechanisms are considered as professionalized (Moores and Yuen, 2001) and the more developed are the tools the higher is the professionalization;

2. the organizational complexity of the firm, measured by the type of structure adopted. Indeed, the *company growth theory* affirms that when FFs become more complex, and their complexity is demonstrated by the adoption of a certain kind of organizational structure, it is possible to verify a greater involvement in professionalization (Moores and Mula, 2000);

3. the declared benefits of the adoption of SP and MCSs, especially concerned to the mechanism of decision-making process in FFs. Indeed, the literature affirms that the adoption of formal control mechanisms in FFs has been frequently observed in "complex" FFs in order to better decentralize the decision-making process (Moores and Mula, 2000).

To answer to RQ1 and RQ2, we conducted an empirical analysis through a questionnaire, random selecting companies belonging to the Piedmont Italian Region (North-West of Italy). The data, both quantitative and qualitative, were collected with an on-line questionnaire, managed by Monkey Survey software, and analyzed using statistical tools (mean, standard deviation and Pearson correlation ratio). The questionnaire allows researchers to collect a significant amount of data, which permit statistical analysis and generalizations (Zimmerman, 2001). The approach used is both qualitative, analyzing the empirical evidence, and quantitative, measuring information. The questionnaire has been created in June 2014 and subsequently sent to the companies in the months of July, August and September 2014. It was structured in two sections: i) the first section collected general data of the companies (corporate name, number of employees, revenues, economic sector, legal form, year of foundation, and the

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distinction between FFs and Non Family Firms, NFFs); ii) the second section collected data on organizational components, SP and MCSs (organizational structure, SP and MCSs tools adopted, employees involved in SP and MCSs, aims and scope of SP and MCSs, benefits and costs of SP and MCSs).

The sample

The original sample was constituted by 3.900[1] companies (we considered only "active" companies, that were not in closure or in settlement procedures), with legal head office in Piedmont (North-West of Italy), and with revenues included between 5 and 250 million of euros[2]. The companies belonged to different economic sectors (manufacturing, services, trading, craftsmanship, agriculture and farm animals). Micro companies and small companies with revenues lower than 5 million of euros were excluded by the research, in order to focus on small-medium sized firms, due to the low incidence of big companies on the sample (about 3%). Starting from this sample, 1.800 companies were successively chosen, through a random and casual process applied by the software, to which the questionnaire has been sent. Compilation time was about 3 months. As a result, 309 companies (18%) returned the filled questionnaire by using the same software. More than 50% of companies has its own legal head office in the Turin district, while the 20% is located in the Province of Cuneo. These two districts are the widest of Piedmont under a geographical criterion and Turin represents the center of businesses and economic activities of the Region (see Table 1).

Companies' locating in Piedmont, Italy		
Answer Options	Response Percent	Response Count
Alessandria	7,0%	21
Biella	6,7%	20
Novara	8,0%	24
Cuneo	19,7%	59
Torino	53,5%	160
Asti	2,0%	6
Verbania	1,7%	5
Vercelli	1,3%	4

[1]Data were provided by Chamber of Commerce of Turin (2014, June).

[2]CE 364/2004, adopted in Italy on the 1st of January 2005, distinguished companies in four different groups on the basis of their size:

Group	Employees	Revenues (mil of €)
Micro companies	< 10	≤ 2
Small companies	< 50	≤ 10
Medium companies	< 250	≤ 50
Big companies	> 250	> 50

Source: own elaboration

ISBN: 978-9963-711-37-6

Answered Question	299
Skipped Question	10

Table 1. *Companies' locating in Piedmont, Italy*

The highest percentage of frequency per revenues grouping (data declared with reference to 2013 fiscal year) is the one included between 5 and 20 million of euros (66,4%). Beyond 20 million of euros percentages gradually decrease till a 3% of companies that passes 100 million of euros. The half of companies has a number of employees included between 10 and 49. It was however relevant the percentage of firms with a number of employees between 50 and 249. It was instead very low the percentage of companies with a number of employees equal or higher than 250. This information confirmed the sample was particularly focused on small-medium firms.

The companies of the sample were asked to indicate if they belonged to the FFs group rather than to NFFs, following a specific criterion explicated in the guide of the questionnaire. The criterion is a mix criterion proposed in literature by Chua *et al.*, 1999. Once distinguished the sample in FFs and NFFs, the research focused on the FFs group with the intention of individualizing a particular trend in professionalization and in SP and MCSs. Only 276 companies indicated their belonging to the FFs/NFFs group and 132 (47,8%) of them declared to be a FF (see Table 2).

FFs versus NFFs		
Answer Options	Response Percent	Response Count
FF	47,8%	132
NFF	52,2%	144
Answered Question	276	
Skipped Question	33	

Table 2. *FFs versus NFFs*

FINDINGS

Within the FFs of the sample, the 42,9% has revenues included between 5 and 20 million of euros (data declared with reference to 2013 fiscal year). Beyond 20 million of euros percentages gradually decrease, till 2,7% of companies that passes 100 million of euros. The 20,8% of companies declares not exporting anything and the 46% has exportations less than 10% of the revenues, while the 24,6% of companies has international revenues higher than 50% of the total revenues and the 14,6% has an incidence between 20-50%.

In the sample half of the companies has a number of employees included between 10 and 49 (48%). It is however relevant the percentage of firms with a number of employees between 50 and 249 (35,7%). Instead, it is low the percentage of companies with a number of employees equal or higher than 250 (7%) and lower than 10 (9,3%). On average, the number of employees is equal to 103, with a standard

 ISBN: 978-9963-711-37-6

deviation of 299. This information confirms that the sample is particularly focused on small-medium firms. FFs were asked to indicate how many graduated employees were involved in the company. About the 18% of FFs has no graduates in the total work force, while the 53% of companies has a number of graduated employees on the total of employees included between 1-5. The average amount of graduates per company is equal to 8,95, with a standard deviation of 31, and the average incidence of graduates on the total amount of employees is equal to 8,8% with a standard deviation of 12.

Considering the organizational structure of the company, it emerges that the 26,8% of the companies maintains a relatively simple structure, the so-called "elementary" one, in which there aren't responsibility centers under the chief of the company. In these firms the decision making process is centralized and it is not usual to delegate other employees. On the contrary, more complex companies have an incidence equals to 73,2%: these companies are characterized by being relatively decentralized toward intermediate organizational units, which are grouped under the top by functions, processes or projects.

As regard the SP and MCSs, we observed that the 79,6% of the FFs (the 74% of companies answered to the question) adopts these tools with a continuous process and certain stability: in the 58% of cases a monthly concurrent control is done. It should be underlined that in some cases companies answered not adopting SP and MCSs, while at the following question about the specific tools implemented they answered positively. This problem is caused by a defect in comprehension about the meaning of SP and MCSs terms and in any case we corrected the answers and eliminated the incoherency.

Companies that indicate not adopting SP and MCSs, primary (50%) motivate this choice as the cost of implementing and maintaining these tools is too expensive, and secondary (22,2%) as they don't know the corresponding meaning and aims of the systems themselves (see Table 3).

Motivations not adopting SP and MCSs		
Answer Options	Response Percent	Response Count
They aren't known	22,2%	4
They are too much expensive	50,0%	9
They are too much difficult to be used	11,1%	2
They aren't useful	5,6%	1
Other causes	22,2%	4
Answered Question	18	
Skipped Question	114	

Table 3. *Motivations not adopting SP and MCSs*

Within the examples provided by the questionnaire concerning the adopted tools of SP and MCSs, in the majority of companies financial analysis (74,7%), budgeting (69,9%) and cost accounting by centers (60,2%) are the most widespread (see Table 4).

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SP and MCSs diffusion		
Answer Options	Response Percent	Response Count
Activity Based Costing	19,3%	16
Reporting	41,0%	34
Financial Analysis	74,7%	62
Balanced Scorecard	10,8%	9
Balanced Scorecard and Risk Management	2,4%	2
Benchmarking	10,8%	9
Budgeting	69,9%	58
Co-design	3,6%	3
Elementary Cost Accounting	22,9%	19
Responsibility Centers Cost Accounting	60,2%	50
Customer Satisfaction	28,9%	24
Productivity Analysis	38,6%	32
Strategy Map	0,0%	0
Boston Consulting Group Matrix	1,2%	1
Process Costing	4,8%	4
ERP	36,1%	30
Target Costing	6,0%	5
Others	4,8%	4
Answered Question	83	
Skipped Question	49	

Table 4. *SP and MCSs diffusion*

The SP and MCSs are managed by internal personnel in the 74,7% of cases, while in the 2,4% of cases by external consultants and in the 22,9% both by internal and external personnel. The following Table (see Table 5) shows the list of motivations indicated by respondents to justify the preference of internal resources than external consultants: the most important motivation in terms of incidence (about 45% of respondents) is surely the one correlated to the presence of internal competencies and skills in company personnel to outperform in comparison with the solution of externalizing to consultants.

Motivations for the in-house SP and MCSs		
Answer Options	Response Percent	Response Count
Presence of internal competencies and professionals	45,1%	23
Higher privacy, accuracy, reliability and promptness	29,4%	15
Lower costs	21,6%	11
Strategic decision made by the top	9,8%	5
No fund for external consultants	2,0%	1
Answered Question	51	
Skipped Question	81	

Table 5. *Motivations for the in-house SP and MCSs*

The administrative area of the company is involved in managing SP and MCSs in the 57,3% of cases, while only 34,1% of companies has its own controlling area (see Table 6).

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Internal areas involved in SP and MCSs		
Answer Options	Response Percent	Response Count
Entrepreneur	40,2%	33
Controller	34,1%	28
Administrative Department	57,3%	47
Financial Department	13,4%	11
Other	6,1%	5
Answered Question	82	
Skipped Question	50	

Table 6. *Internal areas involved in SP and MCSs*

The number of employees involved in SP and MCSs is on average 2,52 per company and 1,1 of them are graduates. Companies answered to this question considering only full-time personnel involved in SP and MCSs activities, not considering resources with many different tasks, included the ones of SP and MCSs.

In the majority of cases (61,4%), SP and MCSs are used to make employees responsible and not only as tools to make economic and financial simulations. To the direct question if these tools were used to improve the decision making process, making employees responsible, the answer are the following (see Table 7).

Importance of SP and MCSs to make employees responsible		
Answer Options	Response Percent	Response Count
Yes	61,4%	51
No	38,6%	32
Answered Question	83	
Skipped Question	49	

Table 7. *Importance of SP and MCSs to make employees responsible*

The 96,4% of companies that adopted SP and MCSs declared to have achieved some important benefits from the implementation of these tools. In particular, they consider the most important benefits as the possibility to achieve correct and prompt information to make decision (78,8%), to improve the efficiency of the firm (65%) and to reduce weakness (61,3%). The benefit of making more effective the decentralization of the decision making process in the companies has been chosen by the 36,6% of the firms (see Table 8).

Benefits of SP and MCSs		
Answer Options	Response Percent	Response Count
Correct and prompt information	78,8%	63
Reducing weakness	61,3%	49
Reinforcing strengths	31,3%	25
Making Employees responsible	36,3%	29
Improving processes	46,3%	37
Improving products and services	21,3%	17
Improving production capacity	20,0%	16
Reducing costs	65,0%	52
Others	0,0%	0
Answered Question	80	
Skipped Question	52	

Table 8. *Benefits of SP and MCSs*

ISBN: 978-9963-711-37-6

We finally correlated through the Pearson correlation ratio (see Table 9):

1. the presence of the graduate employees: the identified clusters are two and they depend by the incidence (equal and higher than 5% or lower than 5%) of graduate employees on the total amount of employees in the firms;

2. the level of development in SP and MCSs: the identified clusters are two and the first is characterized by firms adopting only traditional tools (Variance Analysis, Budgeting, Cost Accounting by Centers, and ERP), while the second distinguishes firms which use also innovative tools, more strategically oriented (ABC, Benchmarking, Co-design, Customer satisfaction analysis, Productivity analysis, Process costing, Target costing, Boston Consulting Group matrix, Strategy Maps, Balanced Scorecard or BSC, and BSC integrated with Risk Management);

3. the type of organizational structure: the identified clusters are two and they depend by the degree of decentralization in the decisional process (elementary structures in comparison to the others, that are multifunctional, multidivisional, process and project driven);

4. the benefits of the implementation of SP and MCSs, especially in terms of "Decisional supports": the clusters concerning the benefits called "Decisional Support" include the benefits of SP and MCSs shown in Table 8 in the rows "Correct and prompt information" and "Making employees responsible", due to the fact that both of them are relevant to improve the decision making process of employees within the company.

Pearson Correlation Ratio	Organizational Structure	Decisional Support	Graduates	SP and MCSs Development
Organizational Structure	1	,040	-,038	-,086
N	78	78	78	78
Decisional Support	,040	1	,026	,111
N	78	78	78	78
Graduates	-,038	,026	1	,341
N	78	78	78	78
SP and MCSs Development	-,086	,111	,341	1
N	78	78	78	78

Table 9. *Correlation among graduates, organizational structure, SP and MCSs development and benefits in terms of Decisional Support*

As can be observed, the correlation is weak for each combination of variables, with the exception of the correlation between Graduates and SP and MCSs level of development, which can be considered as moderate.

DISCUSSION AND CONCLUSION

 ISBN: 978-9963-711-37-6

Analyzing the findings of the questionnaire, and in order to answer to RQ1, it is possible to affirm that the small and medium FFs in Piedmont are characterized by being relatively "complex and articulated" in organizational terms, as they frequently (73%) adopt organizational structures that entails phenomenon of decentralization in their decision-making processes. This evidence can be read through the *company growth theory,* which affirms that when FFs become more complex, it is possible to verify a greater involvement in professionalization (Moores and Mula, 2000).

Furthermore, these firms are characterized by a moderate involvement of graduate employees on the total of the workforce, demonstrating a fair attitude to hire employees with specific academic and professional skills. Indeed, especially considering the size of these firms (the 48% has between 10 and 49 employees), the 53% involves between 1 and 5 graduates and the average incidence of graduates on the total amount of employees is equal to 8,8%. This element demonstrates efforts in the process of professionalization in these FFs, as the main part of the literature considers the entrance of external professional with a specific educational process, and also the fact that the same members of the family or employees become more "professional" trough specific educational process as a professionalization phenomenon of FFs (Dyer, 1989; Hall and Nordqvist, 2008).

As regard SP and MCSs they are widespread in FFs, even if a certain amount of companies still doesn't use these tools, with particular attention to those that have chosen to maintain an elementary organizational structure, for which the cost of the implementation and management of the same tools is perceived higher than the potential benefits. However, when the FF becomes more complex as it has been characterized by a successful growth, this enterprise adopts more frequently managerial mechanisms, that are considered as a typical manifestation of professionalization (Moores and Yuen, 2001). If we consider the tools of SP and MCSs, we can affirm that financial analysis, budgeting and cost accounting systems by cost centers are the most widespread in the sample, demonstrating how more strategic oriented tools are still not so adopted and diffused by the FFs. Indeed, these tools are perceived as difficult to use and the excess of formalization is seen with suspect.

In most cases internal personnel manages the SP and MCSs processes, due to the fact that he/she is considered more competent and reliable, able to guarantee more promptness at lower costs, in comparison with external consultants. SP and MCSs are considered to generate more benefits than costs by the majority of the firms of the sample, especially in terms of support to the decisional processes of the various organizational units, to which the power has been partially delegated. The relevant information, required to support the decision-making process, is indeed provided to organizational and responsibility units of the company with rapidity and usefulness.

 ISBN: 978-9963-711-37-6

In order to answer to RQ2, we measured the correlation among the level of professionalization, the type of organizational structure and the benefits perceived by firms regarding the SP and MCSs implementation, especially in terms of "Decisional supports". It emerged a moderate correlation between the presence of Graduates in the companies and the level of development of SP and MCSs, as demonstrating that hiring employees with academic degrees is an important condition of professionalization, especially in terms of adoption of managerial systems to support strategically oriented decision-making processes. In any case, other correlations are not particularly significant, and referring to these correlations we can't produce new theory since results are quite weak. We can affirm that, even if Italian FFs achieved significant results in terms of adoption and implementation of SP and MCSs, the further development in the use of these systems depends by the employment of graduates in the companies. In other words, it appears evident how the next step in the diffusion of managerial systems, especially of those tools that are more strategically oriented, could depend by the capacity of the firm to "educate" new professionals in the firms.

In conclusion, the use of these managerial systems is frequently justified with benefits higher than costs, and in particular the benefits are consistent with the possibility to reinforce decentralized decision-making processes and supporting and motivating organizational units at different level under the top and by this way the *company growth theory* is confirmed.

IMPLICATIONS AND LIMITATIONS

The paper can be considered as a development in the research studies about the family business management and, in particular, it contributes to extend the literature concerning the drivers and the benefits of the professionalization, especially if considered in terms of implementation of SP and MCSs. This article proves that for FFs formal SP and MCSs are relatively widespread in Italy and that they can be adopted with positive effects on the decision-making processes of companies, especially in more structured and complex companies. Therefore, these tools represent a positive solution to maintain competitiveness, as hypothesized by the *company growth theory*.

One limitation of the paper is represented by the presence, within the sample, of companies belonging to different sectors: it could be useful distinguishing among them, in order to individualize typical trends. At the same time it could be interesting to compare the findings concerning the adoption of SP and MCSs in FFs with the ones related to NFFs, in order to evaluate if the presence of the family in the business can be considered as an independent variable with effects in terms of diffusion of these tools. In addition, it could be useful to adopt econometrical models and tools to analyze more in depth data and information.

 ISBN: 978-9963-711-37-6

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 ISBN: 978-9963-711-37-6

CRISIS AS AN INCENTIVE TO ECONOMIC TRANSFORMATION - FROM COMPETITION TO INTERDEPENDENCE MODEL

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ABSTRACT

The recent crisis is a signal transition towards a new order of interdependence. He showed significant limitations of money as a measure of value, detached from the real size, which, through its virtual nature has value in itself. Moving away from shareholders to stakeholders is the moment of transition from value management in the interest of the owner to integrate virtual management value by including all stakeholders to the process of creating added value. A key element of transformation is a return to fundamental values such as trust, direct contact, or the natural environment. Creativity is triggered by the values of the integrated unit activity in the area not only professional but also mental, emotional, physical, spiritual, cultural, social and environmental sustainability.

Keywords: values, economic theory, crises, integral approach

POST CRISES ECONOMY

The financial crisis of 2008 and the subsequent tsunami waves in the real economy are unprecedented, and made very little can be explained using classical economic theory. World twenty-first century is no longer behave according to the principle of general equilibrium in individual countries, and the barrier forecasting phenomena occurring on a global level defies analysis already available open economies.

This raises the question whether you really know what happened to so perfectly self-perpetuating machine of the global economy, and whether it is really inventing a perpetual motion machine in which so much wanted to believe. Is painful economic collapse is just another disease of childhood, which strengthens the immune system of the body maturing, or however it is a symptom of a disease of civilization (generally having a chronic course) on which themselves earned. What's the difference between this wave of recession from the turbulent cycles of the twentieth century (excluding catastrophes caused by totalitarian inclinations, though, and these were the economic base).

The clearest consequence of the financial and economic crisis (with a little help of natural disasters) is to change the balance of power the world's major economies. It is true that the United

 ISBN: 978-9963-711-37-6

States maintained its leadership position, but their advantage quickly melts and even in this decade the main force of the global economy as envisaged will be in Asia [1]. The crisis of recent years accounted for in this case a kind of catalyst for change that we can observe from the end of the last century. In addition, this catalyst also worked on the pace of geopolitical changes in the world. So strong turbulence led to the strengthening of asymmetric costs and benefits, which the financial markets means losses for millions of price-takers and the opportunity to realize quick profits for a small group of price-setters directly affecting the condition of the market; and on a global scale temporary difficulties dominant countries unbalanced at the expense of small countries (in the context of the impact on the global economy).

Large countries have a much larger arsenal of a rapid response and much larger portfolio of assets that can run (including printing money and inflows from seniority, which busily use the United States). More than that in times of recession it is worth to hunt for "black swans" and expand its sphere of influence realizing the long-term strategy of taking control of natural resources in various parts of the world (especially in the field of rare elements) as do China [2].

To sum up, the crisis accelerates changes expressing natural tendencies of individual countries (including the excessive indebtedness as in the case of Greece), but also shows the voracious and predatory nature of both finance and powers competing for the undisputed leader [3]. The only question is which after such a feast is under the table and are you sure this is the prosperity of global competition, which was to solve the problems of humanity?

Globalization and what next?

Manuel Castells identifying and analyzing the determinants of the emergence of the global economy pointed to its political origin [4, s.109-170]. Building the network society indeed was based mainly on the spread of information and communication technologies, but the process was largely based on politically supported the interaction between markets and governments and financial institutions. Universal domination "only correct" neo-liberal ideology was reinforced by policymakers personally interested in the use of new opportunities to pursue profit both during and after office through a network of contacts (eg. Ex-politicians advising Nord Stream) and control access to individual markets (various forms bribes and corrupt lobbying from Russia to the European Parliament).

According to the law if we Maslow instrument in the hands of a hammer, then every problem is treated like a nail. From liberal global economy, supported by technological progress, it expected a miraculous solution to the problems of humanity, both at the economic and institutional, which in itself is a contradiction. However, while relatively easy it was to support the progress of globalization

 ISBN: 978-9963-711-37-6

on the political and institutional level, it is difficult with the same level of avalanche character limit initiated the process.

The current global economy is a network of interrelated market segments, key for individual countries playing role of relay nodes. Exclusion of such a node with a global network cuts off power in the form of the flow of information, technology, and production factors, which de facto means cutting off the power generating development. For the rest of the system such an exemption is irrelevant to all countries outside the US and China. This means that in the new global system all countries except the two biggest countries are small in terms of international economic relations, which have no impact on the functioning of the system as a whole, which works perfectly even when bypassing the node. Note, however, that disconnecting a single economy from the system at a rapid pace can cause it to wither away.

Globalization in this form leaves no alternative to the ideology of efficiency at all costs, becoming the core of the new economy [5]. Opportunity to change the direction of the avalanche process of commercialization is paradoxically the shock of the collapse of financial markets and realize detachment of the real economy at the local level. Changing the geopolitical balance of power and the emergence of centripetal force operating in individual economies as a particular form of response to globalization and crisis in its broadest terms, including the financial markets, environmental risks and the uncertainty of the energy markets [6]. Gradually, however, there are a growing number of trends and initiatives that promote collective action to become independent from global flows based on entirely different values and local potential, both in social and economic terms.

SOCIAL TRANSFORMATION

Changing the balance of power concerns not only the international sphere but also social relations. And in this respect, the crisis has become a catalyst for changes initiated by the IT revolution and reinforced by globalization processes. The main direction alternately offset the impact of government for the benefit of social actors and individual actors with access to the same information as the group previously monopolized access to the data. Joseph Nye has called this phenomenon the diffusion of power [7], due to the impact of technology, especially information on creating opportunities for participation in international events through de facto eliminating the costs of such participation. Rapid technological progress and drastic fall in prices of telecommunications services virtually abolished barriers to entry not only on the global market for goods and services, but also allowed access to global data resources, which weakened the positions of governments based on information asymmetry.

 ISBN: 978-9963-711-37-6

Information, as a commodity highly valued by the market, has hitherto been reserved for governments and large transnational organizations (often cooperating with the government), due to the high costs of obtaining. Changing the balance of power has a huge impact not only on the global political relations of governments, but also and above all on the awareness of societies economically open countries. The global resource information shall not be sacred, as clearly demonstrated by the example of WikiLeaks affair, and before then are not able to defend even the major powers. Almost every day in the media, you can find examples of government actions in the international arena, which actually are directed to domestic customers. This shows the growing awareness of interdependence authorities with respect very many small social and economic actors, only ad hoc coalitions that come together in purposeful. Existing policy makers are losing the race for the monopolization of information. The growing extent of their success depends on the ability to conduct a dialogue and establish effective and transparent co-operation (each false note is quickly intercepted) with distributed external entities, which do not have institutional leverage.

Hitherto regarded as fundamental values and interaction mechanisms used by the government to cease functioning. Included in adulthood Gen Y poorly subjected to the dictates of stick and carrot seeing plenty of other ways to meet the needs. The dominant realizes the need for freedom of the Internet mainly treating it as an inalienable part of human rights. This generation was very sharply reviews the mechanisms of power quickly obtaining information advantage. The decrease in the importance of governments is a common phenomenon regardless of the political system wherever we have milked dealing with the public insulated. Even so indisputable value that is democracy ceased to be an asset highly developed countries. Democracy was so attractive about if gave the chance for a fairer redistribution of income which improved the quality of life of the society. An example of the development path of China's economy shows that democracy itself ceases to be a value, if the public gains access to the distribution of ever-increasing amount of goods, among which is the dissemination of ICT and its impact force of social (networking social capital is the foundation of capitalism in the release Chinese). Processes occurring in many countries, both internal and external, have a very similar nature. Regardless of which side of the race was competitive the country, the barrier functioning turns out to be exactly the same. There is no longer anything to win. The common external threats while forcing us to find a formula for co-operation independent of ideology.

The sphere of the real economy due to the successive crises evolving towards atomise the decision-making centres and multi-dimensional society homo agents [8, s.317-343]. The elements of this society less and less are objects, and more and more players changing their environment, including institutional. Heavily individualized social actors (both physical and legal persons) on the one hand are the primary component of the community, on the other hand are growing and getting

 ISBN: 978-9963-711-37-6

better utilized capacity to create social organism, which puts them in a dual role in the system and its creator. The actions of these new social forces manifest themselves in many new forms, including not only civil and political impact, but also new pro- environmental initiatives, regional and mutual aid in the form of organizations, associations and movements aimed at the purposes of ad hock one issue (eg. Anti Acta).

FOUNDATIONS OF ECONOMICS

Economic sciences are integrated with the values (even if they take a negative value to the detriment of society) because they also, in addition to homo oeconomicus approach, determine the economic decision-making, both by operators and by scientists and politicians. Economics is the study of economic behavior of human beings which in the modern world are increasingly complex, and cater to the needs of the entire spectrum located much higher in the hierarchy than the basic existential needs.

The underlying approach of neo-liberal globalization process definition was based on the theory of Adam Smith thus obtaining legitimacy world order. There's no better way to destroy the idea as its incorporation into fundamentally different ideology but reaching the world under the banner borrowed. The analysis process can be found inter alia in the book of prof. Gavin Kennedy "Adam Smith's Lost Legacy" [9, s.97-235], in which he makes a re-analysis of the "Wealth of Nations" Smith revealing his moral philosophy in connection with political economy. In the author's, Smith's intellectual legacy in the twentieth century has been completely transformed just by scientists what is true economy, but at the same time pursuing different objectives particularistic associated with managing the market related to politics.

Free competition of Adam Smith assumed that the interests of the individual leads to the common good was based on true if most people in the society is acting in accordance with the internal system of general laws that guide their behavior (moral system is not the same with feelings, not a religion and not required by law) it means that the economic efficiency of a competitive market is dependent on the realization of individual goals fairly consistent with the philosophy of fair practice, or if you prefer a win-win. Smith was convinced that most people, in most cases act in accordance with domestic law, and in these cases that violate the principle of not acting to the detriment of social, reacts to the state.

Another pillar of economic sciences, the pyramid of needs Maslow, in the era of the network society gains another dimension. The growing importance of the highest level responsible for the self-updating in a dynamic environment. Maslow understood this level as full use of the talents and potentials of the unit, and thus and society composed of such units [10, s.150]. A continuous process of

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self-realization to such an extent relies on the use of unforced creativity and uniqueness of characteristics which are endowed individuals. To exploit this potential on a scale knowledge-based economy, change the institutional structure limiting the creative energy, courage and spontaneity, both at the level of education and employment. Features indicated by Maslow in his last book, defining the unit of socially and personally mature, contributing to the common good, included such elements as: the ability to concentrate, choosing the constant development even at the expense of safety, a high level of self-awareness and honesty, their own opinions and tastes, transcendental experience (level Spirituality does not necessarily connected with religion), no complexes. A similar model of development occurs in the scheme of K. Wilber embracing matter, the body, mind and spirituality at both the individual and the collective.

A multitude of experiences available today allows us to touch and see life in every aspect. The level of self-actualization assumes that we know what to choose and consciously make choices these so that we serve while not depleting the others. The spread of knowledge and ideas in contemporary society is made very quickly and concerns a growing number of people coming out of the era of industrial society. To society as a community apply the same rules specifying the level of satisfactions development needs, which he described in his pyramid A. Maslow. Social development is correlated with the development of individuals, only that now much more difficult for him to control.

THE CRISIS IN THE AREA OF VALUES

The common denominator of crises in recent years, appearing on many interdependent levels, a crisis of trust in the institutions and authorities responsible for economic and social order of the modern world [11]. The reasons for departing from the path of sustainable development can be seen not only on the economic factors of production, but also on the environmental factors, the financing of current needs at the expense of future generations, and ethical aspects of human economic activity. The global crisis in the area of value not only led to financial losses of millions of people, but primarily caused increased sense of threat from financial markets, geopolitical stability, and natural hazards largely due to the lack of ecological balance, which has led to a growing sense of dissatisfaction. Money no longer guarantee safety and redistribution of public funds in many countries ceased to be based on the principle of equivalence.

Recently a team of European scientists from the fields of finance, economics and management issued a call for better use of economic science for the public good. The authors of this appeal have expressed concern that in the three years since the outbreak of the financial and economic crisis, despite expose the pitfalls and limitations in the field of economics dominant way of thinking, this approach still has a quasi-monopoly position in the academic world. This situation indicated a

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relationship between the institutional structures of the state and the dominant trends of science and academic education. The continuing despite the crisis domination paradigms of economic sciences is a global phenomenon and is a dogmatic, far from acting for the public good [12].

The question is whether, based on a dogmatic approach that universities are able to educate an open, creative and socially responsible individuals who can meet the challenges and co-create reality. The creators of appeal relate to the elementary functions of science in economics, finance and management which is to contribute to the common good, and not legitimize the benefits of financial innovation and speculation. According to these studies should serve a better understanding of the mechanisms governing reality and transfer of knowledge to the sustainable functioning of the economy, based on a diverse and interdisciplinary approach. It's hard to say if indeed the economy as a scientific discipline requires a fundamental revision based on intellectual pluralism, but certainly could use a verification of the level of responsibility of science to society (especially that this sphere for the most part lives from public money). So maybe it is worth enrich the foundations of economic sciences on an interdisciplinary approach corresponding to the current socio-economic problems based on equivalence, stability and balance of the system.

The economic relations record both extremely selfish behavior (especially common in post-communist countries, where the system of internal moral scheme has been largely destroyed), as well as altruistic behavior is not giving describe themselves in the usual way using economic tools, but also having economic consequences . Even Robert Solow noted that the excellent balance of the market, eg. Labor does not occur, so-called because they are awarded. "Rules of proper behavior" in force between employees. Modern psychology also provides examples of actions incompatible with the diagram of homo oeconomicus, when we are able to give up our part in the distribution of wealth, if only we have the chance to work for social justice in accordance with the general sense of fair division. Divisions uneven and inadequate to the effort are allowed only to a certain level, too much inequality can cause a reaction "educational" even at the cost of losses. On a macro level too high inequality lead to social unrest, in which we are also ready to accept to lose his own in the name of fighting for social justice in our concept.

The effect of the economic activity depends not only on economic calculation, but also of values we choose. Make a choice using our money that we spend on purchasing goods and services produced by the company on terms consistent with our beliefs, but also engaging in activities giving us a sense of meaning in the context of the labor market ("selling" their work to a certain extent, we can choose the buyer). We want our activities raised not only our prosperity, but we also want to have an input in the lives of others (by classification needs M. Rossenberga). Definitely values are not neutral when analyzing economic choices, which greatly limits the use of standard economic models.

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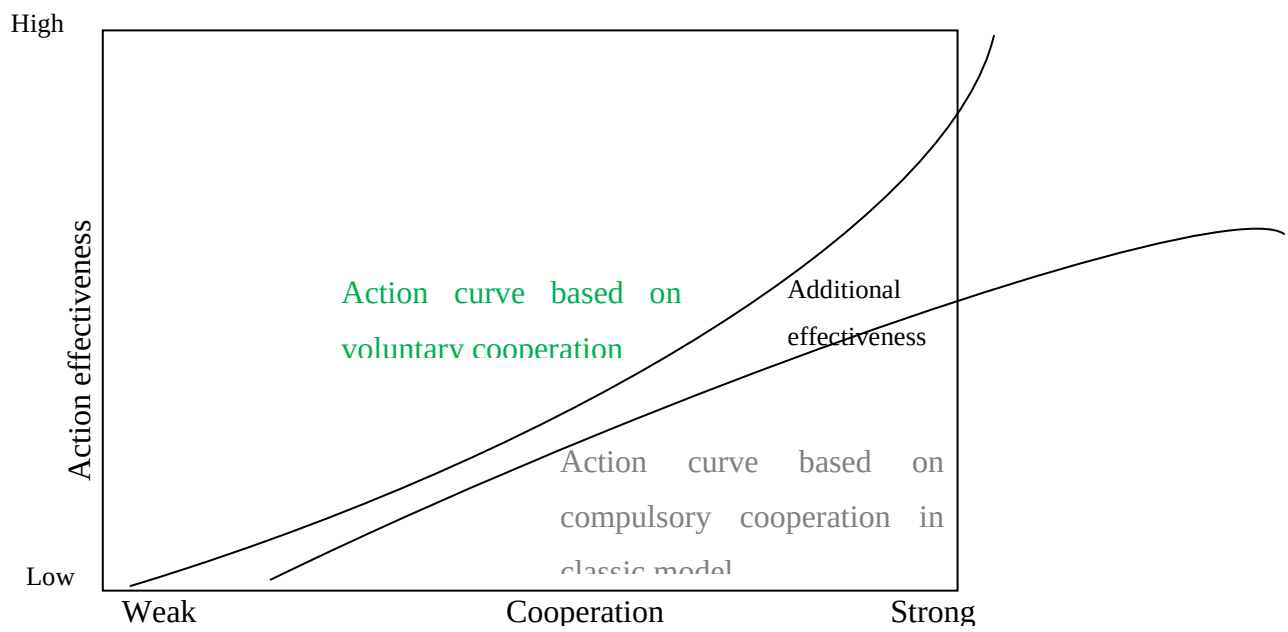
Behavior consistent with the system of values in economic terms include relationships as a basis for successful transactions in the future, where mutual trust reduces the cost of hedging against the risk. Trust lowers transaction costs and ascertainment of this fact makes the pursuit of values based on direct contacts and trust [13].

The concept of fair plays an increasingly important role in the distribution of social goods in the sphere of relations producer - consumer and government level - society. What's more, not only the result of the process is important (eg. Blocking Acta), but also the same process (public consultation, the treatment partners). Contemporary politics, and hence and the economy must be managed through proper narrative. People pay attention to the final communiqué announced officially, but in its assessment itself even more strongly emphasize the integrity of the process of generating a particular position. Classical models of production based on factors such as raw materials, labor and capital do not depend so heavily on the state of the human mind as a knowledge-based economy. The basis for such an economy is to create an intellectual resource and sharing it, and it's not easy to achieve without the voluntary cooperation [14]. This approach goes far beyond simply raising team effectiveness and optimal resource allocation through oversight and control mechanisms, and rewarding desired behavior of the premium system.

Figure 1. Dependence effectiveness of the level of cooperation



Source: W. Chan and Renee Mauborgne 2002 Fair Process: Managing In The Knowledge Economy, Harvard Business School Publishing Corporation, EBSCO 2003

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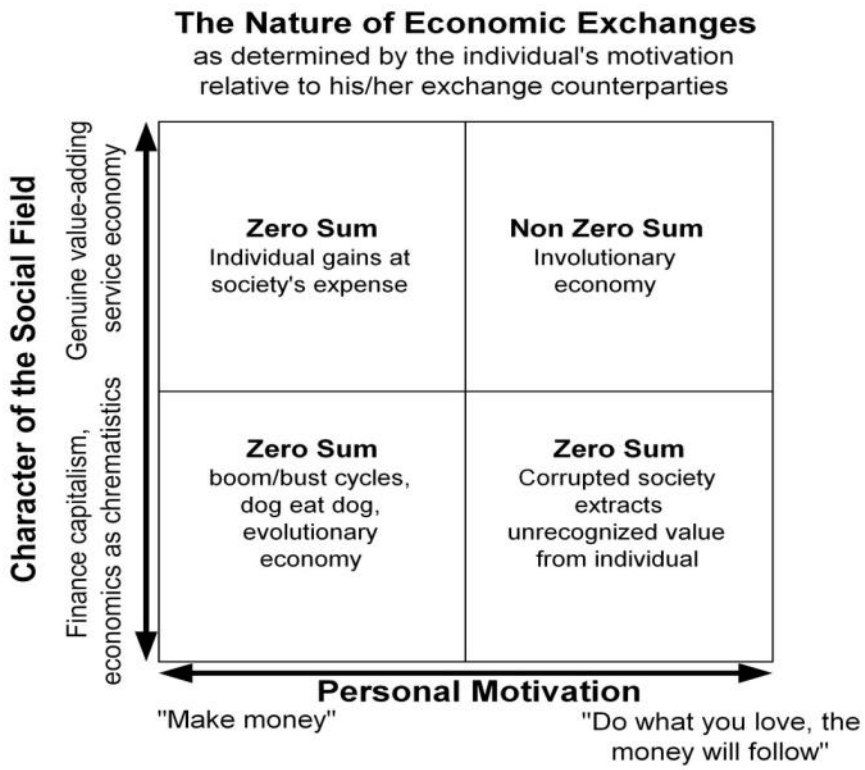
Using the principles of fair process, both at the level of organizations and society, we gain the trust and commitment, which are the basis of voluntary co-operation involving the sharing of knowledge and the use of creative potential. Then there is the additional efficiency (see Figure 1) based on the commitment to the process of creative potential of all stakeholders, allowing you to generate additional effect which is beyond the reach of traditional management models communities. We often forget about you, that lack of confidence has a measurable economic effects - significantly raises the cost of the organization and society, and in extreme cases leads to social protests contradicting the principle of rationality in economic terms.

INTEGRAL APPROACH OF INTERDEPENDENCE

An alternative to the current formula shaping economic processes can be integral approach, based on the overall perception of reality and interdependence of actions. The economy in terms of an integral system is appreciating diversity, allowing for the existence of each individual person with her abilities and talents, to develop their own, and for the enrichment of the general public [15].

Figure 2 The nature of economic exchange determined individual motivation and relationship relative to the exchange partner



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Source: Ken Wilber "Integral Theory of Everything" Warsaw 2006 [16]

Wealth creation (which is more than the production process itself), even according to classical economics is a social process rather than an individual. Adam Smith as the foundation to create value recognized division of labor, so that you can achieve higher profits both at the scale of production and international trade. Each individual self-enrichment strategy is also based on social interaction and exchange [17]. And so our prosperity depends on our relationship with the environment, and these in turn are a reflection of the level of maturity and emotional intelligence unit. Paradoxically, both at the individual and societal gain more if we are focused on working with partners in the economic and strive to profit at the cost of operation and high social costs [18, 19].

Money, as a measure of value in developed form of society increase the efficiency of meeting needs. In a simple dimension needs lower order to allow for porting the value of work to the value of goods and services, determining the level of living. Except that individual units operating in conditions of almost unlimited external resources and at the same time maximizing the well-being of the economy as a whole from the time of Adam Smith (he assumed acting in accordance with the values), operate in conditions of increasing external costs of determining the net effects.

The integral approach is what enriches promote the general welfare and limit the adverse effects socially (the same way as it did in traditional economic theory, except that the spectrum of the relevant factors is much higher, because includes the effects of tangible and intangible). Contribution to social development is assessed on the basis of taking into account external costs net effect in terms of rolling, which shows whether the accident positive economic growth is not offset by excessive and environmentally harmful consumption. Such perception of the economy is based on the paradigm of integral perception of reality, which is also part of the economic activity of man.

CONCLUSION

The recent crisis is a signal the transition period toward a new order of interdependence. He showed significant limitations money as a measure of value, detached from real size, which, through its virtual nature has value in itself. Moving away from shareholders to stakeholders is a moment of transition from value management in the interest of the owner to integrate virtual management value by including all stakeholders of the process of creating added value. A key element of the transformation is to return to basic values such as trust, personal contact or environmentally sound natural character of consumed goods and services. Creativity is triggered through integrated values within the unit activity in the area not only professional activities but also mental, emotional, physical, spiritual, cultural, social and environmental. The value in this approach is not so much the material

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level (although this is usually already fulfilled or for an individual at a higher level of transformation is no longer so important), but broadly understood integrated development that gives a sense of freedom and joy of accomplishment, far beyond the classic well-being. This level is the level of self-awareness rather than the welfare of existence. Satisfaction of material needs is not a cost alternative to the personal development of individuals, but rather complementary in building a good Community prosperity.

FOOTNOTES

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 ISBN: 978-9963-711-37-6

COUNTRY IMAGE: NATIONAL PRIDE OR PREJUDICE?

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ABSTRACT

This investigation is aimed at understanding the relationship between the Country Image (CI) and its influence on leveraging the domestic products/brands in the global market, considering the moderator effects of familiarity and ethnocentrism. A conceptual model was developed establishing that there is a direct relationship between the CI and the domestic products/brands. A study was carried out on a sample of 177 students, from U.S.A. and Portugal, in order to identify country-product associations and purchase intentions.

Findings indicated that consumers' familiarity with a particular country influences the recognition and the associations that consumers establish with the products and brands of that country, and that it is essential to provide a more differentiated view of national country image, so it could be recognized as product/ brand image driver.

Keywords: *Country Image, Country of Origin, domestic products/brands, familiarity, ethnocentrism, international marketing.*

INTRODUCTION

Presently, most business take place in a global market, where the product features are easily copied, and professionals have to struggle in order to differentiate themselves and create a value proposition that meets and even exceeds the expectations of customers. Therefore, it is not important if a company operates domestically, or across national boundaries, as long as it is able to deal with competitive pressure and grab market opportunities (Kotabe & Helsen, 2008).

An image of a country often results from its geography, history, culture and famous citizens, among other characteristics, and most country images (CI) are in fact stereotypes: extreme simplifications of reality that are not necessarily accurate (Kotler & Gertner, 2002). Thus, the CI is commonly used as a shortcut for the processing of information in the consumer decision process, demonstrating that the stereotypes associated with nationality affect the relationships between producers and foreign customers (Khanna, 1986). It might be significant to underline that each country, city and region is competing for world's consumers, tourists, investors and international events (Kim, Shim, & Dinnie, 2013), which reinforces the need to develop sources of competitive advantage. This implies that

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international managers should evaluate cautiously which are the most favourable or unfavourable features of a certain country image and how they affect product quality and purchase intentions, in order to improve effective marketing strategies (Martin & Eroglu, 1993).

Although the CI is considered an important asset, since it directly influences the prosperity and development of a nation, and despite a sort of empirical studies in literature devoted to assess the effects of country of origin, it remains a lack of knowledge with respect to the cumulative process and sources that shape a country's image (Lopez & Balabanis, 2013).

Regarding the lack of knowledge mentioned above and the relevance of this topic, the purpose of this investigation is to achieve a deeper understanding about the relationship between the country image and the domestic selected products/brands in order to evaluate consumers' perceptions and purchase intentions. Furthermore, there is a knowledge gap regarding the investigation of exporting countries which try to analyse the image of their products abroad (Usunier, 2006). Consequently, further investigation is needed concerning the National Country Image, given its focus on exports and tourism. A conceptual model has been developed, in order to investigate in what extent does the Country Image helps on leveraging domestic products/brands. A preliminary study was carried out with the main purpose of understanding consumers' country-product associations, consumers' product category-country associations and purchase intentions regarding domestic products, considering the moderating effects of familiarity and product ethnocentrism. Additionally, the study had the purpose to identify which are the main categories of products that consumers associate to Portugal.

THEORETICAL BACKGROUND

2.1 - Country-of-origin: state-of-the art

The concept of country-of-origin (COO) and its effects on consumers' evaluation of products has been a subject of great interest to academics and practitioners since 1960s (Nagashima, 1970; Schooler, 1965). Thenceforward, a great number of empirical studies have assessed the COO from different perspectives and despite the competing views and explanations, it is recognized that country of origin affects consumers' product evaluations and purchase decisions (see Bilkey & Nes, 1982; Liefeld, 1993; Peterson & Jolibert, 1995), being a topic of unlimited relevance in international marketing. In fact, there has been an ongoing debate with respect to the magnitude of the COO effect on consumers' product evaluations and the variables that might moderate its effect. For example, educational background, consumers' gender (Johansson, Douglas, & Nonaka, 1985) age and the level of consumers' ethnocentrism (Shimp & Sharma, 1987) influence the evaluation of foreign products.

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Hence, the presence of extrinsic and intrinsic product information cues (such as price, warranty, design, quality or availability) and individual factors (like consumer knowledge), might enable or constrain the reliance on country of origin (Schaefer, 1997).

It is also important to emphasize that there has been a shift in the focus of the concept of COO, since it has gradually shifted "from evaluating differences in product evaluations and preferences based on the mere notion of the national origin of a product (e.g., Italy, Japan, USA) to a more complex construct, namely the image of the countries under consideration"(K. P. Roth & Diamantopoulos, 2009, p. 726). Hence, it has been verified an emphasis on researches that focus on the perceived images of the countries instead of the conventional studies, which analyse if consumers prefer products or brands from one country in comparison to another.

2.2- Country image

The concept of image has been a topic of great interest in several disciplines such as consumer behaviour, marketing and psychology (Barich and Kotler, 1991). The authors describe image has being the sum of beliefs, attitudes and impressions that an individual or a group has of an object. This object can assume different forms such as a product, brand, company, person or a country, and for that reason, it is important to analyse what kind of impressions (true or false, real or imagined) consumers establish with countries and their products/brands.

M. S. Roth and Romeo (1992, p. 480) helped to identify a definition of country image more related to consumer's product perceptions made in a certain country and defined CI as "the overall perception consumers form of products from a particular country, based on their prior perceptions of the country's production and marketing strengths and weaknesses". According to the authors, this definition is more market oriented since it brings country image closer to the resources that consumers use in evaluating products.

Another important contribute to the definitional domains of country image is presented by K. P. Roth and Diamantopoulos (2009, p. 727), showing three distinct groups that differ in their focal image object, namely: "(1) definitions of the general image of countries, known as country image, (2) definitions of the image of countries and their products (which are product-country images), and (3) definitions of the images of products from a country (also described as product image). This investigation concentrates upon the first group, the country image concept being important to highlight the spectrum of what this concept involves, since it is formed not only by representative products but also by the level of economic and political development, cultural events, history and traditions and the degree of innovation and technological progress. Besides this factors that refer to cognitive beliefs, to characterise CI is important to include an affective component responsible for capturing the emotions and feelings of a certain country (K. P. Roth & Diamantopoulos, 2009). Hence,

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despite most of the definitions of CI neglect the affective component, image theory accepts that national images encompass both cognitive and affective dimensions. The complexity of the country image construct allows to better understand the influence of nations on shaping CI (Anholt, 2005) and the role that corporations play in modifying it (Dinnie, 2008).

Moreover, findings from CI studies are highly important since they provide strategic information to firms that cross borders by "exporting their products, manufacturing abroad, and/or competing in their home markets against foreign companies"(Laroche, Papadopoulos, Heslop, & Mourali, 2005). Therefore, country image research is becoming more significant and prominent due to the increasing trend of free trade and the rapidly globalization of national economies.

2.3- The main moderating factors of the country of origin effect

There are several variables that influence the consumers' evaluations about products/brands and to better understand the relationship between them and CI, this investigation will analyse the moderating effects of familiarity and ethnocentrism.

According to Josiassen, Lukas, and Whitwell (2008, p. 424), product familiarity refers to "how familiar a consumer is with a given product category" and familiarity is characterized as the number of product-related experiences that have been accumulated by the consumer" (Alba & Hutchinson, 1987, p. 411). With respect to the use of COO as an extrinsic cue in the evaluation of a product or product class, the literature presents two competing views concerning the role of familiarity. On the one hand, it is widely accepted that besides the effect of COO on product evaluation and purchase decision, its influence is more probable to be strong when consumers are unfamiliar with a product category, which means that if the consumer has further knowledge and is more familiar with a certain category of product, the use of COO as an international cue will tend to decrease (Usunier & Cestre, 2007). On the other hand, there are authors that advocate that there is a positive relation between the level of product knowledge and familiarity with the use of COO as an extrinsic cue (Johansson, 1989; Johansson et al., 1985) and consumers tend to use COO to summarize the perceptions on products that they are familiar with, in order to simplify their decision-making process and save cognitive effort, mainly when the decision process has to be made within a short time.

Usunier and Cestre (2007) also provide an insightful contribute with respect to the influence of familiarity and involvement on the intensity of product-country associations. The authors discuss that the involvement for specific products may be different across countries due to factors on the demand-side (related to differences in consumer behaviour) and on the supply-side (depending on the geographic presence of the companies and brands). Usually when consumers have a higher level of involvement with a product they are likely to associate more countries with it and this is also valid for familiarity.

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To conclude, it will be described the moderating effect of ethnocentrism. Aware of the importance that culture and human values have as moderating factors of the country of origin effect, Usunier and Cestre (2007) noticed that consumers based on their perceptions and prior experiences with products of a particular country, make stereotypical associations between them. If these associations are shared globally, they reproduce product ethnicity. The authors define this concept as the "stereotypical association of a generic product with a particular COO. The "ethnicity" part of product ethnicity is related to a country (or several countries) that is (are) a legitimate place(s) for the design, manufacturing, or consumption of this generic product. The analysis of product ethnicity should comprehend a reflection about the potential impact of the "domestic country bias", described as "people's spontaneous tendency to use their own frame of reference, or the local knowledge found in their in-group, to make judgments"(Usunier & Cestre, 2007, p. 39). Consequently, it is usual that individuals from a particular survey country associate product stimuli with their own country more frequently than other countries, due to the presence of local companies and brands and the increasing knowledge about their products. An ethnocentric attitude takes place when consumers despite being interested in buying foreign products, they give preference to buy home country products / brands. Hence, a high degree of ethnocentrism emphasise the positive features of the domestic products disregarding the characteristics of foreign products. The literature shows that ethnocentrism influences consumers' perceptions and purchase intentions.

CONCEPTUAL MODEL AND HYPOTHESIS OF THE STUDY

In accordance with the main objective aforementioned, a conceptual model was developed (Figure 1).

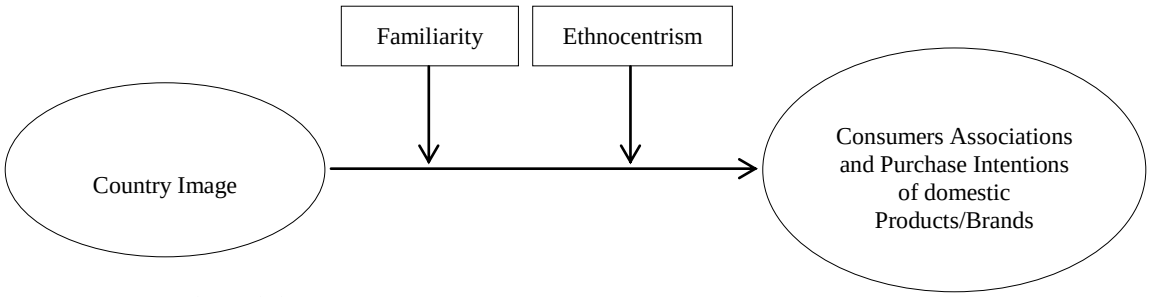

Figure 1 – Conceptual Model

According to the purpose of this research and the conceptual model design, the following three hypotheses have been formulated:

H1. The greater the level of consumers' familiarity with a certain country, the greater the number of products/brands they will associate this country with.

H2. When presented with a product stimulus, consumers associate their own country more often than other countries.

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H3. Considering a product equal in price, quality and styling, consumers will give preference to products from their home country.

METHODOLOGY

4.1 – Design of study

Firstly, respondents were asked to rate the degree of familiarity, using a five-point Likert scale, ranging from "I don't know the country X" to "I know the country X very well". The nominated countries were U.S.A., Germany, Portugal, Japan, China and Spain.

In order to identify country-product associations, the first question was "Please list the product names/brands which first come to mind when you see the following country names (list up to five)". The selected countries were U.S.A., Germany, Portugal, Japan, China and Spain, based on the literature (Nagashima, 1970; Usunier & Cestre, 2007) and considering the differences in cultural orientation.

The second question aimed to measure the associations between product categories and countries, asking respondents to "Considering the product categories listed below, please name any countries which first come to mind (list up to five)". The selected eighteen product categories reflect a wide selection of products used in COO research and, simultaneously, some of the most exported Portuguese products in the last five years (for example, food and beverages, textiles and footwear).

Finally, the third question was " Supposing that many countries has an item equal in price, quality and styling, which country's product would you select?" The nominated countries were equal to the first question and the product categories were five, namely: cheese, footwear, household textiles, olive oil and wine (some of the most exported Portuguese products in the last five years).

4.2 – Sample and data collection

Data were collected cross-nationally between June and July, through a convenience sample in U.S.A. (26) and Portugal (151). The countries were chosen according to the following: (1) the interest in studying Portuguese country image and understanding Portuguese consumers' perceptions about their domestic market; (2) to get knowledge on country-product recognition and associations that foreign consumers link to Portuguese country image and (3) U.S.A. is both a large consumption and multicultural market, and an important destiny for the Western Europe products exports.

Following pretests to confirm the questionnaire, the fieldwork was carried out through the application of a self-administered questionnaire to undergraduate and graduate students in order to insure a certain degree of familiarity with the countries and product categories under investigation. A total of 203 self-administrated questionnaires were distributed, of which 177 were usable, representing a rate

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of 87,19 satisfactory responses. The sample consisted of 41,8 % men and 58,2 % women, with three quarters of the respondents between 18 and 24 years old.

4.3 – Empirical results and data analysis

The global results showed that the five product categories more associated with Portugal were: olive oil (79,7%), cork and wine (78,0%), footwear (74,6%) and Soccer (71,2%). Technology and innovation were the least mentioned (4,2%). For U.S.A. consumers, the most referred categories were soccer (53,9%), cork (19,2%) and footwear (15,9%).

Table 1 shows the differences between U.S.A. and Portuguese consumers, regarding the level of familiarity with the selected countries. An independent-sample t-test was conducted and there were significant differences ($p<0.05$) in scores for U.S.A., Portugal, China and Spain.

Table 1 –Level of familiarity of U.S.A. and Portuguese consumers with the selected countries.

	U.S.A.		Germany		Portugal		Japan		China		Spain	
	Mean	*SD*	*Mean*	*SD*	*Mean*	*SD*	*Mean*	*SD*	*Mean*	*SD*	*Mean*	*SD*
U.S.A.	4,73	0,67	2,68	1,25	1,58	1,03	2,42	1,17	2,58	1,27	2,42	1,36
Portugal	2,70	1,11	2,40	1,08	4,57	0,62	2,01	1,85	1,79	0,81	3,53	0,92

Hypothesis 1 stated that the greater the level of consumers' familiarity with a certain country, the greater the number of products/brands they will associate that country. Results supported hypothesis 1 (see Table 2). When presented with country stimulus, U.S.A. consumers associated more products/brands to their own country ($M = 4,85$; $p< 0,001$) than others. Apple, Coca-Cola, Ford, Google and Starbucks were the most nominated brands. With respect to the Portuguese consumers, they also associated more products/brands to their own country ($M = 3,21$; $p< 0,001$) and the most associated products/brands were Port Wine, Sagres and Superbock (beer brands), Gallo (brand of olive oil), Cork and Wine.

Table 2 –Results for country-product associations.

	U.S.A.		Germany		Portugal		Japan		China		Spain	
	Mean	*SD*	*Mean*	*SD*	*Mean*	*SD*	*Mean*	*SD*	*Mean*	*SD*	*Mean*	*SD*
U.S.A.	4,85	0,37	3,19	1,67	0,42	0,70	3,27	1,73	1,38	1,55	1,62	1,75
Portugal	2,79	1,78	2,24	1,61	3,21	1,63	1,93	1,59	0,79	1,07	1,53	1,45

Concerning the second hypothesis, 86 countries were nominated in association with the eighteen product stimulus. Regarding association scores higher than 30% for product categories, Italy, and Portugal are more associated with Clothing & Footwear and Sports, Portugal and Spain, are more associated with Food & Beverages, Portugal and Sweden are more associated with Household Products, France and Portugal are more associated with Services, U.S.A. and Japan are more associated with Technology & Innovation.

ISBN: 978-9963-711-37-6

The results for hypothesis 2 show that U.S.A. consumers associate their country (M>0,50) to clothing (M=0,88), footwear (M=0,81), seafood (M=0,58), wine (M=0,62), furniture (M=0,58), toilet paper (M=0,58), technology (M=0,92) and innovation (M=0,88).

Portuguese consumers associate the following products (M>0,50): footwear (M=0,85), charcuterie (M=0,72), cheese (M=0,71), olive oil (M=0,93), seafood (M=0,70), wine (M=0,90), ceramics (M=0,61), cork (M=0,88), furniture (M=0,62) tourism (M=0,55) and soccer (M=0,74) to their own country. Therefore, hypothesis 2 is partially supported.

Results for hypothesis 3 (see table 3) demonstrate that U.S.A. consumers only associate their own country, more than to other countries, to footwear and household textiles. Portuguese consumers gave preference to all of the selected product categories with wine and olive oil on top of the preferences. These results might be explained due to a "domestic country bias" and to the fact that the selected product categories are most representative of the Portuguese exports.

Table 3 – Results for consumers' preferences for the selected product categories.

U.S.A. Consumers	Cheese		Footwear		Household Textiles		Olive Oil		Wine	
	N	*Freq.*	*N*	*Freq.*	*N*	*Freq.*	*N*	*Freq.*	*N*	*Freq.*
U.S.A.	7	26,9%	21	80,8%	16	61,5%	2	7,7%	4	15,4%
Germany	8	30,8%	0	0%	4	15,4%	0	0%	2	7,7%
Portugal	0	0%	2	7,7%	0	0%	6	23,1%	4	15,4%
Japan	0	0%	0	0%	2	7,7%	0	0%	0	0%
China	0	0%	1	3,8%	3	11,5%	0	0%	0	0%
Spain	8	30,8%	1	3,8%	4	15,4%	15	57,7%	14	53,8%

Portuguese Consumers	Cheese		Footwear		Household Textiles		Olive Oil		Wine	
	N	*Freq.*	*N*	*Freq.*	*N*	*Freq.*	*N*	*Freq.*	*N*	*Freq.*
U.S.A.	0	0%	21	13,9%	23	15,2%	0	0%	2	1,3%
Germany	6	4,0%	11	7,3%	21	13,9%	2	1,3%	0	0%
Portugal	121	80,1%	109	72,2%	85	56,3%	127	84,1%	133	88,1%
Japan	1	0,7%	8	5,3%	10	6,6%	0	0%	0	0%
China	2	1,3%	8	5,3%	24	15,9%	1	0,6%	0	0%
Spain	11	7,3%	3	2,0%	12	7,9%	16	10,6%	14	9,3%

It also possible to analyse (see table 4) that U.S.A. and Portuguese consumers' demonstrated significant differences in terms of product-country preferences (p<0,05) for all the countries with exception for Japan (p=0,184) and China (p=0,115), which means that there are different perceptions about the selected countries between U.S.A. and Portuguese consumers. These results might be explained by the effect of product ethnicity, which refers to the stereotypical association of a generic product with a particular country of origin (Usunier & Cestre, 2007, p. 36), and consumers from

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different countries may establish different product-country or country-product associations. Hence, H3 it is only partially supported.

Table 4 – Results for the total product categories that consumers' attribute to the selected countries.

	U.S.A.		Germany		Portugal		Japan		China		Spain	
	Mean	*SD*	*Mean*	*SD*	*Mean*	*SD*	*Mean*	*SD*	*Mean*	*SD*	*Mean*	*SD*
U.S.A.	1,92	1,26	0,54	0,71	0,46	0,71	0,08	0,27	0,15	0,37	1,60	1,16
Portugal	0,30	0,52	0,26	0,50	3,81	1,49	0,13	0,37	0,23	0,50	0,37	0,67

4.4 – Discussion and implications

The results of this preliminary study should be analyzed in light of a number of limitations. Although the sample includes individuals from two countries with very different levels of cultural orientation, mainly in the distinction of individualism-collectivism dimension, the sample only included students as respondents. In future, replication efforts considering a broad sample would be desirable to confirm these results. Moreover, only a limited number of countries and products categories were included in this research, since this is an exploratory study, whose main objective was to get further knowledge about country-products and product-country associations, considering the participation of international and domestic consumers. Further investigations might include other countries and different product categories.

Considering these limitations it is possible to conclude that consumers' level of familiarity with a particular country influences the country-product and product-country associations. Furthermore, in accordance with the results aforementioned, it is possible to understand that despite the level of familiarity with countries like U.S.A., Germany or Japan might be inferior for Portuguese consumers, the popularity of brands such as McDonald's, Mercedes or Toyota, seems to provide value justifying the current country-product associations.

The managerial implications that arise from this study may be of interest to companies' managers, since it allows analysing the fit between country-product and product-country associations, with emphasis in consumers' perceptions of the domestic market. For example, taking into account the product categories of technology, innovation, clothing and culture, which presented a lower level of association with Portugal, it might take time and effort to establish a reference frame for these associations. At an international level, this might be valid for all the product categories presented in the study, since level of associations' for Portuguese country-product and vice-versa is not very high.

The findings of this study might indicate that it is urgent to provide a more differentiated view of Portugal country image so it could be recognized as product/ brand image driver.

CONCLUSIONS

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Due to the complexity of the investigations carried out in this field of work, the relevance of country image depends on several aspects namely, consumers' awareness of the country of origin of products, how a country is present on peoples' lives (for example, through the mass media, products and brands, travel experiences), politics, economic situation, technology and culture. To understand what mental representations consumers have about the Portuguese country image, first was necessary to identify what were the associations that consumers established with selected countries and product categories. The findings revealed lower levels of country-product associations and vice-versa.

Following research studies should take into account these findings and evaluate the relationship between Portugal country image and consumers' perceptions, considering the moderating effects of familiarity, ethnocentrism, involvement and country affinity.

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 ISBN: 978-9963-711-37-6

ENGAGING COMMUNITY IN SUSTAINABLE TOURISM DEVELOPMENT IN WORLD HERITAGE SITES. THE CASE OF THE DOLOMITES

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ABSTRACT

Local community support for and involvement in the effective use of WHS status depend on many place specific factors. Whether, and how, socio-economic and institutional contexts impact on the nature and levels of community engagement in the development envisioned with WHS status is analyzed in this study on the Dolomite Natural WHS in Italy. This area is characterized by a complex network of institutions and a sharp socio-economic divide between prosperous community-based mass destinations and small, remote marginal destinations. The forms of community participation that might lead to the futures envisioned with WHS status are analyzed by using data from an online questionnaire sent to mayors in the WHS and in neighboring municipalities, previously classified through quantitative analysis according to their tourism development model. Sustainable tourism is envisioned as one of the drivers of socio-economic development, but the door should be left open for other possible alternatives. The top-down management of the WHS leads to forms of induced participation at both inter-provincial and provincial levels. Although interactive decision making is expected at the local level, many obstacles must be overcome to develop community participatory capacity. A number of the study's limitations are described, as are key issues for future research.

Keywords: World Heritage Site; sustainable tourism management; community engagement; imagined futures; participatory capacity building.

INTRODUCTION

The number of World Heritage Sites (WHSs) recognized as being of international significance and outstanding value for humanity has increased dramatically since the World Heritage Convention on the protection of WHSs in 1972 (UNESCO, 1972) and the World Heritage Committee's strategy on a balanced World Heritage List (WHL) in 1994 (Steiner and Frey, 2011). Explanations for this increase range from the preservation of valuable heritage – whether already well looked after or at risk – to the socio-economic development achieved by catalyzing place making, marketing and branding through heritage recognition (Rebanks Consulting Ltd, 2009). Tourism is assumed to be an important driver of WHS socio-economic development, building on a site's valuable cultural and natural heritage for tourism marketing and branding purposes (Shackley, 2006).

 ISBN: 978-9963-711-37-6

The extent to which WHS designation can be effectively exploited by a particular area depends on a number of place specific factors – the prevailing socio-economic conditions at the time of the nomination and the governance system, in particular (Leask and Fyall, 2006; Li *et al.*, 2008; Ryan *et al.*, 2011). Local community support and involvement have increasingly been emphasized as crucial to the effective use of WHS status; however, their effective achievement is difficult in practice (Tosun, 2006). This paper is intended to assess the influence that local context has on the relationship between WHS recognition, people's imagined futures with WHS status and community engagement in designing these futures – a research topic that the literature has so far largely neglected. The main question that drives our analysis is whether and how socio-economic and institutional contexts impact on the nature and levels of community engagement in the development paths envisioned with WHS status.. The Dolomite Natural WHS in Italy is investigated as it is an area with a complex network of institutions and a sharp socio-economic divide between prosperous community-based mass destinations and small, remote marginal destinations. The first part of the paper introduces sustainable tourism in WHSs and community participation in tourism planning; the second describes the case study and the study method. The final sections present and discuss the results of the analysis; the conclusion outlines the study's strengths and weaknesses along with managerial implications for policy makers and practitioners.

SUSTAINABLE TOURISM IN WHSS

Numerous studies have focused on the implications – both positive and negative – of WHS designation for tourism development and its sustainability (Hall and Piggin, 2002; Leask and Fyall, 2006; Li *et al.*, 2008; Shackley, 1998a; Takamitsu, 2011, among others). WHS listing enhances the symbolic value, visibility and image of a site, marketing its outstanding universal value both internationally and nationally (Bianchi, 2002; Smith, 2002; Shackley, 1998b), thereby creating opportunities for income generation, job creation, infrastructure and service development and the revitalization and marketing of traditional production methods. Increased local pride and social capital building/enhancing, the maintenance of cultural traditions and the protection of physical and spiritual landscapes may also be important non-economic benefits of WHS status (Smith *et al.*, 2009; Strickland-Munro and Moore, 2013). However, the relationship between WHS status and tourism development is still controversial (Buckley, 2004; Hall and Piggin, 2002). Visitor numbers are more likely to increase in cases where WHSs were not well known before WHS listing, but already well known WHSs can also benefit from visitor profile enhancing (Shackley, 2006).

Quite apart from the issue of growth, tourism places additional pressures both on fragile physical and natural environments, and on local populations. The protection and maintenance of the outstanding

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value which has led to a site's recognition as a WHS in the first place, and ensuring its accessibility to current and future generations, are central tenets of the World Heritage Convention (UNESCO, 1972). Managing tourism sustainably is critical to achieving an appropriate balance between the economic benefits of tourism and other productive activities and their impacts on the environment and on finite resources (Leask and Fyall, 2006; Pedersen, 2002).

A long term, holistic planning process that engages and empowers multiple stakeholders can contribute positively to sustainable tourism development Landorf, 2009). Since 1997 a management plan – and its continuous updating – along with a strong legal framework have been among the required Nomination Documents for WHS recognition; and the active involvement of communities and stakeholders in the planning process is a requirement for effective WHS management (UNESCO, 2012, Articles 111 and 119). Strategic planning frames tourism within a wider process of territorial governance as tourism is highly fragmented and spans diverse domains; an inclusive participatory approach to tourism planning helps to develop sustainability awareness and encourage broad based, equitable decision making.

COMMUNITY ENGAGEMENT IN WHS TOURISM PLANNING

Community participation in planning processes and the empowering of local populations are crucial to the successful futures of WHSs, both as places to live and as tourist destinations (Jamal and Watt, 2011; Kaltenborn, *et al.*, 2013; Yüksel *et al.*, 1999). However, success depends on the forms of community participation engaged in (Tosun, 2006). Active and direct participation, in which the host community has full managerial responsibility and authority in decision making, is an ideal type (spontaneous form). The commonest type is top-down, passive and indirect in which the breadth and equality of decision making processes are shaped by the objectives of powerful interest groups (Aas *et al.*, 2005; Trau and Bushell, 2008). Participation usually ranges from a coercive form, in which the needs and desires of powerful interest groups are primary, to induced forms in which community participation is restricted to consultation and/or participation for material gain (Simpson, 2001). Efforts to encourage deeper and more active community participation are more likely to be made at the local governance level, where the scope and nature of sectoral interdependence and stakeholder interactions are scaled down (Kaltenborn *et al.*, 2013). However, capacity building within the community is necessary to encourage dialogue, partnerships and multi-stakeholder processes and to root sustainable tourism in a sense of place, culture and identity (Moscardo, 2008).

Failures to engage and empower local communities – at even the general consultative level – can exclude many from the potential benefits of tourism and reduce the effectiveness of sustainable tourism initiatives (Simpson, 2001; Tourtellot, 2006). Perceptions of exclusion can generate negative reactions in

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local communities – or antagonistic attitudes towards the (tourism) development envisioned by governments or other lead institutions (Strickland-Munro and Moore, 2013). Under-engagement may also result from community concern that WHS nomination could limit local stakeholders' freedom to carry out future private initiatives (Nicholas *et al.*, 2009; Magi and Nzama, 2009).

CASE STUDY

Description of the Dolomite WHS

The Dolomite Natural WHS was designated in June 2009 in recognition ofts superlative natural beauty and outstanding universal geological value (Gianolla *et al.*, 2008). This serial property of nine non-contiguous mountain areas in the North Eastern Italian Alps covers a sparsely populated area of around 230,000 ha, almost all of which is protected at the European, Italian and local level. Natural resources are the most important tourist attraction and climbing, hiking and trekking the main motivations for visiting the site. Most visitor flows are summer seasonal and heavily concentrated on certain hot-spots (refuges, mountain cabins and viewpoints), accessed by using low impact facilities (footpaths and two ropeways).

The main challenges of WHS development

The Dolomite WHS is a complex institutional and socio-economic system. It straddles three regions, five provinces (Trento, Bolzano, Belluno, Udine and Pordenone), more than 100 municipalities and many territorial organizations, tourism-related and not. The provinces have different institutional, legal and administrative systems and linguistic, social and economic peculiarities; the special status under Italian law of Trento and Bolzano allows them greater autonomy in policy formulation. The Dolomite Foundation – an ad hoc body charged with the coordination of the overall management plan for the entire site – has further complicated this institutional structure, multiplying and overlapping competence levels. A total strategy for sustainable tourism is an integral part of this management plan and is currently being formulated (Gianolla *et al.*, 2008).

The Dolomite WHS lies within a group of mountain regions which show a sharp socio-economic divide. A number of community-type destinations (Murphy, 1985) have a high general level of economic development and wellbeing driven by a world-class (mass) tourism industry. In contrast, a number of small, remote settlements, where tourism is still only in its early stages, suffer from marginalization (social, demographic and economic) and their primary industries – forestry, agriculture, animal husbandry – upon which local people have long been dependent, are in decline.

The coexistence in the Dolomites of a number of different institutions and inclusive tourism development types (Weaver, 2000) may influence residents' expectations about how WHS status will affect the future (Rebanks Consulting Ltd., 2009). Sustainability should be part of this future as it is

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both crucial to the intrinsic socio-economic vitality of the Alpine regions and a requirement for the Dolomites' WHS listing. In mass destinations reaching consensus and enforcing decisions around sustainability is a complex and urgent task, due to past path dependence and the number, power and interests of stakeholders involved, particularly cableway operators and hotel owners; most territorial administrations have already introduced a range of environmental regulatory tools. In emerging minor/marginal Dolomite destinations, WHS status could be an opportunity to catalyze or facilitate local development and wellbeing through sustainable models.

STUDY METHOD

The multiple institutional and socio-economic facets of the Dolomite WHS have required that boundaries be placed on the study design (Yin, 2003). Community engagement issues can be investigated at different decision making levels, in areas within and around the Dolomite WHS, which have different tourism development models (Weaver 2000), are at different lifecycle stages (Butler, 1980) and, presumably, intend to use WHS status differently (Rebanks Consulting Ltd., 2009). The influence of local context on community attitudes and participation is investigated at the municipal level through an analysis of the WHS and its neighboring mountain municipalities, all of which are experimenting with different development models. The study method is divided into two phases (Figure 1). The first is a quantitative analysis aimed at distinguishing the different tourism development types in the Dolomites. The second is a qualitative analysis aimed at examining residents' imagined futures with WHS status and the nature and levels of community engagement in local development through an online questionnaire addressing mayors as elected representatives of the population.

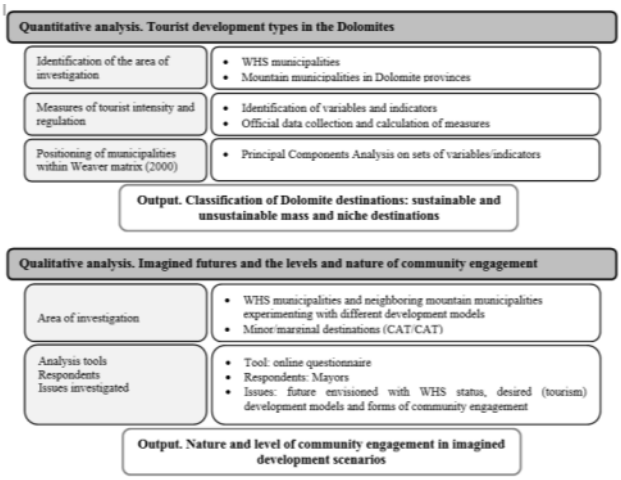

Figure 1. *Study method phases*

Quantitative analysis. Tourist development types in the Dolomites

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The Weaver model (2000), which identifies four tourism ideal-types by combining tourist intensity and regulation, is quantitatively applied in a three step process (Figure 1) to distinguish the Dolomites' sustainable and unsustainable mass and niche destinations. Mass tourism destinations are sustainable (SMT) when the impact of large-scale tourism is highly regulated and kept within the carrying capacity threshold; it is unsustainable (UMT) when not sufficiently regulated. Niche tourism destinations are unsustainable (Circumstantial Alternative Tourism – CAT) when the growth of economically sustainable small-scale tourism is not regulated or supported; in sustainable niche destinations (Deliberate Alternative Tourism – DAT) increasing small-scale tourism and high regulation foster both economic and environmental balance.

The area of investigation includes c.300 municipalities, about 100 of which belong to the WHS and over 200 of which are mountain municipalities (> 600 m a.s.l.) within the five Dolomite provinces, some of these border on the WHS, others do not (Figure 2). Mountain municipalities have been included in order to allow for the effective application of the Weaver model and to prevent the self-selection of CAT and DAT ideal-types due to the small-scale of tourism and the protected area restrictions in place.

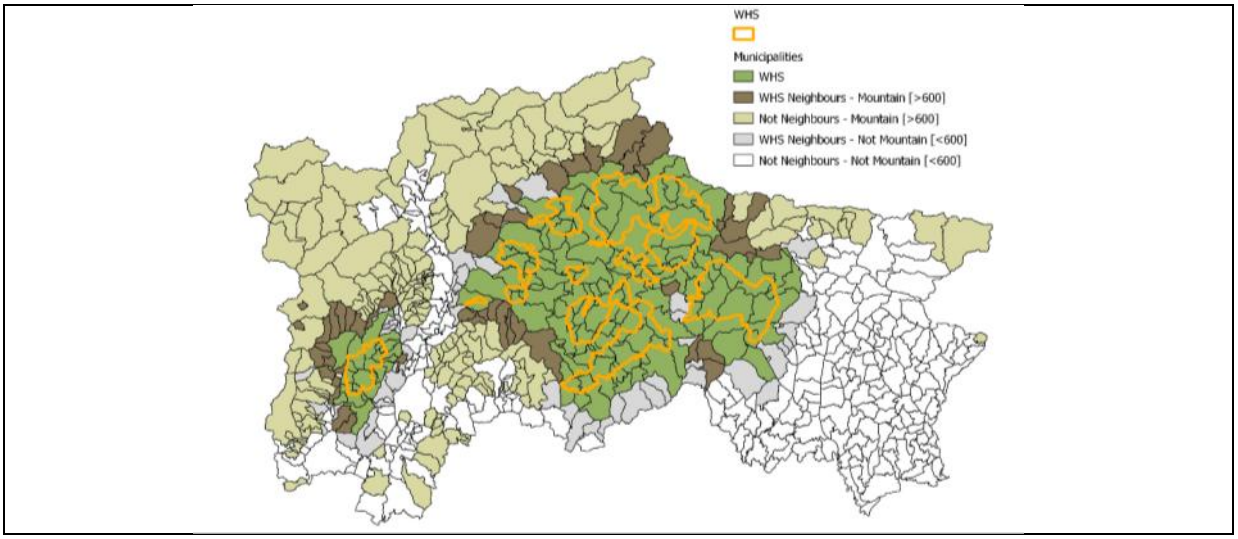

Figure 2. *The area of investigation*

The variables used to measure tourist intensity and regulation in municipalities were selected by combining criteria of place significance and homogeneity with availability and quality of data. These constraints led to the exclusion of many of the variables/indicators often used in studies (e.g. McCool and Stankey, 2004). Table 1 provides details of the variables, sources and indicators calculated for each Weaver model dimension. The data were collected from secondary census or sample surveys, from national, regional or provincial statistics offices or from reliable sources on environmental regulation issues. Tourist intensity and second home data refer to 2010/2011, the most up-to-date available interprovincial surveys; the most recent tourist regulation data are from 2012.

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Municipalities have been positioned within the Weaver by using the Principal Component Analysis (PCA) (Rencher, 1998), which is particularly suitable when variables are highly correlated, as in this case study. The most significant PCA combines five indicators and explains 55.5% of the data variability. The first principal component (x-axis) is a proxy of the tourism intensity dimension, the second (y-axis) of the tourist regulation. The matching between the Cartesian plane and the Weaver model was established by setting the thresholds that discriminate between high and low levels of tourist intensity and regulation in correspondence with the median value of each principal component.

Tourist intensity		
Variables	Sources	Indicators
Tourist flows (Arrivals and overnights)	Regional and Provincial Institutes of Statistics (Trento e Bolzano)	Average length of stay; Tourist rate (overnights per inhabitant); Tourist density (overnights per km^2); Bed occupancy rate
Accommodation capacity (Bed places)	ISTAT – National Institute of Statistics. *Accommodation capacity survey*	Accommodation rate (beds per 10,000 inhabitants); Accommodation density (beds per km2)
Tourism businesses (Enterprises and establishments)	ISTAT – National Institute of Statistics. *Population Census 2001*	Tourism businesses / Total businesses
Tourism Employment (Employees)	*ISTAT – National Institute of Statistics. Population Census 2001*	Tourism specialization
Regulation		
Protected areas	ARPA – Regional Environmental Protection Agency APPA– Provincial Environmental Protection Agency	Percentage of protected areas
Environmental certifications	ISPRA – Environmental Protection and Research Institute	EMAS and Ecolabel certifications per inhabitant
Differentiated waste collection	ISPRA – Environmental Protection and Research Institute	Differentiated waste collection / Urban waste
Second homes	ISTAT – National Institute of Statistics. *Population Census 2001*	Second homes / Population; Second homes / Total homes

Table 1. Tourist intensity and regulation. Variables, sources and indicators

Qualitative analysis. Imagined futures and the levels and nature of community engagement

The second research phase examines whether or not Dolomite municipalities consider WHS recognition to be an opportunity to support local development by promoting tourism, their will to pursue this goal through innovative development models and their engagement and levels of empowerment in local decision making. The municipalities included in the analysis –both WHS and neighboring mountain municipalities experimenting with different tourist development models – represent almost exactly half of the municipalities analyzed in the quantitative analysis: 100 WHS municipalities and 43 neighboring mountain municipalities (Figure 2).

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An online questionnaire was addressed to the mayors of the municipalities – as elected representatives of the population, they are legitimate spokespersons for their communities. The questionnaire – 24 closed-ended questions, requiring either single replies or a two-point agreement/disagreement scale – was created using the software LimeSurvey, tested, and sent, in April/May 2013, as an e-mail link explaining the purpose of the study. This period was critical for the Dolomite Foundation's sustainable tourism strategy formulation; the results of the study on WHS sustainable tourism development were presented to provincial stakeholders and their possible feedback collected. Answers to the questionnaires provide interesting insights into mayors' expectations of strategy design and implementation.

MAIN FINDINGS

Three main results can be drawn from the analysis: the classification of the Dolomite tourism development types; the mapping of the development (tourism) paths imagined with WHS status; the envisioning of forms of community engagement to bring about these futures, including the prospects for, and limits to, community participation. The findings of the qualitative analysis are based on replies from 60% of the mayors (85 out of 143): 61 out of 100 were from the WHS and 24 out of 43 were from the neighboring municipalities.

The current situation regarding sustainable tourism in the Dolomites

The classification of the municipalities in the study area into the ideal-types of the Weaver model appears consistent with the diversity of tourism development types in the Dolomites (Table 2).

Level of sustainability	Ideal types	WHS municipalities	Neighboring mountain municipalities	Total
High	DAT	21.0	13.5	16.1
	SMT	53.0	24.0	33.9
Low	CAT	4.0	49.5	33.9
	UMT	22.0	13.0	16.1
Total		100.0	100.0	100.0

Table 2. Sustainable tourism in the Dolomites

Almost two thirds of WHS municipalities were shown to be highly sustainable, particularly mass destinations in which tourism is already developed (53%) and, to a lesser extent, niche destinations in which tourism is still underdeveloped (21%). There are, however, exceptions to the integrity of the WHS and its environmental protection restrictions. 22% of the WHS municipalities – discovered to be unsustainable mass destinations – were already heavily environmentally impacted destinations, but included in the WHS in order to meet the selection criteria for universal geological value. The other cases are WHS municipalities bordering the internationally well-known Dolomite destinations, whose development began during the tourism boom of the 1970s, largely driven by the proximity to urban

 ISBN: 978-9963-711-37-6

areas. This proximity has meant that private accommodation and second homes were (and still are) a preferred form of accommodation.

In contrast with WHS municipalities, over 60% of neighboring mountain municipalities demonstrate low sustainability levels: t half are economically unsustainable niche destinations (50%) in which tourism development is in its early stages and lacks the drivers needed to promote place attractiveness, accommodation capacity and supporting services; 13% are unsustainable mass destinations whose original development was based on nearby demand markets. There are also, however, a considerable number of sustainable mass (24%) and niche (14%) destinations.

The situations within the valleys mirror those of the municipalities in which they are located. The most famous Dolomite valleys are generally sustainable mass tourism destinations – e.g. Ampezzano, the Val Badia, the Val di Sole, the Val Rendena and the Val di Fassa – due to the intensity of the tourism development and the range of regulatory tools introduced by the territorial administrations. However, there are municipalities in some of the valleys – Fiemme, Giudicarie and Badia in particular – which can still be broadly classified as sustainable niche destinations.

The development paths imagined with WHS status

All the mayors consider WHS status to be an opportunity for their municipality (Table 3), in particular a catalyst for socio-economic development and the improvement of residents' quality of life (60%) and an opportunity for heritage and landscape conservation (35%) – considered at risk (24%) or still intact (11%). Socio-economic development scores above average in WHS municipalities and in mass destinations; heritage conservation scores above average in municipalities outside the WHS, where there are few environmental protection restrictions, and in marginal/minor destinations which have a strong sense of place.

Issues investigated	Total	WHS	Non WHS	Marginal/ Minor (CAT/DAT)	Mass (SMT/UMT)
1. Possible use of WHS status					
Heritage and landscape conservation – intact	10.7	6.6	21.7	16.7	8.3
Heritage and landscape conservation – at risk	23.8	21.3	30.4	29.2	21.7
Place branding and marketing	6.0	4.9	8.7	4.2	6.7
Economic development and wellbeing	59.5	67.2	39.1	50.0	63.3
	100.0	100.0	100.0	100.0	100.0
2. Future role of tourism					
No change of present role	17.6	13.1	29.2	12.5	19.7
Main economic activity	9.4	11.5	4.2	4.2	11.5
Important but ancillary	28.2	26.2	33.3	45.8	21.3
Important as other activity	44.7	49.2	33.3	37.5	47.5
	100.0	100.0	100.0	100.0	100.0
3. Tourism development type					
Any type as long as suitable for a natural	30.0	30.2	29.4	28.6	30.6

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WHS					
Based on local tradition. culture and folklore	38.6	35.8	47.1	38.1	38.8
Based on nature and landscape	30.0	32.1	23.5	33.3	28.6
Based on mass tourism flows	1.4	1.9	0.0	0.0	2.0
	100.0	100.0	100.0	100.0	100.0

Table 3. Imagined futures with WHS status. Percentage values

Tourism is expected to be one of sectors that will – as part of a diversified economy – foster socio-economic development with WHS status (82%). WHS municipalities score above average in perceiving this role: 45% of all respondents believe tourism will be as important as other local activities but in WHS municipalities this figure rises to 49%; only a minority (9%) of all respondents imagine that tourism will play a leading role in local development but in WHS municipalities this figure is 12%.

Irrespective of whether or not a municipality belongs to the WHS, or of its tourism development type, almost all the respondents who believe that tourism will somehow benefit from WHS listing want its development to follow a sustainable model (98.5%). This preference is strengthened by the fact that one third of the respondents considered the model more important than the type of resources/products/ used to promote it. Most municipalities want to exploit local culture, traditions and folklore to pursue sustainable tourism rather than relying only on natural resources.

The non-economic benefits all Dolomite communities expect from sustainable tourism driven by WHS recognition confirm a growing local awareness of the crucial role local identity, culture, traditions and collective memory may play in the future of these municipalities, both as tourism destinations and as places to live. Among the benefits investigated, mayors agreed in considering the restoration of old buildings, the conservation of landscape/pastures and the maintenance of old activities and traditions to be very important, although economic development and jobs remain priorities.

Despite their positive attitudes to the impact of WHS status, mayors had two main concerns: how slowly the Dolomite Foundation is developing and implementing strategies to conserve and exploit the site and the fact that the Dolomite provinces are not all benefiting equally from these strategies. Minor concerns (mainly on the part of WHS municipalities and mass destinations) regard the perceived limitation of local autonomy in decision making and in the type of development desired due to imposed environmental protection measures and the top-down approach to sustainable development in the WHS.

Nature and levels of community engagement in local tourism development

In spring 2013, the Dolomite Foundation and the provinces were in the last stages of the WHS's sustainable tourism strategy formulation. However most (48%) mayors did not know that this strategy was going to be implemented, nor did they know what the strategy was (41%), although public stakeholder consultations had been organized to inform local institutions/stakeholders about it.

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Neighboring municipalities were shown to be less aware than WHS municipalities, probably because stakeholder dialogues had taken place within the site area. Both the WHS and neighboring municipalities agree that the municipality should participate in strategy formulation (Figure 4), in consultation with the Destination Management Organizations (either regional, provincial or local) (87%), which are considered to be institutionally legitimate and competent in tourism management, and with residents (74%). Provincial consultation remains important for municipalities (58%), in particular in the minor/marginal destinations, which have less experience of tourism governance (67%).

Issues investigated	Total	WHS	Non WHS	Marginal/ Minor (CAT/DAT)	Mass (SMT/UMT)
1. Leading role in tourism decisions					
The province	24.7	23.0	29.2	33.3	21.3
Municipality in consultation with province	57.6	57.4	58.3	66.7	54.1
Municipality in consultation with DMOs	87.1	86.9	87.5	87.5	86.9
Municipality in consultation with residents	74.1	72.1	79.2	75.0	73.8
2. Expected community participation					
Direct participation	30.6	32.8	25.0	29.2	31.1
Consultation on decisions	76.5	80.3	66.7	75.0	77.0
Being informed about decisions	80.0	85.2	66.7	83.3	78.7
3. Tools to involve communities					
Training	83.5	85.2	79.2	79.2	85.2
Local survey	47.1	55.7	25.0	37.5	50.8
Referendum	12.9	14.8	8.3	8.3	14.8
Incentive to invest in tourism	80.0	80.3	79.2	75.0	82.0
Internet platform	82.4	86.9	70.8	75.0	85.2
4. Obstacles to involve communities					
Lack of interest	47.1	47.5	45.8	45.8	47.5
Lack of business culture in tourism	61.2	62.3	58.3	75.0	55.7
Lack of skills in community	65.9	68.9	58.3	70.8	63.9
Lack of a critical mass of firms/entrepreneurs	57.6	60.7	50.0	70.8	52.5
Lack of private financial resources	54.1	55.7	50.0	62.5	50.8
Lack of public incentives/credit	75.3	78.7	66.7	70.8	77.0
Public administration limiting participation	17.6	16.4	20.8	25.0	14.8
Interest groups limiting participation	18.8	24.6	4.2	16.7	19.7
Time consuming to involve community	34.1	34.4	33.3	33.3	34.4
Lack of skills in local institutions	23.5	27.9	12.5	16.7	26.2

Table 4. Nature and level of community engagement

The mayors generally expected community participation to take the form of indirect consultation rather than direct participation in decision making. The expectation that the community would be informed of, and/or consulted on, decisions taken by the municipality were expressed by 80% and 76% of respondents, respectively. Obstacles to community participation are predicted due mainly to the lack of (public and private) incentives for entrepreneurship in tourism and appropriate skills; minor and

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marginal destinations are weaker with regard to both these issues. Mayors agreed that training and education on issues crucial to local development, the development and use of Internet platforms and incentives to invest in tourism activities could be important tools to overcome these obstacles.

DISCUSSION

The Dolomite Natural WHS case study provides important insights into how socio-economic and institutional context shape current and future WHS development. On the one hand, the duality of socio-economic development in these mountain regions is shown to impact on the level of sustainable tourism in the WHS and Dolomite mountain municipalities; on the other hand, different decision making levels/scales seem to shape community participation differently. Most Dolomite destinations are sustainable –more so within the WHS – where environmental protection restrictions and integrity are in place – than outside it. However a considerable proportion of both marginal and mass destinations are unsustainable, the former coping with traditional sectors in decline or tourism only just beginning to develop (economic unsustainability), the latter facing ecological challenges (environmental unsustainability). WHS recognition entails a future in which sustainable tourism is a driver of socio-economic development within a diversified economy; WHS municipalities perceive the future role of sustainable tourism to be greater than do other municipalities. However mayors' concerns about sustainable models of tourism development being so restrictive that they exclude other alternatives suggest a (cultural) past path dependence on both more extensive and less regulated tourism development types (mass tourism). This insight seems to shows that public institutions see sustainable development models as entailing limitations or ethical imperatives rather than durable opportunities to add (gain) value to (from) the travel and tourism experience. WHS management entails forms of induced participation at both inter-provincial and provincial levels, but at local level there is also room for direct community participation in decision making. This attitude is more prevalent in the WHS than outside. However, many economic and social obstacles must be overcome before communities can participate effectively.

The Principal Component Analysis of a selection of questionnaire responses highlighted the influence of local context on the issues at hand, namely WHS recognition, imagined futures with WHS status and community engagement in designing these futures. A direct link emerges from the data structure between WHS recognition and the evolutionary paths expected with WHS status. Municipalities in the WHS are more closely associated with a socio-economic development vision in which sustainable tourism is either expected to play a crucial role in the local economy or to become as important as other sectors currently are. In contrast, neighboring mountain municipalities are more associated with a future path entailing heritage conservation, with sustainable tourism playing an ancillary role. No clear

 ISBN: 978-9963-711-37-6

association between the current tourism development type in the Dolomite municipalities and their future development paths is revealed by the data, i.e. neither unsustainable nor sustainable mass or niche tourism development seems to impact on the paths expected with WHS status.

No direct links between WHS status and/or tourism development types and the form of community participation expected by mayors at the local level emerge from the data structure. It is interesting to note that this dimension is unipolar and is characterized by the expectation that tourism decision making processes should involve municipalities as active decision makers, consulting both the province and the DMOs on the one hand and private-public stakeholders and the community on the other.

CONCLUSION

This paper contributes to the literature on WHS management by exploring the impact of local context on the relationship between WHS recognition, future (tourism) development and community engagement in local development. The Dolomite natural WHS case study shows that socio-economic and institutional factors affect community engagement in imagined futures with WHS recognition: sustainable tourism is one of the paths envisioned with WHS recognition and WHS management entails forms of induced participation at both inter-provincial and provincial levels; however, a participatory culture has emerged at the local level.

The overall results of this study provide managerial insights which could increase the effectiveness of the ongoing implementation of the WHS sustainable tourism strategy developed by the Dolomite Foundation. A first set of considerations regards the territorial range of this strategy. The institutions managing the whole provincial territory also have to implement the WHS sustainable tourism strategy in the part of the WHS under their jurisdiction and to fulfill specific functions (related to the geology of the area, socio-economic development, transport, sustainable tourism promotion etc.) throughout the WHS, according to a site management logic based on functional networks. Both sustainable tourism and these functions are crucial to all the Dolomite areas, in and outside the WHS, since the Dolomites share the same aesthetic, geological, cultural and anthropological importance, and intrinsic fragility – as the story of their WHS candidature shows. The study reveals that there are concerns about disparities between Dolomite territories – within and between provinces, within the WHS, and between WHS and non-WHS municipalities. Consequently, the WHS management plan needs to be integrated into both provincial territorial-tourism planning and interprovincial cooperation in order to succeed. Framing WHS management within the wider process of territorial governance improves the coordination of polices across different domains (infrastructure, mobility, tourism, etc.) and facilitates the exploitation of existing synergies, both among sectors and among territories, irrespective of their WHS status.

 ISBN: 978-9963-711-37-6

Interprovincial cooperation allows those provinces at the forefront of sustainable development to share their best practices with their neighbors, thus enabling the creation of a joint standard of sustainability.

A second set of considerations concerns community engagement in the WHS sustainable tourism strategy. Study results support the theoretical insights that even in developed countries most participation is induced, although different governance levels and stakeholder groups shape it in accordance with their own particular interests. In particular, if deeper and more active community participation is evident at the local level, this means, from a theoretical perspective, that there is space to establish a multilevel and interactive governance system (Kooiman *et al.*, 2008), by combining a top-down approach – driven by the political-institutional power – with a bottom-up perspective – based on equitable local stakeholder interactions and including community voices in decision making. From a managerial perspective, the obstacles to stakeholder participation that the empirical analysis has revealed – knowledge, competences, resources and socio-economic networks in tourism related businesses are still either non-existent or insufficient in local communities – require that local institutions create the economic and social conditions that will allow for community empowerment and engagement in decision making. Education, training and social capital are strategic levers as participatory engagement tools, as is the establishment of local committees, discussion forums, stakeholder dialogue and the involvement of young people (e.g. schools) in projects concerning the future.

LIMITATIONS AND FUTURE RESEARCH

The study results are interesting but exploratory; many limitations were encountered and need to be overcome. A quantitative analysis really requires the availability and accessibility of an homogenous and up-to-date range of secondary/primary data on tourism intensity and regulation, derived from reliable surveys and sources at the inter-provincial level; the widening of the set of Weaver model explanatory variables; the development of qualitative analysis to understand the specific determinants of Dolomite tourism development types at the municipal level. The qualitative analysis, which only examined mayors' visions and attitudes, ideally needs to include a variety of interest groups and other mountain municipalities; a greater variety of tools for and approaches to information collection would also be appropriate – a wider agree/disagree scale, open-ended questions, in depth interviews, focus groups involving experts/representative stakeholders, etc. This would allow local-specific and stakeholder-specific issues to emerge in discussions of imagined futures with WHS status and the forms of participation necessary to realize this future.

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 ISBN: 978-9963-711-37-6

COMPETITIVENESS OF PORTUGUESE EXPORTS IN THE LAST DECADE

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ABSTRACT

The economic and financial crisis that has been affecting the world economy since 2008 affected the European countries in different ways. Portugal, a small peripheral country with a widely open economy suffered the consequences derived from the crisis that were amplified by a strong imbalance of the public accounts, large public and private debts, and insufficient levels of competitiveness of its industries and services. In order to aim at re-establishing the capability to grow, a restrictive budget procedure and changes in labour laws were put in place. Therefore, the economy may only significantly grow through an important increase in exports, sine internal consumption, both public and private, will continue to decrease.

This paper aims at evaluating the competitiveness of the major Portuguese exports at world level during the decade 2005-2014, analyzing the main groups of products. The methodology use was based on the Revealed Comparative Advantage (RCA). Results show that Portugal overtook the situation of a non-competitive to a competitive country in exports. However, the effect of the crisis can be seen from the fact that the value of exports decreased more than the rest of the world, as a consequence of the imbalance of public finances and of the restrictive political and fiscal measures taken to overcome the situation. From these results one may conclude that there is a need to increase the level of performance of the Portuguese economy, namely through measures aimed at growth in competitiveness, in internationalization, and thus including education, training and research.

Keywords : *Revealed Comparative Advantage; Portugal; exports; competitiveness.*

INTRODUCTION

Portugal is in the middle of an economic and financial crisis originated in overwhelming public and private debt that were mainly the consequence of several factors: excessive internal demand, from

 ISBN: 978-9963-711-37-6

private and public consumption, favoured by easy access to citizen´s and state debt; and a trade deficit that has been developing during the last decades.

This situation was aggravated with the impact of the subprime crisis in 2008 that sent the global economy to one of the worst recessions of the last decades. The causes, generally attributed by the majority of the authors to the speculative bubble in the United States and which reached mortgage market at high risk, are in fact, according these authors the result of an imbalance between the public finances of the largest economies and the real economy accumulated in the years before the crisis broke out in the summer 2007.

The intense processes of trade liberalization and financial globalization have been the channels through which the crisis itself has spread, not only in the advanced economies but in the emerging and developing countries as well. The latter are becoming more and more integrated into the world economy but they are strongly dependent on the developed countries. This has triggered a recession process that is globally synchronized but also strongly asymmetrical, due to the differences in the productive structures of the countries, in the wealth accumulated and in the degree of their integration into the world economy. As a small and peripheral country, with a very open economy highly dependent on imports, with a diminutive average growth rate, Portugal was inevitably affected.

The additional effect of these external and internal factors led the country to a situation where it was no longer possible to ensure funding for its needs in the open markets and resulted in the intervention of the European Commission, the European Central Bank and the International Monetary Fund. A memorandum of understanding was signed between the Portuguese authorities and these international institutions. It brought financial assistance to the country but forced the execution of a hard adjustment program based on cuts in public expenses, both current and in investment, increases in taxes, decrease in salaries, liberalisation of labour laws aimed at increasing the flexibility of the labour market and decrease in unit production costs, and, finally, on the privatisation of the companies that still have public participation in their capital structure. Although the program ended in 2014, its effects are still present in the low salaries and high unemployment. And the fiscal measures taken continue in place to ensure that the route to public budget equilibrium continues to be followed and the competitiveness of the country keeps its trend to grow.

The majority of the researchers and politicians agree that the growth of the Portuguese economy has to be mainly based through the increase in exporting capability resulting from higher competitiveness either based on salary moderation and increased added value of the products. Therefore, the question we aim to answer in this work is: how can the Portuguese exports overtake the negative economic cycle

 ISBN: 978-9963-711-37-6

that resulted from the economic and financial crisis that hit the country after the subprime episode of 2008. This paper aims at evaluate the competiveness of the main Portuguese exports at world level in the decade 2005-2014, based on the principal groups of goods with major impact on international trade.

The specific objectives are then: i) to estimate the impact of the subprime crisis in the Portuguese economy at the level of the behaviour of the Portuguese exports, especially ii) how did the private exporting firms responsible for the main exporting groups react? and iii) what may be their future contribution as far as competitiveness and contribution to growth of the Portuguese economy is concerned?

The paper aims to contribute to the literature in two ways. First in order to contribute to define a strategy for further expansion of Portuguese exports in international trade. Second to provide guidance to the Portuguese policy makers in order to increase the attractiveness conditions and technological development of the Portuguese exporter industry.

THE EVOLUTION OF MAIN SOCIO- ECONOMIC INDICATORS AND THE IMPACTS OF THE CRISIS IN PORTUGUESE ECONOMY

There is almost unanimity among different authors about the systemic effects of the subprime crisis in 2008 that led to a decrease in the rate of growth of the global economy (Crescimanno et al. 2014; Sanidas & Shin 2010; Thomé & Soares 2015). Their severity depended upon the economic structure and the financial situation of the countries, as well as the economic fragility associated with the structural, productive and financial structure and the different degrees of integration with the main global economies

Table 1 presents the evolution of the main socio-economic Portuguese indicators during the 2005-2014 decade. Their analysis shows that, similarly to what happened in general with other European countries, the crisis became evident in its effects in Portugal in 2009, two years after the speculative crash in the United States, determining tendencies to negative variations of the GDP that were still in place in 2013. The largest deteriorations in this decade occurred in 2009 and 2012. In parallel, the Debt to GDP ratio reached 94%, as illustrated in Table 2, in the three year period 2011-2013, clearly above the established Maastricht criteria of a maximum of 60%. To this contributed, in 2009, not only the direct effects of the subprime crisis, but also the adoption of a restrictive budget policy and the excessive private and public debt, that resulted in diminishing household and public demand with consequences on domestic procurement and production.

 ISBN: 978-9963-711-37-6

However, the Portuguese economy seems to be recovering from the effects of the crisis and subsequent measures: the rate of growth of the GDP was 0.9% in 2014 and the International Monetary Fund predicts growths of 1.5% and 1.6% of GDP for 2015 and 2016, respectively. Contributions to this result may have come from the decrease of all the expenses components of the GDP associated to a substantial increase in the exports as a result of the consolidation program that was undertaken in the four previous years.

The results in Table 1 also show that during the decade under analysis the trade balance was always negative, with the exception of 2013. Note that the value for 2014 is still provisional. To this result contributed the decrease in imports as from 2009 resulting from lower family income and company and public investment, and a simultaneous increase in the value of exports. It was then possible to change from a negative trade balance of -15 710 M euro in 2005 to a positive result of 1 782 M euro in 2013.

As for other socio-economic indicators, one may see that the index real labour productivity per person in Portugal is similar to the one found in other European Countries. On average, the differences are situated between one or two percentage points during the period under consideration. And that is a significant result.

Table 1. *Evolution of some socio-economic Portuguese indicators (Source: authors calculations from OECD database, 2015; World Banc database, 2014; Eurostat database, 2015) Euro, millions (**)*

Socio-economic indicators	Years									
Portugal	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Exports (**)	48.105	53.779	58.095	57.955	51.614	56.846	61.595	63.211	67.911	69.825
Imports (**)	63.815	68.733	72.466	74.218	66.653	71.715	68.082	63.740	66.129 (*)	70.357 (*)
Trade Balance (**)	-15.710	-14.955	-14.371	-16.262	-15.039	-14.868	-6.487	-528	1.782	-531 (*)
Real PT GDP (constant prices)	158652,6	161116,5	165131,5	165460,6	160533	163581	160592,7	154123,6	151650,2	153019,4
GDP PT growth rate (%)		1,6	2,5	0,2	-3,0	1,9	-1,8	-4,0	-1,6	0,9
Index real labour productivity per person PT	93,7	94,8	97,2	97,0	96,7	100,0	100,1	100,2	101,5	101,0
Index real labour productivity per person UE	97,7	99,4	100,5	100,0	97,3	100,0	101,6	101,5	101,9	102,5

ISBN: 978-9963-711-37-6

Table 2 presents the evolution of Portuguese debt to GDP during the period 2005-2014. Results show that in the actual macroeconomic frame, the Debt to GDP ratio is around 130%. Therefore, one may conclude that the budgetary policy will remain restrictive in the years to come. It should be remembered that the monetary policy is decided by the Eurogroup and applied by the Portuguese government in the terms of the subsidiarity principle in the EU. It is therefore predictable that economic growth in Portugal may only occur as a consequence of an increase in exports or in direct foreign investment in the production of transactional goods. That is a reason for the analysis of the competitiveness of current Portuguese exports.

Table 2. Evolution of Portuguese debt to GDP (Source: authors calculations from World Banc database, 2015)

	Three-year mobile average									
Portugal	2004-2006	2005-2007	2006-2008	2007-2009	2008-2010	2009-2011	2010-2012	2011-2013	2012-2014	2013-2015
Debt to GDP	62,8	63,9	68,3	71,7	83,7	94	111,1	125,8	129,7	130,2 (*2015 prevision)

LITERATURE REVIEW

Trade models of classical and neo-classical theory (Ricardo, 1817; and 1951; and Ohlin, 1933) state that a country has a comparative advantage, i.e., favourable economic conditions that determine that is capable of producing a particular product / sector with relatively lower costs to export this product, while other countries have comparative disadvantages over the first. Then, one of the most powerful propositions of classical trade theory is that the pattern of international trade is determined by comparative advantage. Also, the international trade model of David Ricardo states that international trade is due to the differences in labour productivity between countries. However, the Heckscher-Ohlin model explains the existence of international trade based on differences in factor endowments and respective intensities.

More recently, main authors also included the biggest industrial and technological transformation from the last centuries. Palley (2011), argues there is a new emphasis on the fact that comparative advantage in the modern world is created and not endowed. In the 18th century world, trade was driven by the search for exotic spices and raw materials. At that time, climate and natural resource endowments significantly determined the pattern of comparative advantage (in a traditional sense) and little could be done to alter this pattern. In today's economy, comparative advantage (in a broader sense) is driven by technology, and technology can be importantly influenced by human action and policy.

Despite the numerous scientific advances in theories of international trade, RCA and its developments continue to be the largely used for studies involving different countries and products. There are

 ISBN: 978-9963-711-37-6

several ways of using the RCA indices in analysing trade performance. The most common are to simply examine whether a given country has a comparative advantage in a given sector or sectors by comparing the calculated value and the comparative advantage neutral point, that is designated a country level (Sanidas & Shin 2010; Ferto & Hubbard 2003). According to the last author, these studies, specifically, can have a particular importance to the policymaking activities related to trade patterns at the country level, as it is the aim of the present study. Beyene (2014) also presented the main works due in this RCA level study and some gaps on these studies. However most of the authors will continue using the present method in order to better give some recommendations for decision makers.

Trade models of classical and neo-classical theory (Ricardo, 1817; and 1951; and Ohlin, 1933) state that a country has a comparative advantage, i.e., favourable economic conditions that determine which is capable to produce a particular product / sector relatively more costs low export this product, while other countries have comparative disadvantages over the first. Then, one of the most powerful propositions of classical trade theory is that the pattern of international trade is determined by comparative advantage. Also, the international trade model of David Ricardo states that international trade is due to the differences in labour productivity between countries. However, the Heckscher-Ohlin model explains the existence of international trade based on differences in factor endowments and respective intensities.

More recently, main authors also agree and include the biggest industrial and technological transformation from the last centuries. Accordingly, Palley (2008), argues there is a new emphasis on the fact that comparative advantage in the modern world is created and not endowed. In the 18th century world, trade was driven by the search for exotic spices and raw materials. At that time, climate and natural resource endowments significantly determined the pattern of comparative advantage (in a traditional sense) and little could be done to alter this pattern. In today´s economy, comparative advantage (in a broader sense) is driven by technology, and technology can be importantly influenced by human action and policy.

There are several ways of using the RCA indices in analysing trade performance. The most common ways are to simply examine whether a given country has a comparative advantage in a given sector or sectors by comparing the calculated value and the comparative advantage neutral point, that is designated a country level. According to Beyene (2014) and Sanidas & Shin (2010), the RCA index analysis can be doing at 3 different level, namely, country-level; regional-level; and, trans-regional level. The first one, according the authors can sometimes "have limited their scope to the country

 ISBN: 978-9963-711-37-6

level. These studies, specifically, can have a particular importance to the policymaking activities related to trade patterns at the country level".

For Beyene (2014), the regional-level RCA studies means "the assessment of competitiveness has also been undertaken at a relatively wider scope that extends beyond a single country. And for trans-regional RCA study means the "The scope of studies on competitiveness can be expanded beyond a specified region to assess its status vis-à-vis other regions in the world. The authors also review the main previous works on each RCA level study.

METHODOLOGICAL APPROACH

Revealed Comparative Advantage (RCA) is a commonly used economics tool that makes use of trade patterns to identify the specific sectors, product groups, or commodities for which a country or region has comparative advantage (Beyene 2014) H. The method first created by Balassa (1965) had successive improvements by the author and by others, namely, Vollarth (1991 and Esmaeili (2014) by the use of Relative Trade Advantage index (RTA) one of the export comparative advantage indices, which was used for the first time by to evaluate the export yield of country and different goods. (Amirteimoori1, and Chizari, 2008; Crescimanno et al. 2014)

According to Balassa (1977, 1979, 1986), to identify the sectors or products that have revealed comparative advantage, we need to compare the manufactured trade products in a country or region level with the world average for the same products. Thus, the RCA method is the ratio of the specific export manufactured products at a country level and around the world. In the model, the numerator includes total exports from a country of a particular commodity or group of products as a share of its total exports, and the denominator is the total world exports of that product or group of products as part of their total world exports. The analysis of Balassa work (1977; 1979 and 1986) reveals successive adjustments in the RCA index. On the present work we use the RCA initial formula by Balassa (1965) index, defined as:

$$RCA = \left[\frac{(X^{t}_{ij} / \sum_i X^{t}_{ij}}{(\sum_j X^{t}_{ij} / \sum_j \sum_i X^{t}_{ij}} \right]$$ Where:

X means the exports, the indices *i* and *j* indicates, respectively, the product or sector and the country analyzed.

$\sum_i X_{ij}$ means the total exports of a country *j* in the period *t*

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$\sum_j X_{ij}$ means the world exports of product or commodities *i* in the period *t*

$\sum_j \sum_i X_{ij}$ means the total of world exports in the period *t*

The RCA index results may ranges between zero (0) and positive infinitive (+∞).A country has revealed comparative advantage in the specified sector or product if the RCA result value exceeds the unit (1).

The RCA model proposed that it might not be necessary to include all constituents affecting a country's comparative advantage. Instead, it suggested that comparative advantage should be "revealed" by observed trade patterns, and in line with the theory, one needs pre-trade relative prices, which are not observable. Thus, inferring comparative advantage from observed data is called "revealed" comparative advantage (RCA). In practice, this is a commonly accepted method of analyzing trade data (Utkulu and Seymen, 2004; Amirteimoori, and Chizari, 2008)

In the current paper an analysis of the initial Balassa (1965) formula was made, since the work was carried out at the 2-digit level intra-industry trade. So, according to Erlat and Erlat (2008) the present method is adjusted, because other methods that include imports, for example, Lafay (1992), may very well indicate only for the 3-digit level of intra-industry trade.

Another contribution from Lafay (1992) to the deepening of the analysis of the evolution of world trade for a certain product that would enable the evaluation if a certain country had lost or gained space in the international market would be the performance index. This indicator tries to express the deviation that occurs between exports from a determined product in a region *i* to another region *j* and the one that would have occurred with the same participation in the market in the initial period. In the present case, it is considered that this analysis is not justified, since Portugal generally has a small contribution to the world market, when compared to other countries, namely from southern Europe. Instead, a proxy was used: the national and international performance of the same groups of products exported in an identical period to the analysis.

INFORMATION AND DATA

In the present study, the sectors/groups that were analysed to determine the world competitiveness of the Portuguese exports were taken from GEE/GEPARI (2010). The main criteria was the weight in world exports. They are, in general, related to the clusters previously identified by Porter, in 1992, at the request of the Portuguese government (Mira Amaral, 2014; Porter, 1998). Adopting the nomenclature adopted in international trade, the products are, in decreasing importance in Portuguese world exports: 45 - Cork and his works; 69 - ceramic products; 64 - Footwear, gaiters and the like, and

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parts thereof; 63 - Other made up textile articles; sets; articles of textile materials, footwear, hats and headgear, used; rags; 24 - Tobacco and manufactured tobacco substitutes; 22 - Beverages, spirits and vinegar (we may refer that the present group is almost formed by wine across the world and water for lusophones countries in Africa continent (Angola mainly); 61 - Apparel and clothing accessories, knitted or crocheted; 68 - Articles of stone, plaster, cement, asbestos, mica or similar materials; 68 - Folders (ouates), felt and nonwovens; twine, cordage, ropes and cables; articles thereof. We may refer that the value of exports of olive oil has considerably increase in the last years, but the added value still continues to be low, in part because there is some export in bulk. Due to this situation, the decision was taken not to analyze olive oil and this group of agro industry products. Information and data comes from OCDE database at national level and from COMTRADE database from United Nations at an international level.

RESULTS AND DISCUSSION

Table 3 presents the results of RCA index in Portugal from 2005 to 2014 for the main world exports. The results confirm an increased competitiveness of Portuguese exports to the rest of the world, mainly verified in the period 2012-2014 with a special emphasis in the last two years during which all products under consideration present comparative advantages. However, the analysis of the first period of three years (2005-2007) reveals the practical inexistence of competitiveness of Portuguese exports and reveal competitive disadvantages. At that time only ceramics, footwear and the whole 64 products included in the group, stones (68) and part of the textiles were seen as competitive in international trade. Between 2007 and 2009, improvement was verified only in small groups, as ornamental stones. But they have since maintained the same level, despite a small increment at the end of the period.

The results of the products related to the clusters previously identified by Porter showed a strong shift towards higher competitiveness. Competitive advantages are relevant at the end of the period under scrutiny. Cork, for example, reaches a RCA value of 12.6, the highest of all Portuguese world exports. Ornamental stones, textile components, shoe ware and similar products that have very close RCA levels. Drinks have very good competitiveness levels, especially considering that they have been increasing since 2009, despite a small drop in the last year.

However, an analysis of movable averages is more adequate for the analysis, in order to avoid productive changes related to climatic conditions that influence, for example, production and consumption of alcoholic drinks, namely wine.

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Table 3. Revelead comparative advantages in Portugal from 2005 to 2014 for mainly exports

Products	Years									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
45	0,1	0,1	0,1	0,1	0,1	0,1	0,1	**11,4**	**12,6**	**12,6**
69	**1,0**	**1,0**	0,9	**1,1**	**1,2**	**1,4**	**1,2**	**1,1**	**1,0**	**1,2**
64	**1,3**	**1,4**	0,2	**2,0**	**2,0**	**2,2**	**2,3**	**2,3**	**2,4**	**2,1**
63	0,8	0,8	**1,0**	**1,2**	**1,3**	**1,3**	**1,3**	**1,3**	**1,2**	**1,4**
24	0,6	0,7	0,9	0,9	**1,0**	**1,2**	**1,5**	**1,7**	**1,7**	**1,4**
22	0,7	0,7	0,6	0,9	0,9	0,9	0,8	0,8	**1,0**	**1,1**
61	0,2	**1,6**	**1,7**	**2,1**	**2,1**	**2,2**	**2,3**	**2,7**	**2,4**	**2,0**
68	**1,0**	0,0	**1,0**	**1,3**	**1,4**	**1,2**	**1,1**	**1,1**	**1,0**	**1,2**
56	0,8	0,8	0,9	**1,1**	**1,0**	0,9	**1,1**	**1,1**	**1,1**	**1,3**

(Source: authors calculations from OCDE database, 2014)

Table 4 presents, respectevely, the results of the annual growth rate of Portuguese and world exports during the period of 2005-2014 as a *proxi* of perfomamce analysis. During the present period the annual grow rate has a general tendency of decreasing, despite the the cyclical movements. This tendency accomplish boths Portuguese and world exports. The sistemic efects of the economic world crisis also reflets and explain the results.

The the annual perfomance Portuguese exports across the world is around the double of the value from world exports, mainly on the final of the period and for the mediterranean products, or clusters that were previously identify by Porter (1998) in the Portuguese economy. This means that Portugal still maintains an adequate perfomance level compared to the rest of the world. For exports like cork and similar manufactured products, that occours because Portugal still maintains the first position of producer, transformer and exporter. As far as the other groups of Portuguese exports are concerned, the majority of them come from "clusters" with associated brands and marketing strategies for homogenous groups of consumers. That means that the export products competitiveness is the result of quality and not quantity, as all the authors refer and is confirmed here.

Table 4. Annual Growth rate of Portuguese (PT) and world exports 2005-2014 (Source: authors calculations from OECD database, 2014)

Products	Years (PT)									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
45		-5,8	11,8	5,4	-47,0	10,1	34,8	-13,2	13,2	0,0
69		-1,4	2,2	2,1	-21,4	13,5	-15,4	-99,2	-8,0	-2,7
64		10,0	-87,9	1022,5	-10,3	9,3	8,2	-99,2	23,7	-27,1
63		4,7	23,0	11,1	-5,4	-1,2	5,1	-99,2	7,0	-3,2
24		25,7	13,5	-6,8	16,8	5,0	26,0	-99,0	4,0	-50,2
22		4,2	8,0	17,7	-8,6	-0,9	-6,5	-99,0	20,7	-4,9
61		954,0	13,4	15,0	-9,8	1,5	4,7	-99,2	7,9	-19,3
68		-99,0	11672,7	11,2	-18,1	-10,4	-4,1	-99,2	1,9	-8,1
56		12,1	6,2	9,6	-22,5	-0,3	16,0	-99,2	18,6	-13,4
Products	Years (World)									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014

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45		2,6	6,0	-20,7	-21,0	7,0	7,5	27,8	-18,9	-26,9
69		9,6	14,5	-17,2	-24,6	6,9	9,7	24,6	-15,3	-44,1
64		7,7	10,5	-10,0	-14,7	9,9	17,7	15,2	-5,9	-39,0
63		6,5	9,6	-10,4	-11,2	6,7	13,8	15,1	-4,9	-41,2
24		10,2	-3,4	-9,1	-2,9	0,9	15,7	17,8	-14,9	-56,0
22		11,7	21,0	-18,9	-11,9	10,0	17,9	32,1	-17,4	-41,1
61		5,8	9,5	-5,8	-12,8	5,7	11,3	6,5	-3,5	-32,1
68		13,3	13,7	-12,4	-22,2	11,8	14,2	20,4	-11,8	-45,5
56		11,3	7,4	-11,0	-15,5	14,7	13,6	12,4	-10,1	-42,6

(Source: authors calculations from OCED database, 2014)

Table 4 presents a comparative analysis of growth rate as a proxy of the performance of Portuguese and World exports before and after the subprime crisis,. This analysis covers the periods from from 2005 to 2008 and from 2008 to 2014, as well as the overall rate of growth over the decade analised at national and worldwide level. The results from the comparative analysis of the subprime pre-crisis period, reveals that globally, both Portugal and the rest of the world showed positive growth rates during this period for the all the manufactured products, except in Portugal for footwear, whose industry, to the opposite Porter's recommendations was still dominated in the past, by a wide range of companies, many of which later failed , due the lack of investment in know-how, research and development. To point out a growth rate of over 1000% during this period by the textiles in Portugal, whose industry due to the increasing liberalization of markets within the CMOs for textile, had already led to the failure the low know-how campanies like happens with the footwear sector before. Even so, the high performance of Portugueses textiles, also due to the high quality of the textile industry, though in a restricted way, which leads to the *core* of the multinational firms sector to middle-income segments of the market make use of the country, in the form of *outsoorcing* when it is required higher quality of production.

Despite that, i.e., although Portugual registered an annual growth rate much higher than that of world exports in the period 2005-2008, yet still has a long way in order to accomplish the world's exports perfomamce. These results can be confirmed when looking at national versus global developments since the sub-prime crisis globally over the last decade. These results are even worrying for Portugal, because, in general, the Portuguese exports reach perfomamce loss levels of around -100% in all product groups analyzed for the period from 2009-2014. That loss of performance can not be explained only by the impact of the *subprime* crisis in the world economy. So, during the same period, the world economy suffers only about 15% of export reduction for the most products analyzed, with a maximum value of one quarter (only for ceramic products), i.e., the actual world economy, suffered less impact than those who were felt in Portugal.

This Portuguese exports decreasing tendency is explaining by the highest exposure of of the country not only to world crisis but due the exposure to the internal economic and financial excessive public

 ISBN: 978-9963-711-37-6

debt. So, the *subprime* crisis coupled with the weakness of the Portuguese public accounts had very negative effects which are also reflected in the real Portuguese economy more sharply than globally at world level.

For the Portuguese case, this sharp decline in export growth and, in parallel, a substantial increasing of exports competitiveness as the results of RCA index , means that the country is focusing on innovation, R&D, but the size of the country and the educational levels and entrepreneurs still continue low compared to the goals of the Strategy Europe 2020-.2020. So, the country needs to do a reinforcement on investment on education, training, excellence, entrepreneurship and I&D. Otherwise, in the future, we may even jeopardize the competitiveness that we can currently make for the analyzed products.

Despite the comparative analysis of the overall growth rate of exports during the decade under study, was result in a loss of Portuguese exports perfomamce in all product groups analyzed compared with world exports, although the perfomamance of the last ones also have decreased as a result of the effects of the economic crisis and the global decline in demand. That means that the decline of Portuguese exports resulted in a lower volume and a higher value, and, in this way broke up competititividade of Portuguese exports, is also observed that this increase in the competitiveness of Portuguese case, has not been the enough given the performance of world exports.

Table 5. *Growth rates of Portuguese exports and the world exports before and after the subprime crisis*

Products	Growth rate of Portuguese exports 2005-2008	Growth rate of Portuguese exports 2008-2014	Growth rate of World exports 2005-2008	Growth rate of World exports 2008-2014	Growth rate of Portuguese exports 2005-	Growth rate of World exports 2005-2014
45	5,34	-22,82	2,60	-20,96	-14,3	-40,5
69	0,74	-99,44	9,65	-24,61	-99,4	-45,7
64	-86,63	-99,22	7,74	-14,75	-98,8	-21,8
63	28,83	-99,19	6,46	-11,20	-98,8	-27,5
24	42,66	-99,22	10,18	-2,95	-99,0	-51,7
22	12,56	-99,08	11,70	-11,85	-98,8	-19,5
61	1094,91	-99,31	5,84	-12,75	-90,4	-21,9
68	19,41	-99,49	13,29	-22,25	-99,3	-35,1
56	19,13	-99,26	11,26	-15,50	-99,0	-32,0

(Source: authors calculations from OECD database, 2014)

CONCLUSIONS

This paper has examined the competitiveness of Portuguese exports and the ways in which it changed in the face of the economic and financial crisis, using the RCA index. The sharp fall in the world demand for the exports, associated to the "Portuguese clusters of manufactured products", led to a

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decrease in Portuguese exports, which was much higher than the decrease seen worldwide, despite the deal, some products Mediterranean typically manufactured, such as cork and its derivatives and alcohol formed almost exclusively by wine. Otherwise such causes in the real Portuguese economy may not be appropriate in a particular way to the impacts of the subprime crisis, but mainly to the financial imbalance of Portuguese public finances. This study also shows that economic growth in Portugal should mostly occur by way of increase in exports, due to financial problems created by excessive public debt of the past, with future repercussions, only likely to solve if there is noticeable economic growth in Portugal.

However subprime crisis and national competitiveness of exports are interrelated. This relationship have particularly importance to the countries like Portugal which are a small open economy with insufficient recourses to satisfy the consumer and investment demand within the country, thus need to import in order to add value to export products and use the income received for financing import and other operational activities as well as develop the country's total economy.

From the point of view of macroeconomic theory the organization of financial markets faces a trade-off between liquidity and investment: on the one hand, they stimulate the development of productive activity by making the most liquid assets, freeing therefore the investor the irreversibility of the investment; on the other, it increases the speculative possibilities of earnings.

The results suggests the urgent need for strong commitment of the Portuguese public policies focus on economic growth, competitiveness and internationalization of the Portuguese economy on the strategic sectors. EU funds from Multiannual Financial Framework 2014-2020 should be refocused and reinforced to support investment on research and development. Portuguese economic and legal policies should also focus and create conditions to facilitate the overall level of the country on the attractiveness of foreign direct investment.

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 ISBN: 978-9963-711-37-6

RELATIONSHIP BETWEEN CORPORATE PERFORMANCE, CLIMATE CHANGE DISCLOSURES AND CARBON INTENSITY OF BUSINESS ACTIVITIES

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ABSTRACT

During the last decade there has been considerable concern about the effects of climate change on business activities. Physical, regulatory and reputational risks, associated with increased carbon dioxide (CO2) emissions, have been negatively affecting the profitability of firms. As a result, stakeholders have been increasingly demanding more disclosure regarding the corporate climate change practices of firms.

This paper explores the relationship between corporate performance, climate change disclosures and carbon intensity of business activities. We claim that increased disclosure is positively related to a firm's corporate performance while, on the other hand, carbon intensity of business activities is negatively related to a firm's corporate performance. We empirically test the above assumptions using the climate change disclosure and CO_2 emissions data provided by the Carbon Disclosure Program (CDP).

Keywords: *Climate Change Disclosures, Carbon Intensity of Business Activities, Corporate Performance.*

INTRODUCTION

Climate change has been widely acknowledged as a major source of physical, social and economic risk. Depending on the nature of their business activities, some firms are particularly exposed to the direct physical impacts of climate change (Lash and Wellington, 2007; Wellington and Sauer, 2005), while others are indirectly affected by being exposed to risks associated with current or impending climate change regulation (Busch and Hoffman, 2007; ABI, 2005). For example, firms in Greenhouse Gas (GHG) intensive business sectors, such as energy production, aluminum, cement, and pulp production are more exposed to risks associated with carbon dioxide (CO_2) emissions reduction regulation (Busch and Hoffman, 2007; ABI, 2005). Consequently, firms in those particular sectors are expected to face increased operational costs that will affect their profitability and create significant competitive risks. On the other hand, firms in business sectors, which are not affected by climate change, as a natural

 ISBN: 978-9963-711-37-6

phenomenon, or by climate change regulation, will also face increased operational costs, as there is the tendency for energy suppliers to pass the increased costs of regulation to their consumers (Lash and Wellington, 2007; Wellington and Sauer, 2005).

Institutional investors have also begun to pay more attention to the corporate climate change practices of firms, demanding more disclosure related to corporate climate change mitigation policies. What investors are particularly interested in is, information regarding GHG emission production, exposure to carbon regulation, and corporate strategies regarding renewable energy investments (Solomon *et al*., 2011; Delloite, 2010). Increased disclosure of climate change related risks could enhance an investor's ability to measure and manage the exposure of his portfolio to the reverse effects of climate change (Venugopal *et al*., 2009), by helping him to accurately estimate a firm's corporate performance and future cash flows. Furthermore, scientific research on credit risk management has shown that, by incorporating sustainability criteria in the financial assessment of projects, banks can lower the chances of having to deal with credit default cases, and also improve their credit risk management assessment procedures (Weber *et al*., 2010).

As a consequence, demand on information disclosure, regarding corporate climate change practices, has risen during the last decade resulting to the creation of voluntary climate change information disclosure schemes such as the Carbon Disclosure Project (CDP) (Andrew and Cortese, 2011). These schemes utilize different data collection methodologies, which include assessing GHG emissions and corporate climate change practices, and codify this information into annual reports, which are later made publicly available to various stakeholders.

Our study explores the relationship between corporate performance, climate change disclosures and carbon intensity of business activities. We claim that increased disclosure is positively related to a firm's corporate performance while, on the other hand, carbon intensity of business activities is negatively related to a firm's corporate performance. We empirically test the above assumptions using the climate change disclosure and CO_2 emissions data provided by the Carbon Disclosure Program.

This paper is organized as follows. In the next section, we provide a brief literature review and introduce our research hypotheses. Then, we describe our data and methodology. Afterwards, we present and offer an analysis of our results, and finally, we conclude our research by making policy recommendations and indicating the limitations of our study, while offering suggestions for future research.

 ISBN: 978-9963-711-37-6

LITERATURE REVIEW

Environmental disclosures and corporate performance

Prior empirical research has examined the relationship between environmental management and corporate performance. A firm's ability to successfully implement environmental actions, especially those focused on energy and pollution, has a positive effect on the firm's market performance, measured in terms of access to new markets, increased market share and improved reputation. (Dangelico and Pontrandolfo, 2013). Additionally, Al-Najjar and Anfimiadou (2012) also confirm that eco-efficient firms exhibit a higher market value than those lacking environmental strategies. Furthermore, Nakao *et al*. (2007) have shown that a firm's environmental performance has a positive significant impact on its financial performance and vice versa, and estimate that increasing environmental management scores could lead to an increase in a firm's intangible assets in the long-run.

Along those lines, environmental disclosures have also been examined as having a positive significant impact on corporate performance. Firms with higher sustainability scores perform better than firms with lows sustainability scores (Eccles *et al*., 2013). On the other hand, Ghoul *et al*. (2011) show that firms with better corporate social performance (CSR) scores, especially those associated with environmental policies, have access to financing equity at a lower cost than firms with low CSR scores. Finally, Yadav *et al*. (2015) also confirm that firms with repeated high "green" rankings show significantly higher firm value than firms with either reduced or unchanged rankings across time.

This study explores the relationship between climate change disclosures and corporate performance. Although a very large number of studies exist today on the determinants of CSR reporting (Fifka, 2013), fewer studies have addressed climate change reporting, which is often included in the general environmental reporting section of CSR reports. However, since climate change is now considered to be a major source of business risk, examining the effect of climate change disclosures on corporate performance could offer us results that are of particular interest to both managers and policy makers. Taking as a reference the position of the authors cited above, we pose the following working hypothesis:

H_1: Increased climate change disclosure positively affects a firm's corporate performance.

GHGs emissions and corporate performance

Regarding the effect of GHGs emissions on corporate performance, the results obtained in previous research are not unanimous. More specifically, Wang *et al*. (2014) find a significant positive relationship

 ISBN: 978-9963-711-37-6

between GHGs and corporate performance. These results are in contrast with the claim that firms with better environmental performance exhibit better corporate performance, since a high GHGs intensity of corporate activities implies a low environmental performance. Nevertheless, the authors interpret the above results by taking into account the structure of the Australian economy, which consists mainly of resource-intensive industries. Along those lines, Alvarez (2012) also finds a significant negative relationship between CO_2 reductions and firm performance, which can be explained, given the fact that during the time of the research, the economic crisis caused large companies to reduce their investments on environmental performance in order to improve their financial performance.

On the contrary, Nishitani and Kokubu (2012) show that GHG emission reduction enhances firm value. However, this stands only for firms, for which strong market disciple, imposed by stockholders or investors, forces them to reduce GHG emissions. Furthermore, Lannelongue *et al*. (2015) find a significant positive relationship between CO_2 reductions and corporate performance. Finally, Busch and Hoffman (2011) show that a high carbon intensity of corporate activities negatively affects a firm's corporate performance. Taking as a reference the above authors, we pose the following hypothesis:

H_2: High carbon intensity of corporate activities negatively affects a firm's corporate performance.

DATA AND METHODOLOGY

Data Description and Sample Selection

In order to measure corporate climate change disclosure and carbon intensity of corporate activities, we use data published by the Carbon Disclosure Project (CDP). The CDP is a global not-for-profit organization, which provides a global disclosure system through which thousands of firms around the world report, manage and share environmental information. Furthermore it holds the largest and most comprehensive collection globally of primary corporate climate change information (CDP, 2015).
For the purpose of this study, we obtained the GHG emissions from the CDP's data on emissions. Both scope 1 and scope 2 emissions were used in this study. Scope 1 GHG emissions are those who come directly from sources that are owned or controlled by the reporting firm. Scope 2 GHG emissions are a consequence of the activities of the reporting firm, but occur at sources owned or controlled by another firm (CDP, 2014). Furthermore, in order to measure corporate climate change disclosure, we used the disclosure scores published by the CDP. The disclosure score assesses the level of action, as reported by the firm, on climate change mitigation, adaptation and transparency. (CDP, 2014).
In order to test our two hypotheses we have selected, as the target population, firms included in CDP's Global 500 climate change summary data set. The economic sectors selected to undertake this

 ISBN: 978-9963-711-37-6

research were Industrials, Health Care, Information Technology, Consumer Discretionary, Materials, Consumer Staples, Utilities, Energy, and Telecommunication Services. A sample of 255 firms was chosen and data was selected for the year 2013. Firms were selected on the basis of having both a disclosure score rating and providing data on their emissions. Accounting data were selected from the financial and annual reports of our sample firms.

Dependent Variables

Firm corporate performance is the depended variable in our regression model. In previous research both accounting measures, such as Return on Assets (ROA) and Return on Equity (ROE) (Alvarez, 2012; Lannelonge *et al*., 2015; Eccles *et al*, 2013; Busch and Hoffman, 2011; Nakao *et al*., 2007), as well as market performance measures such as Tobin's q (Nishitani and Kokubu, 2012; Busch and Hoffman, 2011; Nakao *et al*., 2007; Wang *et al*., 2014), share/stock price ratio (Al-Najjar and Anfimiadou, 2012) and standardized cumulative abnormal returns (Yadav et al., 2015) have been used to measure the corporate performance of a firm. Following the research of both Busch and Hoffman, (2011) and Nakao *et al*., (2007), we are going to use one accounting measure, ROA, and one market performance measure, Tobin's q, to examine a firm's corporate performance. We define ROA as the net profits of a firm divided by its total assets, and Tobin's q as the market value of a firm divided by its total assets.

Independent Variables

In this study, we are going to use two different independent variables, climate change disclosure and carbon intensity. Previous research has examined different measures for environmental performance. Nakao *et al*., (2007) use an environmental management score published in the Nikkei Environmental Management Survey report, while Eccles et al., (2013) use disclosure scores calculated by Bloomberg and Thomson Reuters. In our research we are going to use the disclosure scores published by CDP for the year 2013.

Regarding carbon intensity, Wang *et al*., (2014) have used the logarithm of total emissions. Nishitani and Kokubu, (2012) have used net sales divided by total carbon emissions while Lannelongue *et al*., (2015) have used total carbon emissions divided by sales. Furthermore, Alvarez, (2012) has used carbon emission variation between years to measure the environmental performance of firms. Finally, Busch and Hoffman (2011) have used the natural logarithm of carbon intensity (carbon emissions divided by sales), divided by median of the sample firms. In our study, we will also use the natural logarithm of carbon intensity measured by total emissions divided by sales.

Control Variables

In our study we are going to use size, leverage, capital intensity, industry sector index and country index as control variables. Size has been used several times as an independent or control variable in previous research on environmental disclosures. Several measures have been used to represent firm

 ISBN: 978-9963-711-37-6

size, natural logarithm of revenue (Alvarez, 2012), natural logarithm of total assets (Yadav *et al*., 2015; Wang *et al*., 2014; Ghoul *et al*., 2011), number of employees (Nishitani and Kokubu, 2012; Lannelongue *et al*., 2015) and market value (Busch and Hoffman, 2011). In this study we will use the natural log of total firm assets.

With regard to measuring a firm's leverage, Busch and Hoffman, (2011) have used long-term debt to total assets, Ghoul *et al*., (2011) and Alvarez (2012) have used a debt/ equity ratio, while Wang *et al*., (2014) and Al-Najjar and Anfimiadou, (2012) have used a debt/asset ratio. In this study, we will also use a debt/asset ratio. Regarding capital intensity, Wang *et al*., (2014) have used a capital expenditure to sales ratio, and Nakao *et al*. (2007) have used sales to total assets ratio as a proxy variable for capital intensity. Following Wang *et al*., (2014), we will also use a capital expenditure to sales ratio.

Economic sectors in which the firms operate have been used as a control variable in several studies (Yadav *et al*., 2015; Wang *et al*., 2014; Nishitani and Kokubu, 2012; Alvarez, 2012). In this study, we will also use Economic Sector as a control variable. For our research we have identified the following sectors: Industrials, Health Care, Information Technology, Consumer Discretionary, Materials, Consumer Staples, Utilities, Energy, and Telecommunication Services. Finally, taking as a reference Busch and Hoffman (2011), we will use four dummy variables to control for cross-country differences, Europe, North America, Japan and countries from the rest of the world.

Methodology

Multiple regression analysis was conducted in order to test the relationship between corporate disclosures, carbon intensity and corporate performance. In this study, two corporate performance proxies, i.e. ROA and Tobin's q are regressed on two independent variables, i.e. climate change disclosure, represented by the CDP disclosure score and carbon intensity, measured by the natural logarithm of carbon emissions to sales, and five control variables: (i) firm size, calculated as the natural logarithm of total assets, (ii) leverage, expressed as the ratio of debt to total assets, (iii) capital intensity, represented by the ratio of capital expenditures to sales, (iv) industry (v) countries.

Our models can be written as:

$$ROA = f\,(\text{climate change disclosure}, Z) + e_i \quad (1)$$

$$ROA = f\,(\text{carbon intensity}, Z) + e_i \quad (2)$$

$$\text{Tobin's } q = f\,(\text{climate change disclosure}, Z) + e_i \quad (3)$$

$$\text{Tobin's } q = f\,(\text{carbon intensity}, Z) + e_i \quad (4)$$

Where the vector Z contains the variables: firm size (SIZE), leverage (LEV), capital intensity (CAPINT), industry (IND), and country (CNT). Climate change disclosure is represented as CCDISC,

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carbon intensity as CARBON and Tobin's q as TOBINSQ. Finally, e_i is the mean-zero disturbance term.

RESULTS AND ANALYSIS

Descriptive Statistics and Bivariate Results

Table 1 presents the descriptive statistics of the depended and independent variables. The minimum, maximum, mean and standard deviation values are reported. As we can see, the companies issue an average of 85,76 out of the 100 disclosure score reported on the CDP, while a high variation is also depicted, ranging from 40 to 100. Carbon intensity also exhibits a high variation from 0,23 to 8,98. In table 2, Tobin's q, ROA, climate change disclosure score and carbon intensity are given with industry breakdowns. Firms belonging to the Energy, Materials and Utilities sectors present higher average carbon intensity than the whole sample, while firms in the Energy sector present a lower average disclosure score than the whole sample. On the other hand, Information Technology firms present both a high disclosure score and low carbon intensity average in comparison to the whole sample.

	Minimum	Maximum	Mean	Std. Deviation
TOBINSQ	0,005	8,25	1,50	1,51
ROA	-0,26	0,36	0,07	0,06
SIZE	5,16	16,41	10,67	1,33
LEV	0,001	0,92	0,24	0,14
CCDISC	40,00	100,00	85,76	12,35
CARBON	0,23	8,98	4,46	1,87
CAPINT	0,003	0,82	0,11	0,12

Table 1. *Descriptive Statistics*

Industry	No. of companies	Size	Disclosure score	Carbon Intensity	ROA	Tobin's q
Consumer Discretionary	34	10,52	88,00	3,44	0,08	2,00
Consumer Staples	33	10,19	84,00	4,06	0,10	1,93
Energy	32	11,50	81,00	5,49	0,06	0,81
Health Care	24	10,49	87,00	3,15	0,10	2,56
Industials	37	10,47	86,00	4,45	0,06	1,44
Information Technology	24	10,53	87,00	3,07	0,10	2,04
Materials	30	10,46	86,00	6,23	0,04	0,99
Telecommunication Servicies	21	10,98	83,00	3,33	0,06	1,18
Utilities	20	10,90	91,00	7,13	0,02	0,46

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Sample	255	10,67	85,76	4,46	0,07	1,50

Table 2. *Industry descriptive data*

The Pearson's correlation matrix for the regression variable is presented in Table 3. It is worth mentioning that the correlations between carbon intensity and ROA and Tobin's q are very high. Additionally, there is high correlation between carbon intensity and the majority of economic sectors. On the other hand, there is no significant correlation between the disclosure index and the corporate performance measures.

Regression Analysis

In order to estimate the regression model, several statistical assumptions of the regression analysis were used. Regarding normality, we applied the Kolmogorov–Smirnov test which showed us that the variables do not show a normal distribution. However, according to Gallego-Alvarez (2012) and Lumley et al. (2002) the absence of a normal distribution does not reduce the validity of the model. In order to alleviate heteroscedasticity problems, we transformed some of our variables into a logarithm. Regarding autocorrelation, we conducted the Durbin-Watson's test. Our models exhibit values around 2 (Table 5), which reflects the absence of autocorrelation in the residuals. Finally, in the case of multicollinearity, the values obtained in tolerance have to be high (0< tolerance<1) and the values obtained in the variance-inflation factors (VIF) have to be low (VIF<10). Our model presents tolerances between 0,390 and 0,898, and VIFs between 1,113 and 2,697, indicating the absence of multicollinearity (Table 4).

	MODEL 1		MODEL 2		MODEL 3		MODEL 4	
	Tolerance	VIF	Tolerance	VIF	Tolerance	VIF	Tolerance	VIF
SIZE	0,681	1,468	0,731	1,368	0,701	1,427	0,729	1,372
LEV	0,757	1,321	0,761	1,315	0,757	1,321	0,763	1,311
CAPINT	0,632	1,582	0,638	1,568	0,623	1,604	0,623	1,606
CARBON	0,390	2,562			0,371	2,697		
CCDISC			0,922	1,084			0,898	1,113

Table 3. *COLLINEARITY STATISTICS*

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		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1	TOBINSQ	1															
2	ROA	0,423**	1														
3	SIZE	-0,505**	-0,207**	1													
4	LEV	-0,162*	-0,194**	0,101	1												
5	CCDISC	0,048	-0,010	0,039	0,115	1											
6	CARBON	-0,176**	-0,380**	-0,179**	0,081	0,032	1										
7	CAPINT	-0,235**	-0,293**	0,144*	0,055	-0,129*	0,385**	1									
8	CONDISCR	0,163*	0,053	-0,043	0,104	0,078	-0,214**	-0,182**	1								
9	CONSTAP	0,079	0,184**	-0,140*	0,124*	-0,054	-0,082	-0,209**	-0,151*	1							
10	ENERGY	-0,190**	-0,070	0,237**	-0,149*	-0,161*	0,207**	0,423**	-0,148*	-0,145*	1						
11	HEALTH	0,266**	0,157*	-0,041	-0,038	0,025	-0,226**	-0,172**	-0,126*	-0,124*	-0,121	1					
12	INDUSTR	-0,041	-0,072	-0,062	-0,049	0,020	-0,003	-0,148*	-0,161**	-0,158*	-0,155*	-0,132*	1				
13	INFOTECH	0,098	0,170**	-0,032	-0,281**	0,026	-0,239**	-0,101	-0,126*	-0,124*	-0,121	-0,103	-0,132*	1			
14	MATERIA	-0,114	-0,149*	-0,056	-0,022	0,005	0,345**	0,191**	-0,143*	-0,140*	-0,138*	-0,117	-0,150*	-0,117	1		
15	TELECOM	-0,052	-0,066	0,071	0,164**	-0,062	-0,182**	0,074	-0,116	-0,114	-0,112	-0,096	-0,123*	-0,096	-0,108	1	
16	UTILITIES	-0,206**	-0,211**	0,051	0,170**	0,134*	0,416**	0,169**	-0,113	-0,111	-0,110	-0,093	-0,119	-0,093	-0,106	-0,087	1

**. Correlation is significant at the 0.01 level.

*. Correlation is significant at the 0.05 level.

Table 4. *Correlation coefficient matrix (correlations for countries are not shown)*

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Regarding the explanatory power of our models, in models 1 and 2, where ROA is the dependent variable, the R^2 has a value of 0,335 and 0,303 respectively for a confidence level of 99% ($p < 0.01$). The explanatory power of our models is similar to other studies. Specifically, Lannelonge *et al*. (2015), Alvarez *et al*. (2012), and Busch and Hoffman (2011), who also use ROA as a dependent variable, obtain values between 0.16 and 0,43 for the R^2. Regarding, models 3 and 4, where Tobin's q is examined as a dependent variable, we obtain R^2 values of 0,665 and 0,621 respectively, which are very high if we take into account that similar studies exhibit R^2 values of 0,411 (Wang *et al*., 2014), 0,104 (Nishitani and Kokubu, 2012) and 0,411 (Nakao *et at*., 2007).

The results obtained from the estimation of our proposed models using the ordinary least squares methodology are presented in Table 5.

	Model 1	Model 2	Model 3	Model 4
	ROA		TOBINSQ	
SIZE	-0,285***	-0,228***	-0,305***	-0,289***
LEV	-0,100	-0,120*	-,155***	-0,177***
CAPINT	-0,157**	-0,186***	-0,024	-0,04
EUROPE	0,106*	-0,082	-0,117***	0,098**
JAPAN	-0,107*	-,213***	0,523***	0,483***
RESTWORLD	0,222***	0,182***	-0,182***	-0,086*
CONDISCR	0,212	0,220	0,120	0,11
CONSTAP	0,324	0,299	0,166	0,129
ENERGY	0,299	0,190	0,078	-0,038
HEALTH	0,253	0,264	0,232	0,219
INDUSTR	0,156	0,101	0,042	-0,036
INFOTECH	0,206	0,234	0,049	0,048
MATERIA	0,201	0,055	0,104	-0,043
TELECOM	0,131	0,151	0,020	0,018
UTILITIES	0,175	0,002	0,088	-0,077
CARBON	-0,320***		-0,255***	
CCDISC		0,033		0,009
R Square	0,335	0,303	0,665	0,621
F	7,358***	6,424***	28,183***	25,139***
Durbin -Watson	1,86	1,86	2,02	2,03

*p<0.10 **p<0.05 ***p<0.01 North America excluded from estimation

Table 5. Regression Analysis Results

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The models estimated determine the relationship between corporate performance, climate change disclosure and carbon intensity of business activities. Specifically, a positive but no significant relationship was found between climate change disclosure and corporate performance measured by both ROA and Tobin's q. This result causes us to reject hypothesis H_1. On the other hand, a negative significant relationship is detected between corporate performance and carbon intensity of business activities, both for models 1 and 3, which allows us to accept hypothesis H_2. Regarding, our control variables, negative, statistically significant effects are detected between corporate performance, measured both by ROA and Tobin's q, and firm size for a confidence level of 99%. Furthermore, a negative significant relationship is detected between capital intensity and ROA, and between leverage and Tobin's q. Finally, significant relationships are detected between country control variables and corporate performance while no significant relationships are detected between economic sectors control variables and corporate performance.

CONCLUSION

Over the past years, firms have begun to experience the negative effects of climate change on their business activities in the form of direct physical risks or indirect regulation risks. These increased risks, besides from directly affecting firm profitability, for example through increased operational costs, have also caught the attention of various stakeholders, who have been demanding information regarding corporate climate change practices. This demand has given rise to the creation of voluntary climate change reporting schemes such as the CDP, which collect and publish information regarding corporate climate change practices. The aim of this research was to explore the relationship between corporate climate change disclosures, carbon intensity of business activities and corporate performance. For this reason, data regarding corporate climate change disclosures and CO_2 emissions, as provided by the CDP, were used. In addition, two different corporate performance indicators were examined: an accounting performance indicator (ROA) and a market performance indicator (Tobin's q).

Our results show that there is a negative significant relationship between corporate performance, measured by both ROA and Tobin's q, and carbon intensity of business activities. In other words, firms that produce fewer emissions, in terms of their business activities, will perform better than firms producing more emissions. On the other hand, a positive but not significant relationship is found between climate change disclosures and corporate performance. Alternatively, corporate performance is not affected by the general information disclosed by firms regarding their corporate climate change practices.

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The above results are of particular interest because they suggest that disclosing information about climate change practices is actually not as important as directly managing CO_2 emissions. Furthermore, managing CO_2 emissions is equally important both from an operational management approach, since ROA is a purely accounting performance indicator, but also from a market approach, since Tobin's q is a market performance indicator. That means, that stakeholders actually value more the efforts that firms make in directly reducing CO_2 emissions, rather than in disclosing general climate change management information. This is encouraging, in terms of generally addressing climate change, because it confirms the win-win debate on reducing CO_2 emissions and enhancing firm profitability.

Furthermore, our results are also interesting for firm managers and policy makers. From a managerial point of view, investing in CO_2 reduction policies will most likely have a positive effect directly on firm profitability, while it will also positively affect the firm's image to its stakeholders. For policy makers, our results reintroduce the Porter win-win hypothesis, which outlines the importance of state environmental regulation on firms and how it stimulates innovation in business processes, thereby offsetting the regulation costs imposed on firms, because they develop more efficient production procedures and achieve increased market competiveness (Porter, 1990; Porter and Van der Linde, 1995). Therefore, our results indicate that stricter carbon regulation could also enhance firm performance.

Finally, regarding the limitations of this research, what is important is the fact that our sample consists of firms included in the CDP 500 business list. That means that firms examined in this study are already "sensitive" as far as climate change mitigation practices are concerned. That could possibly explain the reason why we didn't find a significant relationship between climate change disclosure and corporate performance. Future research could focus on examining the models introduced in this study on a wider sample, while the differences in corporate performance between firms that disclose and firms that do not disclose information could also be examined.

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 ISBN: 978-9963-711-37-6

PPP LAW AND SYNCRETISM

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ABSTRACT

PPPs are contracts within which public sector bodies enter into long-term agreements with private sector entities for the construction of public sector infrastructure facilities by the private sector entity, or the provision of services by the private sector entity to the society on behalf of a public sector entity. Syncretism is a word of ancient Greek origin, composed of the words ''syn" (along with) and Crete, island whose name is connected with its archetype inhabitants and civilizers, the Curetes, protectors of Zeus who was born there. This phenomenon in its initial conception has to do with the society in the Greek island of Crete, means *inter alia* collaboration of different parties for national defence (alliance), mixing of heteroclite elements (coupling) as well as convergence through the use of comparative method of science. This paper focuses mainly on PPP law, with emphasis on French legal order, and examines whether PPP exemplifies well the syncretism, mainly because it has to do with coupling of various legal elements and it results from the comparative academic method on international scale.

First, there are presented Public – Private Partnerships (PPPs) and the important institution of concessions, which are often confused with the PPP contracts, with reference in the European, in French, but also in Greek law. It turns out that concessions are product of the French legal system.

Then, there is a comparative approach to PPP contracts through the French legislation and the many examples France has to demonstrate in culture domain. Regarding PPPs it is worth noticing that European Union law as well as the French law requires a systematic research (preliminary process state assessment) in order to decide whether the possible use of the PPP method is ''value for money''. A literature overview on the dysfunctions PPPs in the heritage domain deemed necessary through the examples of the Versailles Castle in France and the museum of Royal Armouries in the United Kingdom. New Public Management (NPM) is then presented. NPM is transferring public management techniques from the private sector to the public one. Therefore, through NPM, PPPs are established as a new management tool.

 ISBN: 978-9963-711-37-6

Finally, we present syncretism, its archetype meaning and its other meanings. Then we explain how syncretism is connected with the French Revolution and mainly with the Assembly at Versailles. After that, it is significant to indicate that syncretism nowadays is regarded as an archetype EuroMed value with a great impact, particularly in the context of the so-called "Arab spring''. Thereafter, we examine whether PPP exemplifies syncretism, which is the scope of the present paper.

Keywords: *Alliance, Concession, Contracting out, Convergence through the comparative method, Coupling, Crete, European and Mediterranean (EuroMed) archetype value, French PPP law, Museums, New Public Management (NPM), Public - Private Partnership (PPP), Syncretism*

INTRODUCTION: NOTION OF PPP CONTRACTS

Public – Private Partnerships (PPPs) are contracts within which public sector bodies enter into long-term agreements with private sector entities either for the construction of public sector infrastructure facilities by the private sector entity, or the provision of services by the private sector entity to the society on behalf of a public sector entity (Peirson and McBride, 1996). Indeed, these contracts have as a scope either the execution of a technical work on an immobile object or the provision of a service by the private partner (through a Special Purpose Company, called Special Purpose Vehicle, PSV), with allocation of risks between the partners.

The syncretism, in its initial conception having to do with the collective phenomenon in the Greek island of Crete, means collaboration of different parties for national defence, mixing of heteroclite elements as well as convergence through the use of the comparative method in the field of science.

This paper focuses on PPP law, with emphasis on the French legal order and particularly on museums, in combination with the much wider phenomenon of syncretism.

We assume that the PPP model exemplifies well the syncretism.

PPP AND CONCESSION CONTRACTS

The PPP framework has a long tradition in the French legal order through the mechanism of the concession contract.

According to EU Directive 18/2004, "*Public works concession is a contract of the same type as a public works contract with the exception of the fact that the consideration for the works to be carried out consists either solely in the right to exploit the works or in this right along with payment*". The concession was used in

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France in 1666 for the construction, financing and management of the project of Canal du Midi (Mediterranean – Atlantic Channel).

In French law, concessions are called delegations, namely assignments, of Public Service (DSP). This scheme includes not only the concession, but also leases, advantageous contracts management etc (Lichère *et al*, 2009). It is to pay special attention to the fact that on international scale concession implicates transmission of power from the public authority to the private contractor (Lampropoulou, 2011).

The first known case of concession, at least in ancient Greece, has to do with a great civil engineering project for the people of Eretria, in the 4th century BC. They hired an engineer, Chairephanes, in an attempt to drain a marshy area, situated rather far from the city, at the heart of their territory. This project exemplifies the "Build – Operate - Transfer (B.O.T.)" model, whose financing was undertaken by the contractor and his partners, who would take advantage of the land for ten years. The concessionaire was endowed with further motivation, for instance all imported materials were free of customs duties and foreign workers (Tzika-Xatzopoulou, 1994).

It is to signalize that the concession model was in use in the times of the Roman Empire and later, in various countries. In France, it acquired a particular significance due to the fact that in the period of the one-class (liberal) state, which was formed in the 18th century, the principle of the abstention of the state from any economic activity was strictly applied whilst the entities of local self-government enacted an active role to build up the welfare state.

The concession has been a public contract, let alone rather a legal innovation of Greek culture. It is to pay special attention to the fact that it has been a crucial source of inspiration for the introduction of the PPP contract mechanism, which is essentially a variation of this traditional type of contract. Anyway, on international scale concession is still a dynamic phenomenon, following the needs of Public Administration and private investors. It has not been marginalized by the introduction of PPPs in national legal orders in spite of the fact that the novelty is regarded as equivalent to the archetype.

The UK is considered as the homeland of PPP through the institutionalization of Private Finance Initiative (P.F.I.) in 1992 for non-reciprocal scopes, such as schools, hospitals, jails and museums, but it was inspired by both the concession model and the legislation on public constructions in the French legal order. So PPP in its initial form constitutes a kind of legal and institutional syncretism (concession and public works law).

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A COMPARATIVE APPROACH TO PPP CONTRACTS

The adoption of a legislative framework on PPP contracts has recently been very frequent, in comparative law. For instance, this institution has been introduced into the Greek legal order in virtue of Law 3389/2005 but it has not been tested yet in the cultural domain. In 2004, France adopted a heritage code, the creation of which the Council of Europe encouraged. It concentrates a double interest that is located by definition in each code: on the one hand, as for the presentation of the dispositions (archives, libraries, archaeology, museums or even the historical monuments) in a single set and, on the other hand, as for facilitating the access to these dispositions.

Having very great similarities to the British PPP model, the French legislation on the matter has been recently modified to become more flexible. In the cultural context, the recourse of the French Administration to PPP contracts remains restricted. The British experience demonstrates that these have to do with the implementation of heavy cultural equipments, such as spectacles rooms, theatres or libraries. In France, the Theatre of Archipelago, constructed in Perpignan since October 2011, hosts festivals with a trans-border character between the French culture and the nearby Spanish one, so it promotes cultural syncretism. Besides, among others, the national Museum of the civilizations of Europe and the Mediterranean has been constructed and put into use in 2013, in Marseille. It is to signalize that the scopes of the contracts in the cultural domain are discerned by their novelties, which could be considered as inspired by the innovative character of PPPs. For instance, it is about the construction of an aquarium, the scientific attempt of approach to oceanography through experiments, the thermal balance in a museum building, the walk gardens connected with the central museum through a bridge in the aforementioned project in Marseille, the services of digitalization of pieces of French cultural heritage as well as the Informatics services. More concretely, a PPP contract had been signed by the public entity "Versailles Museum" for the Informatics system that it had for ticketing.

According to the European Union law and the French legislation (ar. 2.I, Legislative Ordinance 2004-559), it is obligatory to proceed to a preliminary evaluation - pre-assessment ("évaluation préalable") of legal, financial and administrative focus, to demonstrate through systematic research that the use of PPP is preferable to any other type of public contract.

The process of pre-estimation is performed in two stages: The first stage consists in investigation whether the selection criteria of the contract are met and the second one in a comparative analysis, to confirm that PPP is the most appropriate method.

The pre-assessment constitutes an important innovation against the law on public works. This traditional law includes dispositions which refer to pre-assessment but they are not as precise and demanding as those of the PPP contracts (Evangelatou *et al*, 2013). MOP law could usefully be modified, to reflect the appearance of new contracts that it does not include, but it needs a

 ISBN: 978-9963-711-37-6

comparative study between the advantages and the disadvantages, to perform a pre-evaluation of different alternatives (Grange, 2010).

A LITERATURE OVERVIEW ON PPPS

The topic of the dysfunctions for PPP contracts particularly in the domain of heritage has not yet received considerable research attention, like the topic of dysfunctions for cultural sponsorship. Editorial critiques all over the world often mention that PPPs liberate government finances, therefore increasing the set of infrastructure development projects that government can undertake, like the beneficial intervention of sponsors. However, according to a recent research there is no *prima facie* economic reason to desire PPPs over Public Sector Provision (PSP) of infrastructure and PPPs hardly ever free public finances. Anyway, the SPV, which is legally required for the implementation of a PPP contract, matches well to the fundamental contemporary economics of infrastructure development projects. Lastly, it is anticipated that PPP modification will continue to advance in the future, when more detailed and specialized academic research has been adequately conducted (Chinyere and Xu, 2012).

«RIEN NE BOUGEAIT ENCORE AU FRONT DES PALAIS»: VERSAILLES

The abovementioned case of the Versailles Castle constitutes the first failed PPP contract in France. In 28 May 2008 the direction of this public entity decided to get rid of the contract, signed by the former president and afterwards minister of Culture of France, with a company providing Informatics services. The reason for this negative development was that during the 15 months since the signing of the contract, the PPP had been marked by many imperfections by the private partner's side. One of the defaults consisted in the fact that the software of the tickets editing was unstable, extremely slow and unsatisfactory, by causing various problems, such as the enhancement of the queue of waiting visitors. It is to underline that PPP would have as a window display the sight-seeing of Versailles, whose gardens constitute an example of natural heritage included in the "World Heritage List" according to the Convention on protection of world cultural and natural heritage, signed in Paris in 16 November 1972.

ISBN: 978-9963-711-37-6

Figure 9: Versailles Castle

Upon the competent public service for PPPs (''MAPPP''), besides the incapacity of new technological tools management, the failure of the contract is due to the decision of the Ministry involved to delay the execution of the contract and to the fact that the acquisition of Unilog by Logica caused a climate of uncertainty to employees of Unilog, who did not hesitate to leave at the critical moment. ''MAPPP'' concludes that this case enhances its position that the assigning authority should interfere as less as possible, as for the contractual obligation, unless a dysfunction emerges.

After ending the contract, the public foundation of the museum and the national domain of Versailles took on again the internal management of the tickets reservation through the new systems of technology. As a result, up the end of 2008 the problems had been fully resolved and the system of reservation functioned regularly. Moreover, this carrier noticed in its 2008 annual report that the ending of the PPP contract caused the need in recomposing the team of Informatics maintenance of the tickets system in order to face the development of the new tools of this system and that this activity should be externalized in the frame of the PPP contract.

The French failure as for the summer palace of the king of France reminds of one of the most emblematic verses of the French poetry, in Rimbaud's famous masterpiece "Aube". The verses have the following formulation: «*Rien ne bougeait encore au front des palais*».

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«RIEN NE BOUGEAIT ENCORE AU FRONT DES PALAIS»: LEEDS

In December 1993, a PFI contract was signed, of sixty-year duration, between the Royal Armouries and the private company "Royal Armouries International plc (RAI)" for the construction, the operation and the guardianship of the new museum of the UK, in Leeds. RAI would assume the entire risk and would perceive the revenues coming from the visits of the public as well as from parking and restaurant services. In spite of the fact that the museum was put to use in time and in conformity to the budget, it did not manage to cover its operation fees and, as a result, in July 1999, after a revision of the contract with RAI, which was no more truthful, the Royal Armouries undertook the responsibility of the operation of the museum. The Ministry of Culture had to contribute by 10.000.000 pounds in order to save it from definite pause of operation. The Armouries received further financial back of 1.000.000 pounds annually and were supposed to economize approximately 2.000.000 pounds per year.

Figure 10: Royal Armouries, Leeds

The failure of this contract is due to the very reduced demand, in comparison with the

evaluated one beforehand (approximately 60% of the expected levels in the first year of operation and 35% in 1999), and to the very restricted capacity of the building (previous evaluation consisting in 1.300.000 visitors per year with an average visit duration of 2,5 hours while in reality the number of visitors was 600.000-650.000, with a real average visit duration
of 4 hours) and also to the policy of high pricing (up to 18 dollars per individual) in spite of the counselors' warning on the matter.

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PPP AND NEW PUBLIC MANAGEMENT (NPM)

The School of Thought that is called New Public Management (NPM) is a global phenomenon, whose reforms shift the emphasis from traditional public administration to public management (Larbi, 1999). It is about the transfer of business and market principles and management techniques from the private sector to the public one (Evangelatou *et al*, 2013). According to this concept, the supply of public services should be done in commercial and competitive terms (Venieris, 2007). This management culture puts the stress on the central role of the citizen or customer as well as on accountability for results (Manning, 2000).

PPPs have become widely accepted and popular in public sector management, as they enable the public sector to benefit from commercial dynamism, innovation and efficiencies, harnessed through the introduction of private sector investors who contribute their own capital, skills and experience (Evangelatou *et al*, 2013). The principles of NPM encouraged the establishment of PPPs as a new management tool (Khanom, 2010), let alone the fact that NPM initially put the stress on privatization of public companies and afterwards on contracting out.

The institutional forms of PPP vary from close *contracting out* cooperative efforts to infrastructure projects for building and operating new physical facilities, such as schools, tunnels, bridges or sports arenas (Greve and Ejersbo, 2002). They are viewed by private companies as alternatives to "raw" contracting out.

THE ARCHETYPE MEANING AND OTHER MEANINGS OF SYNCRETISM

Syncretism is a common term in scientific field but there is still poor clarity on this notion. This noun comes from the ancient Greek language, made of the Greek words “syn”, meaning plus, with, and the island of Crete. It is to pay special attention to the fact that this land name comes from the Curetes, young creatures of unknown origin. These archetype inhabitants lived on the top of the Mount Psiloritis. These armed but good-tempered fighters were civilizers of the local society, as they introduced various elements of culture to the island. They protected Zeus, who was born in Crete, from his father Kronos. Kronos was afraid that he might be dethroned by his children and for this reason he was eating them as soon as they were born. Zeus implicates in etymological and mythological terms “zeuxis” (in ancient Greek «ζεύξις», in modern Greek «ζεύξη»). This term means link, so with the addition of the aforementioned word “syn” becomes “syzeuxis”, namely coupling, marriage. On account of this analysis, syncretism essentially is a synonym of the term ‘’syzeuxis’’, so connection, collaboration (Maniatis, 2014).

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Generally, syncretism would refer to the attempt to unite together those elements which do not agree (Gehman, 2001). Moreover, syncretism is the union of two opposite forces, beliefs, systems or tenets so that the united form is a new thing, neither one nor the other (Yamamori, 1975).

It may have various meanings (for instance adoption of the average concepts and avoidance of extreme approaches) but, anyway, there are mainly two fundamental meanings:

1. Tendency and movement of inhabitants of Crete

It is about the tendency and the movement of inhabitants of Crete that achieved collaboration, an alliance against public enemies threatening the liberty of their own island. This remark has been initially made for ancient history of Crete, before the occupation by Romans, just to avoid the conquest by Roman Empire.

2. Tendency and movement of convergence generally of people

The term on the matter has to do with the tendency and the movement of inhabitants of Crete, and generally of people, to achieve a coherent synthesis between contradictory elements of culture, particularly of religious order, through mixing. Indeed, Crete has proved to be a very dynamic diachronic laboratory of convergence of cultural signs coming from different nations. The Minoans (a rather non-Greek nation with a very important culture and an outstanding power in the high seas) and the ancient Greeks shared the island in ancient era, by creating common cultural signs, in the religious domain and in others. So, this historical osmosis (cultural combination) has begun very earlier than the aforementioned phenomenon of alliance against intruders, such as foreign people and pirates.

Anyway, nowadays syncretism is a rather frequent term in religious matters, having a negative sense in the field of theology (confusion of doctrines of different religions).

Last, but not least, syncretism has been incorporated with success in the comparative method of science. The comparative method consists in comparing different national cultures and elements, such as legal orders, to find out common clues for common problems. So, within this method, syncretism implies convergence towards a synthetic model on international scale.

REVOLUTION AND SYNCRETISM WITH A SPECIAL REFERENCE TO VERSAILLES

Syncretism in France is historically connected directly with the French Revolution and indirectly with the American one, as the King of France had deteriorated national economy due to the French back to the Americans against the UK. The French Revolution was due mainly to causes relevant to public finances (like the American Revolution) and was a period of radical social and political upheaval, from 1789 to 1799. Before it, the French population was divided to the privileged social

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classes (clergy and nobles) and to the common people. During the 18th century, a new layer within the third class, the bourgeoisie, appeared, composed of merchants, bankers, industrialists and employees.

In Bastille, the riots started when it was known that the king gathers army for military intervention in order to dissolve the Assembly at Versailles. The Bastille was not only a prison for political and criminal prisoners but also a significant fortress, endowed with quantities of gunpowder that were useful for the rebels. On 14 July 1789, approximately seven thousand citizens conquered a fortress, in which there were …. seven prisoners, all of them criminal and not political ones! They crowd searched for weapons and took as a symbol for this success the head of the head of prison, Bernard Brakes Jordi de Lone. After that, the King acknowledged the delegation of Parisian society in the town hall of Paris as official representatives of the city.

Versailles was connected historically with the "Old Regime" and Bastille with French Revolution. The bourgeoisie which prevailed through the revolutionary process democratized the culture and liberalized the economy. This was achieved through *inter alia* the creation of big national museums for the people (later also for tourists), such as the museums of Louvre and Versailles, and the wide use of concessions, whose variation is PPP (even if PPP is considered as an institutional loan from the UK). So, nowadays Versailles has become a symbol of the new regime (French Republic) and - in a rather controversial manner ultimately - of new tools of capitalism for Public Administration (New Public Management exemplified by PPP)!

The entire contracting out phenomenon, particularly the alternative one, exemplifies liberal economy, let alone cooperation between the public sector and the private and contributes to the globalization of economy.

A relevant to syncretism revolutionary fact comes from Crete, the famous "Revolution at Therisso", declared by the leader Eleftherios Venizelos on 10 March 1905, for the union of the autonomous state of Crete (just formally a part of the Ottoman Empire) with the sovereign state of Greece. The Cretan rebel claimed that the transitional political regime of Crete hinders the economic development of the island and the only natural solution of the Cretan issue was the union. His out-of-law movement was a typical case of syncretism (gunned alliance of patriots) as some members of the Cretan society put aside their inner rivalries and protested against the continuation of the foreign dependence of Crete. Of course, this movement had also an anti-regime character, against the authoritarian governance of the Prince, leader of the Cretan state. So, even the demands of the Cretans were a product of syncretism, namely constituted a coupling (democratization of the Cretan regime and union of Crete with Greece.)

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SYNCRETISM, A EUROMED ARCHETYPE VALUE

Only the Cretans have presented this intrinsic phenomenon of collective spirit and collaboration that is why there is no similar word to syncretism for any other people. Crete is a big island, officially incorporated into the Greek state, over a century ago, after having been under the rule of various foreign nations. It has a strategic position, in the middle of the Mediterranean Sea, between the Aegean and the Libyan Sea. So, it has a crucial geopolitical and cultural position in the European and Mediterranean (''EuroMed'') context! Furthermore, it's no coincidence that Crete is characterized as the Mediterranean (namely central site) of the Mediterranean.

This remark is particularly actual on account of the fact that this developed region of the European Union is close to regimes related to the so-called ''Arab Spring'', such as Egypt and Libya. As a result, syncretism is a European and Mediterranean archetype value and a modern challenge for peaceful partnerships, PPPs included, in both national and international levels. The comparison and therefore the syncretism derives from the intrinsic culture of the people of the Mediterranean and Europe and facilitated by nautical travels and the maritime law principle of the "freedom of the high seas", like the Mediterranean (Maniatis, 2014).

Syncretism is quite dominant in culture and is a necessity in this era of cultural diversity. In culture, syncretism also helps in creating unity and diversity, and that is very important. There have been several instances wherein the cultural beliefs of today have been merged with those of the past to come up with new beliefs and traditions (Naik, 2010).

Syncretism is also seen in politics, particularly if a political party is forced to accept terms and conditions of other parties. For instance, parties are likely to create a coalition government particularly in case no party is endowed with the confidence of the majority of the members of the Parliament.

Syncretism is intrinsically connected with alternative contracting out (namely concessions and PPPs), coming from ancient Greek civilization and open particularly to transport scopes, so to communication and potential convergence. As a result, it should be taken into account in the planning of the activation of these types of contracts. For example, the concession contract for the construction of the Suez Canal previewed a 99 year duration. However, this was not realistic, and due to important political changes in Egypt the new leader, General Nasser, nationalized the Canal, in 1956. Something similar occurred in the abovementioned case of the museum of Leeds, whose the PFI duration, as already mentioned, was 60 years.

PPP EXEMPLIFYING SYNCRETISM

PPP contract model is a very good example for NPM, as already signalized. It also exemplifies well the phenomenon of syncretism in its aforementioned meanings:

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1. Mixing (coupling) of heteroclite elements

Indeed, partnership means cooperation, collaboration of different parties, so in contracts- law terms coupling of the contracting parties for a common scope (contract scope). Their effort implicates combination, on the one hand, of policy and, in legal terms, of competence of the public sector and, on the other hand, of know-how of private sector experts as well as of commercial spirit of companies enacting the role of a Private Partner.

In a weaker sense, PPP contract implies syncretism even in its first meaning, having to do with aspects of public sovereignty, such as national defense, security etc.

2. Collaboration of different parties for public sovereignty (alliance of patriots)

Although the nucleus of sovereignty of the state is a taboo, excluding any type of contracting – out (for instance concession, PPP) and the state should itself ensure national defense, police services and justice, Anglo-Saxon countries, such as the UK, the USA, New Zealand, have made an important but ambivalent opening towards the private sector through contracting out, at least as for the execution of criminal-law sanctions. This is the case of the aforementioned case of PFI for jails under the management of private partners in combination with the professional employment of prisoners.

3. Convergence through the comparative method

PPP is a product of academic research through the comparative methodology. As it has been already signalized, it comes from the international model of concession and of the French law on traditional type of public works contracts, through the innovation of the political regime in the UK. Besides, this mixing has recently become an important trend worldwide. Indeed, it has been institutionalized and tested, with more or less successful results, in more than 80 countries of all continents.

CONCLUSION: PUBLIC-PRIVATE PARTNERSHIP (PPP) = PUBLIC-PRIVATE SYNCRETISM

As mentioned above, PPP has to do with the cooperation between the public sector and the private one, therefore it is about an institutionalized coupling of heteroclite elements, just like the diachronic phenomenon of syncretism. As a result, the hypothesis of the present paper has been confirmed; PPP model indeed exemplifies well the syncretism, as a mixture of various legal elements.

As for the comparative method, PPP has been accepted as a modern legal tool that comes from both concessions and the French public works contracts. In conclusion, this legal and managerial tool of the so-called "Conservative Revolution'' and of the consecutive School of Thought "NPM" is a trend exemplifying the globalization era.

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Last but not least, PPPs in general are open to further scientific research and no fixed relevant assessment has resulted to date, on international scale. So, although they may be proved to be suitable for various scopes, such as the cultural heritage ones, it is not sure that they are preferable to PSP of infrastructure…

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 ISBN: 978-9963-711-37-6

ONLINE CORE COMMUNICATION AND ONLINE CORE PERCEPTION. IS THERE CONVERGENCE?

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ABSTRACT

The purpose of the research is to analyse the convergence between the core communication (identity) and the core perception (image) that can generate more extensive knowledge of the brand over time.

This paper uses a model, created by the authors – called Assessing web convergence (AWC) –, for extracting information from the web, processing it by text mining techniques and interpreting it in order to monitor the level of convergence between the online core communication (identity communicated by the company) and the online core perception (image perceived by third parties). It was decided to test the model on the brand of a DMO in the field of wine tourism.

The empirical methodology entailed three steps: 1) identification of a wine-tourism destination (considered to be representative of best practice) by studying the content of online posts, selected by searching for the keyword "wine" in the top 100 international travel blogs; 2) text mining, with cluster analysis, of the content of the selected DMO's website and of the articles published by the top 100 travel blogs; 3) use of the Assessing Web Convergence model (AWC) in the interpretative phase.

This paper is a work in progress. Specifically, the interpretative phase enables management to identify and exemplify those elements that enable companies to transform data into knowledge that is useful for developing and enhancing their competitive strategies with regard to the building the brand.

Keywords: *web communication, online identity/online image convergence, wine tourism destination.*

INTRODUCTION

The growth of online platforms and virtual communities used by well-informed and demanding consumers has made social web communication an important tool for constructing, defending and cultivating the image of a brand. In the context of branding then, Web 2.0 is the place where the value proposition comes face to face with the public and perceptions can be constructed, analysed and measured. In it, the two fundamental components of the brand – *brand identity* and *brand image* (Aaker,

 ISBN: 978-9963-711-37-6

1991; Keller, 1993; Kapferer, 1995) – meet and are compared. In this sense, information that can be extracted from the web (blogs, sites, social networks etc.) becomes highly important to the brand's competitiveness (whether it be linked to a product, service, tourism destination or area), since it makes it possible to identify and reduce, where possible, the gap between the *brand identity* and *brand image*. Over the last decade, a significant work has been done in the area of branding. The managerial literature describes brand identity or brand image as the two essential components of the brand (Aaker, 1991; Kapferer, 1995; Keller, 2003). Other studies, instead, in which we locate our research, observe the importance of convergence, between identity and image, has to build a strong brand (Nadan, 2005; Dilip and Saikat, 2007).

The aim of paper was to understand whether there exists a degree of communicational homogeneity that could generate groups of words that together represent specific drivers (themes) of the core communication of the destination and the core perception of bloggers and fans. This paper thus uses an interpretative model – *Assessing Web Convergence (AWC)* – designed to detect and analyse the online brand image and compare it with online brand identity (Fait *et al.*, 2014) and tests its in the field of wine tourism destinations. Particularly for the tourism sector, there is a growing number of online platforms and virtual communities populated by well-informed and demanding consumers. For this reason, it is important to study user generated content (UGC) in order to analyse consumers' perceptions of a tourism destination, as revealed in web users' conversations.

THEORETICAL CONTEXT

To this end, the theoretical context of reference is based on managerial initiatives which:

- consider online communication (with particular reference to Web 2.0), assigning a fundamental role to «interaction», «co-creation» and «socialisation» linked to brand content in ensuring the success of branding policies (Tapscott, 2008; Armano, 2008; Wilson, 2008). From this derives the need to place the consumer at the centre of the marketing process (Schmitt, 1999) and to establish «conversational relations» (Stokes, 2000) based on tools and techniques that fulfil the potential of a two-way communicative channel (Brioschi, 2005). In this way, the informational asymmetries between company and consumer are reduced while the learning processes of individuals broaden, thereby enabling: a) the production of new knowledge by means of interaction and the sharing of experiences; b) the strengthening of the process by which consumers become more aware (Pires *et al.*, 2006). The pervasiveness of social media – particularly blogs, forums and/or communities (Schmallegger and Carson, 2008) facilitates this process of knowledge creation for both companies and consumers, enhancing learning (Thrassou and Vrontis, 2008). This is because social media are characterised by the coexistence

 ISBN: 978-9963-711-37-6

of (i) the horizontal dimension; (ii) bi-directionality; (iii), the active participation of the customer: (iv) the self-generation of content (Solima, 2010; Riva, 2010);

- acknowledge the importance of extracting *non-structured content* in order to a) confer value on business processes (Costantinides and Fountain, 2008); b) monitor consumers' intentions and behaviours; c) offer interactive experiences; d) generate content that is suitable for the context of reference (Biloslvao and Trnavcecic, 2009; Chen and Chiu, 2009; Barrutia *et al*., 2009; Lim *et al*., 2011). Today most information is in semi-structured or non-structured formats, typically websites and social media. It is therefore fundamental to understand, highlight and extract the most relevant *non-structured content* – reflecting consumers' intentions, behaviours and evaluations (Hays *et al.*, 2012; Fotis *et al.*, 2011; Xiang and Gretzel, 2010) – in order to support web communication. This represents a source of competitive advantage for companies since the verdicts and sensations arising from companies' willingness to engage in dialogue consolidate, over time, the resonance of the brand (Keller *et al*., 2005).
- Over the years, Information Extraction (IE) techniques based on text mining (Rajman and Besançon, 1998) have become increasingly developed. They are useful for exploiting the information potential of semi-structured or non-structured sources – typically websites and social media (Tianhao Wu, 2002) – which is now far greater than that of traditional structured sources;
- see brand identity and brand image as the two essential components of the brand and make reducing the gap between them the objective of branding policy (Aaker, 1991; Kapferer, 1995; Keller, 2003). According to the managerial literature, the key aspects of the consumer's learning process, on which the convergence between identity and image depend, include "brand associations", defined as everything in the mind of the consumer that is linked to the brand" (Aaker, 1991). In terms of competition, the management of these associations must be designed to promote the processing and recall of information, the differentiated positioning of the product and a willingness to purchase (Krishnan, 1996). In addition, communication generates external stimuli that generate "spreading activation", a process by which informational nodes – concepts, images, symbols, sounds, attributes etc. – are prompted to generate other associations (Krishnan, 1996). The network of brand associations therefore acquires importance in the development of consumer knowledge of it, the dimensions for this knowledge being: *brand awareness*, understood as the capacity of the brand to be remembered and recognised, and *brand image*, which represents the perception of the elements associated with the brand, and the value and meaning assigned to them (Keller, 2003). In branding policies therefore, the reduction of the gap between *identity* and *image* feeds the mental

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process by which, over time, the consumer identifies, remembers and recognises the brand (*brand awareness*).

HYPOTHESIS DEVELOPMENT

In agreement with the above-mentioned literature, this paper focuses on brand image and proposes a conceptual model designed to monitor the convergence between the message channelled by the brand and the message perceived by the consumer, maintaining the distinction between the three associative dimensions – functional, symbolic and experiential (Aaker 1991, 1997; Keller, 1993; Mowen, 1995; Peter and Olson, 1996; East, 1997, Solomon, 2004).

The proposed interpretative scheme aims to:

H1: there is a degree of communicational homogeneity between the online core communication (identity transmitted by the company, tourist destination or region) and the online core perception (image interpreted by bloggers, users and consumers) when the notoriety is high.

The empirical experimentation of the model was conducted by the case study technique, centred on a wine destination in order to observe the identity that is transmitted by the *Destination management organisation* (DMO), the image perceived and transferred by bloggers and the image perceived by web users.

THE INTERPRETATIVE MODEL FOR WEB COMMUNICATION CONVERGENCE

The interpretative model implemented here, called *Assessing Web Convergence* (hereafter AWC), is based on the following techniques (see Tab. 1).

Phase	***Research Background***
Extracting and interpreting information from the web	*Question answering* perspective (Kwok *et alii*, 2001; Cooper e Ruger, 2000; Voorhees, 1999)
Processing the extracted	*Content analisys* (Weber, 1990; Krippendorff, 1980; Berelson, 1952) e *text mining* (Feldman e Sanger, 2007; Bolasco, 1997)
Interpretative phase	Three dimensions – functional, symbolic and experiential – traditionally recognised as the bases of the perceptive process (Solomon, 2004; Aaker, 1997; East, 1997; Peter e Olson, 1996; Mowen, 1995; Keller, 1993)

Table 1. The Assessing Web Convergence model

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The approach set out above envisages two operational dimensions (see Fig.1):

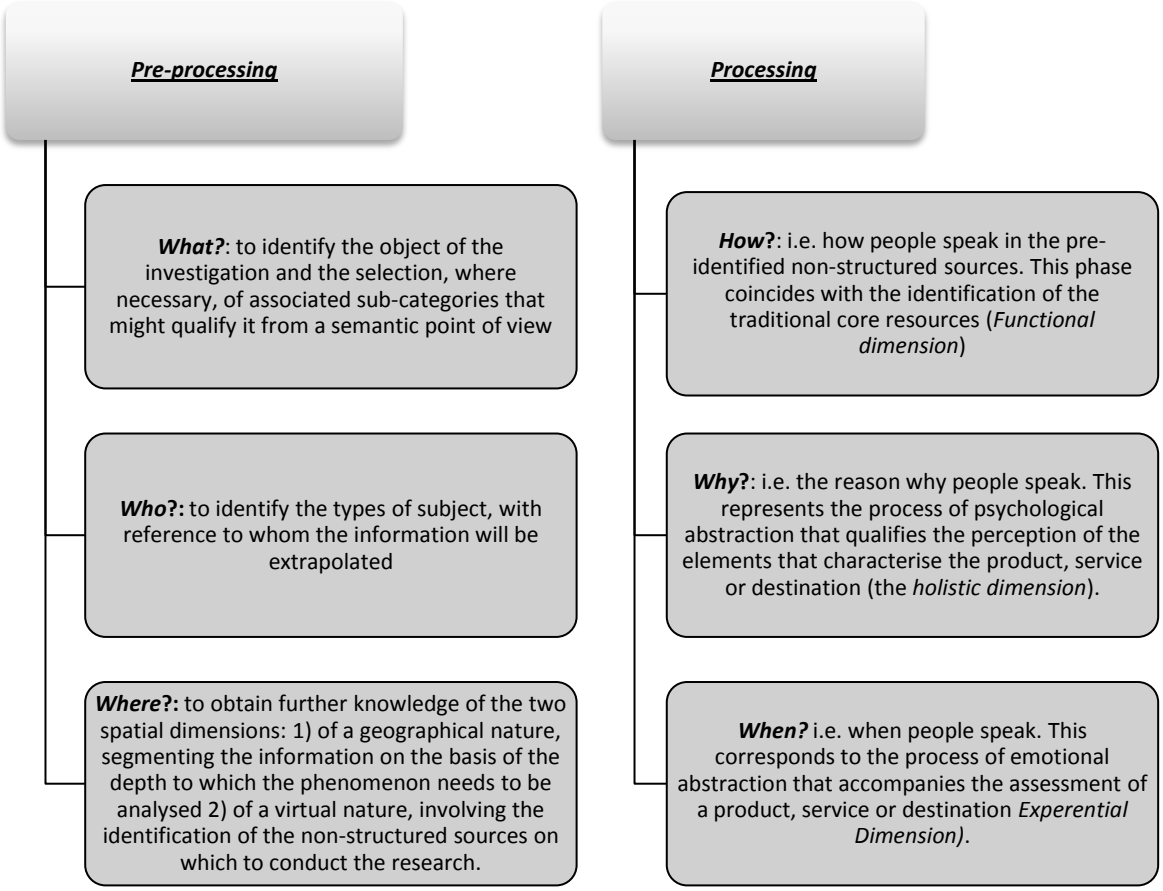

Figure 1. Pre-processing and Processing phase of the AWC Model

Source: our presentation of data

EMPIRICAL RESEARCH METHODOLOGY

The model was tested by means of the case study approach (Yin, 2009; Malhotra, 1993; Gummesson, 2000). Although this method does not allow generalisation of the results, it is argued to be suitable for generating a qualitative information flow, albeit linked to the context of reference, that can facilitate learning (Flyvbjerg, 2006).

With reference to the study's empirical framework, the pre-processing phase envisaged the identification of the following (see Fig. 2):

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What *the wine tourism destination on which to test the model*	• *First step*: the first 20 pages returned by google.com for the research term "travel blog". The blogs found were studied with reference to the web metrics proposed by Alexa *and* in this way, a list of the first 100 travel blogs was drawn up. • *Second step*: extracting the first 30 posts of each blog obtained by using its search tool to find the word "*wine*". In this way, a data collection of 2,631 articles (about 505 pages of text in Word format) was created. The corpus was automatically lemmatised using the T-Lab software (with reprocessing of: 1 text, 4,738 elementary contexts, 17,448 forms, 13,864 lemmas, 203,284 occurrences, with a threshold of 12). • *Third step*: identified the main keywords (1,531), from which the destinations with the greatest number of occurrences were extracted. Of these, the most frequently cited wine destination was Napa Valley (106 time).
Who *the subjects being investigated*	• These are the DMO, the first 100 travel blogs identified and the fans of the bloggers
Where *the spatial dimensions*	• From a geographical point of view, no limit was imposed, the selected blogs being found using google.com. • For the sources, reference was made to: a) the website of the DMO, Visit Napa Valley (http://www.visitnapavalley.com), extracting 480 pages in Word format; b) articles written by bloggers about this particular wine tourism destination, extracted using the keywords "wine, Napa valley". 179 articles were returned, corresponding to 331 pages in Word format; c) comments on the blogger articles; 1,690 comments were analysed, corresponding to 222 pages in Word format.

Figure 2. Pre-processing phase

Source: our presentation of data

In the processing phase, the three types of content were normalised and lemmatised using T-Lab software. The data obtained thus comprise three levels of content (see Table 2).

	Company Website	Bloggers Articles	Comment on Blog
Text	1		
Elementary contexts	2.192	3.475	2.026
Forms	7.932	15.060	7.896
Lemmas	6.370	12.029	6.628
Occurrences	91.167	161.432	65.249
Keyword threshold	10, 992	10, 149	7, 683

Table 2. Results of data processing as returned by the T-Lab software

Source: our presentation of data

Before proceeding with the text mining, three sub-collections of data were created by considering only words with a lexical link to the words "wine" and "Napa", in order to achieve a better focus on the phenomenon being analysed. The co-occurrences found were clusterised with the aim of detecting groups of words that were representative of the destination's core communication (its online identity) and its core perception (the online image) among bloggers and fans. In order to learn more about the level of convergence between the two dimensions, thematic sub-nuclei composed of groups of words representing the three dimensions of reference were identified within each cluster so as to observe the nature of any divergence.

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RESULTS AND FINDINGS

H1: there is a degree of communicational homogeneity between the online core communication (identity transmitted by the company, tourist destination or region) and the online core perception (image interpreted by bloggers, users and consumers) when the notoriety is high.

To this end, for each of the above-mentioned areas of analysis, we performed a *cluster analysis* for which the input was the lemmas selected for the subsequent processing phase. A hierarchical procedure was used (Johnson, 1967; Everitt, 1979), applying the Ward method, which makes it possible to aggregate groups of words within which there is minimal deviance, ensuring greater internal homogeneity among the elements. Seven clusters were extracted for both the Destination website and the bloggers. The formation of the clusters excluded words with $p > 0.5$.

For the users, the key words returned by the co-word analysis were subjected to hierarchical clusterisation, yielding mini-clusters that are represented graphically by a similarity matrix based on *Multidimensional Scaling* (MDS) (see Fig. 3), which makes it possible to represent relations between data within a small space. The map is sufficiently significant, with a stress value of 0.14 (coefficient < 0.1). The diameter of a term reflects the probability that it will appear; the colours represent the division of the most frequently discussed topics by theme; the positioning in a quadrant indicates the strongest associative link in each area (colour). Observation of the quadrants with reference to the homogeneity present in each of them and to the lemmas that generate the mini-clusters thus made it possible to identify four main thematic areas.

The next step was to analyse the lemmas occurring in each cluster for the DMO website and the blogs. Each cluster was given a name representing an aspect of the phenomenon:

1. *Wine.* This cluster includes references to: a) wine in the narrow sense (Sauvignon, Cabernet, appellation, grape, taste, blend, balance blend, Pinot noir, Merlot Blanc, varietals, Chardonnay, Vineyard etc.); b) production techniques and places (Winery, estate, Cellar, distillery, winemaker, winemaking etc.); c) the experiential element of consumption (visit, vintage, romantic, tasting, boutique etc.); d) the region (Mountain, hill, Oakville, Silverado, knoll, train, Napa, region, Sonoma, California etc.);

2. *Destination services*. This groups together words identifying a) tourism services (hotel, resort, tour, room, services, golf, package, guest, park, airport, bath, transportation etc.); b) sport and free time (ride, pool, tennis, golf, massage, body, spa, wellness etc.); c) the pleasure of travelling (experience, luxury, treatment, relax, pleasure, hospitality etc.);

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3. *Environment and territory.* This cluster is formed of lemmas that recall natural elements (woods, memory, sightseeing, redwood, nature, monument, tree, hillside, cathedral, forest, grove, creek, animal, fall, etc.);

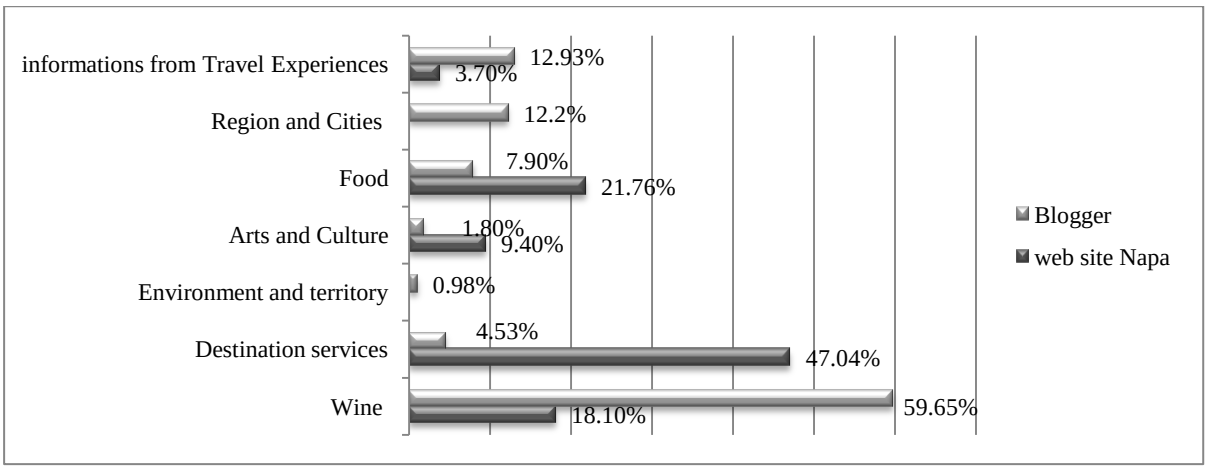
4. *Art and Culture*. This includes words relating to the art and culture of a place (art, landmark, theater, culture, nightlife, artistic, dance, music, heritage historic, artist, jazz, landscape, festival, museum, celebration, exhibition, dance, entertainment, etc.);

5. *Food.* This includes nouns and adjectives that recall the link with food (restaurant, fresh, cheese, chef, local, dish, cook, delicious, Napa style, oil, healthy, culinary, organic, artisanal, excellent, delight, innovative, authentic, cuisine, love, story, speciality);

6. *Regions and Cities*. These lemmas indicate urban and geographical places or elements (city, bay, golden, San Francisco, beach, Sausalito, ocean, ferry, coast, pleasure, New York, sea, sunset architecture, sightseeing, Pacific, culture, entertainment, famous, picturesque, island etc.);

7. *Information from Travel Experiences.* This cluster includes lemmas indicating elements that facilitate the journey (information, facility, travel, property, health, price, airfare, adventure, bed, drive, plane, relief, breakfast, B&B, baby, lodge, accommodation, rental, event, location, trip, passionate, country, cottage, ticket, lavender etc.).

However, the clusters display little homogeneity in terms of the formation of the online identity and of online image, since the weight of their contribution varies (see Graph 1). For the DMO, 47.04% of the identity is accounted for by the *Destination services* cluster, 21.76% by the *Food* cluster and 18.10% by the *Wine* cluster.



Graph 1. Clusters returned by text mining

Source: our presentation of data

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The values thus seem to indicate the tendency of the DMO to communicate its brand by evenly highlighting all the elements of which it is composed, without necessarily overemphasising the role of wine. The goal seems to be a synergistic representation of the elements, thereby symbolising the shift from a simple region known for wine-making to a wine tourism destination. This can be achieved – from a communicative point of view – thanks to the synergistic deployment of the material and intangible components centred on the territory-wine relationship.

These reflections suggest that the DMO's online communicative process is founded on the contextual importance assigned to the attributes of the two *core concepts*, i.e. *wine* and *destination.*

In contrast, the *core perception* of the bloggers is dominated by the *wine* cluster, the remainder being evenly divided among the other clusters. It seems that the main focus is wine, with various other elements centred around this without any of them assuming any particular importance.

As for the blog users, the four main thematic areas coincide with the quadrants of the map (see Fig. 3), to each of which an explanatory name has been assigned. The names of the quadrants were chosen on the basis of the lemmas that make up the individual mini-clusters:

1. *Wine Destination*: this is the most frequently occurring theme and is characterised by two fundamental elements: "wine" (small; winery; taste; wine; spend; time) and "Napa" (bicycle; Sonoma; California; Napa; Valley), associated with other elements of the journey that may be:

    a. *Experiential*; "LOVE" (child; moment; life; wonderful; people; think; place; visit; sure; thank; country; option; Great; Love; trip; gorgeous; photo), "AMAZE" (amaze; picture; wow; eat; food; different; memory; favorite; world; enjoy; glad; return), "NICE" (coast; holiday; nice; mention; real; event; go_on; explore; first_time; fabulous; scenery; outdoor; race), "*DRINK*" (create; inspire; focus; drink; glasses; night; funny; remember; story);

    b. *Functional*; "TOUR" (barrel; pretty; drive; ton; recommend; base; company; guide; tour; interest; friend; mine; green; luxury; local; sample; family; vacation; informative; relax), "CITY" (city; San_Francisco; live; month; difficult; problem; pay; use_to; town; special; touch), "DAY" (care; type; head; mother; day; perfect; one_day; top; feel; lucky; wish; good; luck; sound; idea; right), "WORK" (description; fantastic; excellent; location; forward; reading; keep_up; work; full; information).

2. *Experiential travel*: this is characterised by a reference to the experience of the journey as:

    a. *Sensory;* "AGREE" (agree; romantic; destination; kid; change; restaurant; chocolate; ready; home; rent; manage; review; bottle; dinner; friendly; young; buy; Sister;

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delicious; end_up; class; cook), "EXPERIENCE" (experience; worry; felt; guy; summer; yeah; ride; train), "REMARK" (appreciate; kind; suggestion; cheer; hello; New_York; remark);

b. *Holistic-functional*; "TRAVEL" (bed; breakfast; point; shame; room; stay; chic; travel; cost; shock), "BEST" (best; discover; hard; decide; cheap; meal; cabin; hotel; lot; meet; little; lovely), "REGION" (cab; climate; produce; region; realize; sense; reason; tourist; tree), "VINEYARD" (bunch; turn; happen; vineyard; pleasure; watch; early; morning; grape; harvest).

3. *Travel services*: this has a more functional value, recalling:

   a. services provided by the destination; "HIKE" (beach; golf; palm; hike; hole; win), "HOT" (air; balloon; hot); "HUSBAND" (anniversary; shop; husband; job; hey; property; wife; rich; wedding), "COUPLE" (congratulation; photography; stun; couple; roam; product; tough; dear; shot);

   b. attractions; "BETTER"; (better; study; canyon; grand), "BRIDGE" (bridge; golden; choice; serve; state; fine; culture; unique), "WARM" (cold; warm; fall; hate; strong), "GETAWAY" (getaway; girlfriend;; sunshine), "GROW" (contribute; send; west; grow; Trail; fast; image; site).

4. *Regional elements*: these are lemmas that recall a holistic-sensitive vision of the area since they include

   a. *specific geographical references*: "PARK" (national; park; neck; woods); "STREET" (count; pizza; lol; Hawaii; sun; tasty; homeless); "AMERICA" (abroad; big; money; wrong; America; art; hand; remind; beat; quality; bike; favourite; stuff; expect; France; Italy; talk; Champagne; oyster)

   b. *lemmas indicating socialisation*: "AREA" (area; bay; business; excite; community; group; question)

   c. *lemmas indicating enjoyment of the journey*: "ADVENTURE" (beautiful; giveaway; rock; incredible; dad; mom; learn; lesson); "YUM" (advice; important; suggest; picnic; store; castle; table; high; Cathy; stand; cider; yum).

ISBN: 978-9963-711-37-6

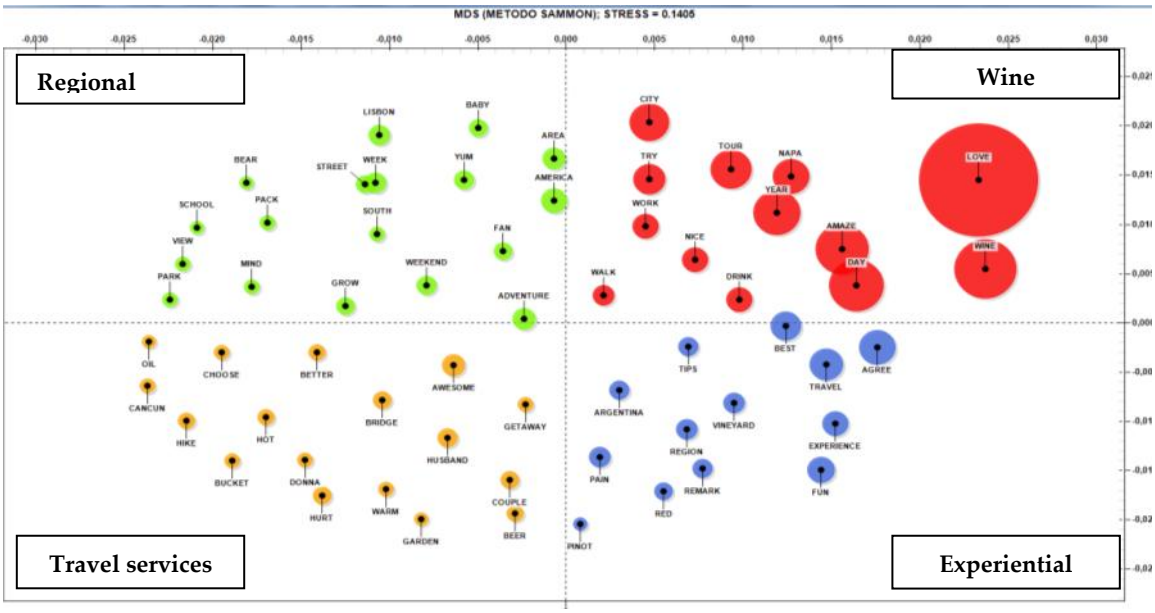

Figure. 3 MDS Map of the textual content of the wine destination website

Source: our presentation of data

With reference to our hypothesis (H1) we can make the following observations:

- The qualitative homogeneity of the seven clusters highlights the recourse to similar themes in both the construction of identity by the DMO and the perception of the image by the bloggers;

- The importance of the themes is different however. Indeed, "formation of the identity" rests on 3 clusters (*Destination Services*, *Food* and *Wine*) which together account for 87% of it; conversely, the associative process from which the image is generated is characterised by one main cluster – *wine* – which alone accounts for about 60% of the phenomenon. In the bloggers perceptive process (image), and thus in their recall, the destination is associated mainly with its wine production; this contrasts with the desire of the DMO to create a broader vision that encompasses a number of drivers synergistically;

- The blog user's perception process is more evenly distributed. The most interesting quadrant is *wine destination* since it reveals a core perception founded on two fundamental elements, *wine* and *Napa Valley*. This highlights a tendency to identify the land with its tradition of wine-making. Intertwined with this are the functional and experiential aspects of travelling in the world of wine. This aspect seems to intensify in the second quadrant, *Experiential travel*, which shows that the associative trend is oriented towards the sensitive and holistic aspects of the phenomenon. In contrast, the remaining quadrants are more randomly arranged and do not reflect specific themes.

DISCUSSION AND CONCLUSIONS

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The tools provided by Web 2.0 represent forms of communication in which identity and image converge and where bi-directional comparisons and the co-creation and sharing of content make both dimensions highly dynamic over time.

The originality of this paper therefore lies in the use of an operational model, applicable by any actor in any operational context, to extract and interpret information on the web with a view to assessing the level of convergence between identity and image, and then transforming this information into knowledge useful for decision-making purposes. The originality of this paper therefore lies in the use of an operational model, applicable by any actor in any operational context, to extract and interpret information on the web with a view to assessing the level of convergence between identity and image, and then transforming this information into knowledge useful for decision-making purposes. The findings have demonstrated that there is a homogeneity of the topics on which are formed core communication (identity) and core perception (image). But the intensity with which they participate in the formation of the identity of image can be different and cannot be taken for granted. The holistic and sensitive dimensions are less important in the website than the content of the blogs. Indeed, the reflected image from bloggers has more dimensions (functional and emotional) and brand identity projected by the DMO has less dimension but more attributes (and most of them are functional). The gap has a communicative nature, as the bloggers' process of association has a lower intensity than the stimuli provided by the website.

This happens because the bloggers also draw information for activating the associative process (image) from non-institutional sources (social networks, other blogs etc.) and also because they are characterised by a broader process in which psychological and emotional abstraction have a greater importance in the recognisability of the land-wine relationship.

The empirical verification showed that the perspective adopted for constructing the proposed model meets the objective of retrieving information useful for: a) assessing the existence of convergence between the identity transmitted and the image perceived; b) identifying the main thematic nuclei and the presence of sub-themes linked to the three dimensions (functional, holistic and experiential) relevant to the management of a brand; c) self-diagnosis of one's web communication by analysing the differences between core communication and core perception.

The present paper is part of a wider research which aims to observe the convergence of *core communication* and *core perception* not only in a qualitative but also in a quantitative way. Such objective is followed with the purpose to understand and monitor the possible gap between identity and image, the convergence between the two dimensions is, in fact, a critical element for multiplexing the effects on the awareness and appeal of the brand.

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 ISBN: 978-9963-711-37-6

GAMIFICATION: A NEW PARAGIM OF VALUE CREATION IN MASS MARKET

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ABSTRACT

Study explores the benefits that may accrue for both consumers and brands when "gamified" techniques are used in the development of brand Experiences and brand relationships. This study also explores the main motivations and expectations behind the involvement in "gamified" experiences from a consumer point of view; as well as the different strategies to stimulate and influence the engagement of Social Networks users in "gamified" systems, improving customer experience and relationship with the brand. Given the exploratory nature of the study, seven managers and marketing professionals were interviewed through semi-structured interviews, and two focus groups were performed with the purpose of collecting primary information on consumers' perceptions and motivations. Results indicate that consumers seek fun, entertainment, competition, constant novelties and primarily personalized experiences in "gamified" experiences. Hence, "Gamification" emerges as a marketing tool that help managers in the process of driving valuable brand experiences and relationships with their consumers. Findings suggest that high involvement products and prestige brands are the most appropriate to the implementation of "gamified" systems. Moreover, the game elements have a key role in boosting adherence to "Gamification" and in generating buzz, particularly in social networks. Further study implications are presented.

Keywords: *Gamification, Brand Experiences, Social Networks, Brand Relationships, Engagement.*

INTRODUCTION

It has become essential to develop a new cohesive marketing approach that allows companies and brands reaching audience effectively and obtaining a favorable return on their marketing actions (Scrizzi, 2007). Thus, as a result of technology development, the concept of Gamification arises in business management, exploring intrinsic motivations of employees/users to get involved in their internal games. The concept also started to have applicability in the marketing context (Werbach and Hunter, 2012) in the form of communication and interaction with consumers. Since then Gamification

 ISBN: 978-9963-711-37-6

has been defined as “the use of game elements and game design techniques in non-game context” (Deterding el al., 2011, p. 9). The games are considered popular among people, both male and female, of all ages, but this field is “especially pervasive among the generation now moving into the workforce” (Werbach & Hunter, 2012, p. 8). Additionally, the games have the power to get people to perform some activities voluntarily and unintentionally (Zichermann & Cunningham, 2011).

Given the novelty of the topic and the lack of a consistent body of literature in the field, an exploratory design, guided by an initial set of exploratory research questions, was chosen. Seven semi-structured interviews directed to managers and marketing practitioners, and two focus groups with the purpose of collecting primary information on consumers’ perceptions and motivations, were performed.

The paper is composed by the following sections: theoretical background, methods, results, study implications, and conclusion.

THEORETICAL BACKGROUND

Gamification

According to Zichermann and Cunningham (2011, p. Xiv) Gamification is “the process of game-thinking and game mechanics to engage users and solve problems”. Additionally, authors state that Gamification is a "powerful and flexible" management tool that can be adjusted to many situations according to human behavior and motivations. However, Salcu and Acatrinei (2013) argue that, while Gamification is considered as a "powerful tool", it is not the right solution for all the obstacles that organizations may have to overcome.

Recently, this concept has been defined under the services marketing perspective as "the process of enhancing the service with affordances is gameful experiences in order to support user's overall value creation" (Huotari & Hamari, 2012, p. 19). Thus, Gamification has impact in "retention and customer loyalty" and consequently it has an effect on motivation, consumer satisfaction and consumer purchase intent. That is, in somehow gamification is a source of value to the service.

To overcome the limitations imposed and criticisms around the traditional concept of gamification proposed by Deterding et al. (2011) (gamification is “the use of game elements and game design techniques in non-game context”, p. 9), Werbach (2014) defined gamification as a process, focusing on the essence of gameful experiences, which offer a gaming environment to their users. This perspective is in the line with the approach proposed by Huotari and Hamari (2012) in a services marketing context where "value of a service game, be it 'pleasure', 'thriller', 'mastery' or 'gamefulness' is always determined by the player's individual perception" (p. 19). That is, each user/customer has different

 ISBN: 978-9963-711-37-6

needs and desires, and, consequently, different motivations to engage in "gamified" experiences. Therefore, individual experiences in the "gamified" system might be perceived differently by different users (Huotari & Hamari, 2012).

One of the most popular criticism about this subject is by Ian Bogost (2011, cit. in Bouca, 2012) who suggests the term "exploitationware" as a more accurate name for gamification. From Ian Bogost's point of view (2011, cit. in Bouca, 2012), gamification is just a trend that does not add any value to the market. It's just an approach to increase the results of those who implement it.

Engagement

According to Deterding et al. (2011), "gamified" applications show a potential at the level of users/consumers engagement and brand loyalty. In a later study, Bouca (2012) reinforced this assumption by establishing the correlations between the intrinsic positive associations of the game with increasing engagement, sales and profit.

The study of Gabe Zichermann and Christopher Cunningham (2011) indicated that the engagement on gamification somehow leads to the creation of a social engagement loop, ie, "a motivating emotion leads to player re-engagement, which leads to a social call to action, which flows to visible progress and/or rewards, which loops back around to a motivating emotion" (Zichermann & Cunningham, p. 68). This engagement will influence the experience and the relationships that the consumer establishes with the brand.

Social networks

According to Boyd and Ellison (2007), Social Networks (SNs) are a web-based services that permit individuals to build a public or semi-public profile, join to a list of other user profiles, view and navigate through a list of connections of other users. SNs and social games are considered as factors that leverage gamification's benefits. Hence, Facebook and Twitter provide "motivational affordances" to meet the needs of social interactions (Boyd & Ellison, 2007; Ellison et al., 2007; Hamari & Koivisto, 2013). In this thought line, SNs foster and encourage collaboration and participation (De-Marco et al., 2014), emphasizing again the social needs inherent to human beings, as outlined by the authors mentioned above. For this reason, the implementation of more active methods that enhance the engagement at all levels of the organization, can provide leadership and lead to more customer participation and cooperation with the company (Petriwskyj et al., 2014). Hence, gamification can be viewed as an active method of creating value.

Brand experience

 ISBN: 978-9963-711-37-6

Brand Experience refers to a particular assessment of a brand's stimulus, occurring whenever an interaction is initiated with a brand (Brakus et al., 2009; Schmitt, 2009; Hamzah et al., 2014). The concept comprises five dimensions: sensory, affective, cognitive, behavioral and social (Schmitt; Hamzah et al.). Therefore, gamification is a source of experiences for consumers (Werbach & Hunter, 2012), which leverages the development of brand relationships.

Brand relationships

Fournier (2008) states that consumers have an important role in the attribution of meanings in their relationships with brands, adapting these meanings to their "projects, concerns and tasks in life" (p. 7). This pattern of brand relationship can be valued and enhanced by gamification. According to Werbach and Hunter (2012), the "gamified" activities add value and help on establishing customer relationships, thus contributing to build competitive advantages for the respective brand. On the other hand, gamification may provide consumers with customized rewards and lasting experiences (Werbach and Hunter, 2012). Thus, gamification contributes to the creation of brand experiences and consequently for the strengthening of brand relationships.

Research questions

Gamification is still a field where there is much to explore (Werbach, 2014). This statement reflects the scarcity of empirical studies and the nonexistence of a consistent theoretical body in the topic. Given the novelty of the topic, this paper follows an exploratory design. Five exploratory research questions served as a guide to the study:

Q1: May word-of-mouth in Social Networks be a leveraging factor of gamification phenomenon?

Q2: What are the expectations behind the decision to join and continue in a "gamified" system?

Q3: Which are the most important game elements in a "gamified" system from a consumer point of view?

Q4: What are the areas of activity in which the implementation of "gamified" systems is most appropriate?

Q5: How important is gamification for business management?

METHODOLOGY

Regarding the aim of the research questions, a qualitative study was developed on two distinct segments: managers and marketing practitioners, and consumers/users of games. Semi-structured

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interviews were used to inquire managers and marketing professionals and focus groups were performed with consumers, since these methods allow for a better approach and broad knowledge on collecting opinions and motivations of the participants (Boyce and Neale, 2006).

Fig. 1 presents the empirical study planning. According to this plan, seven semi-structured interviews were performed with the purpose of inquiring the experience and opinion of managers and marketing practitioners on Gamification, customer engagement, the role of Social Networks in the context of Gamification, and the potential of Gamification on Brand Relationships enhancement. In order to analyze the effect of Gamification on Brand Experience, Relationships with Peers and Groups, Social Networks, and Brand Relationships (these two last dimensions are in common with the Semi-Structured Interviews) from a consumer/user's point of view, two focus groups were realized.

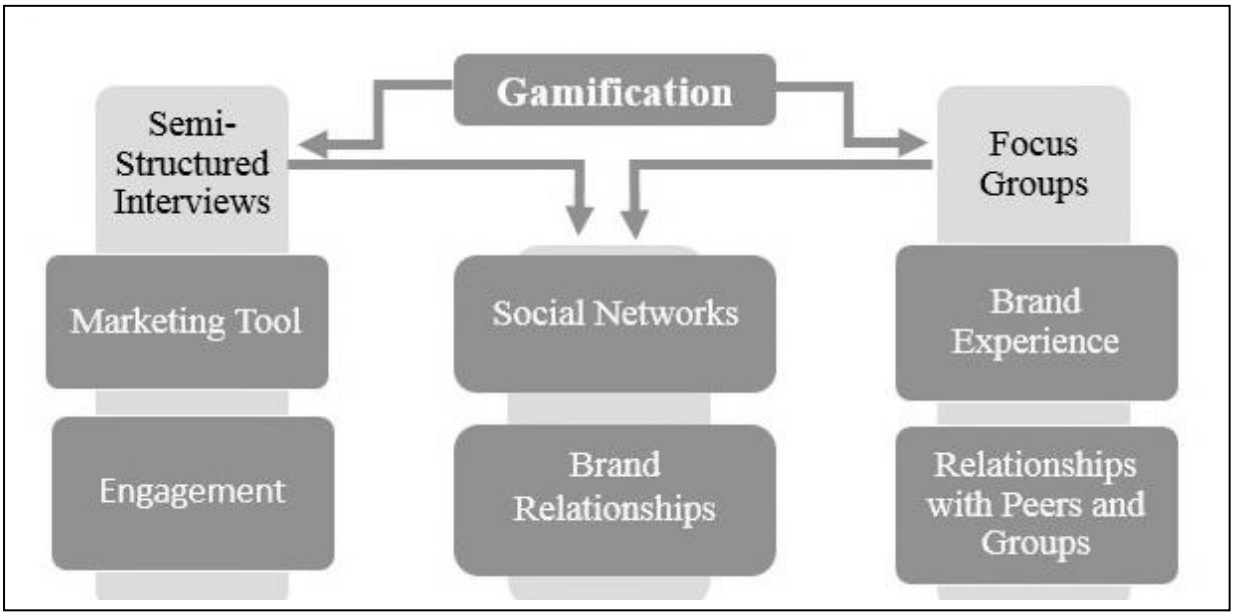

Figure 1. *Study Planning*

Semi-structured interviews

The semi-structured interviews had the purpose of inquiring the opinion of different generations of managers about their availability for implementing gamification in their businesses, and the impact of this approach in the different dimensions under study. For the selection of respondents the following criteria were considered: (1) age group; and (2) experience in positions of Marketing and Sales. Seven managers from the following industries were interviewed: Arts, Clothing, Physical and Online Retail, Online Betting, Marketing and Training Consulting.

All of the seven interviews were recorded into audio system with the previous permission of all participants, totalizing approximately 200 minutes of duration. The participants were informed on the

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study objectives and respective procedure. Although the unstructured nature of the process, we used an interview guide in order to facilitate data collection and to ensure consistency among all interviews.

According to Boyce and Neale (2006), the qualitative interpretative research requires intensive conducting of individual interviews with a small number of respondents, and has the purpose to get detailed information about their thoughts, opinions, or explore new fields in depth.

Focus groups

The discussion groups of this study had as main objective to determine the motivations and expectations behind the decision to engage in "gamified" systems, the ways to encourage membership and customer engagement in a context of gamification, and ways to influence peers and groups through this approach. According to Barker and Ricb, (1992), Zimmerman et al. (1990), and Kitzinger (1994, p.103), "Focus groups are group discussions organized to explore the specific set of issues such the people's views and experiences of contraception".

Before the realization of the focus groups, it was made available an online questionnaire with the purpose to filter the participants according to the prerequisites for participating in the study, and also to collect additional information about them. The prerequisites to participate in the study were the following: (1) To enjoy Games; (2) To play Games; (3) To have at least one account on social networks; and (4) To have a relationship with at least one brand.

Two groups were selected, one consisting of nine individuals and other consisting of 11 individuals. Both groups are composed of elements aged from 18 to 30 years.

Discussions were recorded into an audio system with the previous permission of all participants (totalizing 120 minutes of duration). Discussions started with the explanation of the purposes of the study, as well as the respective procedures and their contributions. A structured script with open-ended questions was used in order to appeal to the creativity and the critical sense of the participants.

RESULTS

Semi-structured interviews

Engagement

In general the interviewed managers believe that consumers are not only motivated by game approaches, but also by relationships and self-challenge. Thus, increasing challenges in "gamified" systems may achieve more engagement from their participants. On the one hand, participants engage

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emotionally with brands and "gamified" systems; on the other hand, companies have here an effective way to achieve engagement and to promote relationships with brands, as well as to reach the digital generations. Incidentally, this engagement can allow collecting spontaneous data for offers of customized experiences, which is the key for customer loyalty.

Social networks

Nowadays, the majority of the contacts are established virtually, because of the power of Social Networks in society. Accordingly, it was noted that the word friend now has a broader meaning and can offer new market opportunities for the business management. Gamification takes this opportunity optimally and promotes the creation of brand communities and networking through social networks, where the effect might be further strengthened by the motivation on sharing, collaborating and/or competing.

These highly competitive generations seek to be tested at the limit, and need to receive feedback on their performance at any time. They value to be rewarded by the brand through, for instance, assigning points or benefits, and seek recognition from the community. Thus, gamification may encourage participants to get involved and become true lovers and followers of the brand.

The main advantage for companies by implementing "gamified" systems arises from the access to reliable data, since usually to get involved in the experience consumers have to log in with their own social network accounts. Since, in general, the data presented on social networks are true and exclusive, the access to this kind of information allows companies, for example, to define customer profiles, manage preferences, identify new opportunities and anticipate trends.

The effect of gamification can be further enhanced by the introduction of differentiated challenges and quests to promote the brand in the social networks, which allows triggering the identification, relationship and sharing with other peers.

Brand relationships

The opinion of marketers and managers on this issue was unanimous. They suggested that customers like to get engaged in relationships with brands and are willing to work in partnership with businesses to see "your brand" grows. However, the challenge is huge, since high emotional attachment and customers' willing to work for the brand increase their expectations on brand's performances and behaviors. Additionally, gamification may add value offering leisure and relax time to the consumers, and in return brand gets spontaneous information about them. In a summary, gamification seems to increase emotional bonds and consumer relationships with the brands, but the system should offer

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challenging personalized experiences in order to encourage the adherence and respective maintenance of users.

Marketing tool

According to the interviews, the game elements and associated experiences can be used as a tool for: (1) collecting data, opinions and ideas from consumers on products, forms and moments of consumption and other information; (2) market segmentation and definition of consumer profiles; (3) reinforcing the positioning and association to innovation; (4) creating emotional bonds and strengthening brand relationships; (5) stimulating customers to visit the store (if applicable) in order to make the experience tangible; (6) communicating directly with consumers; (7) promoting word-of-mouth and buzz marketing; (8) stimulating and creating relationships between peers; (9) stimulating desires and satisfying needs; and (10) promoting experimentation. Additionally, managers believe that gamification may be applied as a marketing tool to all of the B2C industries in general, but may add the most value in areas and goods of high involvement, such as cars, watches and other products and brands associated to the symbolic consumption.

Focus groups

Brand experiences

The focus groups indicated fun, leisure, entertainment, differentiation, competition, sharing, novelty, upgrades and establishment of relationships as benefits of gamification. Furthermore, it was explicit that all of the participants in the focus groups would be receptive in participating in "gamified" systems if their favorite brands implement a gamification approach. However, given the novelty of the experience, participants also mentioned the intention to adhere to a "gamified" system of any brand just to live the experience. Participants also referred that these experiences should provide interactivity, realism, emotions, instant feedback and the opportunity to compete with peers, especially if they are known. However, these experiences should be founded on reality and avoid monotony. Participants added they would like to have a "gamified" experience with well-known brands, such as: Microsoft, Apple, Seat, Pantene and Colgate.

Relationships with groups and peers

Participants revealed that are constantly interacting with other people and have this need. Currently this form of communication is enhanced by Mobile Telecommunications and Social Networks. It was also noted that groups such as coworkers and family (e.g., brothers and cousins in the same age group), as well as other peers (e.g., classmates) influence respondents to participate in a particular experience.

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In addition, participants mentioned that they would like to compete and interact with these agents and peers, even they do not know them personally.

Engagement

Consumers want to be heard, they want to feel integrated into the brand community and be rewarded for it. Moreover, they want to perform an active role in their relationship with the brand. Participants in the focus groups state that for them to get involved continuously in a "gamified" system is necessary due to: (1) goals and challenges; (2) contact and competition with known people, which directly affects their position in the groups; (3) customization of the experience; (4) continuous rewards; and (5) status.

Social networks

All participants had an active account on, at least, one on-line social network. According to the participants, the implementation of competitions and events in which the feedback of customer participation is instantaneous, represented by points and rankings, boost exponentially the effect of word-of-mouth through posts, shares and likes.

Expectations and game elements of gamification

Under this topic, we conducted a brainstorming involving expectations and game elements that participants evaluated as the most relevant in a "gamified" system. Table 1 presents the order of importance (from the most important to the less important) that participants assigned to expectations and game elements.

Expectations and Expected Benefits	**Game Elements**
Customized Experiences	Competing and Cooperation
Fun	Progression / Rewards
Rewarding	Leaderboards
Competition	Badges
Social Interactions	Points / Feedback

Table 1. *Most relevant expectations and game elements for focus groups' participants*

STUDY IMPLICATIONS

Findings suggest that brands providing fun, rewards, competition, social interactions, but essentially customization, as benefits of their "gamified" systems, may get more engagement from players. In addition, the data collected through gamification is spontaneous (Zichermann and Cunningham, 2011) and when correctly analyzed and interpreted it will offer differentiation and competitive advantage. From the consumers' point of view, they want to feel part of the brand, be the first to access new

ISBN: 978-9963-711-37-6

features, but they also aim at achieving an active participation in the development and improvement of new products, resulting in the co-creation of value for both brands and consumers.

Findings also suggest that consumers in mass market has a clear need for acceptance and recognition by their groups. In this thought line, the badges and the leaderboards are of major importance, since they recognize the leaders and distinguishes them from others, influencing their peers. Since the phenomenon is quickly transferred to the social networks, it achieves a viral dimension, given the urgency and need for constant approval of an individual by their peers. Thus, game users quickly share their performances and scores to show that they are experts of a particular brand, or to comment on an experience with a brand novelty, for instance. In this case, the player might show motivation in establishing a relationship with the brand.

Regarding that challenges, quests and goals are assigned by the brand through "gamified" systems that involve sharing or identification of an account in a on-line social network, word-of-mouth and buzz is quickly achieved. Findings suggest as well that the games elements should work as drivers of the offer and the promotion of customized experience for the user. Thus, it is possible to contest the criticism made by Bogost (2011): although the profit is implicit in the phenomenon of gamification, this system offers unique experiences and customized benefits, as well as it provides mechanism to increase users' self-confidence. A value creation indicator for consumers is the permanence of the players in the gamification experience, which in turn reflects their satisfaction with the brand and its "gamified" system.

Findings also suggest that gamification can be applied to B2C market in general. However, a superior competitive advantage could be achieved in high involvement product categories such as cars and watches, prestige technology and clothing brands, or services such as Arts, Gyms, Insurance and Health. Therefore, the application of gamification to commodities is questionable.

The Business Management may use the gamification approach as a process (Werbach, 2014) in the following fields: Marketing Research, Relationship Marketing, Marketing Communication, Service Marketing, Mobile Marketing and Digital Marketing. Given the multiple interactions platforms and media tools available in the market, the advantage of direct reach gives to the "gamified" systems the ability to get a total engagement and spontaneity from their users.

LIMITATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

One limitation relates to the relative novelty of the "gamified systems" that are not yet very familiar within brand consumers and Social Networks' users. This condition limits the access to gamification

 ISBN: 978-9963-711-37-6

users. Given this limitation, the investigation was limited to two focus group of students. It would be interesting to assess in more detail the influence of groups and peers on the adherence and maintenance to "gamified" systems, and to investigate the main reasons that lead to the abandonment of systems, which might shade some light on a model of gamification recovery.

CONCLUSION

Gamification appears as a new form of fun and engagement for consumers to get involved in new experiences with brands, and a source of co-creation of value for both brands and consumers. Combining this new tool with Social Networks, companies and their brands will be able to access, communicate and operate more effectively with certain markets. Additionally, gamification benefits from the effect of player's motivation for challenging and competition, generating word-of-mouth about the brand and a snowball effect on the access of new members.

In short, gamification can work as a new strategy to boost brand relationships and brand engagement, as it provides an alternative argument for brand loyalty.

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 ISBN: 978-9963-711-37-6

INVESTMENT EVALUATION IN INFORMATION TECHNOLOGY SERVICE MANAGEMENT - A THEORETICAL MODEL FOR CLASSIFICATION AND MEASUREMENT

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ABSTRACT

The huge diffusion of ITSM (Information Technology Service Management) has given new power to studies on IT governance. In this sense, investment evaluation has a fundamental importance, focusing, in the ITSM perspective, on back-office computer science.

In the most recent considerations on behalf of the professional community, probably also because of the economic-financial crisis, a 'back to basics' tendency has arisen, intended as a sort of return to the origins, which, in the case of IT investments, aims to assign to ROI, EVA and/or NPV an almost exclusive ability of evaluation. This study, analyzing a model for the classification of capital budgeting criteria in computer science, argues that the most correct way to appreciate the value of ITSM projects remains the use of blended methods (quantitative as well as qualitative).

Keywords: *IT, Information technology, IT investment, ITSM, information technology service management, capital budgeting, blended methods, balanced scorecard.*

INTRODUCTION

The heavy economic and financial crisis of recent years has been symbolically sanctioned by the bankruptcy of Lehman Brothers in 2008, but naturally it started even before with the subprime mortgage bubble in the United States: unfortunately, it is still creeping into many stormy contingencies (the weakness of Greece in the Euro area, the slowdown of BRICS growth, etc.). This crisis has forced entrepreneurs, managers and scholars to deal with very difficult situations, in most cases due to excessively financial operations.

In this sense, especially with regard to management responsibilities, many have invoked a 'back to basics' (cf., to name a few, Blanchard, 2009; Civi, 2013; Broome, 2015). This seems to be also the case of Information Technology, and it would be a mistake (on behalf of the Information Systems function) not to make treasure of past experiences (sometimes still ongoing).

 ISBN: 978-9963-711-37-6

Probably, the most important of these precepts is the necessity, for IT managers, to move their methodological center of gravity from the *software efficiency* to the *business efficiency*, because nowadays it is clear that a computer science project is reliable only if it contributes to the creation and diffusion of the enterprise value (Amadi-Echendu, 2012). Furthermore, this strong effort towards IT management must be adopted from the starting activities of the IT project management (i.e., the technical and economic evaluation of feasibility), even though, at a strategic level, a problem of competence could obviously arise.

In other words, can the Information Systems function be recognized and/or delegated (also) with the responsibility of the business decision? In truth, the question seems to be reasonable, but nowadays it is overcome by matters of fact, surely in the case of electronic business (when IT is the reference platform for the service execution) but also in other circumstances, arguing that, at the state of the art, it is simply not possible to escape from this hyper-commitment (Laudon and Laudon, 2004; Peppard *et al.*, 2011; Fell, 2013).

Given the indispensability of the contribution of IT managers to the business decision, this study aims to structure a theoretical model in which fundamental quantitative and qualitative criteria of capital budgeting, traditionally coming from the expertise of business economists and appropriately adapted to the context of investigation, find place. In particular, this model tries to pursue a research finality (verifying in which way it is possible to evaluate an investment not in a generic IT project, but in an ITSM project) and answer a research objective («Is it correct to limit to ROI, EVA, and/or NPV the evaluation of ITSM investments?», as research question).

ANALYSIS OF THE ITSM CONTEXT IN AN INVESTMENT EVALUATION VISION

Within the 'mare magnum' of IT domain, ITSM (IT Service Management) belongs to the area of IT management which aims to handle back-office computer science services (that is, those services which do not coincide with the business object). In the borderline case of software houses, ITSM regards the computer science services enabled to produce software and not (directly) the software to sell.

Moreover, the most modern and authoritative models of IT governance are methodologically projected in the direction of ITSM (Iden and Eikebrokk, 2013; Vicente *et al.*, 2014; Jäntti and Hotti, 2015), even arriving at distinguishing between ITS *management* and ITS *governance* (Jäntti, 2015). Recently, in fact, an impressive ferment about practices, models, and certifications for IT management has arisen at international level, by virtue of different causes, among which two seem to emerge more clearly.

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Firstly, during last years IT has represented the fundamental (if not unique) competitive advantage for the enterprises engaged in global competition. Such a vision, to be honest, is 'theoretically' wrong, because in the current era (when the consumptions at the end of the supply chain are more and more sophisticated) fashion, brands, ethics and so on are very important factors, but it is not completely unfounded in the information and communication society.

At the same time, however, it seems to be incorrect, from an entrepreneurial viewpoint, to limit this perception only to a declaration of principle or worse still to a pretension, only in order to gain more powerful positions in organization charts and budgets. Honors are balanced by sacrifices, and IT managers are requested to collaborate actively, as line managers and not as 'internal consultants', to the business strategy definition and, even more, to the related responsibility, most of all as regards risk management (Bentley, 2005; Kerzner, 2005; Gollenia and Uhl, 2012).

Secondly, orientation to value creation should be a constant principle of good management, not only in strategies, but also in operations. Thus, a sane entrepreneurial rationality is indispensable in any fragment of IT management, along the whole computer science project life cycle, in the 'plan' moment (with a managerial nature) as well as in the 'development' one (with a technological nature).

After verifying a definitive orientation of enterprises to IT governance, it is consequent that the most intriguing part of this evolution relies evidently in the assessment of the value generated by the computer science project. In fact, IT managers have to use adequate methodologies, techniques and tools for their capital budgeting, in order to address the project governance correctly, and in this sense a specific theoretical model seems to be particularly useful.

A PROPOSAL OF CLASSIFICATION FOR THE EVALUATION CRITERIA OF IT INVESTMENTS

The topic of the economic evaluation of investment projects in computer science solutions has been investigated since a long time within the academic and professional communities, but the diffusion of ITSM seems to require a different and heavier engagement. In fact, the ITSM perspective looks at back-office rigorously, complicating significantly the economic-financial evaluation of IT investment projects.

In truth, it seems that in the most recent orientations the entrepreneurial exigency to link costs and revenues has exaggerated the analysis on these evaluations: in essence, the unique reference parameter nowadays acceptable also in IT investments seems to be the operating profit (to be used for ROI and/or EVA), if not the cash flow (to be used for NPV). The importance of these criteria is definitely huge, because they are objective measures (cash even more than revenues), but it is very difficult to verify them, because the enterprise is put in a systemic space, more and more characterized

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by continuous and unpredictable relations and interactions, 'among' the internal resources and 'with' the external ones.

In other words, is it correct to focus the attention of IT investment evaluation 'exclusively' on revenues and cash? Surely these two parameters have the merit of anchoring the theoretical analysis to a level of concreteness (Fell, 2013), which is indispensable to the entrepreneur, who requires peremptorily a 'numeric' reference for her/his own ICT expenditure.

Most probably, however, the 'race' to ROI, EVA and NPV for IT investments tends to become, if a provocation is allowed, even myopic. In fact, it does not consider (that is, it does not 'feel') other aspects, as positive and/or negative components of value, which instead different methods can at least identify and esteem (surely with under-measure, in order to respect a common principle of prudence).

For example, we can consider some fundamental dimensions for an IT investment, as we try to represent in Figure 1:

1) on the X axis we put the utility destination of the computer science investment ('back office', inside the organization: 'IT as a process'; 'front office', outside the organization: 'IT as a product');

2) on the Y axis we put the benefit certainty/uncertainty (in a scenario with minor or major predictability); and

3) on the Z axis we put the result tangibility/intangibility (to be intended in the three fundamental aspects of assets, revenues and cash).

In this model, it is easy to find eight conceptual positions, which can be identified with the (theoretically) most adequate capital budgeting criterion:

1: (back office, uncertainty, tangibility): score

2: (front office, uncertainty, tangibility): expected NPV

3: (front office, uncertainty, intangibility): ROV (Real Option Valuation)

4: (back office, uncertainty, intangibility): check list

5: (back office, certainty, tangibility): BSC (ex ante / ex post Balanced Score Card)

6: (front office, certainty, tangibility): NPV

7: (front office, certainty, intangibility): EVA (Economic Value Added)

8: (back office, certainty, intangibility): CBA (Cost-Benefit Analysis).

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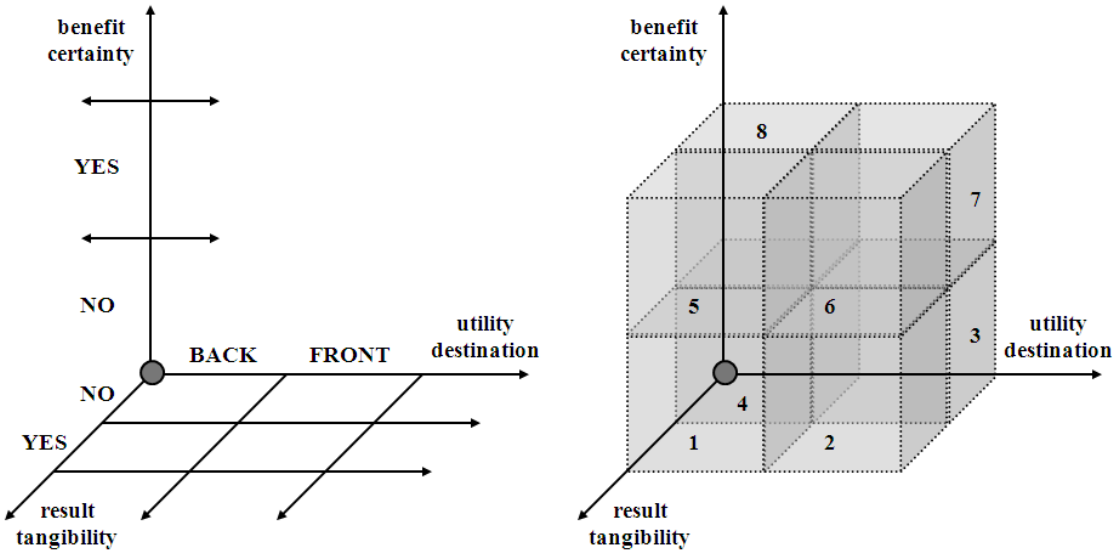
Figure 1 – Three dimensions model for the classification of IT investment evaluation methods.



Source: our elaboration.

Such a framework clearly does not aim to completeness (which would be simply impossible, because of the wideness and in a certain sense of the evolution of capital budgeting criteria), but it wants to express a fundamental coherence of the positioning of the single method in the conceptual perspective of the model structure (for an analysis of the proposed criteria, cf. Irani *et al.*, 2006; Bierman and Smidt, 2007; Festa, 2011; Metallo, 2013). In particular, this theoretical scheme is based on an essential observation: 'direct' value creation emerges prevailingly in front office relationships, while 'indirect' value creation, in terms of efficacy and efficiency, emerges prevailingly in back office relationships.

In this model, qualitative criteria have a larger space in the back-office 'slice', even though this consideration could generate obviously an evident criticism: in fact, also in the case of a support investment (in the traditional classification of the value chain: Porter, 2002) it is possible to find revenues and/or cash flows (or at least a component of them), intending that a higher saving, which has been generated by an ITSM project, allows to get a lower cost and then an increase of revenues (and, down-streaming the financial chain, a lower expenditure and then an increase of the cash inflow, if *ceteris paribus*). Thus, why should not we use 'only' ROI, EVA and/or NPV for the evaluation of such investments?

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TOWARDS THE INEVITABILITY OF QUALITATIVE METHODS FOR THE EVALUATION OF ITSM INVESTMENTS

According to strictly rational business thinking, there are not ultimate reasons to avoid quantitative methods for the estimation of ITSM projects: rather, their use allows to provide entrepreneurs with a concrete interpretation key. What is not persuasive is their 'exclusive' use, which would be definitely misleading, because IT investments, even more when referring to back-office computer science, can not be appreciated completely, if we do not take into consideration also further aspects than the mere quantitative dimension, otherwise we will lose other values, certainly existing (Baggio and Caporalello, 2003; Lee, 2004).

An example is the better product quality (*product innovation*), which definitely expresses a higher solidity of the offer, but it does not guarantee automatically, differently from the cost saving, an increase for revenues or cash flow. In fact, starting from previous hypotheses, the market impact is less predictable and manageable than the internal efficiency.

Furthermore, ITSM investments could certainly allow a better quality of the work environment (*process innovation*), with consequent benefits on human resources productivity and business functioning performance. Ignoring these aspects, which are overdrawn by the back-office destination, would mean to limit the actual substance of the investment (Davenport and Short, 2003).

Besides, a simple 'something else' beyond NPV, as it happens for CBA, seems not to be enough. Still nowadays (Irani and Love, 2002), an 'ex ante' BSC seems to be more complete for the evaluation of ITSM investments, because it would allow to take into consideration several aspects of the overall business performance (to be verified 'ex post' by an adequate gap analysis).

In practice, it is reasonable that all enterprise investments (and then, also those in IT) are conceived and implemented in order to generate value, which would become, down-streaming the chain, more and more evident in terms of revenues and cash. At the same time, however, it is difficult (or worse still misleading) to find, up-streaming the chain, the single sources of that value, most of all with the so pervasive role of ITSM.

RESULTS, IMPLICATIONS, AND CONCLUSION

The main outcome of this study is represented by a theoretical model for the classification, or better still the 'positioning' of IT capital budgeting criteria, by virtue of three fundamental dimensions (utility destination, benefit certainty, and result tangibility). The discussion of the model has allowed to highlight that qualitative criteria are particularly appropriate for ITSM investments.

In terms of scientific implications, this result encourages further studies on qualitative techniques of evaluation for IT projects, also by using new concepts and applications. Fortunately, the larger and

 ISBN: 978-9963-711-37-6

larger attention of professional community towards ITSM allows to propose new experimentations in the 'back-office' context, also because of the current bustle about related practices, models, and certifications.

In terms of managerial implications, it is clear that without a correct conception of IT capital budgeting criteria, Information Technology managers (and Information Technology Service managers in particular) will always be forced to a second importance role in strategic planning and implementing processes, beyond the more or less formal recognition in decision participating (e.g., the presence of CIO, *Chief Information Officer*, in the executive board). In fact, in a healthy business the importance of a resource is surely highlighted by the formal role, but most of all and fortunately by its ability to create value, obviously as long as this can be correctly measured, communicated, and (in line with the perspective of this study) embraceable (Festa, 2006).

In conclusion, searching for a right balance between quantitative and qualitative evaluations (Anandarajan and Wen, 1999; Schilling, 2005; Saleem *et al.*, 2012), with the certain inevitability of the latter (Dameri, 2005), represents a daring challenge for IT capital budgeting, as repeatedly highlighted by the scientific literature in the field. It is to highlight, of course, that a qualitative method is not necessarily 'imprecise': on the contrary, the indefiniteness of the evaluation object forces to higher severity in the application of the method, in terms of classification, identification, and implementation, in particular, as concerns this study, for ITSM investments.

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 ISBN: 978-9963-711-37-6

IMPRESSION MANAGEMENT STRATEGIES IN THE LETTER TO SHAREHOLDERS: EMPIRICAL EVIDENCE FROM ITALIAN LISTED FIRMS*

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ABSTRACT

The importance of the Letter to Shareholders (LS) as a form of corporate communication is well documented in the previous literature. However, existent contributions also suggest that LS are used opportunistically by firms as locus of Impression Management (IM) strategy, possibly because of their voluntary and unregulated nature. The aim of this study is to assess whatever Italian firms use LS to convey a manipulated view of firms' behaviour. In particular, the paper verifies if unprofitable firms adopt a biased language in the LS manipulating the textual characteristics of these letters. A manual content analysis and a multivariate statistical analysis are run analysing the disclosure offered in all the LS made available by Italian listed firms referring to year 2013. The key results show that firms tend to use biased language to obfuscate their weak achievements, thus demonstrating that firms adopt IM in their LS. The evidence has relevant implications as we show that LS cannot be considered informative but rather than as a communication strategy to advance corporate image.

Keywords: *letter to shareholders, impression management, textual characteristics, disclosure strategy, managerial opportunism, content analysis, Italy.*

INTRODUCTION

The Letter to Shareholders (LS) is achieving an increasing importance as a fundamental component of corporate reports (Clatworthy and Jones, 2006); previous studies demonstrate that the LS is the most read part of the annual report (Barlett and Chandler, 1997; Epstein and Pava, 1993). Its importance is ascribed to the fact that it affects investors' decision making process and is considered useful for the prediction of future performance (Kaplan *et al.*, 1990; Smith and Taffler, 1995; Segars and Kohut, 2001).

* While the article is the result of a joint effort from the authors, the individual contributions are the following: Gaia Melloni wrote 'Introduction' and 'Theoretical Background and Hypotheses Development'; Cristina Florio wrote 'Research Design' and 'Empirical Results'.

 ISBN: 978-9963-711-37-6

Nevertheless, LS is not usually subject to regulation and the role of the auditor is limited to the assessment that the information reported is consistent with the values presented in the financial statements, in that allowing managers to have high discretion in selecting and presenting the information by mean of LS (Hoogiemstra, 2010). As underlined by Baker and Bettner (1997, p. 305), LS "may not produce an objective presentation of the economic reality but rather a highly contested and partisan representation of social and economic world".

It is thus not surprising that firms use LS opportunistically, offering disclosure that is biased: on the one hand, these letters are a powerful vehicle to inform outsiders; on the other hand, they allow firms to behave in a self-serving way, as managers are not much concerned with regulatory repercussions (Hoogiemstra, 2010).

Previous studies provide evidence of the presence of the so called Impression Management (IM) strategies in the LS as they demonstrate that managers use LS opportunistically to manipulate audience perceptions of the actual corporate behavior. Most of these studies concentrate on non-European firms (*e.g.* Courtis, 1998; Hoogiemstra, 2010; Patelli and Pedrini, 2014). Among the studies on European firms, Smith and Taffler (2000) and Clathworthy and Jones (2006) demonstrate that UK firms manipulate the disclosure offered in the president letters, whilst Aerts (1994 and 2005) analyses Belgian firms. It appears that there is a lack of studies that consider the LS of Italian firms. Therefore, the objective of this paper is to fill this gap by examining whether Italian firm adopt IM strategies in their LS.

Drawing on previous studies on the use of IM in the LS, we perform a manual content analysis of all the LS of Italian listed firms available for year 2013, assessing the textual characteristics of the disclosure that previous studies considered symptomatic of the use of IM (Clathworthy and Jones, 2006) and build an IM index apt to capture the level of bias of the LS disclosure. Subsequently, we assess the association between the IM index and firms characteristics that provide managers with incentives to manipulate disclosure. In particular, we focus on the presence of a negative performance consistently with the idea that managers are particularly prompt to adopt IM strategy opportunistically when their achievements are weak (Clathworthy and Jones, 2003 and 2006; Schleicher and Walker, 2010).

The rest of the paper is articulated as follow: in the next section we present the theoretical background of the study and develop the research hypothesis; in the third section we explain the research design, whilst in the fourth one we present and discuss the results. Finally, the last section highlights the contributions and limitations of the research.

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THEORETICAL BACKGROUND AND HYPOTHESES DEVELOPMENT

IM is defined as the process by which individuals attempt to influence the impression of other subjects to portray a positive image of themselves (Leary and Kowalski, 1990). IM originates in the psychological literature but there is extensive evidence of the adoption of IM strategies in the context of corporate reporting: companies tend to use disclosure opportunistically by presenting their performance in a "biased" manner (Merkel-Davies and Brennan, 2007).

Previous studies provide evidence of the adoption IM in different form of corporate reporting (*e.g.* annual reports and sustainability reports). An increasing number of studies are focusing their attention specifically in the LS: indeed, in light of its voluntary and unregulated nature LS creates a unique possibility for managers to manipulate the impression that investors have of the company (Hoogiemstra, 2010).

IM strategies are linked to firm performance. Previous studies show that firms adopt IM strategies by demonstrating that firms with bad economic results use biased language in their LS (Kohut and Segars, 1992; Clarke, 1997; Thomas, 1997; Syderff and Weetman, 2002; Clathworthy and Jones, 2003; Patelli and Pedrini, 2014). This argument is grounded on the idea that the weaker the firm performance, the higher the managers' incentives to use biased language to make up for their poor achievements. Motivated by all these aspects we test the following research hypothesis:

Hp 1: Unprofitable firms have significantly higher level of disclosure bias.

As explained in the next section, the disclosure bias is defined with reference to six textual characteristics of the information that previous literature considered symptomatic of IM strategies (Clathworthy and Jones, 2006). These textual characteristics refer both to syntactical measures (proportion of passive sentence and personal references) and to the specific content of the disclosure provided (number of key performance indicators, key financial values, percentages, and forward-looking information).

Previous literature argues that managers of unprofitable firms try to distance themselves from negative performance using passive constructions (Thomas, 1997; Sydserff and Weetman, 2002; Clathworthy and Jones, 2006). Previous studies also argue that managers of profitable companies are more likely to use personal pronouns to show that such performance has been obtained by their work; on the contrary, managers of unprofitable firms avoid using first person pronouns to distance themselves from the bad news (Hyland, 1998; Clathworthy and Jones, 2006).

Additionally, previous literature suggests that, compared to profitable firms, unprofitable ones tend to include in the narrative sections of the annual report less key financial variables (Beattie and Jones, 2000; Clatworthy and Jones, 2006), as well as less quantitative references (Gibbins *et al.*, 1990; Skinner, 1994; Clatworthy and Jones, 2006) to dilute the effect of the bad news. Finally, unprofitable firms try to

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move stakeholders' attention away from unfavourable performance focusing more on the future than on the (unsatisfying) past (Kohut and Segars, 1992; Pava and Epstein, 1993; Clatworthy and Jones, 2006). All together, these five textual characteristics allow the assessment of the extent of disclosure bias in the LS as explained in the next section.

RESEARCH DESIGN

Impression management index

Empirical studies on IM tend to focus on single textual characteristics apt to measure disclosure bias individually, such as the use of passive sentence or personal pronouns. However, previous studies suggest that companies adopt several IM techniques simultaneously, shedding lights on the importance to develop multidimensional measure of disclosure bias (Clathworhy and Jones, 2006). This means that IM behaviour may be better understood and investigated considering the different gimmicks all together, as the willingness of favourably affecting stakeholders judgements may actually encourage the firms to act on multiple aspects of the disclosure provided in the LS.

Therefore, focusing on textual characteristics of the LS already studied by previous literature (Clatworthy and Jones, 2006), we develop a comprehensive IM index (*im_index*) to proxy for six IM techniques that companies may apply. As above mentioned, such an index measure the disclosure bias combining the following textual characteristics: the number of passive sentences (*pass_sent*) and of future sentences (*future_sent*) contained in the LS; the number of personal references (*pers_ref*), the number of key financial indicators (*key_fin*); the number of references to money amounts included in the LS (*money_ref*), *e.g.* absolute value of investments or earnings; the number of quantitative references expressed as a percentage (*perc*), *e.g.* percentages of increase or decrease in sales or earnings.

The *im_index* is designed in such a way that increasing values of the index itself signal that the company disclosure is more biased. To achieve such a purpose, we assign proper signs to individual IM indicators relying on the relationships hypothesized by previous literature on IM. More specifically, we consider *pass_sent* and *future_sent* as being negatively associated with performance. Conversely, we consider *pers_ref*, *key_fin*, *money_ref*, and *perc* as being positively related with performance; therefore, we include in the *im_index_perc* the opposite value (complement to 1) of the selected indicators. Our *im_index* is constructed by summing up said textual characteristics as follows:

$$im_index = pass_sent + future_sent + (1 - pers_ref) + (1 - key_fin) + (1 - money_ref) + (1 - perc)$$

Following the approach by Gordon *et al.* (2009), each IM indicator is standardized among sample firms before being combined in the equation. By means of the standardization technique we obtain variables rescaled to have a mean of 0 and a standard deviation of 1. Such variables may therefore be consistently

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summed up although they were originally measured using different units of reference (number of sentences or number of words). In addition, the resulting index proxies a normal distribution.

Empirical model

We test whether unprofitable firms make use of IM devices (Hp 1) by means of the following multivariate OLS regression model:

$$im_index_i = \alpha + \beta_1 PERF_i + \beta_2 ls_lenght_i + \beta_3 size_i + \beta_4 industry_i + \varepsilon$$

As previously stated, our dependent variable *im_index* is a summary of the different kinds of IM gimmicks companies may put in place using textual characteristics. Our test variable *PERF* is a binary variable proxying for company performance and equal to 1 if the company is profitable, and 0 otherwise. Two different measures of performance are considered: in a first model we proxy for performance referring to the Return on Assets ratio (ROA) and construct the binary variable *d_roa*, equal to 1 if ROA is equal to or higher than zero, and 0 otherwise; in a second model we proxy for performance referring to both the ROA and the Return on Equity (ROE) ratios simultaneously and define the binary variable *d_perf*, equal to 1 if both ROA and ROE are equal to or higher the zero, and 0 otherwise.

We include in the model the control variable *ls_lenght*, *i.e.* the LS length measured in number of pages, as previous literature provides mixed evidence on the relation between length and disclosure manipulation (Kohut and Segars, 1992; Clathworthy and Jones, 2006). Finally, we control for the most common variables accounting literature (*e.g.* Cho et *al.*, 2010) suggests to consider when modelling for companies disclosure behaviour: *size*, *i.e.* company size measured as the natural logarithm of market capitalization, and *industry*, *i.e.* the kind of activity run by the company (see Table 1b for details about industry classification).

Sample and data

With the purpose of testing our hypothesis, we focus on the population of non-financial companies listed on the Italian Stock Exchange at the end of 2013. We browse the Investor Relations section of their websites in order to identify the LS to analyse. We consider both the LS included in the Annual Report and the ones forming a separate document. We find 66 LS available.

From each LS we manually collect data linked to IM practices by means of a manual content analysis. Drawing on Clathworhy and Jones (2006), we examine in details each LS counting the total number of pages, sentences and words there included; the number of passive sentences; the number of quantitative statements (*i.e.* monetary references and percentage references); the number of references to financial performance variables (*i.e.* sales, earnings before tax, and dividends); the number of personal references in the text (*i.e.* the Italian equivalent for "I", "me", and "my"); and, finally, the number of words in future oriented sentences.

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The reliability of the classification procedure is assessed following Krippendorff (2013). To check for inter-rater reliability, the different authors have used the specified coding system on the LS of the entire sample and repeated the analysis at different time periods. The coefficient of agreement (*i.e.* the ratio of the number of pairwise interjudge agreements to the total number of pairwise judgments) found is above the acceptance level.

Accounting data referring to each company (namely, ROA and ROE necessary to define our test variables *d_roa* and *d_perf*) are gathered from the AIDA database, while market capitalization at the end of 2013 is downloaded from the Bloomberg database. We rely on the industry classification provided by the Italian Stock Exchange for our control variable *industry*.

Excluding companies with missing data, our final sample consists of 52 observations.

EMPIRICAL RESULTS

Descriptive statistics and correlations

Table 1a presents descriptive financial statistics on our sample. The *im_index* presents a mean equal to 4, but varies significantly among companies. Higher levels of *im_index* mean higher presence of the textual characteristics which may be ascribed to IM strategies. Descriptive statistics for profitability show that 80% of the sampled companies obtain a null or positive operating income (*d_roa*), while 71% are profitable in terms of both operating and net performance (*d_perf*). The length of LS (*ls_lenght*) is on overage around 2 pages, but varies significantly within the sample. Finally, companies' size is quite different as well. As shown by Table 1b, sampled companies pertain to different fields of activity.

Variable	Obs	Mean	Std. Dev.	Min	Max
im_index	52	4	1.939205	-.8505091	10.20916
d_roa	52	.8076923	.3979586	0	1
d_perf	52	.7115385	.457467	0	1
ls_lenght	52	2.153846	1.460387	.5	9
size	52	6.840255	1.938236	2.823163	11.05977

Table 1a. *Summary of the descriptive statistics*

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industry		Freq.	Percent	Cum.
Utilities	1	9	17.31	17.31
I&C Tech	2	8	15.38	32.69
Consumer goods	3	10	19.23	51.92
Industrials	4	15	28.85	80.77
Health care	5	4	7.69	88.46
Consumer services	6	1	1.92	90.38
Oil, gas, basic materials	7	5	9.62	100.00
	Total	52	100.00	

Table 1b. *Distribution of observations by industry*

The correlation matrix presented in Table 2 shows a negative and significant association between *im_index* and both our performance measures (*d_roa* and *d_perf*), as expected. Such performance measures are also positively associated with *size*, signalling that bigger companies present a higher probability of reaching positive performances than smaller firms.

Also, Table 2 shows that, for each of the variables, the Variance Inflation Factor (VIF) is smaller than the threshold value "3", indicating that multicollinearity would not affect the results.

	im_index	*d_roa*	*d_perf*	*ls_lenght*	*size*	VIF
im_index	1.0000					
d_roa	-0.3339*	1.0000				2.86
d_perf	-0.2921*	0.7664*	1.0000			2.69
ls_lenght	-0.2207	-0.1674	-0.0643	1.0000		1.18
size	0.0149	0.4051*	0.2744*	0.0902	1.0000	1.37
industry	(omitted)	(omitted)	(omitted)	(omitted)	(omitted)	(omitted)

Table 2. *Matrix of correlations and variance inflation factor*

* indicates significance at 5% level; Mean VIF = 1.83

Multivariate results

In a multivariate analysis, we examine whether firm performance is associated with the level of disclosure bias (measure by mean of the *im_index*) also controlling for some variables previous research suggests being related with the latter. Table 3 presents the results. More specifically, Column 1 presents results obtained splitting the sample in profitable and unprofitable firms using *d_roa* as a reference, while Column 2 presents results obtained using *d_perf* as a discriminating factor.

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	(1) *im_index*	(2) *im_index*
d_roa	-2.4061*** (0.7645)	
d_perf		-1.4995** (0.6783)
ls_lenght	-0.3989** (0.1917)	-0.3050 (0.1971)
size	0.2301 (0.1548)	0.1201 (0.1550)
industry	(omitted)	(omitted)
_cons	5.0167*** (1.4393)	4.7133*** (1.5267)
N	52	52
R^2	0.2546	0.1749
F	1.5944	0.9889

Table 3. *The relation between firm's performance and overall impression management practices*

Standard errors in parentheses; * p<0.1, ** p<0.05, *** p<0.01

Consistently with our expectations, we find a negative and significant association between firm performance and the extent of IM gimmicks activated in the LS. Indeed, *beta* coefficients of our test variables, expressing alternatively firm operating performance (*d_roa*) and overall performance (*d_perf*), are both negative and significant (p<0.01 for *d_roa*, p<0.05 for *d_perf*). These results clearly indicate that unprofitable companies use a significantly different extent of IM "adjustments" in their LS than profitable companies. More specifically, we demonstrate that when firms are unprofitable they record a significantly higher *im_index*, consistently with the idea that managers manipulate the disclosure offered in the LS to detract attention from their bad achievements.

Additional tests

Having found support to our Hp 1 considering overall IM practices as summarized in a single and innovative IM index, we run a number of additional tests in order to verify which kinds of IM techniques unprofitable companies use to divert stakeholders' attention to aspects different from the unsatisfying performance itself.

To such an extent, we run 12 additional regression models, *i.e.* one regression model for each of the variables forming our *im_index* (*pass_sent*, *future_sent*, *pers_ref*, *key_fin*, *money_ref*, and *perc*) and for each of the test variables previously discussed (*d_roa* and *d_perf*). In order to compare consistently such variables among companies, before running the regression models we deflate each variable by a proper term of comparison: we deflate *pass_sent* and *future_sent* by the number of sentences forming the LS,

 ISBN: 978-9963-711-37-6

obtaining two new dependent variables *mag_pass_sent* and *mag_future_sent* expressed in percentage; also, we deflate *pers_ref*, *key_fin*, *money_ref*, and *perc* by the number of words included in LS, obtaining four new dependent variables (*mag_pers_ref*, *mag_key_fin*, *mag_money_ref*, and *mag_perc*).

Table 4a presents the results of the multivariate analysis run with reference to those IM gimmicks supposed to be positively related with a negative performance (*mag_pass_sent*, and *mag_future_sent*), while Table 4b presents the results of the multivariate analysis run with reference to those IM gimmicks expected to be negatively related with a negative performance (*mag_pers_ref*, *mag_key_fin*, *mag_money_ref*, and *mag_perc*).

The magnitude of passive sentences in the LS (*mag_pass_sent*) seems not significantly associated with performance (Table 4a, Columns 1 and 2), while the magnitude of future-oriented sentences (*mag_future*) is negatively and significantly associated with the overall performance (*d_perf*) (Table 4a, Columns 3 and 4). Therefore, companies which do not meet both the thresholds of small positive ROA and ROE tend to be more focused on future perspectives compared to profitable firms. Such result is consistent with previous empirical evidence on the use of IM in the LS (Clathworthy and Jones, 2006).

	(1) *mag_pass_sent*	(2) *mag_pass_sent*	(3) *mag_future_sent*	(4) *mag_future_sent*
d_roa	-2.8683		-1.9888	
	(2.6448)		(6.6382)	
d_perf		-3.2406		-12.6496**
		(2.2055)		(5.2534)
ls_lenght	0.2184	0.2815	0.6310	0.3252
	(0.6631)	(0.6409)	(1.6643)	(1.5267)
size	0.2372	0.1640	-1.4088	-1.0441
	(0.5356)	(0.5041)	(1.3442)	(1.2007)
industry	(omitted)	(omitted)	(omitted)	(omitted)
_cons	19.5402***	20.3115***	27.2734**	35.9198***
	(4.9796)	(4.9639)	(12.4983)	(11.8236)
N	52	52	52	52
R^2	0.2310	0.2481	0.0845	0.1939
F	1.4015	1.5396	0.4308	1.1222

Table 4a. *The relation between firm's performance and specific impression management practices (+)*

Standard errors in parentheses; * p<0.1, ** p<0.05, *** p<0.01

As for IM gimmicks supposed to be negatively associated with a negative performance, we do not find significant coefficients neither for the percentage of personal references (*mag_pers_ref*) (Table 4b, Columns 1 and 2), nor for the magnitude of key financial indicators (*mag_key_fin*) contained in the LS (Table 4b, Columns 3 and 4). Conversely, we find support to our expectations that unprofitable companies tend to skip providing details on their financial situation and overall economic trend in both monetary terms (*mag_money_ref*) and percentages (*mag_perc*). Indeed, as shown by Table 4b, Columns

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5-8, both such variables are positively and significantly related with operating performance proxied by the test variable *d_roa* (p<0.1 and p<0.01, respectively).

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
*mag_*	*pers_ref*	*pers_ref*	*key_fin*	*key_fin*	*money_ref*	*money_ref*	*perc*	*perc*
d_roa	-0.0190		0.0368		0.3675*		0.4701***	
	(0.0383)		(0.0290)		(0.2049)		(0.1744)	
d_perf		-0.0269		0.0127		0.2853*		0.1788
		(0.0321)		(0.0248)		(0.1738)		(0.1569)
ls_lenght	-0.0090	-0.0088	-0.0032	-0.0050	0.1269**	0.1144**	0.1468***	0.1246***
	(0.0096)	(0.0093)	(0.0073)	(0.0072)	(0.0514)	(0.0505)	(0.0437)	(0.0456)
size	0.0000	-0.0002	-0.0043	-0.0022	-0.0413	-0.0267	-0.0847**	-0.0586
	(0.0077)	(0.0073)	(0.0059)	(0.0057)	(0.0415)	(0.0397)	(0.0353)	(0.0359)
industry	(omitted)	(omitted)	(omitted)	(omitted)	(omitted)	(omitted)	(omitted)	(omitted)
_cons	0.0630	0.0724	0.0899*	0.1025*	0.2075	0.2099	0.2768	0.4251
	(0.0720)	(0.0722)	(0.0545)	(0.0559)	(0.3858)	(0.3912)	(0.3283)	(0.3531)
N	52	52	52	52	52	52	52	52
R^2	0.0952	0.1049	0.1654	0.1387	0.2978	0.2896	0.3497	0.2600
F	0.4911	0.5469	0.9250	0.7513	1.9790	1.9022	2.5092	1.6399

Table 4b. *The relation between firm's performance and specific impression management practices (-)*

Standard errors in parentheses; * p<0.1, ** p<0.05, *** p<0.01

Sensitivity analysis

To validate the results of our main regression models, we run two sensitivity tests modifying our dependent and test variables, alternatively.

Firstly, we construct the IM index without standardizing its components, but simply considering them in percentage and calculating the following sum:

im_index_perc = mag_pass_sent + mag_future_sent + (100–mag_pers_ref) + (100–mag_key_fin) + (100–mag_money_ref) + (100–mag_perc)

The main regression models run replacing the dependent variable *im_index* with *im_index_perc* show that *d_roa* is not significantly associated with IM practices, while *d_perf* is negatively and significantly associated with the latter (p<0.01). This last result supports our research hypothesis.

Secondly, we replace our test variables with a new variable proxying for companies operating performance. We calculate the median ROA for the companies in the sample and create a binary variable *d_median_roa* equal to 1 if the firm ROA is equal to or higher than the median level and 0 otherwise. Both *im_index* and *im_index_perc* result to be negatively and significantly associated with this performance variable (p<0.05), again confirming that companies with an unsatisfying performance are more prone to make use of IM gimmicks in their LS.

To summarize, both the additional tests and the sensitivity tests provide support to our research hypothesis.

 ISBN: 978-9963-711-37-6

CONCLUSIONS

The LS is the most read part of the annual report (Bartlett and Chandler, 1997) and provides information that is used by investors to assess companies' performance and prospects (Smith and Taffler, 1995 and 2000). In spite of this, previous studies demonstrate that managers use LS opportunistically, providing disclosure that is biased as firms' writing style is contingent on financial performance. Our study contributes to this literature by showing that also Italian firms use LS as locus of IM strategies similarly to European firms and non-European firms (*e.g.* Hoogiemstra, 2010; Aerts, 1994 and 2005). Additionally, we add more generally to the IM literature by developing a multidimensional and comprehensive measure of disclosure bias based on six textual characteristics that previous studies consider symptomatic of IM strategies (Clathworthy and Jones, 2006).

Being a first exploratory study on IM in the Italian context, our research is not free from limitations. First of all, we are dealing with a small number of observations which could impact on the effectiveness of our regression models. However, we are already working to augment our observations including in the sample firms pertaining to different industry groups (*i.e.* the financials). Additionally, it would be important to assess the presence of IM strategies in other parts of the overall financial report, such as the Management Discussion and Analysis section, or in the Press Releases issued by the firms.

To conclude, the study has important implications as it sheds light on the fact that the users of LS should be quite sceptical when reading this document and be cautionary in shaping their expectation on firms' performance based on LS content (Kaplan *et al.*, 1990). In particular, investors and stakeholders willing to gain a complete picture of companies achievements should supplement the information provided in these letters with the other provided in other forms of corporate reporting.

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 ISBN: 978-9963-711-37-6

DEVELOPMENT OF BUSINESS INTERNATIONALIZATION FORMS IN GLOBAL GEOECONOMIC SPACE

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ABSTRACT

The article presents the results of the research of essence and forms of business internationalization which have appeared along with the world economy development. Existing definitions of internationalization are grouped into approaches and their essential characteristics are formulated. Forms of internationalization are systematized from the simplest to the highest according to various criteria. Key features of the contemporary global economic space at the stage of globalization of the world economy and the features of its new players are selected. Among them there are the global network structures (GNSs) and internationalized reproduction chains which are initially internationalized due to their nature. Based on the results we assume that traditional forms of internationalization are not adequate to new business conditions and do not comply with the new requirements of these global players. The purpose of this paper is to resolve this contradiction and develop a new form of business internationalization. The traditional approach is linear and not focused on spatial development. Therefore, we propose the geoeconomic paradigm. On this basis a new economic interpretation of the term "internationalization" is proposed and it is proved that the integration of national structures into the GNSs is a new form of internationalization. Its novelty is that such integration even within the native country is also internationalization. In accordance with the author's concept the algorithm of business internationalization is developed. The key idea of the algorithm is not the choice of the method of entry into the foreign market (traditional approach) but the formation of the competitive national modules (units). The algorithm starts with the inventory of existing modules, their reorganization and transformation for compatibility with GNSs. The purpose of the final stage of the algorithm is to complete an existing reproduction chain in the context of forecasting future needs. Implementation of the algorithm is based on the author's principles - compatibility, selectivity and others. The strategies of the business internationalization are summarized and recommendations for strengthening the business internationalization are formulated. Russian business services sector is taken as an example.

 ISBN: 978-9963-711-37-6

Keywords: *internationalization of business, forms of internationalization, global geoeconomic space, global network structures (GNSs), internationalized reproduction processes*

INTRODUCTION

By the XXI century the world economy has become a global economic system. Not only quantitative but significant qualitative changes are occurring in the global economy at the present stage of its development. However, these changes do not appear simultaneously, but with some lag. One of the peculiarities of the modern global economic space is the emergence of new global players including global network structures (GNSs), internationalized reproduction chains. New players needs to keep up to date but the forms of foreign economic activity remain as they were before. Because of this process there is a contradiction between up to date needs of new players of the globalizing economy on the one hand and existing (old) forms of internalization on the other hand. It is the need to eliminate this contradiction that makes the research actual. The purpose of this article is to extend the interpretation of the term "internationalization" with regard to the peculiarities of the process of globalization of the world economy and offer a new form of business internationalization.

Therefore, we come to the following conclusions in this article. Our hypothesis is as follows. Extended internationalized reproduction chains (processes) and global network structures dominate in the modern global economic space. The borders of their economic activity are beyond the national ones. They operate within economic but not territorial boundaries. They are initially internationalized by their nature. However, the proposals of economists are still based on the linear perception of the world (the traditional theoretical approach). But the ordinary transfer of business activity across the national boundaries (in simple and complex forms) is not compatible with the spatial nature of the modern global economy. It is necessary to apply new research methods. We propose to use the methodology of geoeconomics (different scientists do not use the same notion: geo-economics (Babic, 2009), geoeconomics (Kochetov, 2011), geoeconomia (Savona and Jean, 1995).

For the development of new forms of internationalization it is necessary to rethink and systematize the existing approaches to internationalization, identify the features of the current global geoeconomic space and clarify the essence of internationalization through its prism. As for practical applications it is necessary to develop an algorithm of business internationalization and offer recommendations for the companies.

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SYSTEMATIZATION OF THE MAIN APPROACHES AND FORMS OF INTERNATIONALIZATION

The internationalization (as the economic dimension of globalization) remains one of the phenomenon of the world economy development. Internationalization makes the world economy, on the one hand, tighter and, on the other hand, more interdependent. Internationalization is like a guide when you make a decision in the sphere of foreign countries relations. Internationalization has become more intensive and focused in the late XIX and early XX century. The theory of internationalization «has celebrated» its anniversary - forty years (Buckley, 2014). But different scientists, still offer new definitions of the essence of "internationalization". For example, Buckley (2014) not only examines the origins and principles of internationalization theory but re-examines his own exposition under the conditions of the modern globalizing economy. Some of new definitions contradict with each other. But we do not consider some of them as incorrect. The works by Buckley and Casson (2009), Dreher (2010), Whitelock (2002), Panibratov (2009) and many others were used in this paper. These proposals reflect the author's concept and clarify the essence of internationalization from other specific (sometimes new) perspectives. Systematization of the essence of internationalization through the different "approaches" (marketing, spatial and so on) is presented in table 1.

Table 1 –Essence of internationalization: systematization of the basic approaches (fragment)

Approach	Approach's content	Approach's essence
Spatial approach	Improvement of the company's territorial structures	Searching for the most favorable places (territories, locations) for business units (subsidiaries)
Marketing approach	Methods of company's penetration foreign (external) markets on the basis of optimal scenario	Development of the methods to attract the greatest number of customers in foreign markets and to increase the competitiveness
Strategic approach	Formation of the strategy of international economic relations development in the context of globalization	Development of the schemes for the formation of international activity strategic directions including the alternative business strategies
Managerial approach	Company's management in the foreign (external) market is becoming independent	With the company's development in the foreign (external) market management have become autonomic. Global development of corporation is the zone of responsibility of the headquarters and onsite management is focused on the development within a specific region

At the beginning of the internationalization its essence consisted in entering (of the enterprises) the foreign market. But at different stages of the world economy development the essence of internationalization is filled with new content. New types of internationalization constantly appear. Table 2 shows the most complete and reliable definitions of «internationalization» (Frolova and Perova, 2010) .

 ISBN: 978-9963-711-37-6

Among others we highlight the following. For example, Kolesov and Osmova (2001) point out that the main feature of today's world economy is internationalization of economic activity. It is based on international specialization and internationalization of production, capital transnationalization and foundation of multi-national companies. Internationalization is common not only for goods production, its distribution and consumption, but for every kind of international economic relations. As for Kochetov (2011) he defines internationalization as the situation when the reproduction process is divided into several parts in different countries, so it exceeds the limits of one separate state.

Table 2 – Internationalization and its types (fragment)

Term	Definition
Internationalization	Recognition of something as international, as the matter of international law
Internationalization of economic activity	The fact that national economies of different countries have become closer, they are more dependent on industrial matter of each other, capital and labor force flow
Internationalization of companies' activity	The process of drawing the company into international transactions (business, financial, marketing) and development of stable relations with international partners
Internationalization of manufacture field	The process of dividing production process into several parts (cycles) and every part (cycle) is done in different countries
Internationalization of research field	The process of combining efforts of different countries in order to conduct some enormous and unordinary research
Internationalization of capital	New companies are built up abroad and expand the influence of state capital
Internationalization of property	Foundation of multi-national and transnational joint-stock companies

Internationalization of production, business is the core point of internationalization process. Internationalization of production emerged in the era of industrial capitalism in its machine stage. Computer-aided manufacturing requires large expenditures for front-end investment and researches. The range of industrial products has increased significantly because new production spheres arise. It is impossible to produce the whole range of products within the one even the most developed country. So, international specialization and cooperation are stirring up and make internationalization of production more intense. It is significant that scientific and technical researches are also internationalized now. Companies from different countries should combine their efforts in order to conduct some complicated and high-cost research. In order to organize (arrange) this diversity, we have systematized the forms of internationalization (from the simplest to the highest) (Fig. 1).

Based on the study of various definitions of internationalization, we have identified their essential characteristics, among them: going beyond the national borders; crossing the national boundaries; territorial reference of the manufacturing process of the product; «resident» and «non-resident» (in the context of state boundaries); the inclusion of only the primary, simple elements (elements of the process and products of their activity) into the system of international economic relations; adaptation to the needs of the global market.

 ISBN: 978-9963-711-37-6

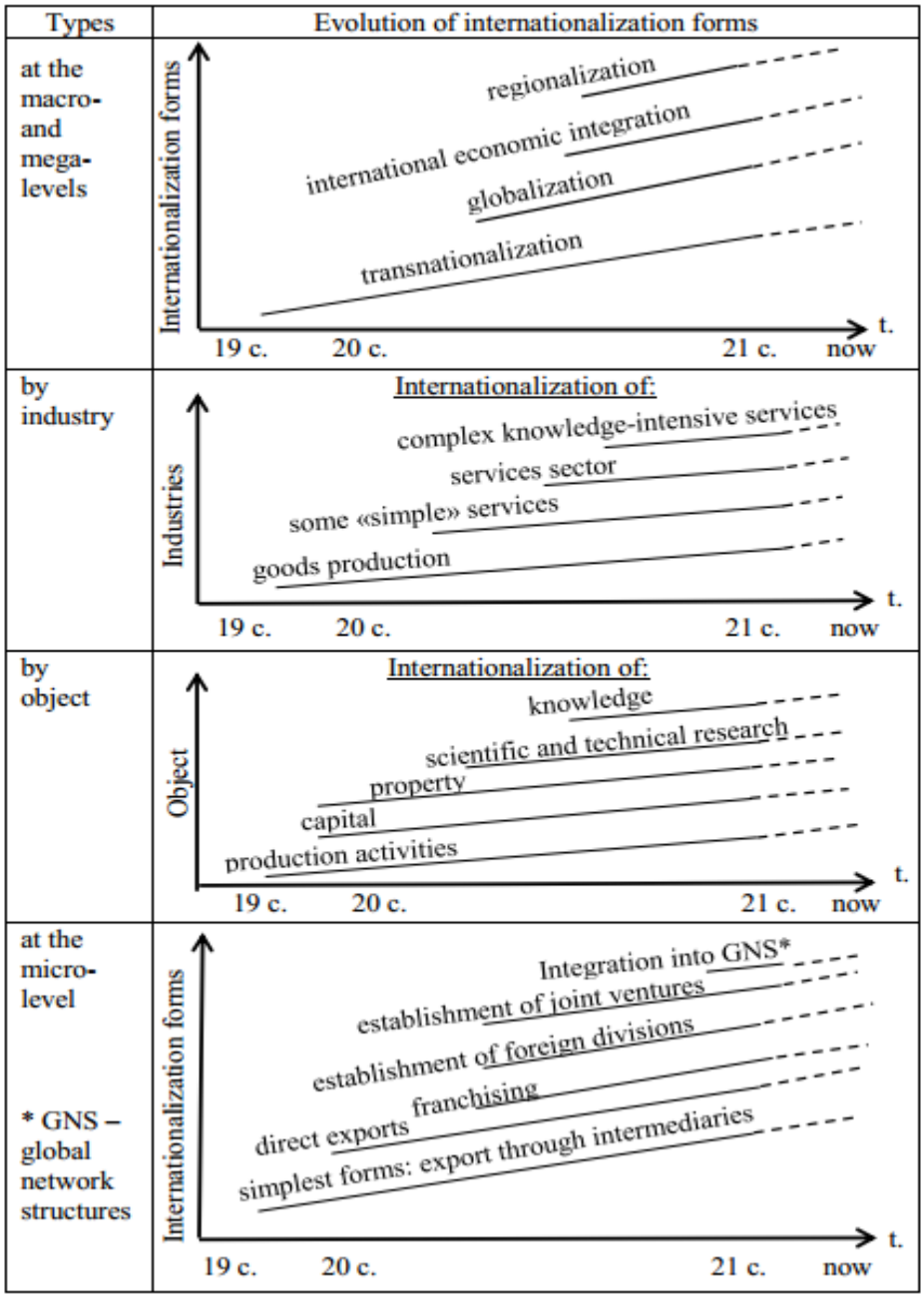

Figure 1.Systematization of internationalization forms by the levels, directions and types of activities

But the world has changed and these classical signs do not reflect the peculiarities of the current stage of the world economy development. According to Buckley (2014, p. 229) «the firm is naturally international where market links are cross-border. As political borders do not coincide with market, the firm extends beyond its home country». In order to be adequate to the contemporary epoch the theoretical concept of internationalization has to be clarified.

Key features of the contemporary global economic space and the peculiarities of its new players

The linear perception of the world creates the following guidelines for business: entering the international market, using the international labor division, formation of the international commercial

 ISBN: 978-9963-711-37-6

doctrine. All these aspects are the things of the past. Globalization has fundamentally changed the picture (image) of the world, including the change of the nature of the business involvement into the international labor division. How to operate in this new global space? The traditional approach is not able to provide the answers to this question because it is based on a linear perception of the world. Attention has been paid to the spatial configuration of the multinational enterprises (MNE), but this problem, as Buckley (2014, p. 229) underlines, «is in need of further research; … there is a reaction across international business research against «methodological nationalism». The world community has demanded a new branch of knowledge and it did not fail to appear.

Formation of the new methodology of international economic development is generating now. According to Savona and Jean (1995), Kochetov (2007), this is globalistics. It is extra-disciplined and inter-disciplined platform. Clarifying the answers for fundamental questions of the present-day existence is taking place within its frames. Globalistics consistently and conclusively constructs the logic of finding answers to these questions, gives a key and direction to salvation of a number of paramount problems and shows the balance of forces on the world arena, which determines the balance of today's geoeconomic, geopolitical and geo-strategic interests.

The central vector of the world's development is geoeconomics. It has become the central vector of the transnationalized world and is determining the character («color») of the whole system of the present-day world structure. It dictates the necessity to look at a new instrumental form, to find adequate approaches to shaping a new world order and the process of international regulation.

Edward Luttwak is known as godfather of geoeconomics (because he was the first who explained theoretically the term «geoeconomics») but some of the scientists point out that the founder of geoeconomics is George T. Renner (Babic, 2009) (he was the first who used the term «geoeconomics»). Until today, relatively small number of works on geoeconomics has been published. The first important one is «Geoeconomics», edited and co-authored by Savona and Jean (1995). Luis Jean Carlo is the president of the Center for Studies in Geoeconomics, professor of Strategic Research of Rome University. Important credit for the development of geoeconomics in Russia goes to Kochetov. His major work is «Geoeconomics, Mastering of Economic Space» (Kochetov, 2011).

Geoeconomic paradigm describes the world as follows. National economies and their structures in conditions of globalization have been developed. New orientation points have to be included into the world economic sphere. As Buckley (2014, p. 229) famously commented that «location factors include not only "places" (the location in the city or region) but also "space"… ». We support this opinion that such combination of internationalization theory with new approach to location developed in economic geography is good. But for us it's not enough.

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We consider that under the transformation of the world economy relations development the well-known notions get a new sense:

- extension of the reproduction processes beyond the national framework has resulted in the appearance of economic borders which do not coincide with the national boundaries;
- it is necessary to consider the external ties not only within our country, but also in relation to (any) other areas, that are formed by the IRC-system (internal area);
- we can see the elimination of the borders between the inner and outer spheres of activity;
- the new type (model) of international economic relations of the national economy with the outer world is being generated now;
- the inter-enclave (inter-corporation) division of labor has been developed;
- the concept of «entering the international market» transfer to the concept of «strategic operation in the global geoeconomic space».

Under such conditions the new global players are being developed. More important among them are internationalized reproduction cores (cycles, chains, processes) (IRC-system), global (spatial) network structures (GNSs) which have realized their interests within the economic boundaries. Internationalization theory has always paid attention to the borders of the firm (Buckley, 2014) but in our case we consider the boundaries of the economic activity within new global players. These new global players «run across» the various national economies; «tear out» their single structures (enclaves) to participate in the world reproduction processes (conveyers); constantly change the economical borders of their activity («wandering» character); «hunt for (after)» the world income.

Based on the above-mentioned characteristics we propose to consider the world economy as a "geoeconomic reproduction system". Its definition can be represented in the frame of a conceptual model. It is a combination of overlapping extended global reproduction cycles (chains), institutionally formed as transnationalized structures of different types, inside of which reproduction process is organized:

by performing the functions of competitive interaction at all links (investment, innovative, technological, production, administrative etc.) of production of goods and services of different forms (product-object, product-enterprise, etc.) ,

by means of taking some links out of the national boundaries and continuous drifting to global centers of growth ,

on the basis of inter-enclave and international division of labor,

aimed to transform the limited resources into a competitive product within the frames of global business projects and achieve strategic effect,

in order to improve the quality of life of the population.

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ACTUALIZATION OF THE ESSENCE AND CHARACTERISTICS OF THE INTERNATIONALIZATION THROUGH THE PRISM OF THE GLOBAL GEOECONOMIC SPACE.

According to the above mentioned peculiarities of modern world economy we can actualize the essence of internationalization **through the prism of the global geoeconomic space.** Thus the essential features of the concept of "internationalization" can be formulated as follows:

- transfer of the business (production processes) beyond the borders of their economic activity;
- inclusion of the national economic structures into international network structures, including the territory of their native country;
- alienation (separation) of the product (service) from the place of its manufacture; in other words the product components can be manufactured in one place, and be sold from another place;
- usage of external resources (located somewhere in the world);
- embedding (including complex links of the reproduction processes (high-tech, investment etc.) and products of its activity into the global system of economic relations;
- adaptation of national niches to the needs of global networks;
- formation of the national competitive modules (units, cells).

Thus, according to the geoeconomic paradigm, such an essential feature of internationalization as «entering the international market» has been supplemented by one more feature "going beyond the economic borders" (borders of the economic activity), «operating in the global space» (the space of global network structures, extended internationalized reproduction processes. These updated essential features allow us to clarify the concept of internationalization.

«Internationalization» (in the broad sense of the word) is a complex, multifactorial and multidimensional process of integration (inclusion, involvement, participation) of the national economic activity into the international (interregional) business transactions through various forms of foreign economic activity (export, franchising, joint ventures, etc.) within the national country and/or abroad, based on the rules of international institutions.

«Business internationalization» (in the narrow sense of the word) is the process of removal of individual units (cells) of the reproductive process outside economic activity of the national economic structures through the use of various forms of foreign economic activities for the purpose of effective functioning (with the participation in decision making) in the global economic space. This process is intended for connection to the network or independent formation of the global network. This means that the integration into the GNSs, IRCs (even within the native country) is a new form of internationalization. Peculiarities of individual units (cells, modules) of IRC-systems are: they are

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geographically dispersed but interconnected; they constitute a single complex for the production of the product/service.

PRINCIPLES OF NATIONAL BUSINESS-MODULES INTEGRATION INTO THE GLOBAL NETWORK STRUCTURES

So, the author's theoretical concept of internationalization has allowed us to formulate the integration of the national business-modules into the global network structures as a modern form of internationalization. The traditional approach to business internationalization focuses on the factors of how to set up a branch or subsidiary abroad. Among them: location of the country, climatic conditions, availability of mineral resources, population, etc. (first group); the level of education of the population and other human capital characteristics of the country, factors related to scientific and technical progress (second group); (in this paper we do not consider the specific group of factors such as costs, prices etc.). As Panibratov (2009, p. 211) concludes «the fundamental research on internationalization was mainly focused on the foreign market entry decision process, entry mode choice, analysis of the large multinational enterprise …».

The author's concept of business internationalization transforms the problem of the factors to the problem of the principles of such integration into the global networks.

1. Adequacy principle. In order to be connected to the global network structure a company (national business module) has to be compatible with all global chain links: inner mentality, management techniques; understanding of the strategy, etc. In other words, internal reproduction cycles of the company should be similar to the links of the external global network.
2. Phasing principle. The process of integration into the global network structures should be implemented in phases (step by step). First of all, the company has to prepare its national business modules: to perform inventory count, transformation (optimization) etc. Only after this reorganization the company can "offer" these modules to the global network structure.
3. Selectivity principle. It is not necessary to be integrated into the global network structure from all the links simultaneously. First of all you have to create one competitive business-module (unit) (including social) and offer it to the world reproduction process. Then other business-modules will be created.
4. Feedback principle. However, it’s not required for companies to be only a supplier of ideas and resources for the global network structures. It is necessary to create feedback channels for the company's development. The most important channels are the flows of innovation and knowledge spillovers from the company to the global core and back.

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5. Delegation of authority. To form development channels the company has to train local employees. This situation creates the opportunity to delegate local managers into the top-management level of the global network structure.
6. Timing (in advance principle). Do not try to set «the rules for the game» in the existing global reproduction process. The company has to predict what kinds of new knowledge and new modules will be needed tomorrow and create them today. The company has to identify (explore) what kind of the new global business projects will appear in the future (on the basis of geo-marketing) and try to be integrated into it.

IMPROVEMENT OF THE BUSINESS INTERNATIONALIZATION ALGORITHM

It is a fact that the key phase (stage) of the traditional business internationalization algorithm (traditional approach) is the choice of the method of entry into the foreign market, research of the market demand and supply; competitors, product quality, price etc.; determination of market volumes and so on. As it was proved above, the essence (content) of a new form of business internationalization is the integration into the global network structures on the basis of the author's principles. Thus, the key part of the improved algorithm is the formation of the competitive national modules (units, cells). Author's improved business internationalization algorithm is shown in figure 2.

Phase 1: market analysis	Step 1.1: to consider an opportunity to use external resources in order to expand company's share in the global market and profit maximization
	Step1.2: to identify market needs (such as global network structure (GNS)'s needs)
	Step 1.3: to forecast market future needs and expectations
	Step 1.4:to identify opportunities for a company to offer particular services to the market at the current and at the foreseeable period (areas where a company strong and have competitive advantages)
Phase 2: run-up	Step 2.1: to identify standards and regulations valid among existing global network structures (GNS)
	Step 2.2: to review existing modules (or cells) within a particular structure; to detect the most/the least demandable ones (in the context of step 1.2)
	Step 2.3:to update existing internationalized reproduction cycles by new modules (or cells) (in the context of steps 1.2 and 1.3)
Phase 3:	Step 3.1:reorganization and rejection of existing modules (or cells) (selectivity principle)

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national competitive cells formation	Step 3.2: transformation of existing modules (of cells) (e.g. optimization, restructuring) in order to be GNS-compatible

↓

Phase 4: realization	Step 4.1: to connect to GNS by the simplest forms of foreign economic activity (subcontracting, outsourcing).
	Step 4.2: to connect to GNS by sophisticated forms of foreign economic activity (franchising, joint venture, syndicate) to have a share in profit instead of fixed fee

↓

Phase 5: evaluation of results	Step 5.1: to analyze the result achieved and benchmark against initial targets
	Step 5.2: to make a strategic decision to continue cooperation as part of GNS or to split for independent development and growth
	Step 5.3: to make a strategic decision to update or keep a strategy and a market penetration method (e.g. establishing an own network)

↓

Phase 6: completion and monitoring

Chart. 2. Improved algorithm for integration of national (domestic) companies into global network structures (GNS)

But in order to be accepted in GNS a national structure (company) has to prepare its reproductive modules (units, cells) for compatibility with GNSs. So the algorithm starts with the inventory of existing modules, their reorganization and transformation. The purpose of the final stage of the algorithm is to complete an existing reproduction chain in the context of forecasting future needs.

MAIN DIRECTIONS OF BUSINESS INTERNATIONALIZATION AND RECOMMENDATIONS FOR THE RUSSIAN BUSINESS SERVICE SECTOR

The result of this study demonstrates that strategic goal of business internationalization is to fully operate in the global economic space. In order to reach this goal, we recommend to use the following common tools (techniques):

- registration of subsidiaries in various regions (including new regions) of the world in order to transform company's status into the global network;
- organization of the joint ventures using such rules as: corporate identical standards of quality, unified methodological basis, an extended range of services;
- development of the service centers for large-scale projects and internationalized reproduction networks.

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In the applied aspect, we researched the strategies of international audit and consulting groups (global network of professional firms providing audit, tax and advisory services; «Big audit four» - KPMG (KPMG, 2014), EY (EY, 2014), Deloitte, PwC) and the national ones (in our paper they are Russian audit and consulting companies including «Intercom-Audit», «FinExpertiza», «Top-audit», «Energy-Consulting», «Audit – Business Communications»). On the basis of the comparative analysis we have developed recommendations for Russian auditing and consulting companies in the field of internationalization of their activities. Our recommendations for the integration of national company's units (modules) into the global group (global network of professional firms providing audit, tax and advisory services) are:

- identifying and occupying the existing niches through subcontracting agreements;
- the company's inclusion in the list of companies eligible for serving TNCs listed on major exchanges;
- improving the human resources capacity and the efficiency of labor productivity;
- establishing company's divisions abroad, providing a complete range of services;
- accreditation for the access to the world-class institutions, for example, with the biggest stock exchanges;
- development of competitive mini-modules (cells), for example: data processing and calculations based on IT-technologies;
- compliance with financial regulators' requirements to ensure access to world capital markets;
- audit for the purpose of obtaining certification in the global markets.

CONCLUSIONS

As has been briefly considered above, at the beginning of the twenty-first century the world has changed. Geoeconomics as a new paradigm of the spatial (non-linear) perception of the world has allowed us to formulate the characteristics of the global geoeconomic space. The internationalized reproduction chains (processes) and the global network structures dominate in it along with the traditional players. They themselves form the borders of their economic activities which are organized in several countries. If traditional players operate within the territorial boundaries, new players are acting within the economic borders. It is a fact that traditional form of internationalization is «entering the international market». However, in current conditions new forms of internationalization are emerging. According to the author's concept such an essential feature of internationalization as «entering the international market» has been supplemented by one more feature "going beyond the economic boundaries" (boundaries of economic activity) of the national economic internationalized structures.

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In this paper the new form of internationalization has been presented. The essence of this idea is that the integration of the national companies into the global network structure even within the native country can be considered as the form of internationalization. The key part of the implementation algorithm is the formation of the competitive national modules (units) on the basis of the author's principles such as adequacy, compatibility and so on. This interpretation of the internationalization will promote and enhance the international cooperation between companies.

Thus, our nominated hypothesis to recognize the integration into the global network structures, internationalizes reproduction cycles (even within the native country) as a new form of internationalization has been proven.

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 ISBN: 978-9963-711-37-6

COOPERATIVES AND GLOBAL ECONOMIC CRISIS 2008-2013: FINANCIAL DYNAMICS. *SOME CONSIDERATIONS FROM ITALIAN CONTEXT*

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ABSTRACT

The global crisis still today interests different geographical areas. This paper focuses on the situation in Italy with specific reference to cooperatives. It aims to analyze their financial structure, in the period before and during the crisis (2004-2013), in relation to two discriminating factors. At this end, the study focuses on three research questions: what is the actual situation and what the trend has been in the last decade in the various Italian geographic areas and business sectors; if there are differences between business sectors and geographic area and if these differences are statistically significant. To these aims and starting from secondary data on AIDA database (at the end 1,446 cooperatives), the trend analysis and analysis of variance (ANOVA) have been used. The financial structure is assessed using two ratios: the Financial Leverage Ratio and Quick Ratio. The findings show that the financial structure of cooperatives have not been substantially affected by the crisis in any geographic area and business sector. Moreover these two factors produce statistically significant differences in the financial structure of cooperatives.

Keywords: *Italian Cooperatives; Global Crisis; Finance; Leverage Ratio; Quick Ratio.*

INTRODUCTION AND MOTIVATION: AIMS AND STRUCTURE OF THE PAPER

The global crisis still affects many geographical areas. The approach of the economic policy of each Country has been different to tackle the tragic phenomena of unemployment derived from the closure of many companies. The crisis has also had different effects in the various business sectors: the rise in prices of some raw materials has characterized the primary sector with negative implications for industry and services. Businesses have responded differently. Small businesses have faced the risk of collapse with their flexibility. Big corporations, however, have had to restructure or even refound.

[1] The paper is the result of a collaborative work. However it is possible to attribute to Floriana Fusco: research methodology, results and discussion. The other sections are of Guido Migliaccio.

 ISBN: 978-9963-711-37-6

Corporate governance has been challenged by unexpected imbalances. Capitalist companies and mutual companies have had to redesign their strategies to meet the new environmental situation.

Studies of business administration must necessarily orient with analysis about individual geographical contexts, specific production sectors and different social forms. Only then it is possible then proceed due to international generalizations.

This study focuses on the situation in Italy with specific reference to cooperative companies. In particular, it aims to analyse the financial situation of Italian cooperatives before, during and after the 2008 crisis, with regards to various business sectors and geographic areas. To this end, we asked ourselves three key questions:

1) What is the actual situation and what the trend has been in the last decade in the various Italian geographic areas and business sectors?
2) Are there differences between business sectors and geographic area?
3) If there are, are these differences statistically significant?

The hypothesises are that (H_1) the financial crisis did not significantly affect the financial structure of cooperatives, by virtue of their resilience (Birchall and Ketilson, 2009; Allen and Maghimbi, 2009; Bajo and Roelants, 2011; Boone and Özcan, 2014; Roelants *et al.*, 2012; Carini and Carpita, 2014); (H_2) there are differences between groups belonging to different business sectors and geographic areas; (H_3) these differences are statistically significant. At this end, the financial structure is assessed using two ratios: the Financial Leverage Ratio (total assets /equity) and Quick Ratio (liquid assets/current liabilities); the period considered is the decade from 2004 to 2013; trend analysis and analysis of variance (ANOVA) have been used.

In the following sections a review of literature on cooperatives, highlighting especially the typical problems of management resulting from cooperative principles, is presented. Thereafter the methodology, results and implications are discussed.

THEORETICAL BACKGROUND

Literature review mainly concerns Italian studies because the empirical investigation is related to Italian context.

Cooperative is a company tending to profit, albeit with 'social' objectives (Tessitore, 1968; Zan, 1990).

Some authors emphasize above all the features of sociability of cooperative company that make it preferable to the capitalist company (Matacena, 1990; Jossa, 2008).

The cooperative carries out an economic activity to satisfy the needs of his entrepreneur.

The entrepreneur can be any stakeholder.

So companies are distinguished:

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- "Capitalist", in which the entrepreneur is the capitalist who provides risk capital, remunerated with profit;
- "Non-capitalist", including cooperatives, in which the initiative is taken by those who confer other inputs other than own capital.

The cooperative enterprise can be Work (employees are also entrepreneurs), Support (unintended by those who confers raw materials), Consumer (in which the risk management is on consumers), Credit (if the firm is wanted by depositors and/or funded).

The different nature of the entrepreneur changes the system cost-benefit: what is an "external" cost in the capitalist companies, in the cooperative is often the contribution of a member. Members cooperate if they have affordability that adds up to extra economic opportunities that have characterized the history of the Italian cooperative movement.

Currently interesting studies on cooperatives have been done on their financial structure (Kyriakopoulos et al., 2004; Bahrs and Blanck, 2011; Bajo and Roelants, 2011); others relate solely to agriculture (Bronsema and Theuvsen, 2011; Krasachat and Chimkul, 2009; Chalomklang, 2010), especially the production of wine (Arimany et al., 2014; Amadieu and Viviani, 2010), fresh fruit (Aggelopoulos et al., 2011) and ethanol (Boone and Özcan, 2014), or relate to specific geographical areas (Hong and Dong-Hyun, 2012; Allen and Maghimbi 2009).

A recent line of research, still little explored and where this study fits, focuses on the resilience of cooperatives business model to the crisis (Birchall and Ketilson, 2009; Allen and Maghimbi, 2009; Accornero and Marini, 2011; Bajo and Roelants, 2011; Boone and Özcan, 2014; Roelants et al., 2012; Carini and Carpita, 2014).

The principles on cooperative and their effects on the management

The first principles were established in 1844 in Rochdale cooperative. Subsequently they were updated. The current principles were set up by the International Cooperative Alliance in 1995 (Vella, 2012; Migliaccio, 2012):

1. free and voluntary membership, open to all individuals (principle of "open door"). It can cause a social variable. This could mean contribution changeable with possible problems programming system and/or of the production process. The problem is aggravated if the law prohibits supplies from persons other than members or transfers to third parties;
2. democratic control of the members, who actively participate in decisions with equal rights, regardless of the capital injection and / or contribution (principle: one head, one vote). The principle embodied values of solidarity and mutual aid among members, but it often leads to a slowdown in the decision-making process (Matacena, 1990; Jossa, 2008);

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3. member economic participation, contributing equally to the capital with a share that must be compensated with a limited interest. Gains in excess should for onward development of mutuality and social activities. It, however, discourages self-financing and therefore originates financial problems (Pacciani, 1982[2]);
4. autonomy and independence of the organization. The absolute political and religious neutrality is impossible: the cooperative movement has always been characterized by ideological;
5. the cooperative must train the members to educate its mission. These services, however, are expensive, especially because the training must be continuous and lasting;
6. cooperation among cooperatives, to strengthen the movement. This principle creates an integrated structure and diversification strategies. These processes are, however, difficult for small cooperative. The big dimensions also can distort co-operative spirit (Panati, 1984; Roncaccioli, 1984; Zan, 1990; Rosa, 1982);
7. interest in the local community (localism). The principle seems overcome by the globalization of the economy (Percoco, 2012)

The legal framework of cooperatives and their financial statements in Italy

Italian Constitution, art. 45, first paragraph: "the Republic recognizes the social function of cooperation of a mutuality nature and without purposes of private speculation. The law promotes and encourages them through the appropriate means and secures, through appropriate controls, the character and purposes".

Numerous special laws encourage the formation of cooperatives.

The civil law is in the legislative decree No. 6 of 01.17.2003. The rationale of the law characterizes the "management service" to members who get better conditions than those of the market, eliminating the intermediary of other entrepreneurs and its profit.

Art. 2511 will provide the definition of cooperative society is such only if with variable capital and mutual purpose (Ferri, 2011). In the law, the distinction between "mutually prevalent cooperatives" and other cooperatives: first enjoy all the facilities, with the remainder being excluded from tax advantages (Di Sabato, 2011)

The prevalent mutuality is characterized (art. 2512) to operate mainly to members (consumers or users) and using mainly the work performance of members and / or their contributions of goods or services. Companies must provide in the statutes (art. 2524) prohibiting the distribution of dividends and remuneration of financial instruments offered to the cooperators beyond certain limits. It is also enshrined in prohibiting the distribution of reserves between the shareholders and the obligation to

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devolution, the dissolution, the assets to mutual benefit funds for the promotion and development of cooperation.

In Italian law was implemented the principle of "open door" (art. 2524, 2528 and 2532) and the principle of democracy "one person, one vote" (art. 2516 and 2525).

In Italy, the financial statements of the cooperatives was also governed. It quantifies the profit and measure the achievement of the typical mutual aims: the rigid framework is that of IV Directive EEC/1978.

In it there are distinctions between values obtained by customary exchanges and mutual. Among the items characteristics: the rebates, indivisible reserves and social loans.

First, the rebates that assume different characteristics (Bagnoli, 2008) the consumer cooperatives is the repayment of part of the price paid; in the productive integration is the remuneration the conferment. The cooperative acquires the goods/services of the member liquidating a deposit, unless the price paid to integrate with an adjustment payment at year end. The rebate is an economic benefit to the members who deliver. It is proportional to the contribution and not the paid-up capital (Melis, 1983, 1990).

It is paid only when there is distributable income.

From the financial statements are obtainable major indices, especially those of member participation in the activities of the said therefore "mutuality" of course different depending on the type of cooperation. Further contributions on financial management, financial statements and their analysis are Matacena (1991), Pacciani (1979, 1982[1] and 1982[2]), Belbello and Dili (2010), Giordano (2011). The balance sheet limits its information to the capital, economic and financial aspects, but communicates little information on the social. For these purposes, the social report is more useful because it communicates the results obtained from the mission, the strategies implemented and the activities carried on (Mari, 1994; Congiu, 2009; Benni, Tagliati and Zoppo, 2005; Bagnoli, 2008). In it you can give more information about internal democracy and the consequent repercussions management, as well as to clarify the relationships with consumers and safety initiatives in the workplace and for the environment.

RESEARCH METHODOLOGY

Data collection and sample characteristics

To answer research questions, secondary data on AIDA database has been used. Initially, the entire population of Italian cooperatives in the database AIDA (14,065 cooperative firms) was considered. As indicators of the financial situation, two ratios, financial leverage ratio (total assets /equity) and quick ratio (liquid assets/current liabilities), have been chosen. The period which had been considered was

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the last decade, i.e. 2004-2013. Therefore, the subsequent analysis was restricted to the cooperatives where both ratios over ten year period were available. The final sample was therefore made up of 1,446 cooperatives. Successively, two discriminating factors were taken into account, the geographic area and the business sector. To designate the various cooperatives into groups, the geographic site of their headquarters was considered. Three clusters were identified: north, centre and south. According to conventional classification, the northern Italian regions are Valle d'Aosta, Piemonte, Liguria, Emilia-Romagna, Lombardia, Trentino-Alto Adige, Veneto and Friuli-Venezia Giulia; the central ones Toscana, Umbria, Marche and Lazio; the southern ones Campania, Abruzzo, Molise, Puglia, Basilica and the islands Sicilia and Sardegna. The geographic distribution of the sample was the next: 69% in the North group, 18% in the Centre and 13% in the South ones. To identify the belonging sector, first a specific section was assigned to each cooperative according to statistical classification of economic activities in the European Community (*NACE Rev. 2 codes*), successively they were grouped (see table 1) in four groups: primary sector, secondary sector, tertiary sector and advanced tertiary sector.
According to the second discriminating factor, the sample consisted of 20% cooperatives of primary sector, 24% cooperatives belonging secondary sector, 42% tertiary and 14% Advanced Tertiary.

Table 1: Transition from NACE codes to groups

Group	**NACE Classification**	
	Section	**Description**
Primary	A; B	Agriculture, forestry and fishing; Mining and quarrying.
Secondary	C; F	Manufacturing; Construction.
Tertiary	D; E; G; H; P; Q; R; S	Electricity, gas, steam and air conditioning supply; Water supply, sewerage, waste management and remediation activities; Wholesale and retail trade; repair of motor vehicles and motorcycles; Accommodation and food service activities; Transportation and storage; Education; Human health and social work activities; Arts, entertainment and recreation; Other service activities.
Advanced Tertiary	J; K; L; M; N	Information and communication; Financial and insurance activities; Real estate activities; Professional, scientific and technical activities; Administrative and support service activities.

Method

First, the data was analyzed using descriptive approach. Particularly we considered annual means of each group for each ratio and highlighted their trends in the period 2004/2013. Then the analysis of variance (ANOVA) were used to verify the significance of differences of means between the independent groups. In fact ANOVA tests hypothesis that the means of two or more populations

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are equal. ANOVAs assess the importance of one or more factors by comparing the response variable means at the different factor levels.

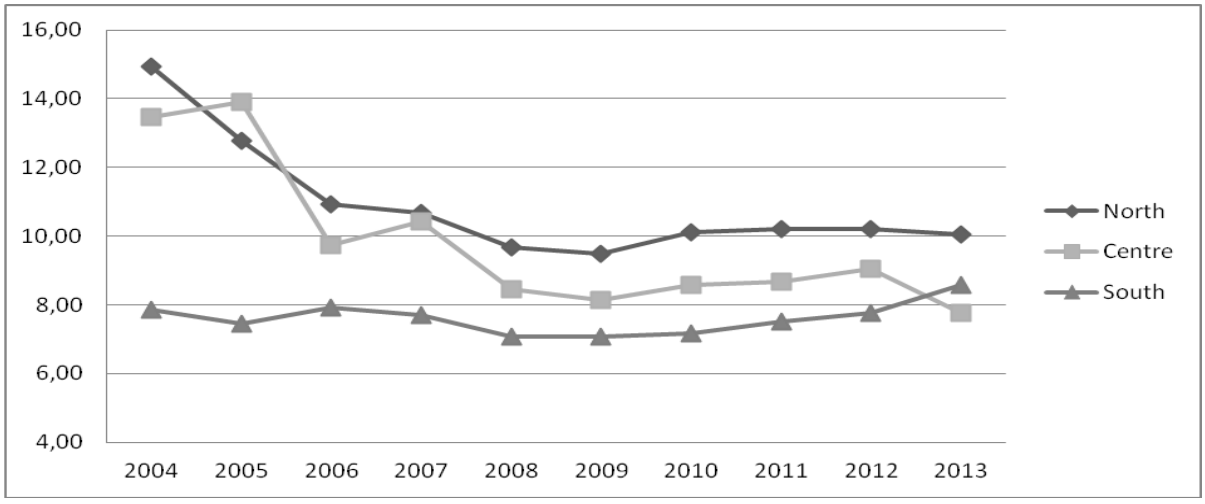
The null hypothesis states that all population means (factor level means) are equal while the alternative hypothesis states that at least one is different. In our case, the dependent variables were the ratios considered and factors or independent variables were the geographic localization and the business sector. We chose ANOVA one-way type, because two factors were considered separately.

RESULTS AND DISCUSSION

Trend analysis

The financial leverage ratio (or equity multiplier) is a variation of the debt ratio and indicates that a larger portion of asset financing is being done through debt. A financial leverage ratio is not necessarily better than a lower one. In order to develop a better picture of a company's financial health, investors should take into account other financial ratios and metrics. If it is cheaper to borrow than issue new shares, financing asset purchases through debt may be more cost-effective than a secondary issue. Despite this, one cannot fail highlighting the critical values that emerge from the descriptive analysis of the data. Within the sample there were many edge cases and peak values, that eliminating them was not considered. The ten-year mean ranges between 7.61 and 10.91, if we consider the geographic localization as discriminating factor, and between 8 and 13.37, if we consider the belonging sector. A balanced situation requires a value at most equal to 2. Figures 1 and 2 show that the mean over the ten years deviate far from this value. If we consider the disaggregated data, we see that only about 15% of the cooperatives have a debt level considered acceptable.

Figure 1: Trend of *financial leverage ratio* according to geographic localization



Source: our elaboration

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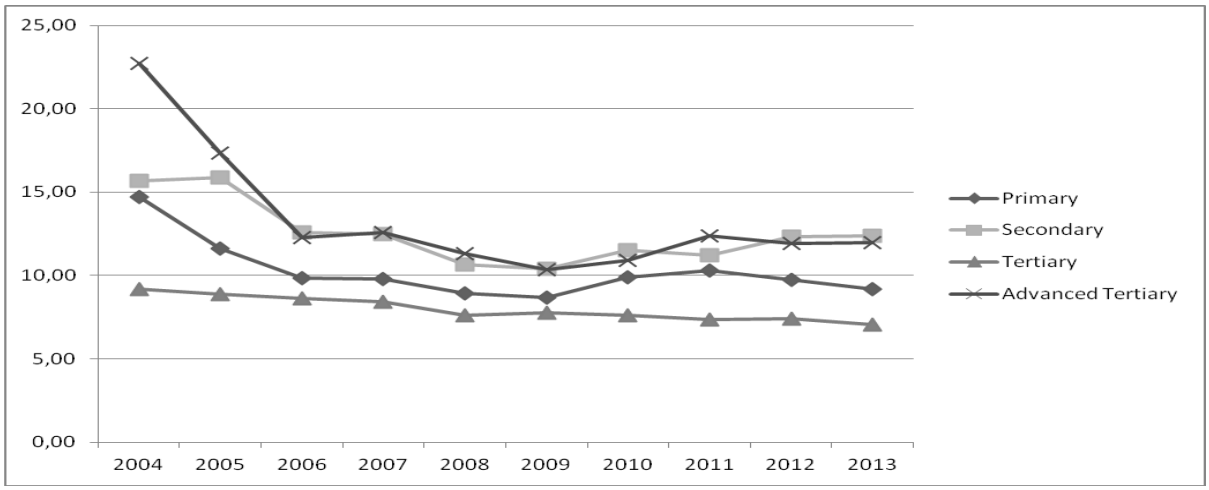
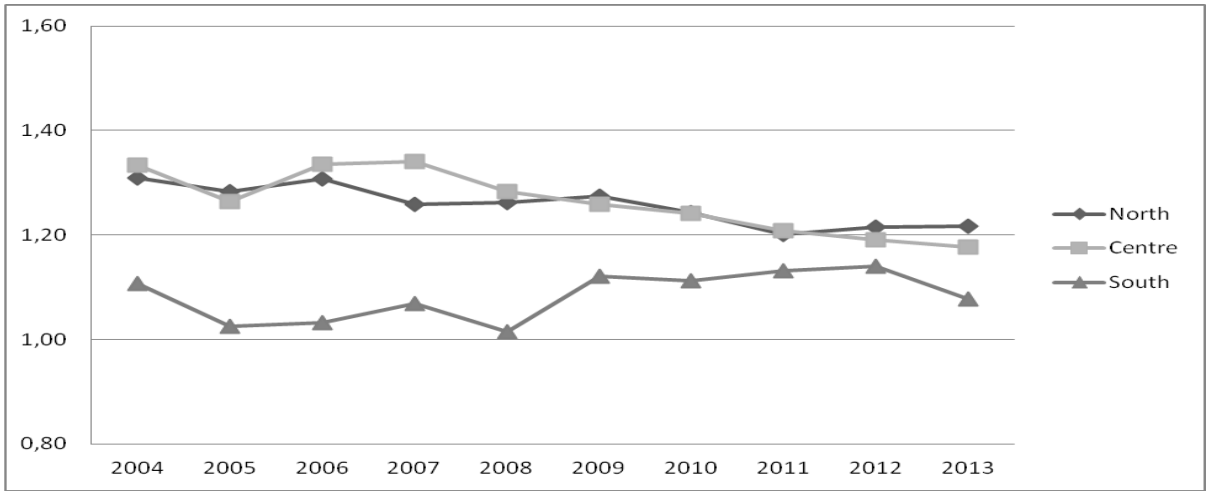
Figure 2: Trend of *financial leverage ratio* according to sector



Source: our elaboration

The quick ratio or acid test ratio is a liquidity ratio that measures the ability of a company to pay its current liabilities when they come due with only quick assets. The choice of this ratio as liquidity indicator is justified by its more conservative measure of liquidity than the current ratio as it removes inventory from the current assets used in the ratio's formula. By excluding inventory, the quick ratio focuses on the more-liquid assets of a company. Considering groups discriminated by geographic area, trend analysis highlights a situation of good liquidity (fig. 3). In fact values, higher unit throughout the decade, testify as cooperatives have been able to deal with quietly short term commitments. Nevertheless, it must be noted that the variation in the ratio between 2004 and 2013 is negative in all three groups. Particularly there are a decrease of 6.87%, 11.28% and 2.70% respectively in north, centre and south group.

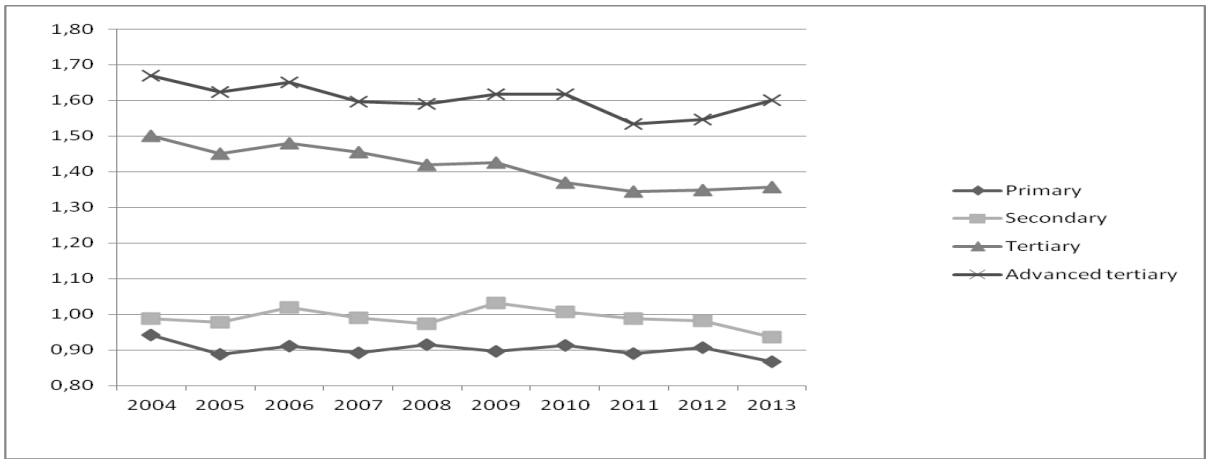
Figure 3: Trend of *quick ratio* according to geographic localization



Source: our elaboration

ISBN: 978-9963-711-37-6

Figure 4: Trend of *quick ratio* according to sector



Source: our elaboration

Even if we consider the classification by business sector (fig. 4), the trend is overall negative, in fact the ratio have respectively decreased by 7.45%, 5.05%, 9.33% and 4.19% between 2004 and 2013. Moreover, the considerable gap between sectors is noted. Ratio values range between 0.87 and 1.03 in the primary and secondary sectors, testifying a financial balance in the short term sufficient or good. Values much higher are found in tertiary and especially in advanced tertiary sectors, with a peak of 1.67 in 2004. Therefore, although any critical value isn't seen, the service sectors, particularly those that relate to ICT and professional consulting, turn out to have a far greater liquidity than traditional sectors. In general, we can verify that there are no significant deviations from 2008, the crisis seems to have not affected so consistently on the financial structure of cooperatives. The trend is rather stable throughout the decade or with considerable changes only in the years before the start of the crisis. Therefore the hypothesis H1 is validated. About the hypothesis H2, we can note that the trend is mostly similar, there aren't significant variations in the opposite sign. The differences relate not so much the trend itself, but the values of the ratios, although not always appreciably.

Analysis of variance

About debt ratio, Table 2 shows the results of the analysis, assuming the geographic area as independent variable. There is a statistically significant difference between groups ($F(2,27) = 10.84$, $p = 0.00035$), in fact F > F *crit* (p value < 0.05).

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Table 2: *Financial leverage ratio* - Analysis of variance with geographical localization as independent variable

Source of variation	*SQ*	*gf*	*MQ*	*F*	*Sig.*	*F crit*
Between groups	56,47587179	2	28,23793589	10,84220263	0,000349661	3,354130829
Within groups	70,32005349	27	2,604446425			
Total	126,7959253	29				

Significant level at 0,05

The null hypothesis must be reject and the alternative ones must be accept also if the business sector is considered as independent variable.

Even in this case, the results, set out in Table 3, indicate a statistically significant difference between groups ($F(12,117) = 31.91$, $p = 2051E\text{-}31$).

Table 3: *Financial leverage ratio* - Analysis of variance with belonging sector as independent variable

Source of variation	*SQ*	*gf*	*MQ*	*F*	*Sig.*	*F crit*
Between Groups	4156,13586	12	346,344655	31,9110563	2,50874E-31	1,83581343
Within Groups	1269,85219	117	10,8534375			
Total	5425,98805	129				

Significant level at 0,05

The results of ANOVA applied to liquidity ratio show that we have to accept the null hypothesis if it is considered geographic localization as independent variable, while we have to reject the null hypothesis if we consider the sector as independent variable. So, only, in this last case, there is a statically significant difference between groups (see tables 4 and 5).

Table 4: Quick ratio - Analysis of variance with geographical localization as independent variable

Source of variation	*SQ*	*gf*	*MQ*	*F*	*Sig*	*F crit*
Between Groups	0,62348125	2	0,31174062	0,2405333	0,787875187	3,35413083
Within Groups	34,9930623	27	1,29603935			
Total	35,6165436	29				

Significant level at 0,05

ISBN: 978-9963-711-37-6

Table 5: Quick ratio - Analysis of variance with belonging sector as independent variable

Source of variation	*SQ*	*gf*	*MQ*	*F*	*Sig*	*F crit*
Between groups	3,40160543	3	1,13386848	742,270471	2,06753E-32	2,86626556
Within groups	0,05499244	36	0,00152757			
Total	3,45659788	39				

Significant level at 0,05

The results of statistic analysis show that the hypothesis H3 of this research, previously described, is fully tested with regard to financial leverage ratio, while is partially verified with regard to quick ratio.

CONCLUSIONS

In conclusion, we can say that the hypothesises, that the research was intended to verify, are mostly tested. The crisis has not substantially affected the financial structure of cooperatives. Only the trend in leverage seems to record a decline before the beginning of the period of crisis; subsequently remained, however, tends to be stable in the various business sectors and in various areas of the Country. These results are consistent with the recent literature, where the higher resilience of cooperatives than others enterprise is shown. In 2014, Fontanari and Borzaga compared the performance of 8,171 cooperatives and 19,466 capitalist enterprises (2006-2010), excluding banks and insurance companies. The growth rates of value added and employment income decreased for both. Cooperatives, however, had rates always positive and higher than limited companies, because they had a cyclical trend that had enabled us to protect places and labor income, while limited companies had limited losses by reducing staff costs. Similar findings in the study of Carini and Carpita (2014), concerning only the industrial sector. Furthermore, the exploratory survey sponsored by the National League cooperatives and mutuals (Accornero and Marini, 2011) show that cooperatives focused on their core business, streamlining costs to increase efficiency in the production chain. They were also constant in self-financing and resources accumulated safeguarded primarily human capital during the crisis.

The differences found between the groups are statistically significant, except the case where we consider quick ratio as dependent variable and geographic localization as independent variable.

This paper is not without limitations. First, it takes into account only cooperatives survived the crisis: the strongest companies! In a further development of the study, this additional element should be considered. It is very likely that many cooperative societies, in Italy, as in other countries, were closed. It can therefore be concluded that the cooperatives with adequate and consistent financial structure

 ISBN: 978-9963-711-37-6

resist the crisis thanks to the strength and balance sheet. Another limitation is related to statistical analysis, in fact it should be deepened, first with post hoc analysis.

With regard to some future lines of research, the analysis of the trend of profitability ratios (Roe, Roi and Ros) and their relationship with financial ratios could be interesting. It could be, in fact, that the stabilization of the financial structure has affected the profitability: less profits to shareholders, while maintaining an adequate financial balance! This hypothesis, however, must be checked with an empirical study that will be difficult because cooperatives often put the profit with others benefiting members.

This study considered the situation in a small country, although among the most economically advanced states. In future, carrying out similar researches in other countries will be useful to develop a comparative analysis. They should also consider the diffusion of the cooperative business model that assumes a widespread culture different from that of the capitalist firm that operates in the free market.

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 ISBN: 978-9963-711-37-6

MODELLING AND MEASURING BUSINESS PROCESSES TO ENHANCE PUBLIC ADMINISTRATION PERFORMANCE

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ABSTRACT

The purpose of this study is to point out that business process modelling and measuring may be used in the evaluation of areas for improvement and provide economic evidence supporting the initiation of projects intended to enhance public administration efficiency. This purpose is particularly important in the context of statutory requirements to increase the effectiveness of public institutions. Process modelling and measuring enables the quantitative presentation of quick wins achieved through cost reduction and thereby a better and fuller employment of Enterprise Resource Planning systems.

The approach adopted is based on a case study of an Institution representing the sector of public finances in Poland. The focus of the study is on the process of *Procurement* together with its sub-processes. Following the *as-is* process modelling and analyses, a *to-be* model is proposed, with elements of classic conceptions of process improvement and redesign. The measures of process duration, cost and quality are defined and applied to identify areas for improvement.

The paper is a contribution to the development of practical case studies dedicated to the adoption of process approach in the area of public administration as an element of the implementation of EU regulations addressing the Europe 2020 Strategy, as well as under the national programme of integrated computerisation of the country by 2020 and public institutions' statutory responsibility to demonstrate the effective management of public expenditures. The paper indicates that process modelling and measuring allows for the evaluation of the ERP system implementation, identifies the potential of its more effective implementation, and, points out the direction of organisational changes to be introduced to public institutions using the process approach.

Keywords: *business process modelling, measuring of business processes, public administration, public sector, IT systems in public administration*

 ISBN: 978-9963-711-37-6

INTRODUCTION

Public administration institutions of today are looking for solutions that have so far been used in the management of profit-based organisations. The requirement to continually improve performance through the use of methods leading to enhanced effectiveness is imposed on the public administration by the Polish Public Finance Act and New Public Management policies. The approach presented by the New Public Management philosophy advocates a comprehensive, market-oriented system of public administration transformation towards a cost-effective organisation (Supernat, 2003; Izdebski 2006). New public management requires public administration to use management methods and techniques typical of business, and introduces performance and effectiveness indicators as the public sector evaluation criteria (Kickert, 1997; Krukowski 2011). A similar approach is presented in the concept of t-Government, which is defined as follows: „t-Government is the ICT-enabled and organization-led transformation of government operations, internal and external processes and structures to enable the realization of citizen-centric services that are cost effective and efficient".

Furthermore, the public sector's obligation of efficient operation follows from the Public Finance Act of 2009, whose provisions specify that: "public expenditures should be effected in a purposeful and cost-effective manner, following the principle of maximised effects and optimised selection of methods and means to be used to achieve the intended objectives". National activities in this field comply with the Europe 2020 Strategy and the applicable Common Provision Regulations in respect of enhancing institutional capacity of public authorities and stakeholders and efficient public administration (Regulation (EU) No 1303/2013).

Efficiency of public institutions, development of information and communication technologies, improvement of the human resources quality in central and local administration are only some of the issues addressed in the "Efficient State 2020" development strategy for Poland (Monitor Polski, 2013), a document presenting an optimum state model (Open Society Foundation, 2011). To implement this strategy in practice it is necessary to improve the quality of public administration services by means of information technology, and to achieve digital synergy of modernisation projects in the sector of administration. An analysis of the state efficiency in terms of its weak points draws attention to the following aspects: insufficient efficiency of organisational structures, insufficient use of modern management tools, delays in development of ICT solutions and barely initiated comprehensive integration of information technology systems, inadequate IT awareness and competences of administration personnel, and, weak mechanisms of assessment and monitoring (Report Państwo 2.0, 2012).

The requirement of spending public funds in a reasonable and cost-effective manner should also apply to IT system deployment projects in public institutions, as well as to redesign projects with a

 ISBN: 978-9963-711-37-6

focus on the need to review the existing systems, adapt them to the needs of service recipients and evaluate their effectiveness and efficiency. Studies on the methods used for the evaluation of IT projects cost-effectiveness in the public administration sector indicate that no common methodology has been developed in this field, so far (Lech, 2007). According to the vision of the Ministry of Administration and Digitisation, the several hundred information technology projects currently being implemented in the public administration sector in Poland should "guarantee the best possible proportion of effect to expenditure, transparency and efficiency" (Report Państwo 2.0, 2012). According to the report published by the **Polish Information and Foreign Investment Agency (PAIiIZ, 2013), public administration offices and institutions are, and will remain, the most attractive buyer of IT goods and services in Poland in the financial perspective** 2014-2020, most probably owing to the EU funds being assigned to, and spent intensely on, the implementation of IT solutions in this sector. Therefore, the subject of measuring the efficiency and effectiveness of ITC implementation is worth discussing, also in the context of proven solutions successfully used by the private sector. These might be referred to as good practices when adopting the New Public Management approach and implementing the public administration efficiency improvement plans and strategies in Poland.

Both this diagnosis and provisions of documents establishing the policy, plans and strategies of digitisation of the state make one acknowledge the role of process approach in developments intended to enhance the performance of public sector institutions. This method should be integrated into the state digitisation programs and projects of ERP-class systems implementation that are already common in Poland.

Processes are fundamental elements of management systems in all public administration institutions. Processes, logical sequences of repeatable activities leading to a pre-defined outcome, are present in any organisation, regardless of how mature its management system is. Effective process management translates into a high quality of services provided to clients, efficient use of human and other resources capacity, including existing IT systems supporting business management.

Case studies illustrating the best practices for enhancing the performance of public administration institutions are lacking in Poland. Therefore, this work is an attempt to combine the modelling and measurement of processes typically performed in projects intended to redesign business processes by means of an ERP system, with the overall aim being to enhance the effectiveness and efficiency of public administration in Poland as required by the New Public Management.

Process identification and modelling is a starting point for building process maturity in various organisations, including public institutions. Process measurement allows for the analysis and evaluation of improvements. In the context of the information technology systems implementation,

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Davenport's thesis, according to which an economic effect is achieved only after business processes are reengineered and information technology is the method enabling process innovation, is also valid for the sector of public administration. Methods to be used to reengineer processes are proposed by such classic approaches as Business Process X, where X may stand for Reengineering, Redesign, Orientation, Change, and Management.

INCREASING THE EFFECTIVENESS OF BUSINESS PROCESSES IN PUBLIC ADMINISTRATION: AN OVERVIEW OF LITERATURE

The last two decades have been witnessing a continual development of process approach, its concept, methods and IT tools enabling business process modelling and improvement intended to enhance organisations' performance. Yet, literature does not address the subject of business process improvement in the public sector as often as it does with respect to commercial organisations. There are many reasons preventing innovations in business processes and to organisational structures in the public sector, some of them being of a political nature. In Poland, the implementation of process management in public administration is impeded by: public organisation culture, the multitude of procedures, the silo structure, personnel lacking awareness and mission, the domination of political stakeholders, and the turbulent political environment (Krukowski, 2011).

However, organisational changes in public administration institutions are only partially achievable, and most typically consist of the unification of business processes, automation and the partial elimination of redundant activities. Therefore, classic process improvement methods and business process redesign need to be adequate for the public sector environment. When enhancing public sector performance, one should combine elements of radical methodology, such as Business Process Reengineering (Hammer and Champy, 1993; Thompson, 2000, Weerakkody et al., 2011) with those based on continual improvement: Business Process Orientation (McCormack and Johnson, 2001), Business Process Change and Business Process Management (Gulledge and Sommer, 2002; Harmon, 2010). Most process redesign projects fall somewhere between radical and gradual changes (Harmon, 2010). Moreover, some process redesign strategies also propose process modelling with IT tools and process measurement intended to evaluate the effectiveness and efficiency of changes (Becker et al., 2005; Scheer, 2005; Harmon, 2010). An approach such as this corresponds with the proposal of measuring the results in the New Public Management implementation (Pollitt and Bouckaert, 2004).

In the context of IT system implementation projects, the issues of business process modelling and measurements are most often specified as an element of pre-deployment analysis. The aim of process identification and modelling is to identify an organisation's needs as regards IT system support, occasionally to select a system, and, finally, to implement it at the level of identified and improved

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processes (Hammer, 1990; Davenport, 1993; Stemberger and Vuksic, 2009). Yet, such a scenario is extremely rare in Polish practice (Sasak and Kożuch, 2011). Furthermore, no studies on IT system implementation in public administration in Poland exist. The system implementation project should be efficient both with respect to the implementation process itself and to its deliverables (Lech, 2007). Reports on the status of ITC and digitisation projects co-financed from European Funds under the **Innovative Economy Programme** in Poland **in the years** 2007-2012 seem to confirm the diagnosis that those responsible for the operation of Polish public institutions still underestimate the significance of projects intended to enhance public administration institutions' performance in terms of their effectiveness and efficiency (Report Państwo 2.0, 2012).

The business process measurement can constitute an element of various methods used for the evaluation of major, national-scale IT projects as well as tasks undertaken by individual public institutions. When the efficiency of an IT project is evaluated prior to and after its implementation, the extent of automation can be measured, as well as the resultant benefits, such as time gains, cost reduction and quality improvement. The prerequisite to developing a system for measuring process performance and determining the criteria for performance indictor use, is a knowledge of the process architecture. Process duration, cost and quality are most frequently referred to as measures of benefits gained as a result of process improvement (Davenport, 1993; Murphy, 2002; Kaplan and Norton, 1996; Harmon, 2010). These measures can be both quantitative and qualitative, may deliver both hard, fully measurable results, as well as soft ones – relative, hard to be specified and valuated, but giving a better frame of reference. Shorter process durations achieved through the elimination of redundant activities translate into, for example, a lower cost of the process or enhanced customer satisfaction, and may improve the financial effect, while the elimination of errors in operational processes reduces the value of losses and process automation cuts the overall cost level owing to employment reduction. The purpose of measuring the quality of processes is to reduce the cost of repairing errors, eliminate weak points in the process flow thereby continually enhancing the satisfaction of process deliverable recipients. When analysing the process flow in terms of adding value, it is worth paying attention to how much time is spent on activities adding value the customer is willing to pay for.

In public administration, it is the process architecture level (Scheer, 2005; Krukowski, 2011) and the process type that determine how these measures are structured and what they refer to. Cost is the basic performance indicator, although it is seldom measured in public administration being often allocated to the fixed cost category. Duration reflects the level of process organisation and its degree automation (Davenport, 1993; Peppard and Rowland, 1995). Process quality is determined by the number of errors and resultant amount of work that need to be repeated (Gabryelczyk, 2000).

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According to New Public Management, quality should be pursued to satisfy the citizen, but also, the administration officer, a recipient of the process deliverables.

Literature on this subject points out that the operating cost reduction achieved owing to the administration service process improvement should be regarded as the greatest benefit of adopting the process approach in public administration (Bugdol, 2008; Zaheer et al., 2008). Regardless of the methodology for the implementation of a process approach in each phase there is a diagnosis of the current state of processes (*as-is*) and the phase of the target state processes (*to-be* or *can-be*) (Becker at al., 2005; Harmon, 2007; Scheer et al., 2005). A similar approach is used in administration offices (Weerakkody et al., 2011; Stemberger et al., 2007; Gulledge and Sommer, 2002). The measurement of costs, lead times and quality processes can occur in both phases.

BACKGROUND OF THE CASE STUDY

The business process modelling and measurement exercise was conducted in an institution representing the sector of public finance – an entity providing services and logistical support to the state authorities. The Institution is subject to the Public Finance Act and its regulations in respect of cost-effective expenditure of public funds. These regulations should also be adhered to when implementing ICT projects.

The institution uses and ERP-class system – SAP R/3. The system had been implemented mainly in order to integrate insular solutions and upgrade the IT tools. The Institution's management considered the implementation project to be the "IT department's business" and had not defined any indicators that might demonstrate performance improvements. There had been no pre-deployment analysis, process analysis or analysis of the organisational changes required; no methodology had been used to reduce the risk associated with the choice of technology in the context of the Institution's needs. The potential for the Institution's performance improvement is to a great extent based on increasing the volume of services without increasing the level of cost. The Institution's annual expenses on the SAP system remain on an unchanged level in practice and stem mainly from the number of ERP licences used by the system users. The Institution has been able to use all of the SAP ERP functionalities since 2010, therefore the activation of any new functionalities or new module is not associated with any new licence cost of the system itself. It would therefore be a case of mismanagement not to utilise what the system offers, given that all IT project financed from public funds should be subject to evaluation for cost-efficiency and effectiveness. When co-financing any projects, EU requires these to be evaluated according to the applicable standards and guidelines (Posavac and Carey, 1985).

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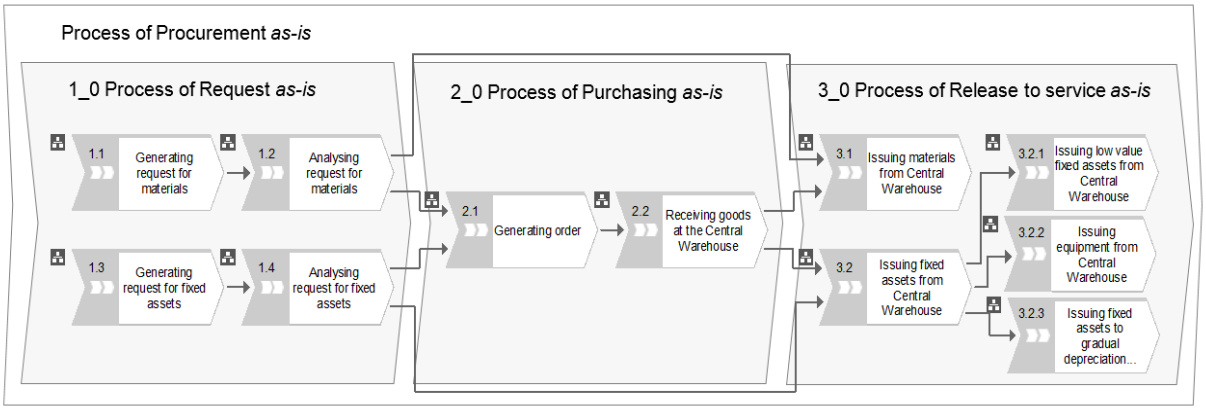
The direction of changes shown in the case study presented below is based on the process modelling and measurement used to ensure effective cost management in a public institution.

CASE STUDY: BUSINESS PROCESS MODELLING AND MEASUREMENT IN THE PUBLIC ADMINISTRATION INSTITUTION

The single case study method used to analyse the situation in the public administration Institution provides observations concerning the practical use of process models and measurements in enhancing the organisation's performance, particularly through the better use of the information technology system. According to the single case study methodology (Yin, 1994), the analysis of the Institution may also act as a pilot project, the first step taken to show other institutions the method of measuring the potential for improvements, having been used by commercial organisations for years.

For the purpose of evaluating the process improvement potential of the Institution representing the public finance sector, the process of *Procurement* was defined, modelled and analysed in the exercise described hereunder.



Business Process Reengineering methodologies were employed (Peppard and Rowland, 1995; Hammer, 1997; Manganelli and Klein, 1998; Harmon, 2010) to perform the following steps: the *as-is* process modelling, the *as-is* process measuring based on performance indicators designed for the exercise, the analysis of process weaknesses and ERP automation options, the *to-be* process modelling, the *to-be* process measurement based on the performance indicators designed.

The *as-is* modelling of the *Procurement* process included process map identification (Figure 1) and illustration of the *Request*, *Purchase* and *Release for Service* sub-process together with their sub-processes by means of an added value chain. *Procurement* is the process supplying the Institution with tangible fixed assets and current assets. The objective is to enable the Institution's personnel to use the consumables and equipment they need. In this case, all offices in the Institution are process clients and agents. The modelling was performed using the ARIS Business Architect system.

Figure 1. *Value-added chain diagram of the process of Procurement: as-is*

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The specific processes distinguished within the value chain shown in Figure 1 were modelled by means of the EPC method (Event-Driven Process-Chain), with process resources and participants indicated for each activities and functions. Figure 2 is merely an example of the *Analysing requests for materials* process: *as-is* visualisation.

Data for process analyses were sourced from interviews with process participants and from the SAP ERP system reports, as well as from legal regulations referred to in the Institution's applicable instructions. The process performance indicators for measuring process duration, cost and quality were determined based on the process approach to management literature and a review of the Procurement process *as-is* models.

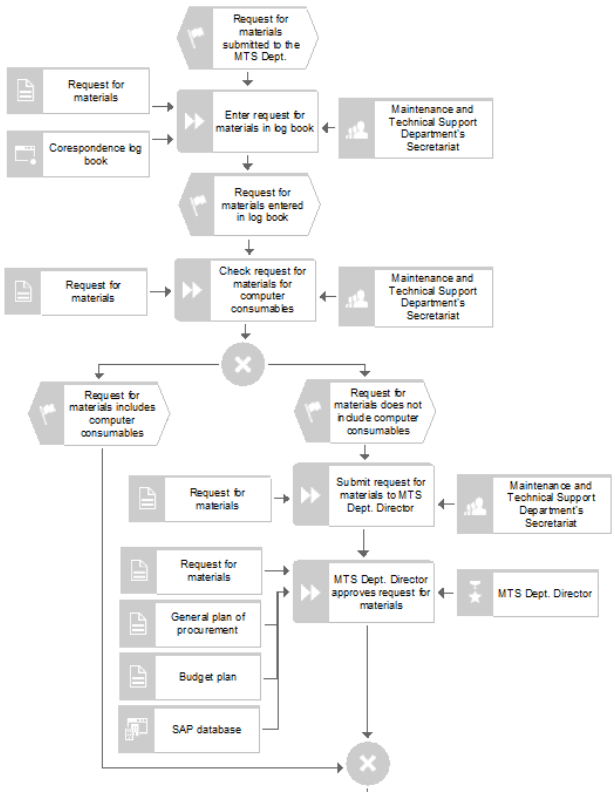

Figure 2. *A section of the Analysing requests for materials sub-process model: as-is*

The Institution does not have any process measurement system. For the purpose of the *as-is* and *to-be* analysis of *Procurement* process, performance indicators were defined in the category of process duration, cost, quality and throughput capacity (Table 1.) based on data available for the exercise. These indicators can be used for measuring the effects of fuller automation of the Procurement process, as well as for the assessment of organisational changes in the process itself.

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Category	Indicator	Definition
Cost	Mean personal cost:	Cost based on the taxable monthly salary averaged by positions of individuals performing the functions
Time	Waiting time:	Average time of waiting for the possibility to perform the function
	Preparation time:	Average time of preparation to perform the function
	Processing time:	Average time of function processing – performing the real work
Quality	Number of interfaces between organisation's units:	number of border crossings between organisation's units at the office level
	Number of functions:	number of functions performed by process participants without using the SP ER system
	Number of SAP functions:	Number of functions performed automatically by the ERP system or with the use of one SAP ER transaction
	Number of SAP ERP data base uses:	number of functions using the access to SAP ERP data base – this indicator applies to validity and consistency of data
	Number of paper document types:	Number of paper document types used in the process:

Table 1. *Time, cost and quality performance indicators for the process of Procurement*

The cumulated values of *Requesting*, *Purchasing* and *Releasing for service* process performance indicators were used to compute the percent difference between the *as-is* and *to-be* performance indicator values. For the purpose of the study, the development of the *Procurement* process *to-be* model included an analysis of the cost of personnel, resources (including SAP system) and engagement of organisation's units. The process was found time-intensive, with many activities performed manually, without using the SAP system and in other systems not integrated with SAP. The *as-is* models of the *Procurement* process revealed that very little of what SAP offers was used and that printed paper documents prevailed in the Institution's operation. Insular solutions based on the system were not integrated into a chain of process operations. The analysis resulted in a proposal to automate the process of Procurement in SAP ERP and to modify its organisation with regard to the standardisation required. The changes proposed were modelled in ARIS, so as to develop to-be process models and compute the target performance indicators. Figure 3 presents a value-added chain diagram of the process of *Procurement: to-be.* Figure 4 is an example of the *Analysing requests for materials process: to be* visualisation.

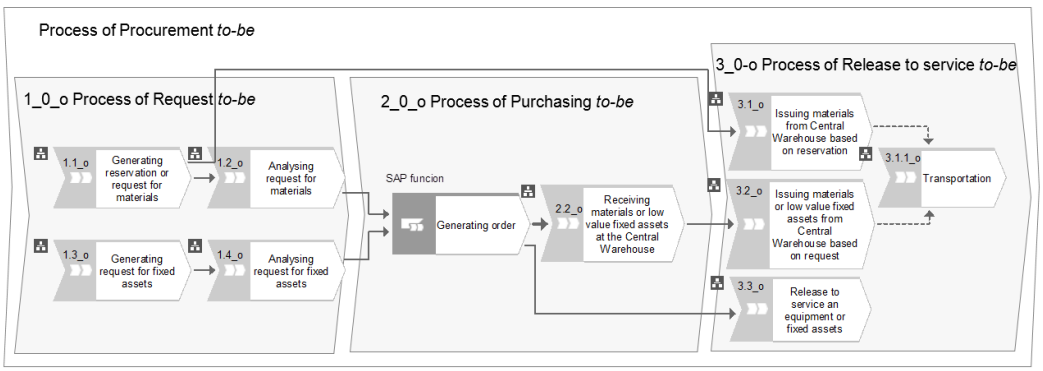

Figure 3. *Value-added chain diagram of the process of Procurement: to-be*

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To illustrate the effects of changes, Tables no. 2 and no. 3 specify differences between the *as-is* and to-be indicators value expressed in percent, computed by the following formula:

$$\frac{as\text{-}is - to\text{-}be}{as\text{-}is} * 100\%$$

As a result of the SAP-based automation of the *Procurement* process and following changes in the process flow, a definite improvement of process performance indicators was observed. The SAP-based automation involved an increased use of the system databases and functions (e.g. *Generate Order* function, or electronic documents, such as *Reservation* or *Request for materials*). Changes to the process organisation involved improvements to the process flow (e.g. fixed assets: equipment and those subject to gradual depreciation should be supplied directly to recipients, bypassing the Central Warehouse), reduction of paper documents, delegation of authority and implementation of SAP standards (giving up previously used client solutions). Neither the obvious benefits of deploying SAP on a fuller scale than earlier, nor the measurement of the entire project effects are being discussed here now.

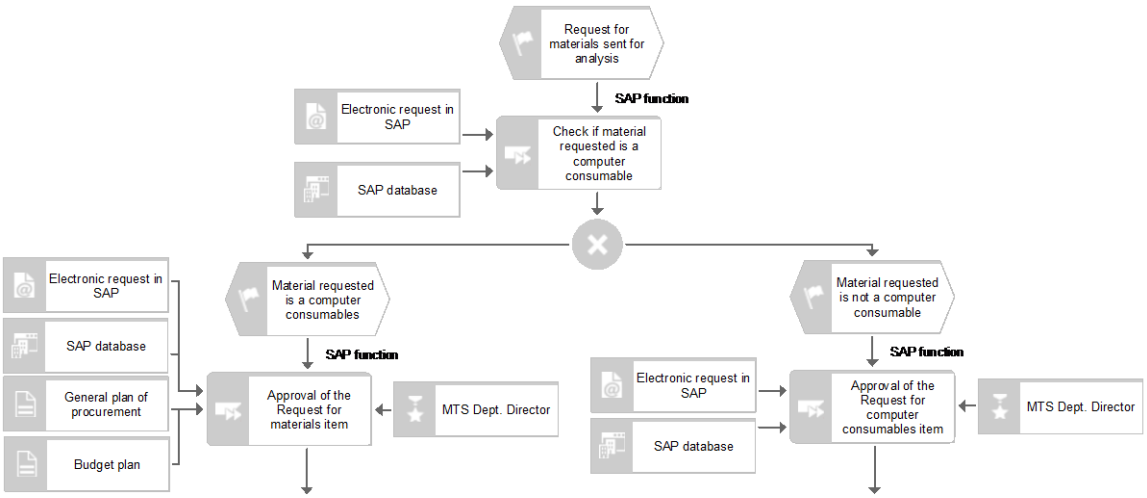

Figure 4. *A section of the Analysing requests for materials sub-process model: to-be*

Change in percent		Costs*	Time		
		Mean personal cost	Waiting time	Preparation time	Processing time
Number	Process	[in %]	[in %]	[in %]	[in %]
1_0	Process of Request	↓ 76 %	↓ 74 %	↓ 94 %	↓ 87 %
2_0	Process of Purchasing	↓ 50 %	↓ 63 %	↓ 58 %	↓ 23 %
3_0	Process of Release to service	↓ 54 %	↓ 8 %	↓ 53 %	↓ 28 %
Total	Process of Procurement	↓ 62 %	↓ 47 %	↓ 75 %	↓ 67 %

* Average cost based on the taxable monthly salary

Table 2. *Change in the value of the Procurement process cost and duration indicators expressed in percent*

ISBN: 978-9963-711-37-6

Change in percent		Quality				
		Number of interfaces between organisation's units	Number of functions	Number of SAP functions*	Number of SAP ERP data base uses **	Number of paper document types
Number	Process	[in %]	[in %]	[in %]	[in %]	[in %]
1_0	Process of Request	↑ 25 %	↓ 85 %	↑ 100%	↑ 450 %	↓ 50 %
2_0	Process of Purchasing	↑ 37 %	↓ 47 %	- 0 %	↓ 33 %	↓ 75 %
3_0	Process of Release to service	↓ 67 %	↓ 55 %	↑ 20 %	↑ 75%	↓ 80 %
Total	Process of Procurement	↓ 32 %	↓ 65%	↑ 210%	↑ 100 %	↓ 60 %***

* the number of SAP ERP functions (the so-called SAP transactions)
** the number of SAP ERP uses in order to enter data (but the same SAP functions may be used for the registration of data in further steps of the process)
*** the number of all paper documents used in the process

Table 3. *Change in the value of the Procurement process quality indicators expressed in percent*

The aim of the study is to draw attention to the process measurement system as an element of system evaluation and operation, as well as a quantitative measure of the potential for improvements. The Institution's contracts with SAP provide for access to the entire functionality of the system, without any extra charges in excess having been paid so far. Under these circumstances, not to use the system's potential in full would be a case of mismanagement. The scale of this mismanagement is clearly reflected in the value of the *Procurement* process performance indicators.

CONCLUSIONS AND FUTURE RESEARCH

The case study presented in this paper shows that through defining, modelling and measuring selected processes it is possible to evaluate the potential for improvements in the processes that have been automated only partly following deployment of the ERP system. The Institution's obligations stemming from the Public Finance Act require the Institution to operate in a cost-effective manner and use the best methods to achieve its objectives (Ustawa o finansach publicznych, 2009). Similarly, the New Public Management guidelines (Kickert, 1997; Supernat, 2003; Izdebski 2006; Krukowski 2011) and t-Government concept (Weerakkody et al., 2011) emphasise the need for public administration to adopt methods and techniques which guarantee the best benefit-to-cost ratio. Furthermore, both the European Commission's regulations and the national development programmes demand a public administration to take steps towards a more efficient performance (Regulation (EU) No 1303/2013; Report Państwo 2.0, 2012). To follow the principles of a cost-effective operation, the Institution should optimise the use of its resources, including the already deployed SAP system. To talk about cost-

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effectiveness, one needs to measure both costs and benefits (Hammer, 1990; Davenport, 1993; Lech, 2007, Štemberger and Vukšić, 2009, Sasak and Kożuch, 2011). Process modelling and measurement, according to Business Process Redesign concepts, enable one to evaluate the quality of system implementation, reveal the potential for more extensive deployment and indicate the directions of changes for the public institution, which is expected to meet the statutory requirements in respect of the efficient spending of public funds. Taking into account the scarcity of studies on the adoption of process approach in public administration institutions, the purpose of this case study was to expand the existing case descriptions into this area. It is difficult to make a comparison of the results obtained during the analysis of business processes in an institution representing the sector of public finance because of the lack of comparable data. A limitation of this research is the analysis of only one process in a single institution and a lack of comparative analyses. Case study provides arguments in favor of using the concept of reengineering in the public sector, where the ERP systems were overload onto existing organisational structures and processes. Currently, public institutions are looking for transformational change by making a radical improvement (Weerakkody et al., 2011). Weerakkody et al. (2011) presents lessons from the British and Dutch public sector in this topic. Stemberger et al. (2007) propose a methodology for increasing business process maturity in public sector. Business process modeling, *as-is* and *to-be* processes mapping are the main activities in the stage of diagnose and redesign. Reijers and Mansar (2005) made the overview of best practices in business process redesign demonstrating dimensions of costs, flexibility, time and quality. This article shows the practical example of the implementation of modeling and measurement of business processes to fundamental change of existing processes and ERP systems. Future research work on the process approach implementation, including in particular the aspects of process modelling and measurement in public administration institutions in Poland, should focus on the development of recommendations and identification of best practices for projects intended to enhance the performance through process improvement.

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 ISBN: 978-9963-711-37-6

THE PREMIUM PRICE FOR ITALIAN RED WINE QUALITY ATTRIBUTES IN THE JAPANESE MARKET

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ABSTRACT

In this paper we apply the hedonic price model in order to estimate implicit price for the main objective characteristics appearing on the label of Italian wines sold in Japan, easier to identify than sensory attributes by consumers. In this paper, the wine searcher dataset has been used in order to select the retailer price and the research score for 829 wines, for each of which we have observed information about their geographical origin, vintage, grape varieties, vintage, and the alcohol degree. Our results indicate that international grape varieties, alcohol content and the year of production explain the major part of price difference. On the other hand, the origin appellations linked to specific Italian territories negatively affect the medium price of wine.

Keywords: *Italian wine; Japanese wine market; Quality objective attributes; Hedonic price model.*

INTRODUCTION

Wine is one of the oldest beverages that for centuries it was consumed nearly exclusively in the countries where climatic conditions supported grape growing. The globalization phenomenon and the increase of international competition, have entailed a geographical reconfiguration of the productive scenario and, in line with social changes, of the wine consumptions (Crescimanno and Galati, 2014). The importance assumed by certain markets in the wine sector it's by now much evident. Banks and Overton (2010) assert that dichotomy that divides geography of the world's wine sector between "Old World" and "New World", is not more actual, because fail to represent adequately the complexity of production and marketing of wine and fail to reflect the significant and rapid expanding of production and consumption of wine in the world (Crescimanno and Galati, 2014; Rossi et al., 2012; Vrontis et al., 2011). Alongside to traditional producers and consumers of wine (largely represented by countries of Western and Southern Europe), and those where wine production and consumption has increased in the last decades, (i.e. North America, South Africa, Chile, Australia, Argentina and New Zealand), the authors suggest that there is another group of countries named "Third World of wine" which includes, amongst others, China and Japan, countries where wine has been made for centuries and there has been little or no colonial influence.

 ISBN: 978-9963-711-37-6

Over the last few years, most of the Asian countries has shown one of the fastest growth in the wine market. In 2011, Asian countries, on the whole, imported over 790 thousands tonnes of wine, 7.8% of the total world imports, recording an increase of this weight of 3.5 percentage point in the last ten years (FAOSTAT, 2015). In this area, Japan is one of the countries in which wine production and consumption have a very long tradition and the wine is more and more appreciated among Japanese people. In 2014, according to UN Comtrade data, Japan imported wine for a value of 1,064 thousand dollars. France and Italy, with a share of 45.5% and 16.5%, respectively, represent the most important provision market, and dominate the Japanese wine market. However, in the last decade (2005-2014) decrease the share of France (- 16.0%) against to an increase of that of Italy (which increases of 2.8%), due to a growth rate of imports of Italian wine (+ 17.0%) more sustained than that registered for imports of wine from France. This is due to a slow increase in on-premise consumption as the economy continues to recover (Aoki et al., 2013).

The aim of this paper is to estimate the implicit price of some quality objective attributes, available in the label, of Italian red wines sales in the Japanese market. In this paper, the wine searcher dataset has been used in order to select the retailer price and the research score for 829 red wines, for each of which we have observed information about their geographical origin, vintage, grape varieties, and the alcohol degree, that are the main objective quality attributes identified in the economic literature. An Univariate General Linear Model has been used in order to identify the premium price of each of the quality attributes studied. The knowledge of the consumer evaluation of wine attributes has important implication for producers, in order to adopt effective marketing strategies, for retailers purchasing decision and for decision makers for the adoption of effective measures addressed to improve regional competitiveness in the world market. The influence of wine attributes or signals on price has received considerable attention by the side of economists, thanks to the high differentiation and the difficulty in objectively assessing quality. Consumers, today more than in the past, are taking care to some attributes such as quality, prestige, regional origin, and taste during the wine's purchase decisions. Wine price is positively related to the quality perceived by consumers (Bombrun and Sumner, 2003), which includes both sensory characteristics (intrinsic) and extrinsic attributes related to the information available on the product or the reputation of the wine and the cellar. Many economists use a hedonic price equation in order to estimate the implicit price of this attributed studied separately or jointly (Oczkowski, 1994; Combris et al., 1997, 2000; Angulo et al., 2000; Morilla Critz and Martinez Valderrama, 2002; Steiner, 2004a, 2004b; Cardebat and Figuet, 2004; Lecocq and Visser, 2006; Troncoso and Medardo Aguirre, 2006; Boatto et al., 2011; Asciuto et al. 2012; Defrancesco et al., 2012).

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The main novelty of this study is that we esteem the premium price of wines produced in an old wine country in an emerging market. Only few studies have focused on the new consumer markets (Oczkowski, 1994, 2010; Nerlove, 1995; Ling and Lockshin, 2003; Schamel and Anderson, 2003; Troncoso and Medardo Aguirre, 2006; Luppe et al., 2009). The most consistent literature on the premium price of the wine is indeed focused on the wine produced and consumed in the traditional wine markets (Combris et al., 1997, 2000; Gergaud, 1998; Angulo et al., 2000; Lecocq and Visser, 2001, 2006; Morilla Critz and Martinez Valderrama, 2002; Cardebat and Figuet, 2004, 2009; Steiner, 2004a; Panzone and Simoes, 2009; Benfratello et al., 2009; Corsi and Strom, 2009; Brentari and Levaggi, 2010; Boatto et al., 2011; Caldas and Rebelo, 2013).

THE JAPANESE WINE MARKET

The development of economy, the increase of incomes for many people, and the consequent shifts in their consumption patterns, driven many researchers to a deep analysis on the wine sector in the Asian countries. Several studies have investigated the main motivations that drive Asian consumers in their wine purchasing decisions. Findings of these researches point out that price and taste are the main factors affecting wine purchase choice. In particular, education, wine related activities, channel of communication, quality and country of origin, are the main attributes that influence the choice of Chinese wine consumers (Agnoli et al., 2014; Camillo, 2012). Wine color is another attribute that affects the purchase decision. In particular, as shown by some studies, Koreans and Japanese consumers, prefer red wine to white ones (Yoo et al., 2013; Bruwer and Buller, 2012).

In Japan, differently to others Asian countries, wine is produced and consumed by a very long time and the wine culture is well spread and solid among Japanese people (Corsi et al., 2013). Corsi et al. (2013) have found that key strengths of Italian wines in the Japanese markets are mainly related to high quality products, food safety and environmental issues. Wine is one of the most representative products among Italian food productions, and, thanks to its high quality, its marked distinction, and its strong link to the territory, it contributes to strengthening of the reputation of Italian products in the world as an offer of excellence, (Carbone and Henke, 2012). Rod and Beal (2012), in their study on the Japanese wine market, found that consumers confer great importance and demonstrate a great interest toward winemaker and the story behind the label, furthermore, there is still a preference for corks on the part of the Japanese consumer and a perception that screw caps represent wines of a lower quality.

Wine is increasingly part of the mealtime experience for Japanese families as they embrace more Western-style eating habits (ProWein, 2013). The importance of the wine in the Japanese market has grown in the last few years as demonstrated by the analysis of statistical data. During last 50 years,

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consumption of alcoholic beverages in Japan is strongly increased between 1961 and 2011 with an average annual rate of 4.3% (FAOSTAT, 2015), at confirm that Japan is one of the largest alcoholic beverage consumption markets in the world (Bruwer and Buller, 2012). Although beer and spirits are the most popular alcoholic beverages in Japan -in 2011 beer covers almost 52.0% of total volume of alcoholic beverages consumed-, wine began to be a beverage ever more appreciated in this country (FAOSTAT, 2015). In particular, wine consumption increased by 50.8% respect 1961 to reach a total of 290,000 tonnes in 2011 (4.8% of total alcoholic beverages consumed in Japan), with a per capita consumption that remains much lower in Japan compared to that of western counterparts, passing from 2.3 litres per capita in 2011 to 2.7 litres in 2012 (Dobronauteanu, 2014). This trend has entailed an increase of imported wines (bottled and bulk) that amounts to 96.5% of the market, while 3.5% of the total Japanese wine market is covered by 100% domestically produced wine (Gourgues, 2013). In 2011, Japanese imports of wine represent 26.6% of wine totally imported by all the Asian countries (16.7% in 1961) and 2.1% of wine world import (0.03% in 1961) (FAOSTAT, 2015). According to Dobronauteanu (2014) Japan is the sixth European Union's top trading partners for wine, and the second largest Asian market for EU producers, after China, with 1.4 million hectoliters imported in 2013. It represents a significant opportunity for wine producers in the world, not only for fast-growth of consumption recorded in the last decade, but especially because in Japan live more than 127 millions of people.

THEORETICAL BACKGROUND AND METHODOLOGICAL APPROACH

Wine, due to its specificity, high recognition, its total value, which is the result of a wide range of attributes (Carew and Florkowski, 2010; Corsi and Strøm, 2009), has been extensively studied through hedonic price models. The basic theoretical assumption of this approach, used for the first time by Waugh (1928) in order to study the influence of specific quality asparagus characteristics on his price in Boston market, is that the utility of the consumer is not generated by the consumption of the good itself, but rather by the benefits derived from its characteristics, or for the specific attributes of the product (Galati et al., 2015). The sum of the implicit prices, interpreted as a willingness to pay at the margin of consumers in each of these attributes creates the market price of a given product (Fogarty, 2006).

Numerous studies compare the influence on the final price of the wines of the subjective and objective quality attributes. Results support the conclusion that the greatest influence of one or the other depends on a number of factors. For example, Oczkowski (1994), with regard to the Australian table wine, and Combris et al. (1997, 2000), referring to the Bordeaux (1997) and Burgundy (2000) wines, found a greater positive influence of the objective characteristics, such as ranking, grape vintage, and

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varieties, than that exerted by the sensory or subjective characteristics. Indeed, as asserted by Angulo et al. (2000), with reference to the Spanish wines, the subjective characteristics they do not have an effect on medium price wines but are important in more expensive wines. Similar results were obtained by Cardebat and Figuet (2004), on the Bordeaux wines, Lecocq and Visser (2006), on the Bordeaux and Bourgogne wines, Troncoso and Medardo Aguirre (2006), on the Chilean wines sales in the US market. According to the authors most of the price differences are explained by the objective characteristics (information on the label, and in particular grape variety and region of origin), while sensory characteristics expressed as quality of judgments given in the guide, does not have a major impact. A different result is obtained by Asciuto et al. (2012), in an investigation into the price premium associated with organic Sicilian wine, according to which there is a positive influence on the price of the wines classified as excellent in a Italian wine guide. Furthermore, the authors find a premium price for sweet wines and Controlled Designation of Origin/Controlled and Guaranteed Designation of Origin wines. Referring to the appellations of origin, Malorgio et al. (2008) found that this is a key to ensure fair competition and consumer information, in particular in order to assists consumers in making the right choice.

The difficulty of the consumers to know subjective characteristics at the time of purchase have pushed numerous researchers to focus their studies on the influence of objective characteristics only such us the attributes observed by consumers on the label (colour, varietal, appellation, vintage, etc.). Most of the technical characteristics of the wines (such as the sugar content or acidity of the grapes, observed in other studies), as little known to the majority of consumers (Morilla Critz and Martinez Valderrama, 2002). Steiner (2004a, 2004b), in his study of French wines (2004a) and Australian wines (2004b) sold in the UK market, show a premium price for the attribute "vintage"", for wines produced in specific areas of production (Cote de Beaune for French wines and Coonawarra for those Australians), with certain varieties of grapes (Muscat for French wines and pinot Noir for those Australians) and sold in supermarket chains. Some authors have shown that the perception of consumers is different according to the place of purchase. For example, Boatto et al. (2011) found that the influence on the price of the labelling is less if they are sold in a specialty store rather than the big supermarket chains.

The hedonic methods is a regression-based approach, derived from Lancaster (1966) and later formalised by Rosen (1974), in which the wine price is a function of a multiple product attributes. The Likelihood Ratio Test (LRT) has guided the choice toward a log-linear model, as expressed below:

$$ln(P) = \beta_0 + \sum_{i=1}^{n} \beta_i z_i + \varepsilon$$

where ln (P) is the log of the current price of wine, z_i is the I attributes of the wine, β_i and ε are the esteemed coefficients of the z_i variables and the random error, respectively. This model has been used

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in this study in order to investigate the relations between prices of Italian wines sold in the Japanese market and some attributes observable by consumers on the label. We apply an Ordinary Least Square (OLS), because yields estimates that are easier to interpret, ensuring the reliability of the results (Ortuzar-Gana and Alfranca-Burriel, 2010; Goldstein et al., 2008).The complete equation estimated is:

$$ln(Price) = \beta_0 + \beta_1 DOC + \beta_2 GI + \beta_3 INT + \beta_4 ALC + \beta_5 VINT + \beta_6 POP + \varepsilon$$

where DOC is the "*Denominazione di Origine Controllata*" (Controlled Designation of Origin), while the IGT is the "*Indicazione Geografica Tipica*" (Geographical Indication), INT indicates wine produced with international grapes varieties, ALC is the alcoholic degree of the wine, VINT is the vintage of the wine, and POP is a popularity index of the Italian wine in the Japanese market. Italian wine price in the Japanese market (obtained from the Wine Searcher dataset) is referred to wine bottles of 0.75 liter and do not take into account any special offers related to the amount of bottles purchased. From the same search engine we have inserted as variables the "research score" which is only present if the wine is highly sought after and represent the number of times that the wine has been researched. The variance inflation factors (VIF) was used to see if there was any correlation between the variables. Since the square root values of these indexes were less than two for each of the covariates, and with a mean VIF of 1.21, we can conclude that there is no problem with multi-collinearity. Tests for heteroschedasticity were conducted using Breusch-Pagan test. The test confirmed that there was no problem of heteroschedasticity as the independent variables are jointly significant.

On the basis of information contained in the wine searcher engine, wines more present in the Japanese market are those produced in Tuscany (47.2%), Piedmont (26.5%) and Veneto (9.2%). Less present are the Sicilian wines (7.6%), and the wine from Apulia (5.2%) and Trentino-Alto Adige (4.3%). Italian wines present in the Japanese market are included mainly (75.8%) in the ultra premium price category (€14-€150). Super premium price category (€7-€14) and icon wine (> €150) represent only the 13.1% and the 11.1% of the Italian wine marketed in this market, respectively. Wines included in our dataset are labelled DOC (31.0%), DOCG (Controlled Designation of Origin Guaranteed) (35.6%), IGT (31.6%), and PGI (Protected Geographical Indication) (1.8%). Finally, 67.2% of the wines is obtained using Italian grape varieties only; while, less frequent are the wine produced with international varieties (18.2%) or a mix of native and non-native grape varieties (14.6%).

RESULTS AND DISCUSSIONS

In the hedonic price equation, the dependent variable is the logarithm of the price of wine bottles of 0.75 liter, the explanatory variables are the objective wine characteristics displayed on the label, taking

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into account the very important role that the same and packaging play in price formation (Levaggi and Brentari, 2014; Lecocq and Visser, 2006). Table 1 shows the results of estimates of the basic equation mentioned above, showing that the overall fit of the hedonic price equation is relatively good since the corrected R^2 have a value of 0,4350 and a significant F-value. The signs obtained for the different variables are in line with the expected based on theoretical assumption or with existing literature. Given that the functional form is log-linear, the coefficients referring to the dummy variables can be interpreted in terms of price variation using the following procedure (Halvorsen and Palmsquit, 1980):

$$\Delta P/P = (e^{\beta_m} - 1) * 100$$

where β_m is the coefficient of the parameter obtained through OLS.

Table 1 – Estimates on the log price of a multiplicative linear regression model

Dependent variable = Ln Price					*Number of observations = 829* *F(6, 822) = 107.26* *Prob>F = 0.0000* *R^2 = 0,4391* *Adj-R^2 = 0,4350*	
	Type	**Estimate (β)**	**Std. Error**	**t-value**	**Pr(>|t|)[(a)]**	**Percentage premium price**
(Intercept)		3.04826	0.1293247	23.57	0.000***	
DOC/DOCG wines	1= DOC/ 0=DOCG	-0.1131966	0.064735	-1.75	0.081*	-10.70
IGT /PGI wines	1=IGT/ 0=PGI	-0.1215371	0.0655027	-1.86	0.064*	-11.44
International grape varieties	0=no/1=yes	0.4571351	0.0702744	6.51	0.000***	57.95
Alcohol[(b)]	Continuous	0.4170568	0.1207074	3.46	0.001***	0.51
Vintage[(b)]	Continuous	0.627507	0.0036556	17.17	0.000***	0.06
Popularity[(b)]	Continuous	-2.014376	0.1668853	-12.07	0.000***	-0.86

[(a)] Signif. codes: *** significance at 1%; ** significance at 5%; * significant at 10%.

[(b)] For "Alcohol", "Vintage" and "Popularity" variables, the value in the last column express the price increase for each degree of alcohol content or year in the aging of wine, or popularity index.

As expected, coefficient for the age of the wine show a premium price for red older wine. More in detail for each year of increase in the aging process, wine price increase of 0.06 times. In particular, for

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red wine, the variable "Age" assumes an important role, driving the consumers choses. These results are coherent with Oczkowski (1994), Combris et al. (1997, 2000), Schamel and Anderson (2003), Schamel (2003, 2006), Steiner (2004a, 2004b), Lecocq and Visser (2006), Panzone and Simoes (2009), Costanigro et al. (2009), Carew and Florkowski (2010), Boatto et al. (2011), Delmas and Grant (2014), and Galati et al. (2015). A positive relation has been found for the alcohol content in the wines. An increase of 1 degree of alcohol content, produce an increase of price of 0.51times. These results are similar to Florkowski et al. (2008), Carew and Florkowski (2010), Brentari and Levaggi (2010), Brentari et al. (2011), Levaggi and Brentari (2014), and Galati et al. (2015). Wines produced with international varieties, compared to the native cultivars, receive a 57.95% premium price, while DOC and IGT wines carry a 10.70% and 11.44% discount, respectively, showing that Japanese consumers little appreciate the wines with this appellations. As can be see from the results, Japanese wine consumers show a greater appreciation for the non-native Italian grape varieties and are not willingness to pay a premium price for the origin appellations. Cabernet Sauvignon, Merlot and Pinot Noir are the favored varieties (Wine Intelligence, 2013). This result is confirmed in the study by Agnoli et al., (2014), according to which there is not a value added of geographical brand compared to the country of origin. This latter represent the main factor that drive the preference of Japanese wine consumers (Bruwer and Buller, 2012). The negative effect on the consumer choice of the appellation DOC and IGT wines emphasizes a lower willingness to pay of consumers for the wines of high quality; this could be related to a culture of wine is not yet fully developed in the new world consumer markets (Galati et al., 2015). This result is also confirmed by a more frequent finding of wines that fall in the category of super premium compared to the ultra premium. Indeed, the popularity index, expressing the number of times that the wine has been searched in the wine searcher database, is negative and statistically significant (-0.86%), showing that the most appreciated wines are those that exhibit a low price in the market. This result could reflect the issue of asymmetric information related to the difficulty of Italian producers to identify effective communication strategies of their products in a new wine consumer market. Moreover, for this wines ranking in the lower price range there is as suggested by Aoki et al. (2013) an opportunity for Italian wine producers.

CONCLUSIONS

In this paper we apply the hedonic price model in order to estimate implicit price for the main objective characteristics appearing on the label of Italian wines sold in Japan, easier to identify than sensory attributes by consumers. Our results indicate that international grape varieties, alcohol content and the year of production explain the major part of price difference. On the other hand, price of wines linked to specific Italian territories receive a negatively influence. This last emphasizes, on

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one hand, a low level of wine's knowledge among Japanese consumers, and on the other hand, a confusion of non-expert consumers due the multitude of appellations different for each Country of origin (COGEA S.R.L., 2014).

An increase of wine consumption, mainly among younger consumers more and more open to experimentation than older Japanese wine drinkers (ProWein, 2013), and with an increasing interest for wines compared to other traditional drink such as "Sake" and "Shochu" (Wine Intelligence, 2013), creates the basis for a further success of the Italian wine in this area. Know what are the main objective attributes of the wines for which consumers are willing to pay a price premium has a strategic importance for Italian wine producers, in particular if we consider the opportunity offered by Japanese market.

Our results have some relevant implications for Italian wineries' strategy. In the new world consumption market it is essential put to use any efforts possible to promote the high quality of Italian wines, in order to help to appreciate the differences related to local grape varieties, the specificity of growing areas, etc.

The promotion of high quality of Italian wines is possible through participation to main food and wine exhibitions. In this way, in addition to increase the competitive power of Italian wine, it could be possible establish a diverse network of contacts, and remove the intermediaries by finding a foreign partner (COGEA S.R.L., 2014). In this sense, the Regulation (EU) No 1308/2013 establishing a common organization of the markets in agricultural products contain specific support measures for the promotion that represent a significant opportunity for businesses, although at present, seem to focus too much on traditional markets (COGEA S.R.L., 2014).

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 ISBN: 978-9963-711-37-6

PATTERNS OF COMPARATIVE ADVANTAGES AND THEIR CHANGE FOR THE WINE INDUSTRY IN THE INTERNATIONAL SCENARIO

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ABSTRACT

The aim of this study is to analyse the specialization patterns of the main wine world actors, consumers and traders, so as to verify whether or not the patterns of comparative advantages for the trade of this countries have experienced significant changes over the period 2003-2012. The analysis carried out through the estimating of Lafay index reveals deep changes in the global wine market. In particular Italy, France, and Spain, though keeping an unquestioned importance in the international scenario, are experiencing a progressive loss of competitiveness. Differently, new countries have reinforced their presence in the international market, and among them Chile for the bottled wines, and South Africa, for bulk wines, pointing out the success of policy measures implemented in these new producing countries and for the progressive market orientation. In the outlined scenario, is clear that the only sector policies are unable to increase the competitiveness of producers in the world wine market, and an example are the EU countries. Is necessary to take into account the specificities, the differences, the sizes and the economic opportunities for each of the countries target, in order to undertake targeted actions and effective strategies.

Keywords*: Lafay Index, international specialization, comparative advantage, wine trade.*

INTRODUCTION

Over the last few decades the wine market has been affected by a deep structural transformation due to globalization and mounting international competition (Bernetti et al., 2006). The entrance of new producer countries has led to an overall geographical reconfiguration of the world productive scenario. In particular, as observed by Robinson (2006) the existing broad delineation between the old world producers (such as France, Germany, Italy, Portugal and Spain) and the Southern hemisphere New World wine-producing countries (Australia, Argentina, Chile, New Zealand and South Africa) continues to be eroded. In the new world countries, wines are made by companies which profit from economies of scale in research, production and marketing. This enables to adopt lower prices of the

 ISBN: 978-9963-711-37-6

wines, because products are easier to be recognized by the consumer than those of traditional producers (UE countries) as they are less complex in look and taste. Recently, alongside these two main producing regions there is another group of countries named "Third World of wine". However, as suggested by Banks and Overton (2010) while the Third World itself is very diverse both in terms of economic performance and development of this industry, the Old world - New World distinction is deeply flawed. As a consequence, a new categorisation would be misleading, and therefore there is the need to distinguish four relatively distinct categories. Moreover, the wine demand has registered deep changes in line with the rapid economic growth and social changes. The shrinking consumption in the traditional wine producer and consumer countries is more than offset by its increase in the "New World" and "Third World" nations, except in the event of major economic crisis, which is currently the case. In non-traditional countries, consumers are deeply attracted by this product both for the health aspects of it and because it is expression of some producing Old World countries' lifestyle, such as Italy and France (Vrontis et al., 2011; Rossi et al., 2012). According to these changes, the centre of global demand is expected to move and expand to three main areas of consumption: China and India, bringing along South-East Asia (excluding Muslim countries) / North America, Latin America with Brazil, Argentina and Mexico as leaders / Mediterranean Europe, which will halt its decline, Northern Europe (Germany, the Nordic countries, the UK) and Russia (CCE, 2009). Contextually, preferences and customs associated with wine consumption have changed with a general decline in the quantity of wine sold and an increasing orientation of consumers towards quality wines apt to satisfy more complex needs than purely gastronomic ones, whose function is enriched with experiential, symbolic and hedonistic elements (Nosi, 2012; Crescimanno and Galati, 2014).

In this composite scenario, we wonder how the role of the major producer, consumer and exporter countries of wine, has changed over the last decade. The objective of this study is to analyse the specialization patterns and the competitive performance of the main international actors of the wine market so as to determine whether or not the patterns of comparative advantages for the trade of this countries have experienced significant changes over the period 2003-2012. In particular, our analysis is focused both on the total wine and on the three main categories of product marketed such as sparkling wines, wines bottled and bulk ones.

The paper is organized as follows: The second section describes the theoretical background and the methodological approach used to answer the aims of the research. The results of the analysis are described and discussed in section three. Concluding remarks are presented in the last section.

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THEORETICAL BACKGROUND AND METHODOLOGICAL APPROACH

As suggested by Qineti et al. (2009) competitiveness can be analyzed at the national, industry or firms level. In addition, the used approaches differ also in terms of aim of the analysis, and spatio-temporal structure (Schimmenti et al., 2009; Crescimanno et al., 2013; Crescimanno et al., 2013). At the national level, different approaches were used in order to evaluate both the competitiveness and the comparative advantage. While through the comparative advantage we compare different commodities groups, competitiveness compare countries regarding the same group of products in order to measure the extent of a country's specialization in a given sector. In particular, the competitiveness is vulnerable to changes in macroeconomic variables, while comparative advantages have a natural structural character (Qineti et al., 2009), and does not include the trade distortions (that are included into the concept of competitiveness).

The most common index used to assess the comparative advantage and the competitiveness of individual economic sectors on the international market is the one proposed by Balassa (1965), which measures the export success of one or more products compared to the total exports. According to Boffa et al. (2009), the nature of an index linked to exports only is certainly a limit since the determination of the degree of specialization based only on a trade flow (the exports) is likely to deprive the analysis of decisive elements. In this sense the index proposed by Lafay appears most complete (1992). The Lafay index (LFI) allows in fact to a detailed analysis for the description of the evolution of dynamic models of production specialization (Bugamelli, 2001), not only because it takes into account the import flows, but also, as opposed to the other indices, because it's enable to consider the intersectoral trade and the re-exports (Ishchukova and Smutka, 2013). Moreover, the LFI is able to include any distortions caused by macroeconomic fluctuations (Fidrmuc et al., 1999).

Several Authors do measure the trade specialization pattern and their change in the international agri-food trade by using LFI. These studies differ in relation to the categories of products studied (single products or group of commodities), the period analyzed, the aim of the study (e.g. change of the patterns of comparative advantage, impact of economic and financial crisis, effect of regional or local economic policies, etc.), and the market reference. As far as this last research field is concerned, Belová et al. (2012) analyzed the main developmental trends of Czech production and trade in the case of poultry meat marketed in the World and in the EU in the period 1993-2010. The findings show that the comparative advantages are gradually fading away more and more over the time, or rather, the comparative disadvantage is deepening, both in relation to the countries of the EU, as well as in regard to third countries. Svatoš and Smutka (2011) analyzed for the period of 1993-2008, the agricultural foreign trade between EU countries on the one hand and China and India on the other hand. With respect to comparative advantages achieved only within the framework of trade in

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relations between the EU - China and EU - India, it is proved that these countries maintain a comparative advantage in 23 aggregations respectively in 26 aggregations.

LFI has been used not only in order to analyze the performance of agricultural trade but also to evaluate the impact of economic crisis on the comparative advantage. Burianová and Belová (2012) found that the impact of crisis on competitiveness of Czech agrarian export was only minor and the main aggregations were able to keep their comparative advantages both in relation to EU 27 market and third countries' market. Bielik et al. (2013), in their study on the Czech and Slovakia agri-food trade competitiveness in the period 1993-2010 for 15 aggregations of products, found that the Czech Republic has a comparative advantage than Slovakia for the majority of commodity aggregations studied. Drabik and Bartova (2007) use the LFI in order to evaluate the impact of the accession of seven Central and Eastern European Countries (Czech Republic, Latvia, Lithuania, Slovakia, Slovenia, Bulgaria and Romania) on the agri-food trade with the EU members', over the period 2000-2005 (prior to and after their accession). In this period a drop in revealed comparative advantages of the majority of the most successful commodities was detected. Contextually the positions of a number of previously uncompetitive commodities has shown an improvement. Numerous authors use the LFI in order to evaluate the change in the specialization patterns in terms of comparative advantage. In particular, Ishchukova and Smutka (2013), analyze the specialization and the competitive performance of the Russian agricultural sector in order to determine whether or not the patterns of comparative advantage for Russian agricultural trade have experienced a significant changes over the period 1998-2010. The Authors showed that Russia has comparative advantages in relation to Commonwealth of Independent States and Asian countries due to its geographical location and good trade relations. In a similar study carried out for the Serbian processed food sector, Ignjatijevic et al. (2014) found an increasing competitive advantage for 11 product groups (on the 29 groups observed). In the economic literature, relatively few studies analyse the competitive performance of the main actors of the world wine market and the recorded changes in their competitive position over the last few years. Our study try to fill this gap analysing the specialization patterns and the competitive performance of eight of the main international actors of the wine market and the changes occurred in the last decades.In order to evaluate the specialization patterns and the competitive performance of the main international actors of the wine market and to determine whether or not the patterns of comparative advantage for the trade of this countries have experienced significant changes in the period 2003-2012, LFI has been used. Countries involved in this analysis are Argentina, Australia, Chile, France, Italy, Spain, South-Africa and USA, which represent the main world producers, consumers and traders.

Lafay's revealed comparative advantage is expressed as:

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$$LFI_j^i = 100\left(\frac{x_j^i - m_j^i}{x_j^i + m_j^i} - \frac{\sum_{j=1}^{N}(x_j^i - m_j^i)}{\sum_{j=1}^{N}(x_j^i + m_j^i)}\right)\frac{x_j^i + m_j^i}{\sum_{j=1}^{N}(x_j^i + m_j^i)}$$

where for any given period and for each country studied and denote, respectively, a country export and import of good j (wine) with the rest of the world, and N is the total number of goods treated (agricultural and food products).

According to the Lafay index, the comparative advantage of Country i in the j production is thus measured by the deviation of product j normalized trade balance from the overall normalized trade balance, multiplied by the share of trade (export plus import) of product j in total trade. The positive value of the LFI shows the existence of a comparative advantage in product j within the analyzed goods treated. The absolute value of the index measures the intensity of this advantage of country i in product j. The higher is the value of the LFI, the higher is the level of specialization of the studied country for the product j. Similarly, a negative value of the index signals that the specialization and hence comparative advantage are lacking (Caselli and Zaghini, 2004; Zaghini, 2005).

The construction of the index, which takes into account both the trade flows for each product and for the entire sector (total number of good treated), allows to determine whether a country is relatively specialized in a given economic product (in relation to all other sectors) even when the country in question appears as a whole a net importer, but on condition that the percentage difference between imports and exports is lower than the same percentage at the national level (Boffa et al., 2009). For these characteristics, this index is thus more efficient compared to other indicators commonly used in the literature for similar analyzes, such as the traditional Balassa index.

As far as the analysis of the specialization patterns of the main world wine-producing countries is concerned, we analyzed the trade exchanges by taking into account the export and import money flow data which have been taken from the UN Comtrade database in the period 2003-2012. More in detail, the analysis has been carried out taking into consideration 2 different elements: on the one hand, the exchange flows concerning the 6-digit classification of the harmonized nomenclature (HS6), the three commercialized typologies of wine, such as sparkling wine (220410), wine in bottles (220421), and bulk wine (220429); on the other hand, we have considered the 2-digit one (HS2) related to the agricultural and food production system.

RESULTS AND DISCUSSIONS

The specialization pattern for wine trade

The evaluation of the LFI allowed to identify the main trade specialization patterns of the countries that play an important role in the world wine industry and the changes that in the period 2003-12 they

 ISBN: 978-9963-711-37-6

have occurred. The LFI has been evaluated both for total wine and for the main categories of wine marketed, such as sparkling wines, bottled and bulk wines, compared to the agricultural and food products.

The country that shows the highest specialization in the world wine scenario is Italy, with a value of LFI stood at 6.886 in 2012 (Table 1). Among the countries studied, Italy showed the highest specialization for the bottled wines (5.549). Wine, in fact, is one of the most representative products of the "Made in Italy" food productions that, thanks to its high quality and marked distinction, has contributed to strengthening the reputation of Italian products worldwide as an offer of excellence, strongly tied to the territory (Carbone and Henke, 2012; Crescimanno and Galati, 2014). Furthermore, Italy shows a strong specialization in the segment of sparkling wines (0.810) which, as founded by Crescimanno and Galati (2014), have acquired in recent years a growing competitiveness due to a growing market orientation of wineries (Galati et al., 2014).

France, among the foremost producers of wine in the world, shows a second most high value of the LFI for the total wine (6.028). In particular, this country preserves its role of undisputed leader in the world market for sparkling wines, showing the highest value of trade specialization index (2.042), and takes the second place on the world stage for the segment of bottled wines (3.965), after Italy.

Among the New World producers, Chile and South Africa show high value of LFI, 5.107 and 4.812, respectively. The high level of trade specialization reached by these two countries in the international scenario is partly linked to the role that the wine industry plays in these countries, due to favourable climatic conditions as well as to the favourable policies implemented in order to support the growth of the sector. As Chile is concerned, however, there is a marked specialization for wines in bottle (3.889) (the country occupies the third place in the international scenario) and a highly specialized for the segment of bulk wines (0.913). In South Africa, for example, after the end of the Apartheid in 1994, the wine industry has undergone deep structural reforms (Sandrey and Vink, 2008). In particular, this restructuring has led the repositioning of the South African' s wine production toward quality rather than volume. As a consequence, it has pushed many producers toward production adjustment to the pattern of international demand to plant noble international varieties and the implementation of advances enology and viticulture techniques (Cusmano et al., 2010). The country is highly specialized, compared to the other countries studied, for bulk trading wines in containers holding more than 2 litres (1.823). Over the last few years there has been a shift from exports of bottled wines to the bulk wines, with heavy consequences on the price down of 12% (I numeri del vino, 2013). An high level of specialization has been revealed even for the bottled wines (3.155).

Spain, one of the most important world wine producers, shows a lower specialization level than other European countries observed in this analysis (3.333). In spite of this, Spain continues to be one of the

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most important producers of sparkling wines, showing a LFI value of 0.659 and occupies the fifth position in the segment of the bottled wines (2.081).

Significant is the data related to the specialization of Australia (0.719), especially for bottled wines (0.744). This result, due to the intense activity that since 1980s, saw a change of orientation of the Australian wine industry from little more than a "domestic-oriented, cottage-style industry" to one with "a reputation for approachable, yet high quality, characterful wines of every possible style" (Clarke, 2002; Aylward, 2006).

Low value of LFI has been recorder for Argentina (0.160). This can be largely caused by the trade restrictive measures taken by the government which are adversely affecting imports. 90 percent of the winemaking accessories (including ingredients, processing and bottling equipment, and oak barrels) are in fact imported (USDA, 2014).

Among the countries studied, a negative value of the LFI has been recorded for USA, showing a trade de-specialization compared to the agri-food trade as a whole, both for the total wines (-1.591), and for the three categories of wine studied. This proved a marked dependence of the US for the supply of these products. According to the FAO data (2015) US, after France, is the second most important market for the consumption of wine.

Changes in the wine trade specialization patterns

The dynamics of the Lafay index for total wine and for the three categories of wine in the period 2003-2012 show different trends in the countries studied (Table 1). More in detail, Italy shows a modest improvement of their trade specialization, remarkable since 2009, thus proving that despite the deep economic and financial crisis which since 2007 involving many countries integrated internationally, the wine industry has reacted positively, improving its competitive advantage in the world scenario (Crescimanno et al., 2014). The positive performance recorded is mainly due to the increasing specialization of the sparkling wines segment. A similar results is obtained by Crescimanno and Galati (2014) according to which competitiveness of Italian sparkling wines in the international market has been increased in the last few years, in particular in the Russian market, where this Italian product is increasingly appreciated, even if only by the range of consumers with high disposable income, often associated consumption of sparkling with the Italian lifestyle. Among sparkling wines, *Prosecco* recorded in the last few years an increase of consumption for special occasions and is presented with a "cool" image and not as cheap substitutes for *Champagne* (Mariani et al., 2012). As bottled wines are concerned, Italy shows a slightly increasing performance, mainly due to an increase of sales in markets that do not have an old wine tradition, where local production is insufficient to meet demand, and where the wine is an expression of the Italian lifestyle (Crescimanno et al., 2014b).

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As the Spanish wine industry is concerned, the recorded trend is partly explained by commercial dynamics in international markets of quality wines (in Spain designated quality wine represents 50% of total production). As suggested Castillo and García (2013), the competitive positioning strategy of these wines during the decade 2000-2010 is focused, on three aspects: (i) low-cost wine production; (ii) a distinctive policy of segmenting with respect to quality and maintaining high standards through investments on innovation; (iii) realization of economies of scale.

Among the countries studied, the best performance has been showed by the Chilean wine industry that, during the period of reference, progressively increased its wine trade specialization.. This performance is linked to the growing endorsement of Chilean wine in the world market, thanks to the high quality of wines led by the ideal conditions for wine production and excellent natural endowments that results in numerous wine regions characterized by favorable *terroir*. Furthermore, the Chilean wine industry has made considerable effort to modernize technologies and adopt novel productive practices (Cusmano et al., 2010). In particular, in this country, industry associations have been created in the latter part of the 1990s in response to the growth taking place in the industry and as a consequence of the need to achieve greater penetration in export markets (Kunc and Bas, 2009; Fleming et al., 2014). Chile gaining ground is not surprising: since 2009, the country was heralded by the global community for its "solid macro environment" and "good innovation policies" (Lopez-Claros, 2009-2010).

Regarding Argentina our findings show no significant changes in trade specialization despite the adoption at the end of 2004 of the Wine Strategic Plan with the ultimate objective of positioning Argentina among the leading wine producing countries in both the export and domestic market (USDA, 2014).

Table 1 - Trend of Lafay index from 2003 to 2012

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	Total wine									
Argentina	0.080	0.106	0.121	0.144	0.178	0.208	0.182	0.068	0.106	0.160
Australia	3.678	2.889	3.471	3.096	4.127	2.039	2.061	1.832	1.013	0.719
Chile	3.443	3.557	3.217	3.302	4.119	4.120	4.070	4.810	4.512	4.812
France	6.696	6.352	6.287	6.611	6.646	6.179	5.598	5.780	5.621	6.028
Italy	6.515	6.549	6.477	6.487	6.520	6.293	6.507	6.560	6.799	6.886
Spain	3.157	3.257	3.189	3.022	3.071	3.075	3.301	2.981	3.251	3.333
South Africa	5.490	6.792	6.341	6.221	7.345	6.228	5.935	5.724	5.076	5.107
USA	-2.149	-1.922	-2.059	-1.941	-2.111	-1.971	-1.840	-1.696	-1.594	-1.590
	Sparkling wines									
Argentina	-0.002	-0.004	-0.003	-0.003	-0.005	-0.004	-0.004	-0.009	-0.016	-0.011
Australia	-0.272	-0.263	-0.293	-0.354	-0.440	-0.475	-0.351	-0.433	-0.422	-0.480
Chile	0.004	0.004	0.007	0.000	0.003	0.018	0.010	0.022	0.011	0.009
France	2.202	2.340	2.435	2.615	2.681	2.336	1.899	2.109	1.995	2.042
Italy	0.348	0.373	0.369	0.393	0.471	0.568	0.566	0.607	0.712	0.809
Spain	0.527	0.542	0.525	0.442	0.433	0.512	0.496	0.504	0.501	0.659
South Africa	0.008	0.008	-0.032	-0.048	0.000	0.013	0.074	0.120	0.109	0.129
USA	-0.382	-0.396	-0.396	-0.393	-0.391	-0.319	-0.268	-0.301	-0.320	-0.298

ISBN: 978-9963-711-37-6

	Bottle wines									
Argentina	0.069	0.098	0.108	0.125	0.158	0.176	0.203	0.164	0.127	0.142
Australia	3.702	2.923	3.418	3.081	4.160	2.246	2.004	1.797	1.050	0.743
Chile	3.026	3.044	2.776	2.896	3.593	3.536	3.421	4.016	3.833	3.889
France	4.310	3.907	3.748	3.887	3.860	3.788	3.615	3.608	3.596	3.964
Italy	5.704	5.712	5.739	5.618	5.558	5.232	5.433	5.465	5.562	5.549
Spain	2.056	2.061	2.084	2.057	2.082	1.942	1.923	1.982	2.072	2.081
South Africa	4.770	5.559	5.236	4.999	5.783	4.637	4.363	4.085	3.423	3.154
USA	-1.784	-1.570	-1.702	-1.583	-1.754	-1.664	-1.571	-1.399	-1.250	-1.189
	Bulk wine									
Argentina	0.013	0.012	0.017	0.022	0.025	0.036	-0.017	-0.086	-0.004	0.029
Australia	0.248	0.230	0.346	0.368	0.407	0.268	0.407	0.468	0.384	0.456
Chile	0.412	0.509	0.433	0.405	0.523	0.565	0.638	0.771	0.668	0.913
France	0.183	0.105	0.103	0.108	0.104	0.055	0.083	0.061	0.030	0.021
Italy	0.462	0.464	0.368	0.474	0.491	0.492	0.507	0.486	0.524	0.527
Spain	0.574	0.654	0.579	0.522	0.555	0.620	0.881	0.494	0.677	0.593
South Africa	0.711	1.225	1.137	1.271	1.562	1.577	1.497	1.518	1.543	1.822
USA	0.017	0.045	0.039	0.036	0.033	0.012	-0.001	0.004	-0.024	-0.102

Source: Our calculation on UN Comtrade data.

A negative trend was recorded, however, for France and South Africa that, since 2007, show a progressive erosion of their trade specialization as a result of a growth rate of imports more sustained than that recorded for the wine exports in the world market. As suggested Artopoulos et al. (2013) the main motivation affecting France performance is the emergence of wine produced in the new world that led to a decline in the worldwide of its market share. The negative trend has affected all three categories of wine, and among these the sparkling. This is due to a drop in the champagne's export at the world level linked to the difficulty of sellers to redirect the exports outside EU for the lack of financial means in particular in the current financial and economic crisis (Menival, 2013)., Furthermore, the recorded trend could be related to the less competitiveness of Champagne in terms of price compared to other similar products such as sparkling wines, in the main consumption countries (such as Japan, Italy, USA, Spain, UK)which led to a decline in exports slightly higher than the 10% in the period 2008-12. For the South African wine industry, Van Rooyen et al. (2011) identify the main reasons for this overall decline in competitiveness among these the world economic slowdown, sustained international strengthening in the value of the local currency, lack of infrastructure maintenance and export facilities, lack of skilled labour, and government's inability to provide sufficient regulatory, certification and support services to the needs of the dynamic wine industry. The recorded trend is related to the reduction of the trade specialization for the category of bottled wines, while a positive trend is observed for the sparkling wines, although the same country covers a low specialization in the world market, and, as can be noted, for bulk wines. The high specialization of some countries for the bulk product is partly linked to a recent trend of an increasing flow of sales of bulk wine in order to make more sustainable transportation is economic and environmental terms (ISMEA, 2013).

 ISBN: 978-9963-711-37-6

A strongly negative performance is observed for Australia that, if until 2007, has showed a positive trend of trade specialization while from 2008 recorded a sharp contraction that has not mentioned to stop the last five years. This is linked to both a reduction in the value of total exports, due to the loss of the value of the Australian dollar against the euro and the US dollar, and to a shift from bottled wine exports to the bulk wine. With specific reference to the US, during the reference period, the de-specialization tends to decrease as is clear from a reading of the index which rose from -2.150 to -1.591.

CONCLUDING REMARKS

The analysis carried out through the estimating of Lafay index reveals deep changes in the global wine market. On one hand, "Old World" wine countries, such as Italy, France and Spain, while keeping an unquestioned importance in the international scenario, show important changes in their specialization patterns. In particular, Italy, world leader for bottled wines, increases its specialization in the segment of sparkling wines, and in particular for DOP sparkling such as *Prosecco*, thanks to the ability of Italian wineries to differentiate their offerings in order to respond to a growing demand of this product in traditional and new consumption markets. Sparkling wine has become more and more popular and in some markets it has even become the trendy thing to drink. The increasing specialization of Italy for the sparkling wines has been accompanied by the erosion of the France market share in the world scenario for the same product. On the other hand, new countries consolidate their presence in the international market, and especially Chile, which increases its specialization for bottled wines, increasingly appreciated by consumers around the world, and South Africa, for bulk wines. This last trend is linked, as already mentioned, to the need for greater sustainability of transports both in economic and environmental terms.

Our results show a progressive loss of competitiveness of some EU traditional wine producers, highlighting how new agricultural policy measures, the objective of which was to increase the competitiveness of European producers in foreign markets through a growing appreciation of the relationship between product and territory, have not yielded the desired benefits. In contrast, the policies measures implemented in the new producing countries, such as the conversion of vineyards in Chile with varieties most appreciated by consumers, and efforts for the modernisation of the wine industry through the implementation for product and process innovation contributed to support the export orientation of these countries that have increased in recent years their specialization in the international market.

In the outlined scenario, is clear that the only sector policies are unable to increase the competitiveness of producers in the world wine market. In particular, in the traditional producing countries further investments are considered necessary to make wine industry more and more modern than today. In

 ISBN: 978-9963-711-37-6

fact more than ever, the needs to respond quickly to changing market patterns and tastes of consumers have been highlighted. Such a consideration is more important when we consider that the markets of the new expansion of consumption today account for nearly one third of total world consumption. With this in mind, it is necessary to take into account the specificity of each of the target markets, such as the differences in terms of market size, of wine culture and of economic opportunities in order to take targeted actions in spite of the obstacles related to trade rules that often represent the most important barrier wine exports.

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 ISBN: 978-9963-711-37-6

E-HRM ADOPTION BEHAVIOUR: DIFFUSION OF INNOVATION THEORY (DOI) PERSPECTIVE

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ABSTRACT

Based on Diffusion of Innovation Theory (DIT), present study developed and empirically tested the model to explain e-HRM adoption behavior of organizations in developing countries. Data were collected from 212 firms in Sri Lanka by means self-administered questionnaire. Structural model was tested using Partial Least Square (PLS) structural equation modeling. Results revealed that relative advantage, compatibility, complexity and observability are significant determinants of intention of e-HRM adoption. Intention of adoption is significantly and positively related to extent of operational, relational and transformational e-HRM adoption. Overall, empirical results support the applicability of the DIT to explain the e-HRM adoption behavior of organizations. Theoretical contributions and managerial implications followed by limitations and direction for further research are discussed.

Key words: *e-HRM adoption, Innovation characteristics, Developing country*

INTRODUCTION

The adoption of electronic Human Resource Management (e-HRM) has been significantly increased over the past particularly among US and European organizations (Florkowski & Olivas-Luján, 2006; Marler & Sandra, 2013) and growth will continue in future(Bondarouk & Ruël, 2009). High degree of adoption was evidenced mainly due to adoption of e-HRM allows organizations to enhance efficiency and effectiveness of HR service delivery (Ruël, Bondarouk, & Looise, 2004) improve strategic orientation of HRM functions (Janet H. Marler, 2009) and gain competitive advantage (Ruël & van der Kaap, 2012). However, e-HRM adoption in developing countries indicate relatively slow rate. Slow adoption rate is a critical issue as organizations in developing countries are now engaging more in international business where adoption of e-HRM is required to compete in international context (Ruël et al., 2004).

A review of e-HRM literature evidenced that majority of research were considered to explore determinants or consequences of e-HRM adoption among organizations in developed country such as

 ISBN: 978-9963-711-37-6

USA (Marler, Fisher, & Weiling, 2009), Canada (Florkowski & Olivas-Luján, 2006), UK (Ball, 2001; Parry & Wilson, 2009), Germany (Strohmeier & Kabst, 2014) Australia (Troshani, Jerram, & Rao Hill, 2011), Denmark (Holm, 2014), Netherlands (Bondarouk, Ruël, & Heijden, 2009). However, findings of these studies are unlikely to generalize to firms in developing countries due to fundamental differences between these two contexts. It is apparent that firms in developing countries confront with unique challenges with e-HRM adoption. First, firms in developed countries equipped with well-developed, accessible and affordable infrastructure, whereas in most of the developing countries' IT related adoption (e-HRM) has been constrained by the quality, availability, and cost of accessing such infrastructure (Humphrey, Mansell, Paré, & Schmitz, 2003). Second, low level of information and communication technological awareness of individuals impedes the IT related adoption (e-HRM) among firms in developing countries (Molla & Licker, 2005). Third, many of the developing countries have a low level of trust on IT related adoptions (Oxley & Yeung, 2001). Fourth, since most of the firms in developing countries are small, IT related adoption (e-HRM) has been constrained by the lack of adequate resource (Goode & Stevens, 2000). Thus, it is an important to explore determinants of e-HRM adoption in developing context.

Sri Lanka is a developing country located in South Asia. Its development for over 30 years was hindered by the ethnic war. After demolishing of the war in 2005, Sri Lanka has shown rapid developments in terms of economic and IT over the other countries in the region. According to recent statistics Sri Lanka record US$ 71 billion GDP (IMF, 2014), $3385 per capita income (IMF, 2014), and high HDI index value of 0.75 (Human Development Report, 2014). Sri Lanka is only second to Maldives in the south Asia in terms the per capita income (IMF, 2014) and Sri Lanka recorded 8.3% GDP growth rate in 2011 (Central Bank of Sri Lanka Annual Report, 2011).

Sri Lanka is also progressing rapidly forward in terms of technology embracement. During 2005 to 2010, cellular subscribers' base in Sri Lanka has shown a 550% growth (Annual Report of Ministry of Finance, 2010). Moreover, Sri Lanka is the first country in south Asia region who introduced 3G, 3.5G HSDPA, 3.75G HSUPA and 4G LTE mobile broadband internet technologies (SAARC, 2011). Further, Sri Lanka has become the sub region leader in E-government development index (0.54 score and ranked in 74th) and e-participation index (0.65 score and ranked in 33rd) (UN Report, 2014). According to Network Readiness Index (NRI) that measure the propensity for countries to exploit the opportunities offered by information communication technology, Sri Lanka report 3.94 score and rank in 76th (world Economic Forum, 2014).

Sri Lanka is also differentiated with developed countries in terms of their culture in general and business culture in particular. With respects to Hofstede cultural dimensions, Sri Lanka is recorded high score (80) in power distance (Hofstede Centre). High power distance culture is mainly attributed

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by centralized decision structures and existence of hierarchical levels where discourage the innovation (e-HRM) adoption (Zmud, 1982). With respects to individualism dimension Sri Lanka is indicated score of 35 (Hofstede Centre) which claimed as collectivist culture. Organizations in individualistic culture are attributed by lower level of social interactions among employees while high degree of interactions exists in a collectivist cultures (Erumban & de Jong, 2006). Implementing e-HRM in organizations leads to change the social interactions patterns among employees as it change from face to face interaction to electronic communication (Stone, Stone-Romero, & Lukaszewski, 2006). It has been evidenced that management theories, concepts and practices developed in one culture might not be applicable to other cultures (Hofstede, 1991). Given that majority of e-HRM adoption studies were conducted with organizations in developed countries, this study explores this phenomenon in developing country. Considering economic, social, technological and cultural dimensions explained above, it is important to explore the determinants of e-HRM adoption particularly in Sri Lankan context.

The remainder of the paper is organized as follows. First, key concepts of e-HRM and types of e-HRM are discussed. Second, theoretical positioning of the study is discussed. Third, research model is illustrated and discussed followed by seven hypotheses. Fourth section discusses the research methodology of the study. Fifth section presents results followed by discussion. Implications, limitation and conclusion are explained in the last section.

LITERATURE REVIEW

Defining e-HRM

Utilizing IT to provide employees with HR services is generally treated as e-HRM (Heikkilä & Smale, 2011). Before conceptualizing the term "e-HRM", it is important to recognize the similar terminology that has been used interchangeably with e-HRM. These terms include; virtual HRM (Lepak & Snell, 1998), web-based HRM (Ruël et al., 2004), Intranet-based HRM (Bondarouk & Ruël, 2009), Business to employee (B2E) systems (Huang, Yang, Jin, & Chiu, 2004).

Definition of e-HRM has evolved over decades and there is no universally accepted definition. However, (Strohmeier, 2007) Provide clear conceptualization of the terminology and it has been widely used in the e-HRM studies. Accordingly, e-HRM is defined as "Planning, implementation and application of information technology for both networking and supporting at least two individual or collective actors in their shared performing of HR activities" (Strohmeier, 2007). This study uses this definition as it covers the essential components of the e-HRM.

Types of e-HRM

 ISBN: 978-9963-711-37-6

Extant literature categorize e-HRM system based on three major approaches: (1) based on information system (IS) functions, (2) based on corporate significance and (3). based on e-HRM objectives. According to first classification e-HRM systems are twofold: Auotmational e-HRM and informational e-HRM. Automational e-HRM refers to automation of administrative task of HRM to offer release HR personal form administrative burdens, decrease costs and increase efficiency of HR process (Ball, 2001). In contrast informational e-HRM denotes application of IT to gather comprehensive insights about crucial HR issues to create transparency and support HR decision making (Ball, 2001). Second classification also identifies two types of e-HRM system: Operative e-HRM and strategic e-HRM. Operative e-HRM comprise IT applications that support administrative HR tasks to increase efficiency and speed of HR process while strategic e-HRM consist of IT applications that support HR task with direct impact on corporate strategic objectives (Strohmeier & Kabst, 2014). Third classification lists out three e-HRM types: *Operational e-HRM, relational e-HRM and transformational e-HRM.*

Operational e-HRM is defined as the automation of administrative HR tasks with the objective of reducing costs, speeding up process and improving productivity. Operational e-HRM includes e-personal record keeping and administration, e-payroll, e-time attendance and management and e-access control (Ruël et al., 2004). Relational e-HRM involves with IT applications that connecting HR personal, line managers and employees with the objective of increasing collaboration and service quality (Parry & Tyson, 2011). Relational e-HRM comprise with e-manager support system and e-employee support system. Transformational e-HRM comprise IT applications that enable to improve the business support and strategic orientation of HRM functions (Parry & Tyson, 2011). This consists of e-recruitment, e-performance management, e-training and e-compensation. Present study use third classification of e-HRM (operational, relational and transformational) as it involve with holistic perspective of e-HRM.

THEORETICAL BACKGROUND

In order to identify the most appropriate theory to address the research question, we first reviewed extant literature about organizational adoption of e-HRM applications. Consistent with (J. H. Marler & Fisher, 2013), the review results confirmed that empirical studies of the organizational adoption of e-HRM applications are very limited and most of the studies are absent a strong theoretical background. Consequently, as e-HRM applications can be considered as technological innovation in terms of HRM, (Ruël et al., 2004) this study opted to review organizational innovation adoption/diffusion literature. Review suggests that three theories have been mostly used in previous studies. These include Diffusion of innovation theory (DIT) (Rogers, 1995, 2003), Diffusion/implementation model (Kwon & Zmud, 1987) and Tri-core model (Swanson, 1994). These theories address several criterion variables

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such as intention to adoption, decision to adoption, intention to use, adoption and diffusion. Since the purpose of this study is to examine key drivers of intention and actual adoption of e-HRM, aforementioned theories provide the theoretical relevance to address the research question. Among these three theories DIT has been received the considerable attention to explain the organizational adoption of IT and technological innovations. Following section briefly discuss core elements of the DIT along with the rationale for applying the DIT for this study.

Diffusion of innovation theory (DIT)

Innovation is defined as the generation, acceptance and implementation of new ideas, processes, products or services (Thompson, 1965). Further, Rogers, (1995, P.11) Innovation is defined as "an idea, practice or object that is perceived as new by individual or other unit of adoption" .These definitions emphasizes two important aspects of an innovation. First, innovation is not only a product but also it can be an idea, a practice or a process. Second, innovation does not need to be new in terms of the time of its discovery and instead it need to be viewed as new in the eyes of its unit of adoption such as individual or organization (Zaltman, Duncan, & Holbek, 1973). Several authors (Florkowski & Olivas-Luján, 2006; Shrivastava & Shaw, 2003) view application of IT to deliver HR services as an innovation. More explicitly, (Ruël et al., 2004) argue that e-HRM can be treated as an innovation in terms of HRM due to two main reasons. First, e-HRM creates opportunity to position employee-management relations in the hands of employees and line managers and second, e-HRM offer opportunities to design HRM tools and instruments that would not be possible without IT. Thong (1999), contends that innovations in general provide potential adopters with innovative ways of addressing issues and exploiting opportunities. Thus, consistent with these arguments, this study view e-HRM as an innovation where organizations enable to find new ways of solving HR related issues (inefficiency and ineffectiveness of HR service delivery process) and exploit opportunities (accurate and timely decision making to gain competitive advantage).

DIT theory suggests that diffusion of innovation is the process by which an innovation is communicated through certain channels over time among the members of a social system. According to DIT, innovation diffusion is influenced by four factors: innovation attributes communication channels, time, and social system. DIT has been applied in several fields of study such as information systems (Grover, Fiedler, & Teng, 1997), marketing (Mahajan, Muller, & Bass, 1990), and e-commerce (Eastin, 2002). These studies have been validated applicability of innovation characteristics namely relative advantage, compatibility, complexity, observability and trialability as determinants of innovation adoption. However, since technology related innovation adoption in HRM, such as e-HRM comes in to practice relatively late compared to the other functional areas of the organizations (Parry,

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2011; Ruël et al., 2004) very few studies applied DIT to explain e-HRM adoption. For instance, DIT has been used to explore organizational online recruitment adoption, (Parry & Wilson, 2009), Human resource information system adoption (Teo, Lim, & Fedric, 2007). Thus present study develop research model to explain the e-HRM adoption behavior of organizations in Sri Lanka.

RESEARCH MODEL

Organizational innovation adoption is considered as processes where organization collect and synthesizes information about innovation, formation of perception about innovation, make a decision to adopt or reject innovation and finally actual implementation of the innovation (Rogers, 1995). Throughout this process, different factors may influence both intention and actual adoption of e-HRM. In order to explain this phenomenon, this study addresses the two research question. First research question refers to "Degree to which innovation characteristics determine the intention of e-HRM adoption among organizations in developing countries?" Second research questions probe "degree to which organizational intention to adoption determine extent of e-HRM adoption among organizations in developing countries?" In order to address these research questions, using DIT following research model was developed.

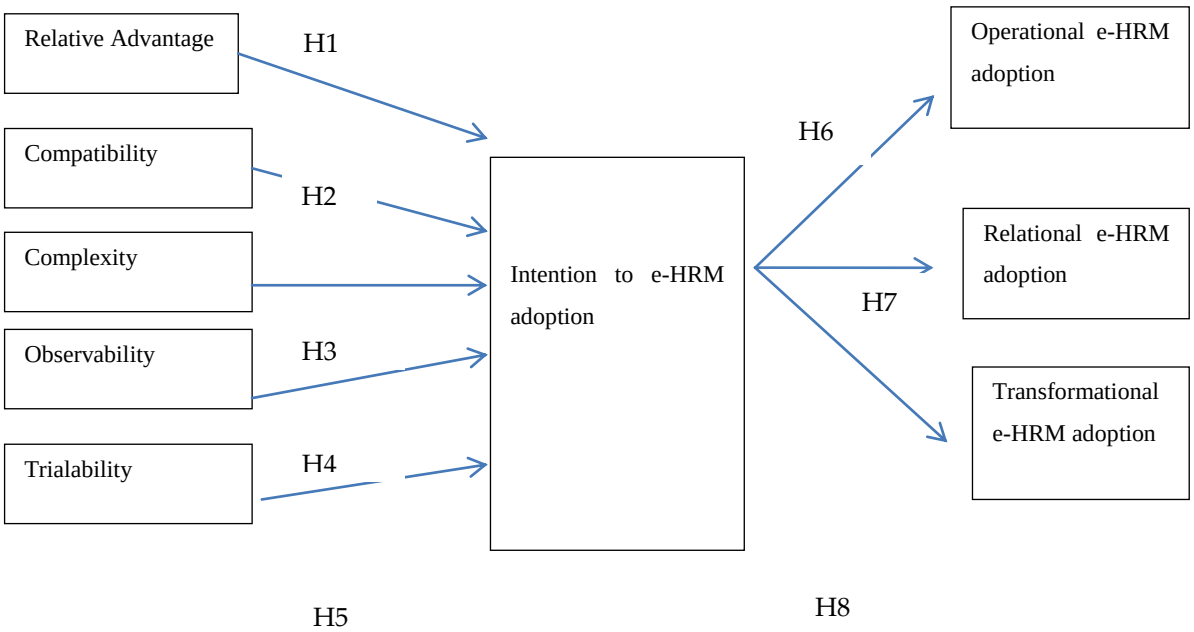

Figure 1: Research Model

Intention to e-HRM adoption and extent of e-HRM adoption

ISBN: 978-9963-711-37-6

Intention to e-HRM adoption is defined as organizations` intention to use/implement e-HRM applications in the future. Intention to innovation adoption is generally measured by means of forward looking statements that capture the organizations` willingness to adopt target innovation (Jeyaraj, Rottman, & Lacity, 2006). In line with this reasoning, this study used perceived measure of willingness of organizations to implement e-HRM applications.

Extent of e-HRM adoption is defined as systematic application of IT to facilitate various actors (HR personals, line managers and employees) in their shared performing of HR tasks (Strohmeier & Kabst, 2009). In their study, Strohmeier and Kabst (2009) used the dichotomous measure (whether adopt or not) to measure organization e-HRM adoption. However, employing dichotomous variables as a measure of IT/innovation adoption was heavily criticized as it does not capture the variance of the extent of adoption. Specifically, (Burton-Jones & Straub Jr, 2006) suggests that system adoption/usage need to be measured using rich measures that capture the three elements (system, user and task) of the system usage. They also acknowledged that it is rather practically difficult to employ very rich measure that cover all the three elements of usage and it is advisable to use the rich measures that covers at least two element. In line with this reasoning and responding to limitation of previous e-HRM adoption studies, present study used rich measure that covers system and task elements of e-HRM adoption.

HYPOTHESIS

Relative Advantage

Relative advantage is defined as the degree to which an innovation is perceived as being better than the idea or artifact it supersedes Rogers (1995). This means that potential adopters of e-HRM system involve in evaluating favorable and unfavorable consequences of e-HRM against their use of traditional manual HRM system. Diffusion of innovation theory suggests that when innovation's relative advantage is perceived to be higher, individuals are more likely to adopt (Rogers, 2003). Organizations generally intend to adopt innovations mainly to overcome performance gaps and deficiencies or to exploit new opportunities (Premkumar & Potter, 1995). As e-HRM system is considered as innovation, e-HRM Applications should be able to address the performance related issues of the manual HRM system (inefficiency and ineffectiveness) while offering new opportunities. Since e-HRM applications are related to ICT, most of the generally accepted positive outcomes of ICT take part of the e-HRM.

In addition, with the operational e-HRM adoption such as e-personal record keeping and administration, e-payroll, e-time and attendance management organizations enable to enhance effectiveness and efficiency of the HRM department through automating administrative tasks

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(Normalini, Kassim, Ramayah, & Kurnia, 2012), reducing paper work (Ruël et al., 2004), simplifying work process (Burbach & Dundon, 2005). Moreover, with relational e-HRM applications such as e-manager service and e-employee service organizations enable to connect different parts of the organization and other organizations (Strohmeier & Kabst, 2014), strengthen the collaboration and communication among HR personal, line managers and employees (Ensher, Nielson, & Vallone, 2002), enhance the remote access to the HR information (Parry & Tyson, 2011). Further, with transformational e-HRM applications such as e-recruitment, e-training, e-compensation, e-performance management potential adopters enable to make strategic decision with valid and reliable updated information (Olivas-Lujan, Ramirez, & Zapata-Cantu, 2007), freeing HR staff from administrative burdens (Martin, Reddington, & Alexander, 2008) and transform role of HR from administrative to business partner (Ruta, 2005). Based on this reasoning following hypothesis is proposed.

H1: relative advantage is positively related to organizational intention to e-HRM adoption

Compatibility

Compatibility refers to the degree to which innovation is perceived as being consistent with the existing values, past experience and needs of the potential adopter (Rogers, 2003). DIT suggest that higher the perceived compatibility of innovation, potential adopters are more likely to adopt the innovation. Previous empirical studies of innovations adoption (Toranatzky & Klein, 1982), IT adoption (Cooper & Zmud, 1990), and HRIS adoption (Teo et al., 2007) found compatibility as the important variable to explain the variance of intention to use or adoption. Two types of compatibility (organizational and technical) are required to be met in case of technology related innovation adoption (Schultz & Slevin, 1975). Organizational compatibility is generally assessed through the congruence between innovation and existing attitudes, beliefs and value systems of the potential adopter. Subsequently, technical compatibility is evaluated by means of assessing match between innovations with existing systems (Premkumar & Potter, 1995).

Due to e-HRM adoption organizational work practices, culture, communication system and organizational structure are subjected to change. This is so due to IT components included in the e-HRM applications. For instance, due to operational e-HRM applications like e-payroll, e-personal record keeping and administration organizational work practice and procedures change from manual to IT supported work structure (Ensher et al., 2002). Moreover, relational e-HRM applications like employee and manager service system give opportunity for managers and employees to electronically connecting and incorporating(Sanayei & Mirzaei, 2012). Further, e-performance management system as an important element of transformational e-HRM system encourages virtual performance feedback while discouraging face to face interactions between supervisor and subordinates (Payne, Horner,

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Boswell, Schroeder, & Stine-Cheyne, 2009). This kind of adoption perhaps mismatched with the existing organizational culture and value and belief systems. Consequently, these changes lead to increase resistance to change where alternative coping strategies are required to implement to make aware stakeholders. It is not only organizational compatibility, but also technology used in innovation need to be compatible with other interconnected technologies in the organization (Alavi, 1993). This means that existing data resources, software and hardware need to be compatible with the planned e-HRM system. These allow us to claim that when potential adopters perceived that e-HRM is organizationally and technically highly compatible, they are more likely to adopt e-HRM. Based on this following hypothesis is proposed.

H2: compatibility is positively related to organizational intention to e-HRM adoption

Complexity

Complexity is defined as the degree to which an innovation is perceived as relatively difficult to understand and use (Rogers, 2003). DIT suggests that when potential adopter perceived that complexity of innovation is higher, they are less likely to adopt into innovation. Potential adopters strive to make a tradeoff between benefits of the innovation and complexities of using innovation prior to make innovation adoption decision (Premkumar & Potter, 1995). Due to complexity of technology greater uncertainty is created among potential adopters particularly in making innovation adoption decision (Premkumar and Roberts, 1999). Since e-HRM applications are combined with the information technology, there is a possibility of increasing level of uncertainty and complexity among potential adopters.

It is necessary to possess adequate knowledge and skills to use or operate IT related innovations. Some IT related innovations require advanced knowledge and experience to operate (Dunivan, 1991). In order to work with some applications of e-HRM system for instance, employee and manager support service managers and employees should have understanding of IT technology. Since difficulty of some non-technical managers and employees to understand and use such IT related e-HRM innovations many organizations take relatively considerable time to adopt such innovative system. Due to e-HRM adoption, role of the HR personal, line managers and employees are subjected to change as additional task, duties and responsibilities may add (Ensher et al., 2002). When potential adopters believe that it is rather complicated to learn, use and operate such e-HRM applications it leads to create negative attitude toward e-HRM in turn lead to discourage its adoption. These observations allow us to claim following hypothesis.

H3: complexity is negatively related to organizational intention to e-HRM adoption

Observability

 ISBN: 978-9963-711-37-6

Observability is defined as the degree to which the results of an innovation are visible to others (Rogers, 1995). Observability is interchangeably used with the term visibility. Visibility measures the degree to which an innovation is visible to individuals in a social system (Normalini et al., 2012). Some innovations are relatively easy to observe while other innovations are rather difficult to observe (Rogers, 2003). With respects to technological innovation such as e-HRM, they consist of two main components. First, component refers to hardware components which comprise with material or physical objects such as computers, printers and other electronic equipment. Second elements related to software components that consist of the information base for the tools such as computer programs for computer systems. Even though computer hardware is easy to observe software applications of e-HRM is difficult to observe. DIT suggests that "the observability of an innovation, as perceived by members of a social system, is positively related to its rate of adoption" (Rogers, 2003, P.258). This is mainly due to observability of an innovation (e-HRM) leads to make an awareness of the innovation in the mind of potential adopters. Consequently, initial awareness expands up to formal evaluation of an innovation prior to make innovation adoption decision. This leads to following hypothesis.

H4: O*bservability is positively related to organizational intention to e-HRM adoption*

Trialability

Trialability is defined as the degree to which an innovation may be experimented with on a trial basis (Rogers,2003). DIT acknowledges that when potential adopters have opportunity to experiment the innovation on a trial basis they are more likely to adopt innovation. It is not easy to provide opportunities to try out every innovation due to nature of innovation and cost of the innovation. However, try out technological related innovation for a limited period help potential adopters to understand the various features of the innovation, operating procedure and positive and negative consequences of innovation (Agarwal & Prasad, 1997). This may also cause to minimize uncertainties about innovation. Consequently, trialability of innovation becomes a critical source of establishing positive or negative perception about innovation in turn leads to actual implementation. Based on this line of reasoning, it is reasonable to postulate that when organizations are exposed to try out various e-HRM applications, it is more likely them to form positive attitude of e-HRM in turn lead to adoption. These observations allow us to claim following hypothesis.

H5: Traialability is positively related to organizational intention to e-HRM adoption

ISBN: 978-9963-711-37-6

Intention to Adoption and Extent of Adoption

Organizational innovation adoption is considered as processes where organization collect and synthesizes information about innovation, formation of perception about innovation, make a decision to adopt or reject innovation and finally actual implementation of the innovation (Rogers, 2003). Potential adopters form an intention to adopt technological innovations after primary evaluation of various factors (Thong, 1999). As e-HRM is treated as IT supported innovation in terms of HRM, above arguments is relevant for e-HRM adoption. Various e-HRM applications have been developed to support administrative, relational and strategic HRM functions. Operational e-HRM such as e-payroll, e-personal record keeping and e-time attendance support to execute administrative HRM activities namely time attendance, personal profile administration and pay roll (Bissola & Imperatori, 2013). Relational e-HRM applications such as e-manager support system and e-employee support system are developed to support relational HRM activities (Sanayei & Mirzaei, 2012). Transformational e-HRM applications for instance e-recruitment, e-training, e-performance management and e-compensation aim to support strategic HRM activities (Strohmeier & Kabst, 2014). In accordance with DIT, it can be claimed that when potential adopters develop positive intention to adopt e-HRM, they are more likely to actually implement e-HRM vice versa. This allows us to postulate following hypotheses.

H6: Behavioral intention is positively related to extent of operational e-HRM adoption

H7: Behavioral intention is positively related to extent of relational e-HRM adoption

H8: Behavioral intention is positively related to extent of transformational e-HRM adoption

Control Variables

This study controlled for several organizational level variables that potentially influence to extent of e-HRM adoption. Inclusion of control variables was based on the extant literature on e-HRM adoption. Three control variables were included: organizational size, industry and involvement in international operations. Organizational size was included as large firms are more likely to implement technological innovations in particular e-HRM (Strohmeier & Kabst, 2009; Teo et al., 2007) compared to small and medium scale firms. Adoption of e-HRM partially varies among different industry (Strohmeier & Kabst, 2009). Since firms in banking and insurance industry are characterized by more clerical and stationary works compared to construction industries where non clerical works are commonly taken place, there is a chance of finding difference in e-HRM adoption across different industries. Finally, this study includes organization involvement of international operations such as export and import product and services. This is because there is a great tendency to adopt e-HRM applications by the firms those who involve in international operations.

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METHODOLOGY

Measurement of variables

All constructs were operationalized using previously developed and empirically tested scales. We first, review the innovation adoption and IT adoption/acceptance literature to identify the most applicable measuring instruments that can be applicable to e-HRM context. Second, In order to meet content validity interviews were conducted with the firms those adopted e-HRM applications. Final survey questionnaire consists of the items identified through literature review and adjusted e-HRM context by interview. Relative advantage scale was adapted from Moore and Benbasat (1991) & Premkumar and Roberts (1999). Compatibility scale was drawn from Moore and Benbasat (1991) and Teo et al. (2007). The scale for complexity, observability and trialability was adapted from Moore and Benbasat (1991) . These variables were measured using five point Likert scales, with the anchors being strongly disagree (1) and strongly agree (5). E-HRM adoption was measured by the items developed by Strohmeier and Kabst (2014). Extent of adoption was measured using the 5 point scale which range from not adopted (1) to completely adopted (5). Organization size was measured by the number of employees and involvement of international operation was measured by dichotomous variable where 1 denotes involvement of international operations.

Data collection

Data collection was conducted in two phases: Pre-study and questionnaire survey. Since pre-study does not require statistical sample (Zikmund, Babin, Carr & Griffin, 2010), it was conducted by means of interviewing conveniently selected sample of twelve HR managers. Twelve HR managers were selected so as to cover various industries such as banking, insurance, construction, apparel, education, hotel, health. HR managers were selected as the key informant as they make considerable contribution for e-HRM adoption decision (Parry & Wilson, 2009). The purpose of the pre-study was to assess whether respondents have any difficulty in understanding the questionnaire and whether there are any ambiguous and biased questions (Zikmund et al., 2010). Twelve HR managers first filled the questionnaire subsequently interview was conducted with them at respective respondents` offices. Average time spent for each interview was around an hour. Based on the interview feedback slight modifications were made to the questionnaire. Pre study allows us to confirm the validity of our assumption in choosing HR managers as the key informant for the questionnaire survey. Respondents explicitly state that they exert active commitment in e-HRM adoption decision.

Before move in to questionnaire survey, population and sampling frame were identified. The purpose of this study is to explain e-HRM adoption behavior of the organizations in developing country. This study select Sri Lanka as the research context and rationale for selecting is discussed in the introduction section. All private sector organizations operating in Sri Lanka was considered as the

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theoretical population (Hair, Money, Samouel, Page, 2007). Since the private sector accounts for 85% of the economy in Sri Lanka (ADB, 2008) the present study focuses on that sector. Present study excluded public sector organizations since government involvement is intense in e-HRM adoption decision. Consequently, we first, select company data base maintained by Department of Registrar of Companies (DRC) in Sri Lanka. Data base was not updated as they do not maintain separate data base for identifying the firm that move out and discontinue the business. Thus, present study used National Business Directory (NBD) as a sampling frame that includes currently operating business firms which was updated for 2013/2014. This includes names, addresses and contact numbers of the firms.

In the second stage of the data collection phase, this study used both interactive and non-interactive medium (Zikmund et al, 2010). These include mail survey, personal interviews, e-mail survey and conference survey. Table 1, provides the summary of the results in the data collection procedure. Altogether 234 responses were yielded. However, 22 questionnaires have to be excluded from due to incomplete responses. After accounting for incomplete questionnaires 212 questionnaires were qualified and proceed for further analysis. This yields overall response rate of 32.24%.

Medium of contact	No of delivered questionnaire	No of collected questionnaire	No of incomplete questionnaire	No of usable questionnaire	Response rate based on total number of questionnaire delivered
Mail survey	265	81	09	72	10.95%
e-mail survey	292	93	08	85	12.93%
Personal interview survey	28	28	-	28	4.26%
Conference survey	72	32	05	27	4.10%
Total	**657**	**234**	**22**	**212**	**32.24%**

Table 1: Summary of Data Collection Results

Data profile

Demographic profile of the respondents is illustrated in Table 2. Respondents are adopted more operational e-HRM applications compared to relational land transformational e-HRM applications. Highest number of respondents belongs to manufacturing and Banking industries.

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Variable	Operationalization	Category (A= adopted, NA= Not Adopted)	Frequency	Percent (%)
Operational e-HRM adoption	e-personal record keeping and administration	A	155	73.1
		NA	57	26,9
	e-payroll	A	160	75.5
		NA	52	24.5
	e-time attendance	A	139	65.6
		NA	73	34.4
	e-access control	A	117	55.2
		NA	95	44.8
Relational e-HRM adoption	e-manager support system	A	144	67.9
		NA	68	32.1
	e-employee support system	A	112	52.8
		NA	100	47.2
Transformational e-HRM adoption	e-recruitment	A	137	64.6
		NA	75	35.4
	e-training and development	A	110	51.9
		NA	102	48.1
	e-compensation	A	127	59.9
		NA	85	40.1
	e-performance management	A	113	53.3
		NA	99	46.7
Industry	Industry	Banking	45	21,2
		Insurance	22	10,4
		Hotel	8	3,8
		Telecommunication	27	12,7
		Agriculture	15	7,1
		Manufacturing	47	22,2
		Construction	8	3,8
		Education	6	2,8
		Apparel	29	13,7
		Other	5	2,4

Table 2: Demographics of Respondents

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DATA ANALYSIS

Non response bias was assessed by comparing early and late respondents in terms of the all variables using t-test. Results indicate that there is no significant difference between early and late respondents. After examined the data for missing values and outliers (Hair, Black, Babin, & Anderson, 2010) exploratory factor analysis was performed to establish factor structure. SPSS 19 was used to run the factor analysis.

Validity and reliability

Validity of the measures refers to the extent to which the measuring items truthfully represent the concepts that is intended to measure (Zikmund et al., 2010). Convergent and discriminant validity was assessed using exploratory factor analysis. Before implementing the factor analysis the suitability of data for factor analysis was assessed using three criterions suggested by Hair et al., (2010). First, visual inspection of correlation matrix revealed that a substantial portion of correlation greater than 0.30. Second, the Barlett's Test of Sphercity provided the statistical significance result indicating that sufficient correlations exist among the variables to proceed to factor analysis. Third, measure of sampling adequacy (MSA) values measured in terms of KMO values were observed for both overall test and each individual variable. KMO value for overall test was 0.948 which exceed the threshold value of 0.50 (Hair et al., 2010). Each individual variables also indicated KMO values greater than 0.5.

Principal components analysis method that is appropriate for deriving a maximum number of factors to explain a maximum portion of variance in the original variables (Hair et al., 2010) was used to extract the factor. Since present study used previously validated instruments, a priori criterion in which researcher specify how many factors to extract (Hair et al., 2010) was used as a criterion to determine the number of factors to be extracted. Varimax rotation was used to obtain the rotated factor matrix. As most of the construct has well established theoretical base, items with factor loading of 0.45 and above (Hair et al., 2010) were selected as significant loadings. Due to cross loadings of variables with more than one factor, several rotations were performed to get the final factor structure. Final factor structure is shown in Table 3. All the factor loadings meet the threshold value of 0.50 (Hair et al., 2010). Discriminant validly was measured through observation of cross loadings. Highest cross loading was 0.388. Reliability that measures the internal consistency of the constructs was assessed using Cronbach Alpha. All the constructs meet the generally accepted rule of 0.70 and above (Hair et al., 2010).

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	Component								
	1	2	3	4	5	6	7	8	9
RA1	**,817**	,169	,045	,055	,144	,220	,176	,061	,061
RA2	**,807**	,145	,158	,002	,109	,093	,159	,164	,112
RA3	**,667**	,217	,283	,221	,195	,084	-,022	,203	,182
RA6	**,729**	,280	,139	,086	,151	,096	,051	,046	-,050
RA8	**,584**	,217	,295	,325	,174	,108	,115	,301	,086
RA9	**,805**	,122	,107	,093	,062	,064	,198	,152	-,025
RA10	**,647**	,113	,012	,254	,239	,388	,025	,073	,125
T1	,243	**,795**	,088	,198	,162	,140	,087	,066	,095
T2	,173	**,771**	,155	,189	,261	,112	,251	,139	,101
T3	,336	**,734**	,093	,146	,193	,128	,196	,102	,101
T5	,154	**,792**	,144	,174	,221	,180	,124	,140	,109
T6	,211	**,763**	,163	,185	,198	,148	,193	,136	,150
OP1	,191	,201	**,710**	,242	,208	,214	,192	,179	,015
OP2	,237	,260	**,659**	,305	,234	,254	,208	,256	,178
OP3	,247	,104	**,732**	,247	,127	,203	,143	,158	,104
OP4	,109	,106	**,762**	,012	,139	,125	,132	,041	,275
TR1	,263	,224	,245	**,581**	,184	,049	,259	,045	,278
TR2	,162	,155	,132	**,766**	,111	,119	,127	,082	,078
TR3	,071	,182	,137	**,727**	,136	,120	,296	,144	,209
TR4	,095	,245	,121	**,669**	,102	,150	,083	,186	,153
CX4	,234	,318	,239	,263	**,581**	,205	,146	,250	,099
CX5	,202	,273	,139	,184	**,712**	,178	,162	,203	,171
CX6	,228	,222	,128	,128	**,788**	,117	,065	,072	,062
CX7	,196	,308	,235	,074	**,731**	,110	,194	,166	,057
C4	,260	,197	,234	,151	,152	**,732**	,172	,238	,099
C5	,202	,258	,197	,095	,145	**,805**	,099	,204	,073
C6	,232	,158	,263	,214	,174	**,746**	,165	,176	,117
OB1	,221	,312	,218	,292	,176	,179	**,730**	,117	,132
OB2	,181	,274	,150	,314	,108	,080	**,772**	,099	,136
OB3	,261	,304	,312	,208	,285	,196	**,552**	,329	,114
OB5	,275	,205	,317	,146	,221	,269	**,604**	,319	,097
INT1	,227	,129	,197	,228	,237	,255	,156	**,723**	,114
INT2	,228	,142	,103	,093	,185	,198	,277	**,740**	,184
INT4	,307	,294	,258	,247	,145	,267	,015	**,641**	,057
RE1	,111	,228	,254	,315	,144	,159	,165	,149	**,772**
RE2	,074	,173	,199	,248	,110	,092	,117	,135	**,863**
Alpha	.920	.943	.902	.837	.896	.918	.934	.879	.837

Table 3: Factor Analysis

ISBN: 978-9963-711-37-6

Common method bias

As the research design was cross sectional and questionnaire filled by key informant, there is a potential threat of arising common method bias (Conway & Lance, 2010). In addition to procedural control (MacKenzie & Podsakoff, 2012) applied in research design stage, present study used statistical control to assess the common method variance issue. We first used, Harmans`s Single factor test. This suggest that, if a substantial amount of common method variance exist, a single factor will emerge from factor analysis that perform including all measured variable together or a general factor account for most of the variance (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). Factor analysis establishes factor solution which indicates nine factors suggesting that common method variance is not serious issue. Since scholars (Podsakoff et al., 2003) criticize this test, we also used Unmeasured Latent Marker Construct (UMLC) using Smart PLS 3.0. As suggested by Liang, Saraf, Hu, and Xue (2007), we first create method factor which links to all the single indicator constructs that were converted from observed indicators. Then, we reexamined the coefficients of its two incoming paths from its substantive construct and the method factor. Existence of common method bias is determined by examining the statistical significance of factor loadings of method factor and comparing the variance of each observed indicator explained by its substantive construct and the method factor (Williams, Edwards, & Vandenberg, 2003). Results are shown in Table 1 in Appendix. Results shows that most of the method factor loadings are not significant and indicators` substantive variances (AVG= 0.749) are greater than method factor variance (AVG= 0.021). This allows us to conclude that the common method variance is not a serious concern in this study.

RESULTS

As this study consists of multiple independent and dependent variables structural Equation Modeling (SEM) was used to test the hypothesis. There are two families of SEM techniques: covariance based SEM (CB-SEM) techniques and variance based Partial Least Square path modeling (PLS-SEM) techniques. With respect to sample size requirement of using SEM, Hair et al., (2010) suggest that models with seven or fewer latent constructs require minimum of 300 sample size. Present study consists of nine latent constructs where more than 300 samples are required. However, this study consists of 212 respondents. PLS-SEM is not strict in sample size requirements and minimum sample size should be equal to ten times the largest number of structural paths directed at a particular latent construct in the structural model (Hair et al., 2010). Given the small sample size of the present study, researcher used PLS-SEM. Further, if the data do not meet CB-SEM assumptions i.e. normal distribution assumptions, PLS is a good approximation of CB-SEM results (Hair et al., 2010). Normality of the data was tested using Shapiro-Wilk test and result indicated that data distribution is

 ISBN: 978-9963-711-37-6

non normal to certain extent. Moreover, if the structural model is complex that is many constructs and many indicators are included, PLS-SEM is most appropriate (Hair et al., 2010). Present study consists of nine latent constructs with mediation relationships. Thus, due to sample size, normality assumption and complexity of the model this study used PLS SEM. Using Smart PLS 3.0, this study first, examined measurement model followed by structural model.

Measurement model

Since all the variables in the model are measured using reflective measures, reliability and validity of the constructs were evaluated based on composite reliability (CR), indicator reliability, and Average variance Extracted (AVE), and discriminant validity (Henseler, Ringle, & Sinkovics, 2009). Composite reliability that is measure of internal consistency must be greater than 0.6 (Henseler et al., 2009). As shown in Table 4, all the reflective constructs meet the threshold value for composite reliability. Indicator reliability that measure reliability of each indicator suggest that that absolute correlations between a construct and each of its manifest variables should be greater than 0.7 (Hair et al., 2010). As shown in Table 2, in Appendix all manifest variables meet the threshold value of 0.70. AVE which is measure of convergent validity claims that AVE values of construct should be greater than 0.5 (Henseler et al., 2009). All construct meet the rule of thumb (see Table 4). Discriminant validity was assessed using Fornell-Larcker criterion that suggests the AVE of each latent variable should be higher than the squared correlations with all other latent variables (Henseler et al., 2009). Inspection of Table 3, confirm the discriminant validity of the constructs.

	Constructs	CR	1	2	3	4	5	6	7	8	9
1	Compatibility	0,949	**0,927**								
2	Complexity	0,929	-0,582	**0,876**							
3	Intention to adopt	0,927	0,671	-0,635	**0,899**						
4	Observability	0,953	0,627	-0,667	0,674	**0,914**					
5	Operational e-HRM adoption	0,931	0,652	-0,634	0,639	0,706	**0,879**				
6	Relative Advantage	0,937	0,593	-0,609	0,629	0,620	0,594	**0,826**			
7	Relational e-HRM adoption	0,970	0,450	-0,478	0,491	0,540	0,572	0,400	**0,970**		
8	Trialability	0,956	0,556	-0,685	0,563	0,674	0,561	0,595	0,493	**0,902**	
9	Transformational e-HRM adoption	0,897	0,517	-0,563	0,567	0,668	0,615	0,523	0,623	0,591	**0,827**

Notes: Diagonal elements are AVEs and off diagonal elements are correlations, CR= Composite Reliability

Table 4: Composite Reliability, Correlations, and AVEs

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Structural model

The coefficient of determination (r2), predictive relevance (Q^2), estimates of path coefficients and effect size (f^2) were used to evaluate the structural model. R^2 values of 0.67, 0.33 or 0.19 for endogenous latent variables in the inner path models are described as substantial, moderate or weak (Chin, 1998). Innovation characteristics explain 6o% of variance of intention of e-HRM adoption. Further, intention to e-HRM adoption is explained 44% of operational e-HRM adoption variance, 28% of relational e-HRM adoption and 42% of transformational e-HRM adoption. Except relational e-HRM adoption other endogenous constructs report moderate r^2 value. Predictive relevance that is measured by Q^2 value should be larger than zero for a particular endogenous constructs to indicate models predictive accuracy (Hair Jr, Sarstedt, Hopkins, Kuppelwieser, & Volker, 2014). Q^2 values were measured using blindfolding method and each endogenous constructs report values larger than zero: Intention to adoption=o.471, operational e-HRM adoption=0.326, Relational e-HRM adoption=0.255 and Transformational e-HRM adoption=0.277. Results of the path coefficients are shown in Table 5. Seven out of the eight hypotheses were supported. Results are discussed in discussion section. Cohen`s f^2 value was computed to check the effect size of the main effects. F2 value of 0.02, 0.15 and 0.35 refers to small, medium and large effect size respectively (Cohen, 1988). Most of the significant variables reported effect size between medium and large.

Hypothesis	Path	Original Sample (O)	Standard Error (STERR)	T Statistics (|O/STERR|)	P Values
Innovation characteristics and e-intention of e-HRM adoption					
H1	Relative Advantage -> Intention	0,191	0,073	2,603	0,010***
H2	Compatibility -> Intention	0,299	0,095	3,133	0,002***
H3	Complexity-> Intention	-0,185	0,063	2,944	0,003***
H4	Observability-> Intention	0,255	0,074	3,468	0,001***
H5	Trialability -> Intention	-0,016	0,067	0,235	0,814
Intention and extent of e-HRM adoption					
H6	Intention -> OP e-HRM Adoption	0,534	0,076	7,036	0,000***
H7	Intention-> RE e-HRM Adoption	0,376	0,064	5,888	0,000***
H8	Intention-> TR e-HRM Adoption	0,389	0,057	6,864	0,000***
Control Variables and extent of e-HRM adoption					
Organization size	Org: Size -> OP e-HRM Adoption	0,123	0,033	3,751	0,000***
	Org: Size -> RE e-HRM Adoption	0,175	0,055	3,180	0,002***
	Org: Size -> TR e-HRM Adoption	0,223	0,068	3,284	0,001***
Industry	Industry -> OP e-HRM Adoption	0,031	0,054	0,571	0,568

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	Industry -> RE e-HRM Adoption	-0,002	0,066	0,035	0,972
	Industry -> TR e-HRM Adoption	-0,016	0,061	0,262	0,794
International operation	International Operations -> OP e-HRM Adoption	-0,126	0,085	1,482	0,139
	International Operations -> RE e-HRM Adoption	-0,122	0,078	1,567	0,118
	International Operations -> TR e-HRM Adoption	-0,217	0,068	3,203	0,001***

Notes: *p < 0.05, **p < 0.01, ***p < 0.001

Table 5: Structural Model Results

DISCUSSION

The results support the applicability of DIT to explain e-HRM adoption behavior of organizations in Sri Lanka. As stated in H1, we found significant positive relationship between relative advantage and intention to adoption. This provides insights that when potential adopters perceive that e-HRM applications are advantageous over to manual HRM practices, their intention to adopt remains high that lead to extent of adoption. This finding supports the previous empirical work of different innovations (Parry & Wilson, 2009; Teo et al., 2007).

We received positive empirical support for the relationship between compatibility and intention to adoption. Thus, H2 was supported. This explains that when potential adopters perceive that e-HRM applications are compatible with organizational values and norms systems, hard ware and data resources of organizations, their intention to adopt become high that in turn cause to extent of adoption. This finding was consistent with the previous studies (Normalini et al., 2012; Parry & Wilson, 2009; Teo et al., 2007), that empirically evidenced compatibility is a significant determinant in technological innovation adoption process. Observability was hypothesized to be positively related to intention to adoption. Consistent with previous studies (Normalini et al., 2012) the hypothesis was supported. This explains that when e-HRM applications are more visible to potential adopters, their intention to adopt will increase which cause to extent of adoption.

Trialability was hypothesized to be positively related to intention to adoption. However, present study did not find empirical support for this relationship. This findings contradicts the previous empirical work (Normalini et al., 2012) that suggest when potential adopters take opportunities to experiment e-HRM applications, they are more likely to form a great degree of intention to adopt those applications that finally leads to extent of adoption. Potential reason for the inconsistent finding would be that respondents in this study did not get great deal of opportunities to try them out prior to make actual adoption decision.

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We also investigate the relationship between intention to adopt and extent of e-HRM adoption. As present study hypothesized intention to adoption is positively related to all three types of e-HRM namely operational, relational and transformational. This suggests that when potential adopters develop a high degree of intention to adopt e-HRM applications just after initial evaluations of innovations characteristics, they are more likely to actually adopt them.

This study includes three control variables (organization size, industry, involvement in international operations) that may influence on organizational extent of e-HRM adoption. Consistent with most of the IT and innovation studies (Strohmeier & Kabst, 2009), for the present study organizational size is significantly and positively related to all three types of e-HRM adoption. As evidence by Strohmeier and Kabst (2009), present study also did not find empirical support for the relationship between industry and extent of e-HRM adoption. However, we received significant result for the relationship between organizational involvement in international operation and extent of transformational e-HRM adoption. Possible reasons for this finding would be that, organizations with high involvement of international operations are necessarily required to implement advanced transformational e-HRM applications over to the basic operational and relational e-HRM applications to gain competitive edge.

THEORETICAL CONTRIBUTIONS

First major theoretical contribution is that this is the first study that explored the determinants of all three types of e-HRM adoption (operational, relational and transformational). Previous studies on e-HRM adoption considered only either HRIS (Normalini et al., 2012; Teo et al., 2007), on line recruitment (Parry & Wilson, 2009) or general e-HRM adoption (Strohmeier & Kabst, 2009). In contrast, present study viewed e-HRM adoption from comprehensive perspective.

Second theoretical contribution of the study refers to operationalization of extent of e-HRM Adoption construct. Though, extent of e-HRM adoption is defined as systematic application of IT to facilitate various actors (HR personals, line managers and employees) in their shared performing of HR tasks (Strohmeier & Kabst, 2009). Most of the previous quantitative studies (Panayotopoulou, Vakola, & Galanaki, 2007; Strohmeier & Kabst, 2009; Strohmeier & Kabst, 2014; Teo et al., 2007), used dichotomous measure (whether adopt or not) to measure organization e-HRM adoption. Employing dichotomous variables as a measure of IT/innovation adoption was heavily criticized as it does not capture the variance of the extent of adoption. Specifically, (Burton-Jones & Straub Jr, 2006) suggests that system adoption/usage need to be measured using rich measures that capture the three elements (system, user and task) of the system usage. They also acknowledged that it is rather practically difficult to employ very rich measure that cover all the three elements of usage and it is advisable to use the rich measures that covers at least two element. However, present study used rich measure that

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covers system and task elements of e-HRM adoption. Present study also contributes to the literature on e-HRM adoption in the context of developing countries particularly to Sri Lanka.

MANAGERIAL IMPLICATIONS

Findings also provide important insights for managers making e-HRM adoption decisions. Innovation characteristics namely relative advantage, compatibility, complexity and observability are the key determinants in establishing the intention and extent of e-HRM adoption. Consequently, managers are advised to gather and evaluate relevant information about benefits, compatibility and complexity of the e-HRM applications available in the market place prior to make adoption decision. Further, findings provide important insight for vendors of e-HRM applications. Compatibility and complexity of e-HRM application need to be ensured when design, test and produce e-HRM applications. Moreover, as a part of promotion strategy, venders need to take into account relative advantage, compatibility and complexity of the e-HRM applications when demonstrating the e-HRM applications. Related information about relative benefits, compatibility and complexity should be communicated to potential adopters using effective communication medium. Moreover, vendors pursue strategies to make more visible their e-HRM applications particularly to targeted potential customers.

LIMITATIONS AND FUTURE RESEARCH

The first limitation of the present study refers to the generalizability of the findings as this study conducted research in one developing country: Sri Lanka. Due to differences among developing countries, the findings of the study may not apply to other developing countries. Thus, further research on this phenomenon in other developing countries in particular to Asia is warranted. Second, positioning with DIT, we consider only innovation related variables as determinants of intention and extent of e-HRM adoption. In addition to DIT, several other theories such as Theory of Planned Behavior (Ajzen, 1991), Technology Acceptance Model (Davis, 1989), Decomposed TPB (Taylor & Todd, 1995), Unified Theory of Acceptance and Use of Technology (UTAUT) (Venkatesh, Morris, Davis, & Davis, 2003) provide several other contextual variables that might have implications for intention and extent of e-HRM adoption. Thus, we encourage future researches that include additional contextual variables such as individual context, organizational context and environmental context drivers of e-HRM adoption. Third, this study applied cross sectional research design where data were collected at one point in time. As e-HRM adoption decision literally views as a process, longitudinal qualitative and quantitative empirical studies are required to gain deeper understanding about e-HRM adoption behavior.

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CONCLUSIONS

The current study focused the underexplored phenomenon of e-HRM adoption behavior of the organizations in developing country. Using mainstream management theory of DIT, This study developed a research model that explains determinants of organizational e-HRM adoption. We used Sri Lanka as research context for data collection using survey and empirically test the hypothesis using PLS SEM. Results revealed that relative advantage, compatibility, complexity and observability are significant determinants of intention of e-HRM adoption. Intention to adoption is significantly and positively related to extent of operational, relational and transformational e-HRM adoption. Overall, empirical results support the applicability of the DIT to explain the e-HRM adoption behavior.

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APPENDIX

Construct	Indicator	Substantive Factor Loading (R1)	$R1^2$	Method Factor Loading (R2)	$R2^2$
Relative Advantage	RA1	0.981***	0.962	-0.142	0.020
	RA2	0.727***	0.529	0.077	0.006
	RA3	0.967***	0.935	-0.138	0.019
	RA6	0.698***	0.487	0.163	0.027
	RA8	0.870***	0.757	-0.101	0.010
	RA9	0.535***	0.286	0.349**	0.122
	RA10	0.932***	0.869	-0.203**	0.041
Compatibility	C4	0.889***	0.790	0.047	0.002
	C5	0.945***	0.893	-0.084	0.007
	C6	0.899***	0.808	0.036	0.001
Complexity	CX4	0.696***	0.484	-0.222**	0.049
	CX5	0.908***	0.824	0.003	0.000
	CX6	0.972***	0.945	0.185	0.034
	CX7	0.923***	0.852	0.048	0.002
	OBS1	0.873***	0.762	-0.083	0.007
	OBS2	0.896***	0.803	-0.287**	0.082
	OBS3	0.716***	0.513	0.236*	0.056
	OBS5	0.800***	0.640	0.119	0.014
Trailability	T1	0.965***	0.931	-0.099	0.010
	T2	0.893***	0.797	0.036	0.001
	T3	0.848***	0.719	0.046	0.002
	T5	0.932***	0.869	-0.033	0.001
	T6	0.875***	0.766	0.047	0.002
Intention to adoption	INT1	0.966***	0.933	-0.046	0.002
	INT2	0.946***	0.895	-0.081	0.007
	INT4	0.786***	0.618	0.125	0.016
Operational e-HRM adoption	OP1	0.882***	0.778	0.015	0.000
	OP2	0.711***	0.506	0.285**	0.081
	OP3	0.961***	0.924	-0.087	0.008
	OP4	0.874***	0.764	-0.274**	0.075
Relational e-HRM adoption	RE1	0.910***	0.828	0.094	0.009
	RE2	0.852***	0.726	-0.096	0.009
Transformational e-HRM adoption	TR1	0.714***	0.510	0.158	0.025
	TR2	0.880***	0.774	-0.090	0.008
	TR3	0.911***	0.830	-0.049	0.002
	TR4	0.806***	0.650	-0.022	0.000
Average		**0.859**	**0.749**	**-0.002**	**0.021**

Table 1: Common Method Bias Analysis

Construct	Code	1	2	3	4	5	6	7	8	9

ISBN: 978-9963-711-37-6

Compatibility	C4	**0,927**	-0,546	0,642	0,608	0,613	0,577	0,425	0,522	0,489
	C5	**0,928**	-0,520	0,605	0,544	0,561	0,516	0,378	0,523	0,422
	C6	**0,927**	-0,553	0,618	0,591	0,639	0,554	0,448	0,503	0,525
Complexity	CX4	-0,580	**0,891**	-0,629	-0,647	-0,630	-0,590	-0,472	-0,650	-0,568
	CX5	-0,529	**0,910**	-0,576	-0,601	-0,549	-0,535	-0,469	-0,609	-0,524
	CX6	-0,425	**0,820**	-0,452	-0,472	-0,459	-0,487	-0,332	-0,525	-0,416
	CX7	-0,485	**0,880**	-0,542	-0,596	-0,561	-0,511	-0,380	-0,603	-0,443
Intention to adopt	INT1	0,612	-0,593	**0,929**	0,617	0,594	0,554	0,450	0,480	0,527
	INT2	0,554	-0,534	**0,877**	0,619	0,509	0,515	0,436	0,469	0,461
	INT4	0,639	-0,581	**0,891**	0,584	0,614	0,623	0,439	0,566	0,538
Observability	OBS1	0,555	-0,588	0,559	**0,933**	0,621	0,546	0,510	0,644	0,659
	OBS2	0,433	-0,496	0,486	**0,879**	0,526	0,469	0,467	0,573	0,616
	OBS3	0,620	-0,695	0,701	**0,929**	0,709	0,624	0,516	0,663	0,618
	OBS5	0,645	-0,626	0,673	**0,914**	0,690	0,600	0,480	0,581	0,566
Operational e-HRM adoption	OP1	0,586	-0,575	0,574	0,636	**0,902**	0,518	0,455	0,513	0,542
	OP2	0,683	-0,677	0,690	0,745	**0,952**	0,626	0,610	0,624	0,671
	OP3	0,552	-0,510	0,539	0,584	**0,887**	0,534	0,470	0,436	0,526
	OP4	0,428	-0,421	0,388	0,472	**0,766**	0,367	0,461	0,346	0,367
Relative Advantage	RA1	0,505	-0,481	0,470	0,510	0,417	**0,856**	0,271	0,478	0,366
	RA2	0,452	-0,455	0,506	0,492	0,468	**0,850**	0,306	0,453	0,349
	RA3	0,497	-0,563	0,568	0,518	0,583	**0,839**	0,437	0,532	0,501
	RA6	0,412	-0,460	0,433	0,435	0,412	**0,777**	0,220	0,498	0,348
	RA8	0,545	-0,589	0,638	0,628	0,630	**0,835**	0,438	0,564	0,586
	RA9	0,406	-0,411	0,461	0,494	0,412	**0,826**	0,216	0,420	0,352
	RA10	0,579	-0,520	0,507	0,468	0,444	**0,793**	0,355	0,467	0,453
Relational e-HRM adoption	RE1	0,486	-0,506	0,514	0,572	0,601	0,427	**0,975**	0,520	0,647
	RE2	0,379	-0,414	0,432	0,468	0,500	0,342	**0,965**	0,430	0,553
Trialability	T1	0,472	-0,571	0,448	0,534	0,448	0,523	0,412	**0,879**	0,511
	T2	0,504	-0,660	0,535	0,658	0,547	0,520	0,464	**0,923**	0,560
	T3	0,496	-0,608	0,505	0,607	0,487	0,596	0,415	**0,886**	0,518
	T5	0,516	-0,622	0,512	0,596	0,504	0,498	0,450	**0,906**	0,518
	T6	0,518	-0,626	0,532	0,636	0,538	0,549	0,480	**0,916**	0,557
Transformational e-HRM adoption	TR1	0,395	-0,420	0,432	0,492	0,466	0,416	0,449	0,437	**0,796**
	TR2	0,448	-0,526	0,489	0,610	0,587	0,526	0,579	0,548	**0,834**
	TR3	0,441	-0,475	0,492	0,604	0,519	0,398	0,548	0,493	**0,873**
	TR4	0,424	-0,438	0,462	0,501	0,461	0,395	0,479	0,474	**0,804**

Table 2: PLS Loadings and Cross Loadings

ISBN: 978-9963-711-37-6

ISBN: 978-9963-711-37-6

INTELLECTUAL CAPITAL EVALUATION IN A HEALTH CARE ORGANIZATION. A CASE STUDY

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ABSTRACT

Literature often argues that public sector organizations face greater pressures for representativeness, accountability and responsiveness than private sector firms (Jain and Jeppesen, 2013, p. 347). Within emerging managerial tools, Intellectual Capital, (IC) offers an interesting perspective to analyze both public and private organizations (Dumay, 2014). Indeed, to resolve some of the limitations of traditional financial reporting, literature developed models to identify, measure and report IC (Brooking, 1996; Green and Ryan, 2005; Stewart, 1997). Interestingly, research on IC within the public sector in general and within health care organizations, in particular, seems to be fragmented and not well connected (Garlatti et al., 2014).

This paper aims to investigate the topic of IC measurement within a public health care organization. More precisely a case study is used to support the role of IC in healthcare. The selected case study is facing a transition situation due to the change in the planning and control approach used to fund public hospitals. The role of IC is highlighted as a connecting tool that could reduce risks derived from the application of the new ABF system. Therefore, using a case study approach, the paper is developed to draw some insights on the risk and opportunities of implementing an IC approach within a healthcare organization.

Keywords: *Intellectual capital, healthcare management, management control*

INTRODUCTION

The issues of measurement and development of IC in public bodies appears to be under-investigated compared both to the wider literature developed within the private sector and to its economic relevance in most European countries (Massaro et al., n.d.). Interestingly, public sector presents a particular context and literature developed within the private sector cannot be retrieved “verbatim”. Indeed, activities developed by public bodies are mainly based on IC as a "key resource” required to develop public services. Additionally, IC becomes an even more important topic in contexts characterized by tensions in the public finance, where the answers to an increasing demand cannot be

 ISBN: 978-9963-711-37-6

based on a continuous expansion of public budgets. Finally, public entities work in an environment characterized by the absence of a competitive market. Therefore, the traditional economic measures provide a partial picture of the results of the performance realized by these entities. The development of "IC" studies in the field of public entities could offer an important improvement useful for the development of new policies and the control of the management of public bodies. In this framework, the paper aims to explore the relationship between systems focused on the measurement and control of economic resources and IC. The thesis is that the latter can be crucial to avoid the distortions that intensive use of the first, exasperated by the tensions in the public finance, is likely to introduce in public entities. The distortion consists in the formation of an apparent paradox that, in certain conditions, the development of management tools, also innovative and consistent in themselves, could reduce rather than improve the managerial quality due to the excessive focus on some economic measures. These measures based on traditional economic value are considered "absorbent" with respect to the others like non-financial measure based on IC. The paper is organized as follow. Paragraph 2 presents the theoretical background and develops the literature review. Paragraph 3 presents the specific research context and illustrates the methodology adopted. Paragraph 4 presents the case study. Paragraph 5 develops some discussions and presents the conclusion of the paper.

THEORETICAL BACKGROUND

Healthcare organizations are facing a growing pressure due to new challenges. According to Elg et,. al (2011, p. 102) the demographic changes, the medical and technological advances and the growing expectations of well-informed citizens are some of the main challenges for healthcare organizations. Additionally, even in the most financial stable countries “financial resources allocated to healthcare are not expected to increase” (Elg et al., 2011, p. 102). The problem is even worse in countries where due to austerity policy, governments have to cut national budgets increasing pressure to healthcare organizations (Mitton et al., 2014, p. 95). Therefore, healthcare organization are facing a growing complexity with stable or even reduced financial resources.

Indeed, in many countries most of the healthcare organizations are public entities. Within these contexts healthcare organizations, as many other public entities, are influence by a growing need for: “competition, performance standards, monitoring, measurement, flexibility, emphasis on results, customer focus and social control.” (De Angelis, 2013, p. 1) According to Elg et al, (2013, p. 1624) “in the healthcare context, performance measurement is recognized as a method with large utilization possibilities… Performance measurement is recognized as an option in various parts of the system for public, transparent reporting, resource funding, administrative control, and development and

 ISBN: 978-9963-711-37-6

improvement of clinical practice."Nuti et al (2012) analyse the Italian performance evaluation system and state that it "can be viewed as a strategic tool supporting the Ministry of Health in ensuring uniform levels of care for the population and assisting regional managers to evaluate performance in benchmarking." Elg and Kolberg (2012, p. 63) analyze "how various resources, contextual factors and internal dynamics create conditions for reporting of waiting time data." Interesting, within this literature, the role of IC measurement seems to be under-investigated. Indeed, a research with the words "performance measurement" and "healthcare" retrieves 54 papers. Using the words "IC" and "healthcare" retrieves only 13 papers. These results are confirmed by Dumay (2014, p. 12) who states that there is a "paucity of published research on public sector IC". Interestingly, the traditional model originally developed for private companies cannot be replicated "verbatim" for healthcare organizations. Indeed, Roos et al. (2001) describe how companies can be "people-oriented" or "process-oriented" fostering, therefore, different resources of their IC. Interestingly, Peng et al. (2007, p. 541) state that "in healthcare organizations, characteristics of people-centred companies and process-oriented companies are equally significant." Additionally, in healthcare organizations, as in many public bodies, organizational goals "are typically more difficult to measure and more conflicting than in private organizations, and they are affected differently by political influences" (Amayah, 2013, p. 456). All this elements make healthcare organizations a specific research context. According to Chiucchi (2013a, p. 395) "despite the plethora of frameworks proposed, there is little evidence of organizations measuring and reporting their IC." According to Chiucchi (2013b, p. 48) "this raises the question of whether and how measuring IC can help to realize the benefits usually attributed to IC." Therefore, researchers need to gather "greater insights into how IC works rather than what IC is" (Dumay and Garanina, 2013, p. 21). Focusing on the need to understand how IC words, Dumay (2009, p. 190) IC measurement has relied heavily on "accountingisation" and that alternate methods to understand IC need to be developed." Interestingly, few studies analyze the specific context of healthcare organizations. These elements face a contradictory context where public bodies are called to optimize their expenses providing their service efficiently. Financial measures are becoming central elements to understand how public hospitals are financed by governments and IC seems to be the only way organizations have to manage the paradox of providing better services with fewer resources. This fosters our two main research questions:

1. How can traditional and innovative management and control tools support public bodies in facing challenges of reducing resources and increasing demands?
2. How can IC literature contribute to the improvement of management and control tools used to fund public entities?

 ISBN: 978-9963-711-37-6

METHODOLOGY

To select the best research method at least three conditions must be analyzed: 1. type of research questions; 2. extend to control over behavioural events; 3. degree of focus on contemporary as opposed to historical events (Yin, 2014, l. 787). Case studies, both as single or multiple cases, are particularly useful research methods when "a how or why question is being asked about a contemporary set of events over which the investigator has little or no control" (Yin, 2003, p. 9). Therefore considering the specific research questions depicted in the previous paragraph (how and why), the specific research context (during knowledge production process) and the desired contemporary perspective, this study adopts a case study research method. This study seeks for complementarities and differences between findings and literature in order to capitalize and accumulate existing knowledge to a specific research topic. Therefore, this study uses findings form a single case study methods to extend existing literature within the specific research topic. Following the section describe the specific research context, the data selection, and analysis process.

Research context

The research context of this paper is an Italian University Hospital. In Italy the healthcare system is mainly public, both considering the offer of healthcare services and the funding of healthcare services provided. Right now, the competence in terms of law and budget administration are in the regional government which has to take care of the planning activities, organization and funding of these structures. Therefore, revenues of hospitals are not connected with the sales of services but with the public money transferred. Rules to manage these money transfers are based both on the level of services provided and on the maximum level of expenses that a Region can afford for the services provided. Interestingly, the rules that manage this money transfers have been reviewed more times in the last decades but mainly they are connected with the principle of historical cost sustained by these companies and with some kind of political negotiation. This approach can influence planning systems to distribute public money, and principle used to measure and control hospital performance. Major implications are:

- The governance of the decisional criterion to increase or decrease budgets of specific entities that are based on the history and on political negotiations rather than real needs of specific programs to improve activities and or services.
- The governance of the rules used to manage the whole system.
- The governance of the relationship between hospitals and local government creating problems on the specific managerial autonomy.

Nowadays hospitals in Italy have been founded by previous public administrations, and they have kept their bureaucratic mentality. This mentality merged with limitations above discussed have

 ISBN: 978-9963-711-37-6

several practical effects visible in employee's behavior. Indeed within these organizations employees have a more formal approach rather than an effective one. Indeed, people employed in hospitals tend to consider these rules more like formal constraints that cannot interfere with clinical activities. Therefore, it is quite difficult to spread a managerial mentality across these organizations.

To create a cultural change legislation has changed rules several times in order to create: a) greater economic autonomy and organization of hospitals with respect to the Region; b) a technical figure of general management responsible for organization's performance; c) the development of a cost accounting approach, managed by objectives, accountability and transparency. Even though the efforts put in order to support the development of a managerial approach within hospitals, results have not been completely successful. This also happened in the Region Friuli Venezia Giulia in Italy, where several budget constraints have forced the regional government to introduce budget cuts and a general revision of the rules used to fund hospitals. The main focus of this revision is based on the general principle of cost reduction finding hospitals that have costs over the average.

For this reason the local government introduced an Activity Based Funding (ABF) approach based on the idea of funding hospitals at the base of the normal cost of their activities and not based on the history of costs sustained by these entities. The hospital object of this study is the "University Hospital of Santa Maria Della Misericordia", Udine, Italy, which is facing these challenges and represent therefore and ideal setting to study the impact of this change. "University Hospital of Santa Maria della Misericordia"is recognized as a hospital of national relevance, has 16 wards and employs 3,842 people with a total revenue of 502 million of Euros and costs for 505.77 million of costs (2013).

Data selection and analysis

To obtain multiple sources of evidence, informant reviews, and peer debriefings, we collect data from the following sources. First, in order to develop the analysis we analyzed internal budgets of the hospital, the IC developed by the hospital, documents provided by the regional government based on the traditional cost model and the ABF model. Second we carried on some interviews with managers of the hospitals and managers of the regional government. During the interviews, researcher took note of the information acquired. A brief report was developed and checked with the interviewed person. Third, we engaged in direct non-participant observation of network meetings developed within the hospital and with managers of the regional government. All information was collected in Italian and analyzed by the native Italian-speaking authors. To develop a chain of evidence, information was marked and coded. The results of the research were then discussed with the participants, and comments were incorporated through annotations and amendments (key informant reviews).

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THE CASE STUDY

The case study presents the University of Hospital of Udine and depicts main problems this organization is facing due to the change in the planning and control systems developed by the regional government to fund hospitals of the area.

The current structure of Hospital planning and control systems

The Region of Friuli Venezia Giulia (in 1996) with its law n. 49 disciplined fundamental issues such as the subjects, time and tools for planning and economic control. The Region has also provided a discipline for general accounting, cost accounting, budgeting and reporting. The adopted system is largely still in force, and it reflects a rationalist setting. There is a vertical top-down processes and great importance is recognized by the assignment of objectives as a key level for leading the dynamic orientation of the system. Within this framework each hospital has developed specific solutions. In the case studied, the solutions are formalized in the regulations for the management of the budget process. Its contents can be summarized in relation to three key aspects: a general approach, rules and structures and support tools.

General approach

The regulation defines the model adopted by the hospital and its link to the organizational structure choices. The regulation identifies the Responsibility Centres, the articulation of the budget process and the connections with the staff assessment.

Rules and structures

The hospital, with the budget process, divides its objectives, assigning them to the various Responsibility Centres, with distinction between Activity Centres and Resource Centres. The Activity Centres refers to “line” production facilities deputies to the implementation of health services. The Resource Centres concern "staff" structures deputies to ensure to the Activity Centres the inputs for the institutional activities. The Responsibility Centres are identified by the General Director, who assigns to each of them goals and resources. The process is divided into three phases: a) definition of the proposed budget by the General Direction; b) examination, evaluation and eventual submission of proposals for its revision by the centres; c) definition and approval of the budget. With the approval of the final document, assignments to Resource Centres are also carried out. Budgets are monitored by the board of managers that are required to report any estimated deviation promptly from the programs. During the fiscal year, in the event of occurring changes, the board of managers may be required to arrange budget variations. For Activity Centres, changes are arranged by the Health Director or the Administrative Director. For Resource Centres, variations that involve the General Director arranges changes to the total costs of the organization.

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In addition to top executives and holders of Responsibility Centre, two other entities are fundamental: the Budget Committee and the structure of programming and control management. The Budget Committee is composed by the Health Director and the Administrative Director. They are supported by the Director of Medical division, the Director of Human Resources and the Head of Planning and Control Management. The Budget Committee is responsible for the function of direction, management, and control of the budget process and the definition of the objectives and the resources allocated to Activity Centres. The Committee also has the function of monitoring and evaluating the achievement of objectives. Additionally, the Committee also has an advisory role to the General Director for the assessment of budget changes. The technical, operational support to the Budget Committee lead all the functions of the structure of programming and control management and the structure involved in all stages of the budget process. Additionally, the structure, on the recommendation of the Budget Committee is in charge of: drawing up objectives and resources proposals for the Activity Centres; predisposes quarterly monitoring reports; examines the proposed changes to verify the compatibility with the hospital strategies. The structure also works as technical support for the evaluation of personnel and collects and processes data from different information sources for the Organization Auditors (Organismo Indipendente di Valutazione - OIV). The OIV is required to evaluate the management assessment and the accuracy of the methodology adopted in the organization.

Tools

The identified mechanisms prescribe the presence of some essential tools: a cost accounting system consistent with the articulation of organizational structures and processes; a proper performance indicator system, effective and timely supported by adequate IT tools. As a whole, the model proposes are internally consistent and fit with the delicate relationship between General Direction and clinical autonomy. The hospital model, as the regional regulations of 1996, is clearly inspired by a rationalist logic and the centrality of the method of management by objectives. The budget is strongly linked to motivation and staff assessment needs. The effectiveness of a control system depends also on the adequacy with respect to the characteristics of the reference environment and on the presence of factual conditions which allow the practical operation of the designed system.

On one hand it can be observed that the rationalistic setting of the system and its finalization to the coordination of the organization via partial objectives, requires the presence of a predictable environment and also require the availability of high decisional autonomy. In the case of a dynamic environment, objectives will be constantly revised, and/or they will be fixed so as to be reached in any case, so losing much of the motivating meaning. In case of high decision dependency by third parties the following consequences are typical: lengthening of the programming time; pervasiveness of

 ISBN: 978-9963-711-37-6

external goals and reduction of corporate accountability; introduction of operating modes that encumbers management. The situation shows clear symptoms of the critical characteristic described above, such as the dilation time of the budget cycle (2014 was approved on June 6), the presence of "pervasive" regional objectives and constraints, the presence of management objectives not always adequate. In addition it should be noted that a control system of the type indicated by the organization requires not only the actual availability of adequate information tools (accounting and other), but also the presence of an adequately dimensioned and professionally qualified unit of staff. Finally, it should be highlighted the need for the hospital to be able to manage the inevitable ambiguity and complexity that a motivation oriented and staff assessment budget necessarily entails. The objectives pursued through the use of a budget system are structurally conflicting. While a good budget for planning purposes must be realistic, for the purpose of motivation must be challenging. For the evaluation of the people, however, must contain well measurable objectives that really depend on the action of the single manager. Lack of instruments and organizational conditions tend to weaken the "technical legitimacy" of the planning and control system as a general method of hospital conduct. This will leave a wide space for dynamics of political negotiation between the organization actors. In these cases, the likely "meeting point" is that managers formally adhere to "rules of the game", provided the rules themselves guarantee a positive assessment of their work anyway. Even compared to the operating conditions, the situation presents symptoms of criticality. The cost accounting, indicated as a fundamental tool since the regional law of 1996, is no longer current and is replaced by records outside, activated specifically in relation to information needs from time to time necessary. This situation is reflected in timing and quality of reporting for managers. Observing the performance indicators, it is noted that almost never the relative values are obtained through structured detection systems and that, in many cases, have several shortcomings:

- relate to matters falling within the wheels of official duties (i.e.: “% Of reports digitally signed”; “run quarterly reports”; “% of medical records compiled properly”);
- do not capture the substantial aspects of the objectives (i.e.: “prepare a plan of action”; “% of participation in training courses”; “send cards for improvement”);
- push to reductions in service levels (i.e.: “reduction in the number of prostheses.").

The cycle of monitoring and reporting is also geared primarily to the periodic review of the objectives for incentive purposes. This falls in connection with the activities of the OIV, which has always validated the methods adopted. Finally, the structure of programming and control management, is currently assigned to a personnel without specific managerial qualification. The control system adopted by the organization, although characterized by principles and rules internally consistent, presents critical elements. These elements, debunking the substantial effectiveness, risks being

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interpreted, at least in part, using a bureaucratic logic, mainly oriented to manage the personnel incentives according to the logic of balance negotiation. From the human resource perspective, the hypothesis of an increasing trend of rewards, obtained by the existing system, is supported by the results of the evaluation. In 2012 (latest year available) the performance of the non-management personnel was on average equal to 86.83% of the theoretical maximum. The performance of managers was of 93.05%, with a gap between the various departments ranging from a minimum of 83.31% and a maximum of 98.25%. It is also interesting to note that the union agreement for the remuneration of result stated that those who have achieved less than 60% of the results perceive the 60% of the wage, those who have achieved between 61% and 84% of the result perceive the 85% of the premium, while for those who have obtained at least 86% of the goals the award is given for 100%.

The project ABF and its impact on the case study

The need to contain health care spending stays at the bottom of the decision of the regional government to change the financing system of hospitals. The Region has the goal of identifying the structures and areas of activities financed higher than normal, to act upon them as a priority, abandoning the traditional criterion of historical expenditure. Therefore, the Region has started a project for the construction of an Activity Based Funding (ABF) system, including in it the Hospital of Udine as one of the pilot organization chosen to test the system. The ABF is used in several countries as a supporting methodology for the definition of the funding of hospitals. Each facility receives funding proportional to the services rendered, valued at a normal or standard cost. From this point of view, the ABF approach has the same logic of funding methods based on DRGs (Diagnosis Related Groups) and represents an evolution of them. The ABF methodology is not limited to quantify the standard cost of a certain performance (conjugated to a specific type of patient), but it also highlights the composition, with respect to the type of inputs and with respect to the activities in which the service is divided. This leads to a view of the standard that also incorporates the reference to a defined production process, which can, therefore, be one standard, in the specific "standard mode" case. In this way, the standard cost can also be used as a tool for guiding the operational processes point of view. Being aligned with the standard can be taken as an indicator, albeit indirect, of quality. In this case, the starting point has been to position the hospital costs in relation to reference values taken from the database NISAN (Italian network for standard costs in healthcare). The database collected the values of the effective cost of about 20 Italian health companies.The overall positioning of the hospital is summarized in Table 1, which shows that the benchmark used as the standard reference is less than the actual total of 5.41%, namely more than 20 million euro. The offset, also significant, however, is not the largest in the regional landscape: any process of costs system realignment thus appears quite challenging while necessary.

 ISBN: 978-9963-711-37-6

Table 1 – Cost Benchmark

Cost Items in 2013	Hospital (€/mio)	Benchmark NISAN (€/mio)	Differences (%)
Doctors	71.17	72.30	+ 1.57%
Nurses	62.73	65.18	+ 3.77%
Other staff	42.58	35.19	- 21.00%
Medications	26.41	27.46	+ 3.82%
Medical devices	52.90	45.80	- 15.49%
Other costs	108.72	99.85	- 8.89%
Total	364.52	345.80	- 5.41%

When all standard costs are set, the project will proceed with the development of specific software to continuously process the data generated. Leaving aside the operational aspects associated with the calculation methodology, it is possible to develop some consideration comparing this approach to the one described in the previous paragraph. As already mentioned the expected final effects of the project are different and very important:

- activate a financing system of hospitals more tied to activities/services provided;
- identify companies/business areas most over- financed and then proceed, with knowledge of the facts, to a selective and targeted restatement of the historical expenditure;
- Introduce a widespread economic empowerment of staff (including health) on production processes. This through highlighting the costs of the processes of which the various managers are responsible, and which constitute an object of calculation more significant than the unit cost of traditional product.

It is important to note that these objectives will not be achieved only through the adoption of the new ABF method of funding. These objectives require a more broadly conscious intervention in organizational and decision-making, both by the Region and by the organization. This follows directly from the system relations that bind together the tools and processes of planning and control. Each of them has, in fact, their potential and their limitations that are expressed differently depending on contexts of reference. In particular the innovation in ABF funding methodology does not by itself solve the same problems already arisen in the past with the DRGs method. Both of them, by funding the rendered services, push, in fact, health organizations to produce more in view of obtaining more resources. This, at the health system level, constitutes clearly an implicit boost to the expansion of spending and the development of an improper offer. In our opinion it is for this reason that in the health system of Friuli Venezia Giulia this method was shelved in favor of a substantial "return" to the historical expenditure criterion, albeit benchmarked and compared on the basis of the normal performance expected by the various structures. Similarly, the ABF system per se does not eliminate the urge of opportunistic selection behavior of the performance "more advantageous", that is, for which the standard cost is higher than the effective one. Finally, they do not eliminate the risk of reduced propensity to invest, generated from the goal to contain short period unit costs. A second set

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of considerations concerns the implications that the introduction of the ABF involves from the perspective of the set objectives. Given that one of the most important goals is to foster focused accountability for the costs of the processes it is clear that: a) cost data must be collected in a systematic way; b) in this regard must be used reliable methodologies; c) staff must develop the skills needed to use data generated in an effective and targeted manner. It should, therefore, be developed an effective cost accounting system of the type Activity Based Costing. For the operation of this system, it is necessary to identify significant breakdown drivers, transparent and shared, avoiding the risk that data generated is perceived as too approximate or subjective. It is necessary, therefore, to develop adequate staff training programs, even for employees with a medical background. It is equally necessary that the programming and control structure is enhanced, in relation to the effectiveness and importance of the tasks to be performed.

The latter are, indeed, most burdensome compared to a context without ABF. This is because the responsibility for processes requires constant "maintenance and innovation" of their mode of conduct and a consequent maintenance of both the procedures for collecting the costs and the configuration of standards reference, which are by nature evolutionary. In this regard, it is perhaps useful to remember that the difficulty of updating the DRGs values was at the origin of a progressive loss of meaning of the same. This led during the time to a reduction of the interest for this financing method (and control). A third set of reflections on which pressed to draw attention refers to the organizational implications of a reinforced budget control in the current context of the hospital in Udine. In this context, as previously highlighted, the budget process is characterized by a strong orientation to the evaluation of the staff with retributive consequences that went leveling off upwards, based on very high rates of objective achievements. These include the economic dimension and cost control dimension that does not seem to be a factor "challenger" for health management.In this context of marked orientation to the retributive satisfaction of the staff the full achievement of the objectives is an acquired existential experience. In this context, where employee wage satisfaction is taken into great consideration, and the achievement of goals is seen as a natural condition there are high risks derived from this change. People could consider the goal achievement of a formal term rather than in a substantial term. There is a high risk of quality reduction due to the need to reach the cost target. The risk is concrete and could find a reinforcing element in the external, and political relevance of these targets focused on the cost reduction that must be achieved above everything. This process leads to reducing the quality and quantity of performance instead of raising the efficiency and quality, also through appropriate investments. So here it comes the centrality of developing planning and control systems even in their dimension of IC, with references, measurements and incentives related to the aspects that create value today and allow to generate even more tomorrow.In public entities the

 ISBN: 978-9963-711-37-6

development of this dimension is essential for a real orientation to the principle of value for money; otherwise, and especially in times of financial stress, there is a risk of developing tools that allow to understand the cost of everything but the value of nothing.

DISCUSSION AND CONCLUSION

The study shows some primary results of an analysis conducted in the setting of an Italian University hospital due to the change of funding system. The research project shows limitations provided by the traditional funding system used in that region, based on a historical base and political negotiation. The traditional model used to fund hospitals supported the creation of a bureaucratic mentality. People inside the organization face the management control system as a bureaucratic tool that must not interfere with the medical activity. Additionally, reports are developed more in a bureaucratic way rather than as a real mechanism of control. Being purely formal, control systems are used to achieve results that allow employees and managers to get economic rewards rather than to increase organizational efficiency and effectiveness. Several measures are used to support these findings. First, the normal period required to produce the budget always goes beyond what a good practice suggests without any consequence for managers. Costs of the hospital are increasing and locate the hospital over the average of the nation. Additionally, interviews with managers and policy makers confirm these findings. The ABF system represents a huge challenge for the analyzed hospital. Unfortunately, this approach stresses even more the need to increase the intellectual capital within the analyzed hospital. Without changing the bureaucratic mentality, increasing human and structural capital the real risk is a reduction in service quality and quantity in order to achieve the required cost standard. The organization must develop training programs, spread the culture of control and move employees and managers behavior to a more effective approach to the control system. These considerations allow to answer to our two main research questions showing how traditional and innovative management and control tools can support public bodies in facing challenges connected with the austerity program on one hand and shows how IC should be developed in order to move healthcare organizations to a managerial approach to control systems.

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 ISBN: 978-9963-711-37-6

HOW MANAGERS PERCEIVE AND ASSESS SUPPLY CHAIN RISKS? EMPIRICAL RESULTS FROM A SAMPLE OF EUROPEAN ORGANIZATIONS

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ABSTRACT

The purpose of this article is to investigate the process of supply chain risk assessment as practiced by managers. The study proposes a model of supply chain risk assessment, based on the investigation of how risk owners perceive risk and assessment different risk categories and risk drivers. Finally, the paper explores what risk assessment techniques are used. This research is followed by a preliminary and exploratory empirical investigation. The research shows that supply chain managers generally view risks as under-performance, investigating the relationship between supply chain risks, other risks categories, and the (limited) use of risk drivers in assessing supply chain risks. Finally, we found that qualitative risk assessment methods are more used than quantitative methods. This research contributes the limited literature on empirical testing of supply chain risk management practices. However, this research is exploratory in nature and is based on limited (though diverse) sample from Europe. There is an opportunity to test the model in different countries and with larger sample sizes. There is an opportunity for managers to understand how risk could be leveraged for long term gains in a supply chain context, how to rely on a mix of qualitative and quantitative tools, and understand how different managers assign importance to different types of risk. This is one of the few empirically - driven studies on risk management, specifically on supply chain risks and related risk drivers.

Keywords: *supply chain risk, risk categories, risk drivers, risk assessment, supply chain management*

INTRODUCTION

Over the past years, academics have increasingly focused on supply chain risks (Ritchie and Brindley, 2007; Manuj and Mentzer, 2008). Majority of the extant literature could be classified into articles investigating supply chain risk frameworks (Sodhi *et al.*, 2012; Rao and Goldsby, 2009; Bandaly *et al.*,

 ISBN: 978-9963-711-37-6

2013; Jüttner *et al.*, 2003) and tools and techniques (Gaudenzi and Borghesi, 2006; Wu *et al.*, 2006; Kull and Talluri, 2008).

Several industrial cases demonstrate the complexity of supply chain risk management (SCRM). For example, the recent recall-case of Mattel toys in 2007 (Tang, 2008), SCRM is an inherently multi-functional process, which requires an integration of capabilities and communication between product development, finance and supply chain management to prevent and mitigate critical risks (Pyke and Tang, 2010). There is a need of a holistic understanding of what is meant by risk and how risks can occur in and out of the company, affecting its supply chain.

Different standards and guidelines have been proposed and have periodically re-confirmed the classification of risks into strategic, financial, and operational risks (ISO Guide 31000, 2009; ERM Framework, 2004; FERMA standard, 2002). Of these, several classifications identify supply chain risks as an independent category. However, it is evident that many risks related to supply chains fall into other categories. From a theoretical perspective, it is important to establish relationships between different types of risks, building integrated decision-making processes. Current research suggests that integrated risk management approaches are poorly developed in the practice (Manuj, 2013) and do not support holistic decision making (Emblemsvåg and Kjolsad, 2002). From a practical or applied perspective, it is important to explore practices and tools for SCRM (Colicchia and Strozzi, 2012) and to analyze how supply chain professionals manage the risk assessment process (Tazelaar and Snijders, 2012).

Given this backdrop, the objectives of this paper are to bridge the gap between theory and practice by raising and answering research questions related to:

(a) how risk owners/decision makers can define risks;

(b) how managers perceive the relationship between the different types of risks (strategic, operational, financial and supply chain risks);

(c) what relative importance do managers assign to 'risk drivers' (the sources of these risks); and

(d) what risk assessment techniques are used by managers;

To do so, we frame specific research questions based on extant theory and undertake a preliminary and exploratory empirical investigation to answer the questions.

ISBN: 978-9963-711-37-6

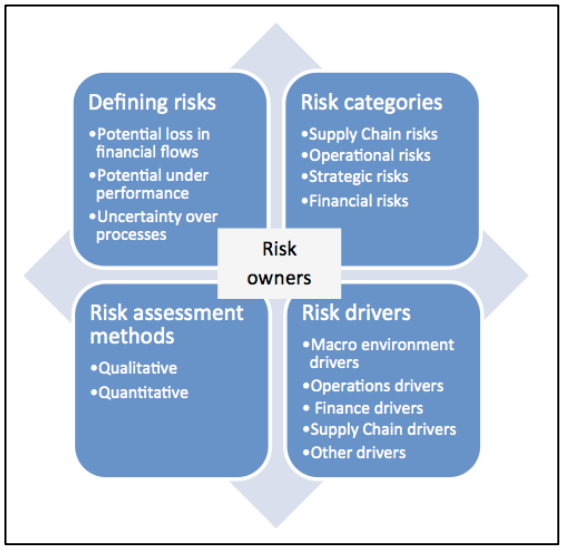

Figure 1. *The overall model of Supply Chain Risk Management*

The overall framework is presented in Figure 1. We first explore different definitions of risks and their implications for the importance that managers award to different types of risks. Next we look at the risk drivers or sources and their linkages with different risk categories. Finally, we investigate risk assessment methods.

LITERATURE BACKGROUND

Defining risks

To manage risks in integrated manner, the first step is to define what is meant by risk. Defining risks means to build a common terminology among different functions and risk owners/decision makers. It helps in understanding what are the key risks in different business areas, the managerial priorities and the most appropriate risk assessment approaches (Cavinato, 2004).

Several conceptualizations and definitions of risk exist in the literature in the fields of management, accounting and governance (Hora and Klassen 2013).

To summarize, three distinct groups of risk definitions may be identified:

1. A potential loss in revenue or profits or an increase in costs, well measurable in terms of probability and impact (March and Shapira, 1987). This approach suggests a negative-only view of risks. In this perspective, risk is defined as a potential under performance.

2. An event whose consequences may be either negative (losses) or positive (gains) through choices and events that have financial consequences (Dickinson, 2001; Miller and Leiblein, 1996). This definition is strongly related to the finance perspective (Alexander, 2005), and suggests a both negative and positive view of risks. In this perspective, risk is defined as potential loss or gain in financial flows.

 ISBN: 978-9963-711-37-6

3. A negative event, difficult to measure, related to "the effect of uncertainty on objectives" (Hendricks and Singhal, 2003; Blos *et al.*, 2010; Emblemsvåg, 2010).

This approach refers to uncertainty over processes. In this perspective, risk is defined as a negative event related to disruptions.

Risk categories

There are several classifications of risk. For this research, we synthesize these perspectives and others (ERM 2004; Dickinson 2001) into the following four broad categories: supply chain, operational, strategic and financial risks. There is a consensus in supply chain literature that risks should be addressed for their interconnections such that one type of risk affects other types of risks in the organization along a supply chain network (Chen *et al.*, 2013; Chopra and Sodhi, 2004). This classification because of its broad scope of each risk category enables us to better study overlaps and connections between different risks.

Risk Owners

Risk owners or chief risk officers are defined as managers who work "(…) *with other managers to set up an effective and efficient risk management system and disseminate risk information to the entire enterprise*" (Saeidi *et al.*, 2012). From this perspective, the supply chain manager is the owner of the assessment and management of risks related to operations and supply chain (Aon, 2013). While sufficient empirical evidence is lacking, the literature seems to suggest that managers (risk owners) with supply chain responsibilities may prefer the first definition of risk (Jüttner, 2005; Zsidisin, 2004).

To summarize, we expect that managers with supply chain responsibilities will demonstrate specific preferences for risk definitions and risks. Therefore our first two research questions are:

> ***RQ1: Among different risk definitions, do managers with supply chain responsibilities consider risks primarily as negative-only events?***
>
> ***RQ2: Do managers with supply chain responsibilities weigh the supply chain risks higher than other risk categories?***

Risk drivers

Risks may be generated as a result of risk 'drivers' or risk 'sources' that are either internal or external to the company. The scope of risk management is to identify all of these external and internal drivers in order to better assess different risks and to develop a risk management plan for the company and the supply chain (Jüttner *et al.*, 2003; 2005).

The categorization of risk sources / risk drivers still remains fragmented (Rao and Goldsby, 2009). The risk drivers most salient in a supply chain context may be grouped into the following categories:

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macro-environment, operations, finance, supply chain, and other risk drivers (Finch, 2004; Tang, 2006; Wagner and Bode, 2008; Olson and Wu, 2011). See Table 1 for a comprehensive list of drivers.

Macro-environment risk drivers	*Supply chain risk drivers*
Political instability	Lack of integration between SC and product design
Regulations	Need for processes flexibility
Market / demand volatility and variability	Supply chain shortages
Operations risk drivers	*Finance risk drivers*
Piracy/theft	Criticalities in cash flow cycle
Product life cycle shortages	Currency fluctuation/ exchange rate risk
IT failures	Credit availability
Safety and security	*Other risk drivers*
Supplier dependence	Natural disasters
Inventory	HR disputes
	Intellectual property

Table 1. *Risk Drivers*

As discussed earlier, the subjective perception of risk by practitioners affects how risk sources are perceived and how the entire risk management process is addressed in an organization or a supply chain. Considering the large literature in supply chain risk management, the third research question is:

> ***RQ3: If a manager with supply chain responsibilities gives high importance to supply chain risk, does she/he perceive supply chain risk drivers as important***

Risk assessment methods

The discussion so far has focused on all risks and risk drivers present in supply chains. However, given organizational resource constraints, managers cannot and do not focus on all risks and risk drivers. Typically, managers tend to identify the risks and risk drivers most salient to their area of responsibility. There are several risk identification tools, which may be primarily grouped into qualitative and quantitative tools (FERMA standard, 2002). In general, literature and international risk management guidelines suggest that qualitative methods appear to be more prevalent than quantitative methods (AIRMIC-ALARM-IRM, 2010). Therefore, the last research question is:

> ***RQ4: Do managers with supply chain responsibilities prefer one type of risk assessment technique over the other techniques?***

RESEARCH METHODOLOGY

We employed a convenience sampling method. As highlighted by Baratt *et al.* (2011) convenience sampling method is quite diffused both in qualitative and quantitative researches. However, small sample studies require the researcher to be extremely cautious about making generalizations to the

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population(s) under study (Franke and Richey, 2010). To obtain most meaningful interpretations of data, we pooled data from multiple sectors instead of focusing on a specific sector. Overall, because of the exploratory nature of our research, our findings are applicable only to the limited context of the selected companies but provide a grounding for further studies that may be generalized to bigger populations.

Forty four companies in a variety of industries including consumer goods, chemicals, manufacturing, industrial equipment, IT and software, financial services, business services, healthcare, telecommunications, property and construction, transportation and logistics were selected. A list of the members of one of the leading european logistics association was obtained. Next, the particular firms were selected because of the lead author's close connections with these firms and ability to obtain complete and reliable data. The firms have different sizes, from small manufacturing firms to medium-sized companies and large-sized firms with over US$ 10bn revenue. Participants in this research were risk experts of the companies, with supply chain responsibilities.

Data were collected by means of a questionnaire. The development of the questionnaire required the identification of risk definitions, risk categories, risk drivers and risk assessment methods. The researchers presented to ten risk experts with a list of risks and risk drivers based on an extensive review of the literature on supply chain risk and operational risk to assess the survey for clarity and readability. The final questionnaire was pre-tested for comprehension and clarity in one of the meetings of the team of managers and academics. For the data collection, we engaged respondents by personally inviting them to participate to this research through email contacts and then after acceptance they were personally contacted by phone or conference call over a period of nine months. During the survey administration, researchers assisted experts with any questions, problems or concerns. Because of the exploratory nature of this research and a small convenience sample, we mostly report a combination of descriptive statistics and correlation analysis (De Beuckelaer and Wagner, 2012).

RESULTS

Risk Definition

With reference to RQ1, over half of the total number of the respondents (52%) chose the definition of risk as a potential under-performance that affects the organization's capability to achieve its business objectives. This reflects a negative-only perspective of risks. 34% of the sample chose the definition of risk as a potential loss (gain) in financial flows, that is, an event whose consequences may be either negative or positive, but strongly related to financial performance. The remaining 14% chose the definition of risk as negative events related to disruptions. This result shows a preference among the

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risk experts in the supply chain functions for the first definition, as well as a lack of a common view among these respondents.

Risk categories

With respect to RQ2, overall, the highest risk priority was awarded to supply chain risk, followed by operational, strategic and finally financial risks. This means that managers with supply chain responsibilities weigh supply chain risks higher than other risks.

Risk drivers

To answer RQ3, we investigated the five groups of risk drivers and their relationships with supply chain risks. The analysis revealed that supply chain risks are positively correlated with supply chain risk drivers (r=372) and negatively correlated with macro-environment risk drivers (r= -0.331). While the result for supply chain risk drivers is not surprising, the relationship with macro-environment risk drivers is interesting.

As perceived by the respondents, supply chain risks are negatively correlated with macro-environment risk drivers. One way to interpret this result is that because managers are unable to manipulate the drivers such as political instability that fall under this category. Therefore, managers tend to focus on supply chain risk drivers or drivers on which they have some influence. Furthermore, it is likely, that after several years of experiences, managers tend to consider the macro-environment risk drivers as the norm or usual conditions to deal with. To further understand this result, we analyzed the relationship between supply chain risks and single risk drivers.

Table 2 presents the categories of risk drivers and overall category correlation with supply chain risks.

Risk driver category	Supply chain risk	Most significant risk drivers
1. Macro environment risk drivers	-0.331	Political instability (-)
2. Operations risk drivers	-0.109	
3. Supply chain risk drivers	0.372	Lack of integration, Need for process flexibility (+)
4. Finance risk drivers	-0.201	Criticalities in cash flow cycle (-)
5. Others	-0.132	

Table 2. *Correlations of supply chain risk with the groups of risk drivers and single risk drivers*

To further investigate the results, we looked at the correlations among risk drivers. Results suggest that operations risk drivers are positively correlated to all the other drivers except for macro

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environment risk drivers. This might be explained by the cross-functional nature of operational risks which leads managers to link them to other drivers, such as strategy or finance drivers (Table 3)

Risk drivers	Macro environment risk drivers	Operations risk drivers	Supply chain risk drivers	Finance risk drivers	Others
1. Macro environment risk drivers	1				
2. Operations risk drivers	0.014	1			
3. Supply chain risk drivers	-0.132	0.489**	1		
4. Finance risk drivers	0.272	0.384*	0.306	1	
5. Others	0.165	0.476**	0.434*	0.213	1

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Table 3. *Correlations between macro drivers*

Indeed, the existence of this "cross-drivers relationship" is better explained in the Table 7, which indicates the correlations between specific single drivers between and across categories.

Risk assessment methods

With reference to RQ4, overall, managers with supply chain responsibilities demonstrated a marginal preference for qualitative risk assessment techniques. We found that 53% of the respondents adopted qualitative approaches. Specifically, respondents declared to adopt techniques such as scenario planning and non-formal methods like brainstorming. Of those who adopted quantitative methods (40%), some referred to value at risk/cash flow at risk or other statistical methods.

DISCUSSION, IMPLICATION AND FUTURE RESEARCH

This research contributes to the limited literature on empirical testing of practices in risk perceptions and assessment from different managers. Literature suggests that supply chain risk management is a multi-functional concept. Based on theoretical underpinnings from extant theory, we attempt to bridge the gap between theory and practice by raising and empirically answering a few research questions. Specifically, we raise questions related to risk definitions, risk categories, risk drivers and risk assessment methods. In doing so, we provide preliminary empirical support for some conceptual models (Jüttner *et al.*, 2003; Kaplan and Mikes, 2012) and empirical models (Blackhurst *et al.*, 2005) offered in literature.

Overall, the preliminary empirical evidence for RQ1 and RQ2 suggests that the position of the risk owner in the organization drives the understanding of risks and also risk drivers.

 ISBN: 978-9963-711-37-6

While the literature suggests that risks are interconnected and one risk may affect other risks in the supply chains (Chopra and Sodhi 2004), in practice, we found that managers assign a similar priority to supply chain risk and operational risk but do not perceive a relationship between supply chain risk and strategic risk or financial risk. The lack of correlation with these risks might demonstrate that the "functional silo oriented" mental models continue to persist in the context of supply chain risk management. Financial risk and strategic risk seem to be perceived as non-linked to supply chain risk, suggesting a lack of coordination among these functions.

Considering the third research question (RQ3) was:our results show that managers do not really pay attention to risk drivers, which obtained in general a low consideration (the average mean was rated 2.56, on a scale from 1 to 5).

Across the categories of risk drivers, the most critical risk drivers are safety and security (mean = 3.92), IT failures (mean = 3.23), and supply chain shortages (mean = 3.11). Managers seem to be aware of other supply chain risk drivers (such lack of integration and need for process flexibility), but they do not assign high importance to these risk drivers. Therefore, it may be inferred that they do not systematically control all the risk drivers.

Regarding the risk assessment techniques, qualitative methods are more prevalent than quantitative methods. This is consistent with the literature (Narasimhan and Talluri, 2009; Emblemsvåg, 2010), and may be because of a lack of training, tools, or time available to managers engaged in assessing risks.

An important implication of this paper is that while the concept of supply chain and, to certain extent, supply chain risk managing has existed for a while, the disposition of managers in an organization to managing supply chain risks is still functionally-oriented. In our sample, CFO and controllers were focused on financial and reputational risk and supply chain managers were focused on supply chain risks and operational risks (Christopher and Gaudenzi, 2009). The implication of this finding is that helps managers become aware of their inward-looking focus on supply chain risks. In particular, they should focus on reputation risks as these can arise from multiple drivers.

Future research direction may be to explore reasons for continued existence of functional silos as related to supply chain risk management. A related direction is that of investigating how companies could better implement supply chain risk management in a holistic manner.

However, there are also some limitations. This research is exploratory in nature and is based on limited (though diverse) sample from Italy and the UK. There is an opportunity to test the model in different countries and with larger sample sizes, so a stronger theory of supply chain risk management could be developed. Furthermore, our results are focused on managers tasked with supply chain responsibilities. A future research direction is to involve different decision makers from each company.

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 ISBN: 978-9963-711-37-6

THE ROLE OF EMOTIONS IN ADVERTISEMENT: A FIRST INVESTIGATION

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ABSTRACT

Nowadays we are more and more exposed to various emotional stimuli used as communication strategies in order to convey different messages. More specifically, in recent years, one kind of emotional advertising has become particularly popular: fear appeals.

Thanks to its wide diffusion, many writers have discussed the topic and several reaction models have been developed. However, despite the numerous studies now available, some contradictions still exist. Therefore, none of these models can be considered as valid for all fear appeal responses.

Starting from the existing literature, the goal of this research is to prove an overall effectiveness of such communication tool on different subjects. In order to do so a video advertisement for road-safety was analyzed.

The results show a general efficiency of fear-based approaches in the reduction of high speed in driving. In addition, the experiment revealed not only the major constraints of the video advertisement considered, but also how health organizations might improve safety campaigns.

Keywords: *Emotional Marketing, fear, positive emotion, consumer behaviour, companies behaviour.*

INTRODUCTION

The interaction of emotion and condition in reacting to advertising messages is a dynamic and intricate phenomenon. Always more, in the communication field, advertisements are created with a specific emotional content that is characterized by the co-presence of different strong emotionally stimuli used with the purpose of motivating individuals to make changes in attitude. Among these stimuli, particular attention has been lately paid on fear communication, extremely common in health campaigns.

 ISBN: 978-9963-711-37-6

Fear appeals are extremely complex messages with multiple emotional characteristics. Their main purpose is to get to the desired cognitive reaction on consumers by appealing to the natural feeling state of fear, an emotional response related to the persons' perception of a possible threat. Thanks to the intensity of the involvement which they create in the audience, fear appeals have been used always more as a communication tactic to convey certain messages to the public, in particular on topics related to public or personal welfare.

With this paper, the purpose of the authors is to analyze the possible effects which may arouse from the audience exposure to these various emotional stimuli, and in particular to understand the rational about cognitive responses to the emotion of fear on social marketing concerns.

The research, supported by a case study, will then try to give a proof of the effectiveness of this emotional communication tool by analyzing the responses of a specific target to fear media campaign.

LITERATURE REVIEW

Fear is a primitive, natural emotional response composed of two dimensions, physiological and psychological, which may arouse when an individual perceives a threat as serious and personally relevant (Witte, 1994). This emotional state, to which no human being is immune, has been described as a maximal state of insecurity and derives from people's uncertainty on what will be the best decision to make and whether they will be able to avoid or escape from the elicited danger (Turner & Ortony, 1990). Since the reaction arising from fear is quite capable of provoking attitudinal and behavioral changes, several advertising campaigns have been using this feeling as leverage in order to move the audience toward desired actions in different contexts. Marketers have been exploited this persuasive form of communication by taking advantage of the relationship between the danger evoked and the personal response produced by its representation.

The Use Of Fear In Marketing: Fear Appeals

Before considering the variety of contexts in which they can be applied, we can firstly define fear appeals by referring to their two main features: a) the content and the structure of their message and b) the audience response they hope for. Regarding the content of the message, many authors referred to a first distinction, elaborated in the previous literature by Schoenbachler and Whittler (1996), which used as determiner the "object" that it would have been affected by the threat represented in the advertisement. Thus, considering this classification, fear appeals can be divided into physical or social, depending on the nature of menace they represent, which might act on the body of the person (as for instance health consequences as cancer or death), or on the individual's social acceptance. This division, which is proven to be useful in determining which variables should be used for different

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targets, is however not exhaustive, as some physical negative outcomes can also lead to issues in social acceptance (e.g. mouth cancer, destruction of tissues, etc.).

Consequently, it would be more accurate to refer to the analysis of Jones and Leary (1994), who outlined two other possible categories: appearance-based ads and health-based ads. This classification, which refers to which might be the most important concern for the person, allows to better analyze the effectiveness of a fear advertisement in terms of the content used to convey a message.

In addition to the elements considered above, there is another important element on which it is essential to carefully reflect while creating a message for a specific audience: the level of fear that has to be introduced in the ad. Referring to this subject, many authors in the past decades wrote academic reviews, proposing different models regarding the optimal "amount" of fear in the campaigns.

A first consideration on this theme can be found in early studies of 1960 in which the experiment outcomes showed that the greater the amount of fear, the lower the effect on behavior, which means that arousing too much tension in the audience would have not been effective (Myers & Reynolds, 1967). This conclusion on the negative relation between fear and effect doesn't find any confirm in latter works which focus on two different alternatives: a positive relation of the two variables; a curvilinear explanation.

In support of the first alternative, i.e. the positive correlation, we can find many relevant works in which various authors stated that the rapport between emotional fear response and persuasion is generally positive and linear. The general finding is that increases in fear can be linked to major change in attitude or behavior in a consistently manner (Sutton, 1992).

On the other side, the curvilinear explanation better helps to explain the possible range of reactions that might be provoked in response to a determined fear representation. This theory, which is mainly based on the work of Ray and Wilkie (1970), states that there is an optimal level of fear which lies in between the two extremes.

Together with the considerations on the right amount of fear, a properly defined message structure is necessary in order to obtain the wished outcome. A first important one is a basis from which each fear ad should start in order to be consistent and effective. This lies on the presence of two essential elements: the representation of a threat, severe and relevant for the audience (e.g. contraction of HIV which can lead to death) so as to arouse fear; and the illustration of a possible safe solution, which can lead to the neutralization of the threat and which can be easily implemented (e.g. use of condoms reduce the risk of contracting HIV).

Both components should be clear enough in order to induce a greater impact on the consumer's mind.

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Another essential requisite for the success of the appeal is realism in the representation of the possible damages and threats that can occur in case of compliance with the unsafe behavior. The more realistic this representation, the more the personalization of the audience in the described scene and thus the greater the fear aroused. This factor can be considered together with the credibility of the appeal that lies on the representation of the dangerous situation. It has been proved, in effect, that when the source is specified (e.g. British Heart Foundation, American Association of Cancer Research) the audience is more likely to pay its attention to the message and to get touched by the threat represented.

Perceived threat includes other two components, which are the susceptibility of the menace (i.e. how much the individual believes that the danger refers to him) and also its severity (i.e. how impacting would be on the person) while perceived efficacy refers to the ability of the individual to deal with the aroused problem. Fear appeals results more effective when the message is structured in order to have these two variables perceived as high by the customer (Lennon, Rentfro, & O'Leary, 2010).

Besides being subject to the content and the structure of the message, the effectiveness of a fear appeal can be determined by the target audience to which the advertisement is addressed. Although in this branch of communication individualism is even more accentuated than in other marketing domains, because of the complexity of the psychological response of fear which is influenced by personal beliefs and experiences, an accurate segmentation would allow marketers to reach higher levels of success in the development of the campaign.

The segmenting approach, which takes its basis from the previous assumptions on the message structure, should include four typical and common marketing variables in order to be effective - demography, personality, usage/relevance, socioeconomic factors – and some reactions - guilt, shame, disgust, resistance response, maladaptive coping responses, boomerang effect - (Haefner and Singer 1965; Ray & Wilkie, 1970; Kantrowitz, 1987; Lazarus, 1991; Witte, 1992; Brennan and Binney, 2010; Wu and Fitzsimons 2012).

Several authors have supposed that when people are pushed to change their behavior, they might perceive a constraint to their personal freedom. Feeling this menace to their autonomy, people would be then attracted to the negative attitude even more than before being exposed to the ad. An example can be given by the results of a campaign whose aim was to reduce the tobacco consumption among college students: the researcher not only found that the smokers' response was anger and avoidance, but the study also reported that the appeal increased their desire to smoke a cigarette just after having viewed the ad, while on the other side, the campaign strengthen the non-smokers decision (Wolburg, 2006).

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Fear Appeals In Social Marketing

With the term "Social Marketing" economists refer to that branch of marketing which seeks to develop communication concepts with the goal of encouraging behaviors that, since socially relevant, will translate in a greater social good.

Nowadays the trend in the use of social marketing for public associations and governments is continually increasing even if certain worries about its effectiveness still exist (Rothschild, 2005).

Several studies on compliant attitudes have been recently done and the general findings state that essential requisites to encourage these attitudes were clear regulations, a strong sense of duty and a concern for the social environment (May, 2005). Compliancy refers to a behavior in line with institutional rules, and, since we act in a regulated framework, people are well aware of the legal consequences that may arouse from not complying with these rules (e.g. penalties, fines or legal actions) (Harvey & McCrohan, 1988). Because of this observation it is still unclear if it is right to use the expression "voluntary" when referring to compliant behavior or if the attitude is just the result of a list of specific norms.

In order to solve the above described "voluntary" issue, marketers have developed structured appeals in which the focus is on representing the desired behavior as something which is also individually valuable for the person. Thus, clarity is a major requirement for these advertisements, as individuals should clearly see the possible benefit they might have as a consequence of the aimed behavior. This benefit can be represented by the avoidance of negative situation or the achievement of a personal success, depending on the nature of the message. In facts, as for product purposes, appeals may be positive or negative depending on the feelings they try to provoke in the audience. Even if various authors wrote and debate on the topic of the relationship among emotions and behavior compliance, the link between the intention and the effective change in attitude is still a problematic issue as results have been ambiguous and contradictory (Chandon, 2004). Notwithstanding these complications, emotional appeals achieved resounding success in social marketing, as they have been used always more in the last decade. In particular, many attention has been given to negative appeals, on which social marketing have been focused in order to convey messages for behavior compliance (Brennan &Binney, 2010).

The goal of these appeals is to create a sense of discomfort in the audience which will be therefore more motivated to react, in order to reduce the aroused negative feeling. The possible solution to this threat is then "revealed" by the ad and represents the desired compliant behavior which people should adopt. As already mentioned in the first part of this essay, the most popular negative emotion used in these appeals is fear, on which several campaigns are still based. Anyway, since the audience is getting used to this particular kind of messages, the trend is moving towards more complex ads,

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created with the interaction of many negative and positive emotions and which aim to a deeper cognitive response.

The Case Of Anti-Speeding Video Advertisements "Mistakes"

Speeding, which can be defined as exceeding legal limits, driving too fast, or racing, is a dangerous driving behavior which causes an impressive number of vehicles crashes every year (GHSA, 2013). A significant percentage of traffic deaths is, in facts, related to this issue and this is the reason why many road safe associations are focusing always more on this topic, considered of crucial importance.

Even if now many advertisements and campaigns have been developed in order to reduce its impact, not so much attention has been paid on this topic in previous years, as transports safety organizations have been concentrating more on other driving attitudes, such as distracted and drunk driving and seat belt usage. As a result, while several progresses have been reached on these other areas, the impact of speeding continues to increase, becoming the cause of one-third of car fatalities.

Countries are now combating speeding in several ways, implementing many road safety countermeasures. The most common adopted method is a strong communication on the topic, obtained by intensive publicity campaigns, in particular via the television channel and video broadcaster medias (i.e. YouTube). In addition to these structured ads, motor vehicle manufacturers have been encouraged to redesign their messages which should be now focusing on safety rather than on speed. The goal is to increase the awareness of the possible negative consequences of this risky behavior and to persuade people to "slow down".

Generally, these road safety video ads have mostly relied upon the use of negative emotions and in particular on fear-based approaches (Lewis, Watson, & White, 2009). In order to have an effective negative ad for road safety messages, such ads usually adopt a typical structure, which refers to the representation of a possible bad consequence (e.g. road crash) deriving from the unsafe driving behavior and to the further presentation of the attitude which will permit to avoid the undesired situation (i.e. driving carefully and at a moderate speed). This fear-based approach is still the most used for this topic and many studies have been focused on the possible success of using just fear, without the typical interaction with positive emotions, such as relief. Anyway the trend is to go on the opposite direction and this is the reason why we assist to an increase of complex emotional ads, whose aim is to create a complete cognitive response.

To better understand the effectiveness of these safety campaigns it is essential to consider a single case as a starting point for an analysis. For what it concerns anti speeding commercials, a very good example is the New Zealander ad "Mistakes" which became viral with more than 9 billion views on YouTube. This campaign, launched on January 2014, let drivers think about other road users in order

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to make them choose a moderate speed which could avoid the consequences of other drivers' mistakes.

The 60 seconds impressing video shows a conversation of two drivers which are about to crash because of a mistake. The video starts with one man seeing another vehicle coming from the right. Believing to have enough time to move, he decides not to respect the stop signal and proceeds. The other driver, aware of his speed, gets scared and tries to slow down. In this moment time stops and the two men exit their cars and start talking. The one who didn't respect the signal apologizes but the other driver is already excusing himself because unable to stop. The first man is confused and pleads for the safety of his son in the backseat but it's too late: the second one just says he's sorry and that he is going too fast to stop in time. Unable to alter the outcome, both drivers return to their cars and a shot is taken on the speedometer which reads more than 100/km per hour. Real-time suddenly returns and as the father looks worried at his son in the backseat the two cars crash impacting him directly.

Despite the majority of safe driving advertisements that just focuses on the shock of the unexpected car crash, "Mistakes" has a totally different approach. In facts here the accident is anticipated as the audience already knows that there is going to be a collision. Anyway, as time stops and the drivers start talking, people feel that there might be an option and that the result can be changed. This arouses a sense of tension, as everyone knows which is the solution to the feared consequence and aims for it. And it's in this moment that people get involved, as they struggle to get to the safety option.

It's because of this peculiarity that this video reached such a visual impact, passing every other type of speeding ad broadcasted and becoming one of the most viewed videos of 2014. Starting from this impacting video, the following analysis focuses on its immediate effects in changing speeding attitude of a selected group of Italian students.

So as to prove the efficacy of fear appeal ads on unsafe driving authors have developed a small research on a sample of 20 Italian students (10 males and 10 females) of an age comprised between 20 and 30 years old. This experiment has been done in a two months period time with the use of a mobile application, "Road Rider", in order to calculate the maximal speed of the students in driving. All students are frequent drivers and used their vehicles in the city of Turin (highest speed limit: 70Km/h) each day from Monday to Friday.

METHODOLOGY AND HYPOTHESES

The analysis can be divided in two parts, referring to each month. In month 1, all 10 students have been asked to download the app on their smartphone and to report the maximal speed reached each day on a shared excel file on Dropbox. In writing these values they were also asked to state if they

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used the car outside the town, so as to evaluate these numbers with the right speed limits. An average of the maximal weekly speed was then calculated for each person. This first part of the process was essential in order to have a range of non-influenced values as benchmark.

Then, on the last week of month 1 and during all month 2, the participants have been exposed to the anti-speeding commercial. The video has been showed to them three times during the first week, and then two times the following weeks, approximately at dinner time. At the first exposure, students were asked to watch it at home on their computer on YouTube and then to answer to three questions related to the emotions that aroused after watching it. Then, as for the previous month, participants were asked to keep recording their speeding values for the following days. Referring to the previous discussed literature on fear appeals and on similar case studies, there were few expectations on the results of this analysis.

A first one is related to the general efficiency of the ad. Considering previous assumptions on levels of emotion and usage I assume that the 20 students will react to the videos but slightly, since they are frequent drivers. This reaction would be seen especially after the first exposure to video, thanks to its novelty, and will decrease during the weeks. This supposition is consistent with precedent experiments since, as already proven in many studies, the more the exposure the less impacting the effect.

The second hypothesis refers to the differences between the two reactions of males and females. In facts, as already outlined in the first part of this essay, one of the variables which might influence the efficiency of an appeal is represented by the audience and, in this particular case, by demographic circumstances. Starting from the driving attitudes of young drivers, I expect females' reaction to be greater than males' one, and therefore that the commercial would be more effective for girls rather than for men. This assumption finds its roots in the riskier male driving behavior, which is proven also by insurance data, as young males are classified as the riskiest category.

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RESULTS AND FINDINGS

The results of the analysis are reported in the two tables below (all data are in Km/h).

MONTH 1	Week1		Week 2		Week 3		Week 4		Month Average
FEMALES									
Elena S.	84		82		85		86		**84,25**
Cecilia Al.	68		70		67		65		**67,5**
Cecilia Av.	71		70		73		70		**71**
Isabella C.	77		76		74		73		**75**
Francesca V.	82		82		83		82		**82,25**
Eleonora P.	76		75		74		72		**74,25**
Elisa R.	65		67		65		60		**64,25**
Antonella R.	80		81		83		82		**81,5**
Eleonora C.	78		77		76		74		**76,25**
Sabrina B.	75		76		76		74		**75,25**
MALES									
Andrea P.	94		89		91		95		**92,25**
Claudio P.	88		86		85		87		**86,5**
Federico F.	95		92		90		98		**93,75**
Fabio C.	86		84		85		82		**84,25**
Edoardo R.	81		84		82		78		**81,25**
Lorenzo P.	78		80		76		75		**77,25**
Francesco C.	76		75		75		73		**74,75**
Francesco A.	95		92		90		100		**94,25**
Giovanni P.	86		84		85		82		**84,25**
Michele R.	89		90		87		90		**89**

Table 1: Records of Month 1 – "Mistakes"

This table reports the results of the first month of the analysis during which the participants have not been exposed to the advertisement. All the numbers in the columns represent the average maximum speed of each week and at the end of the month an average is calculated for all four weeks. These values can be considered as the starting point of the evaluation, as they represent data without the ads influence.

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MONTH 2	Week 1	Week 2	Week 3	Week 4	Month Average
FEMALES					
Elena S.	83	82	83	86	**83,5**
	-3%	-1%	1%	4%	-1%
Cecilia Al.	64	63	65	66	**64,5**
	-2%	-2%	3%	2%	-4%
Cecilia Av.	68	67	69	71	**68,75**
	-3%	-1%	3%	3%	-3%
Isabella C.	72	72	74	75	**73,25**
	-1%	0%	3%	1%	-2%
Francesca V.	81	80	83	83	**81,75**
	-1%	-1%	4%	0%	-1%
Eleonora P.	71	70	73	74	**72**
	-1%	-1%	4%	1%	-3%
Elisa R.	57	56	57	60	**57,5**
	-5%	-2%	2%	5%	-11%
Antonella R.	81	80	81	82	**81**
	-1%	-1%	1%	1%	-1%
Eleonora C.	73	72	75	78	**74,5**
	-1%	-1%	4%	4%	-2%
Sabrina B.	73	72	74	76	**73,75**
	-1%	-1%	3%	3%	-2%
MALES					
Andrea P.	93	90	92	92	**91,75**
	-2%	-3%	2%	0%	-1%
Claudio P.	86	85	85	87	**85,75**
	-1%	-1%	0%	2%	-1%
Federico F.	101	102	100	98	**100,25**
	3%	1%	-2%	-2%	7%
Fabio C.	81	80	83	85	**82,25**
	-1%	-1%	4%	2%	-2%
Edoardo R.	77	76	78	80	**77,75**
	-1%	-1%	3%	3%	-4%
Lorenzo P.	74	73	74	75	**74**
	-1%	-1%	1%	1%	-4%
Francesco C.	72	71	72	74	**72,25**
	-1%	-1%	1%	3%	-3%
Francesco A.	102	101	99	99	**100,25**
	2%	-1%	-2%	0%	6%
Giovanni P.	81	80	83	85	**82,25**
	-1%	-1%	4%	2%	-2%
Michele R.	89	88	87	88	**88**
	-1%	-1%	-1%	1%	-1%

Table 2: Records of Months 2 – "Mistakes"

This table represents the results of Month 2 for the advertisement. A line has been added after each participant and shows the change in percentage of the maximal average speed with the previous week. The percentage in the last column refers to the change between the average of Month 2 compared to Month 1.

As it can be clearly seen in the lines, the exposure to the ad resulted in an overall positive effect, with the reduction of the monthly maximal speed average. In fact, considering the 20 participants, 18 of them reacted in the aimed way and reduced their speed as expected (percentages highlighted in green). Starting from this positive finding, which validates the effects of the videos, it is possible to analyze the other hypothesis assumed before.

ISBN: 978-9963-711-37-6

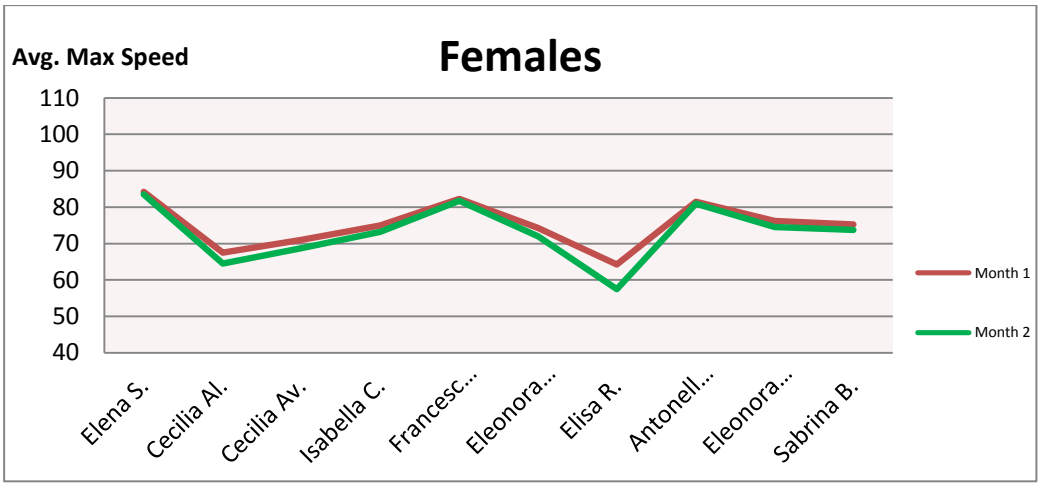

Table 3: Records Females Months 1 vs 2

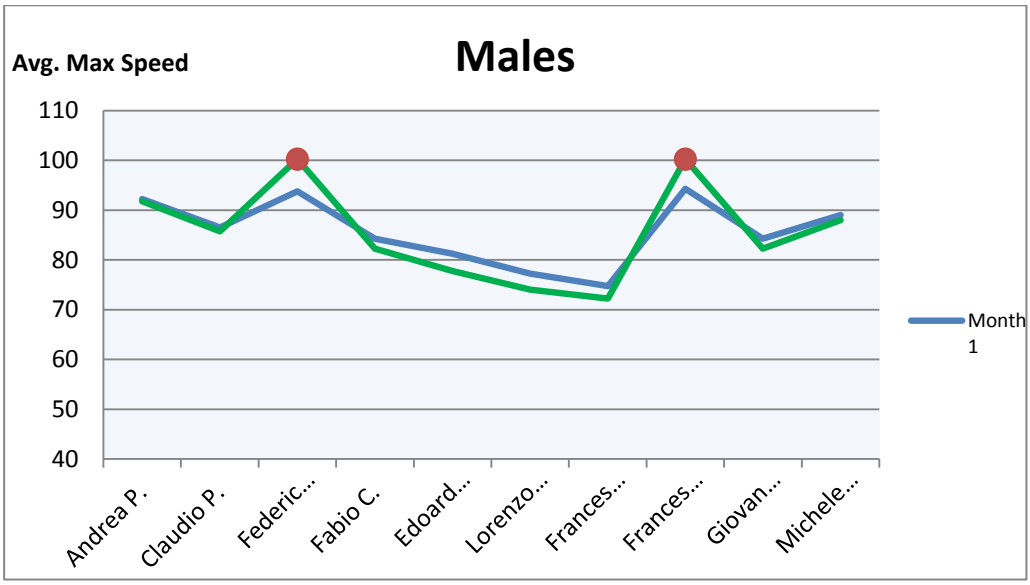

Table 4: Records Males Months 1 vs 2

For what it concerns the differences among male and women, the prediction was a diverse reaction to the advertisement and this is confirmed by this little case study. The values of the percentage reduction for women are significantly higher than the ones of men and this depends on their diverse attitude to fast driving. This finding is also consistent with the study of Lewis, Watson and Tay (2006) that focused their research on the different impact of gender to a reaction to road safety advertisements. The results, in facts, suggested that female were more influenced than men by threats on possible physical harms and therefore that these kinds of ads would have had a greater impact on them.

Taking a step further into the analysis, there are two interesting results that should be considered: the two positive changes in percentage among man (highlighted in red on the table). In facts, two male participants had an opposite response to the ad and increased their speed after the exposure to the

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video. This is the so-called "boomerang effect" and it occurs when people deny the represented menace and act in the opposite direction of the desired one showed in the message.

As already mentioned above, many authors discussed on this topic and different theories have been applied in order to explain it. A famous example is represented by the work of Miller and Rollnick (1991), which assumed that this reaction could have been a response to a perceived menace on individual freedom: feeling to be "compelled" to act in a certain way the person perceives the negative response to the ad as a mean to defend his freedom and therefore considers the bad behavior as even more attracting than before.

Another possible option for this result can be assumed by referring to the previous assumptions on usage and relevance for the audience. As already explained and demonstrated (even in the case of visual warning), in facts, the higher the relevance the lower the effect, as this case proves. Taking a look at the monthly averages it can be noticed, in effect, that the two students who had this boomerang effects were the ones with the highest recorded values. This consideration, together with the relation of threat and freedom, fully explains these opposite reactions.

CONCLUSIONS AND LIMITATIONS

Given the weight of this topic and the rate of speeding on car accidents, it is easy to understand why creating an optimal road-safety campaign has become an important public health concern.

As demonstrated by previous studies and in this tiny experiment, video fear advertisements can be considered successful communication tools as they increases the awareness of an issue which has been underestimated during the years. Anyway, even on this topic, many other researches must be done so as to understand the real impact in continuous behavior and not only on immediate one. School programs and other educational tactics should be then used as well, in order to create a 360° campaign. Furthermore, as in many cases there are proofs of boomerang effect, additional analysis should be conducted on how avoiding these opposite reactions and how to better reach the young male segment. Just with the interactions of all these potential instruments it can be possible to effectively act on speeding. The purpose of this paper was to measure the potential effectiveness of fear appeals, with a particular focus on social marketing topics. Considering two different aimed outcomes such as the cessation of an unsafe behavior and the adoption of a coping one (i.e. drive at a moderate speed), the attempt was to prove how different fear-based tools could have acted on consumers' cognitive reactions. As a result, it has been showed how diverse variables may have an impact in the success of these campaigns and how each no-profit organization can manipulate them in order to better reach its goals. These outcomes could then help these associations to implement more efficient campaigns aimed at solving various public health issues which undermine social welfare.

 ISBN: 978-9963-711-37-6

Furthermore, additional efficiency considerations have been highlighted by the two practical cases, which underlined which factors should be considered referring to a particular topic. Finally, thanks to the case study, an overall proof of effectiveness has been made on fear-based approaches, which have had positive consequences on the desired purposes.

Before validating the results of the study it is essential to first consider its major limitations. This little experiment, in facts, represents just an attempt to test the response of a very viral fear appeal on a restricted target of twenty young students. Therefore, in order to collect relevant results, a similar test might be proposed but the number of participants should be largely increased. People should then belong to different social classes and the test should be applied at least at a national level. The students here selected, in effects, were representing a very small range of young adults and no real conclusions can be assumed by such a reduced sample. In addition, all of them knew the purpose of the study, and thus the results might be biased.

Another important constraint has been represented by the duration of the test. Much more emphasis should be made on the period of time, as two months cannot be considered enough to state an actual change in behavior.

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 ISBN: 978-9963-711-37-6

LINKING SERVICE QUALITY TO EMOTIONAL RESPONSES AND BEHAVIORAL INTENTIONS FOR PRIMARY HEALTHCARE SERVICES: A FORMATIVE MEASUREMENT SPECIFICATION

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ABSTRACT

Service quality measurement of primary healthcare services and its relationship with patients' satisfaction and behavioral intentions are very important issues for healthcare mangers as they can be used to assess healthcare results and then manage organizations operational expenses. The purpose of this research is to explore the complex relationships among these constructs, whereby service quality is measured using a higher-order formative construct having four sub-dimensions expressing mainly its process aspects. The resulting structural model was tested on a sample of 407 visitors at eight hospitals in Greece and the data was analyzed using the PLS path methodology. The empirical validation of the conceptual model supports the research hypotheses. The results confirm that service quality has both direct and indirect impact on behavioral intentions and patient satisfaction plays a mediating role in this relationship. These research findings contribute to a better understanding of which service ingredients and factors represent a viable basis for increasing patient satisfaction and retention at the level of individual providers as well as at the primary healthcare services system as a whole.

Keywords: *Service quality; Service evaluation; Patient satisfaction; Behavioral intentions; Formative measurement; Primary healthcare services management*

INTRODUCTION

Primary healthcare services is a major element of any healthcare system (Raposo *et al.*, 2009), since it brings healthcare closer to citizens' place of residence and work, operating as their first level of contact with healthcare system (Cueto, 2004, Souliotis and Lionis, 2003). As such primary healthcare services must be universally accessible by every person and at a cost that the community and the country can

 ISBN: 978-9963-711-37-6

afford to maintain at every stage of their development in the spirit of self-reliance and self-determination (Papanikolaou and Zygiaris, 2012).

Public primary healthcare services in Greece are delivered through a dual system of primary healthcare centers and hospital outpatient services, which belongs to National Healthcare System and Social Insurance Organization (Papanikolaou and Zygiaris, 2012). According to Noula *et al*. (2007), primary healthcare in Greece is still underperforming. Despite the efforts that have been undertaken over the last decade to modernize and improving the national healthcare services (Papanikolaou *et al*., 2008), its effectiveness needs to be further improved by upgrading the relevant services offered. This pressure for efficiently improvement is further enhanced by the economic recession that Greece undergoes during the last five years, resulting in reduced government funding, and lack of staff and equipment, on one side, and health care services' demand increase, on the other side.

In order for the state and healthcare organizations to plan and deliver better primary health care services, it is fundamental to identify and assess the service factors that their improvement will lead to positive behavioral responses (Raposo *et al*., 2009). The knowledge of these parameters will be valuable for managers and policy makers in order to conduct the appropriate modifications that will positively affect system's effectiveness. It is therefore becoming extremely important to measure the quality of the delivered primary healthcare services by using meaningful customer-oriented quality assessment measures, so as the available resources to be directed effectively and efficiently towards its improvement that will satisfy patients' needs and desires in a most cost-effective way (Dagger *et al*., 2007; Murti *et al*., 2013).

Besides the significance of primary healthcare services for the community, few reliable and valid instruments for service quality measurement are available that are aligned to the complexities of the primary healthcare service setting. Thus, the purpose of this study is to propose a multidimensional, hierarchical scale for measuring primary healthcare service quality, as well as to examine the effects of this conceptualization of primary healthcare service quality on patient satisfaction and behavioral intentions.

CONCEPTUAL BACKGROUND AND RESEARCH HYPOTHESES

In this section all relevant concepts are discussed and hypotheses about their interrelationships are developed.

Service quality conceptualization for primary health care services

Researchers agree that perceived service quality is an attitude towards or a global judgment about the superiority or inferiority of a service (Grönroos, 1990). Moreover, Berry *et al*. (1988) argue that service

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quality is a great differentiator and the most powerful competitive weapon of service organizations.

In health care services provision in particular, Donabedian (1980) argues that service quality assessment should include an analysis of the structure to achieve a given level of healthcare quality (the characteristics of doctors, hospitals and staff); of the process (interaction with the structure) and of the result (what happens to the patient after the medical act). Considering the combined effects of the structure and process elements of health care services, Carr-Hill (1992) found that patients' evaluations mainly concern six dimensions including medical care and information, food and physical facilities, non-tangible environment, nursing care, quantity of food and appointment bookings

With regards to the result dimension of healthcare services provisioning, though it is considered as the most important element for patients (Venkatapparao and Gopalakrishna (1995), it is not very well studied and this is attributed to measurement difficulty caused by the very large period of time between the moment when service is provided and the results' revealing (Choi *et al*., 2005). Moreover, Boller *et al*. (2003) consider the result of healthcare services is a consequence of the service's quality and not one of its components, stressing the importance to focus on the structure and the process when analyzing service quality in health care services. Finally, Peyrot *et al*. (1993) argue that it is possible to improve patients' satisfaction through the improvement of aspects that are not related to the service's outcome quality, but, through aspects related to the quality of process.

For primary healthcare services, Bryant *et al*. (1998) suggest that the main aspects of service quality assessment include socio-emotional variables, referring to the perceptions that patients have about the communication and interpersonal capacities of healthcare services (affection, empathy, politeness); system variables, referring to the physical or technical aspects of the local in which the service is provided, such as, the waiting time for the appointment, access to services, technical quality of services, costs, comfort of equipment and the appointment's duration; influential variables, such as, list of contacts (family and friends); and moderating variables, referring to socio-demographic variables and state of health. Finally, Otani and Kurtz (2003) in their study on hospital services in the US, identified six key dimensions of service quality including admission process, physician care, nursing care, compassion to family/friends, pleasantness of the surroundings and discharge process.

Many researchers consider service quality as a more abstract concept and they use a higher-order multidimensional construct for its operationalization, since perceived service quality is the result of a customer's view of a bundle of service dimensions, some of which are technical and some of which are functional in nature (Caceres and Paparoidamis, 2007). This study use four attributes related to primary healthcare services delivery, proposed by Raposo *et al*. (2009), to measure service quality perception including medical care, nursing care, administrative services, and facilities conditions. These dimensions can also be found in the multi-dimensional measure for general healthcare service quality

 ISBN: 978-9963-711-37-6

proposed by Dagger *et al*. (2007). Researchers have further suggested that service quality in general (Brady and Cronin, 2001) and in the healthcare service setting in particular (Dagger *et al*. 2007), may be most appropriately conceptualized as a formative construct driven by its components. Due to the formative nature of the proposed construct of primary healthcare service quality, the above four service quality-related dimensions did not necessarily have to share a common theme and hence did not have to be correlated (Jarvis *et al*., 2003). Diamantopoulos (2006) finds that modeling the service quality construct using the formative measurement contributes to a better specification for the construct. Therefore, a second-order formative model is proposed to accurately and parsimoniously capture the multidimensional nature of service quality for primary healthcare services.

Patient satisfaction

There are several approaches in defining patient satisfaction. For some researchers patient's satisfaction is defined as the gap between expected and perceived characteristics of a service (Fitzpatrick and Hopkins 1983), while for others patient's satisfaction is a special form of attitude, reflecting the extent to which a patient liked or disliked the service after having experienced it (Woodside *et al*., 1989). In general, patients' satisfaction can be viewed as an attitude resulting from the confirmation or disconfirmation of expectations (result perspective) or as a process, resulting from the level of expectations the patient takes to the service experience (process perspective). Patient satisfaction tracking is very important for planning processes assessment, since a satisfied patient is more inclined to follow doctor's prescription, which in turn will affect patients' satisfaction with the service outcome (e.g. symptoms relief) (MacStravic, 1991), avoids complaining and lawsuits (Ahorony and Strasser, 1993) is more loyal to and provides positive referrals about the service provider (Chang *et al*., 2013). On the other side, there is a connection between patient satisfaction and staff satisfaction (Welch, 2010). Thus, it is not only important to know the result from the service experience, but also what are the causes and dimensions that give rise to satisfaction.

Services research has given considerable effort in deciding on the causality direction between service quality and customer satisfaction. A review of the literature suggests two alternative perspectives regarding the relationship between service quality and satisfaction. The first is the transaction-specific, whereby satisfaction antecedes service quality. However, the majority of empirical studies in several service settings consistently follow the second perspective suggesting that service quality is an antecedent of customer satisfaction (e.g. Tam, 2012; Miranda *et al*., 2014; Theodorakis *et al*., 2014). In healthcare services, most empirical work corroborates the dominant quality-affects-satisfaction view (e.g. Dagger *et al*., 2007; Raposo *et al*., 2009; Murti *et al*., 2013; Ladhari and Rigaux-Bricmont, 2013; Chen and Fu, 2015). The theoretical support is based on Bagozzi's appraisal-emotional response-coping attitudinal framework, since service quality is conceptualized as a cognitively oriented construct while

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satisfaction is mainly conceptualized as an affective construct (Brady *et al*., 2005). Bagozzi's attitudinal framework suggests that consumers after evaluating a service cognitively, they develop emotional reactions to this appraisal which finally drive behavioral intentions. Based on the above the following hypothesis is posed:

H1: Perceived service quality of primary healthcare services has a significant positive effect on patient satisfaction.

Behavioral intentions

Today behavioral intentions are considered a better predictor of service providers' performance (Žabkar *et al*., 2010) than customer satisfaction. Oliver (1999) suggests that not all satisfied customers remain loyal and that satisfaction represents only a first step in loyalty formation, which is ultimately affected by other mechanisms such as personal fortitude, social bonding and their synergistic effects.

In recent studies, behavioral intentions are usually explored within the cognitive–affective–conative framework (e.g. Brady *et al*., 2005; Dagger *et al*., 2007), which is theoretically justified by Bagozzi's self-regulatory mechanisms model. The cognitive component (attribute appraisal) normally precedes emotional responses, which ultimately lead to behavioral intentions. Empirical research offers strong support for such causality in several service settings. For example, the study of Brady *et al*. (2005), conducted in a multi-industry and multi-country setting, found that satisfaction (affective component) mediates the effect of service quality (cognitive component) on behavioral intentions (conative component). Since then many studies in several service settings reinforce this result (e.g. Miranda *et al*., 2014; Theodorakis *et al*., 2014). In the healthcare service setting, in particular, Dagger *et al*. (2007) found that patient satisfaction is largely affected by perceived service quality and that patient satisfaction enhances the impact of service quality on behavioral intentions, while Ng and Russell-Bennett (2015) revealed that patients positive and negative emotions fully mediates the service quality-loyalty link. Given that primary healthcare services is of critical concern to consumers, service quality is expected to directly and indirectly related, though patient satisfaction, to patients' behavioral intentions. Based on these findings, we propose:

H2: Perceived service quality of primary healthcare services has a significant positive effect on behavioral intentions.

H4: Patient satisfaction has a significant positive impact on behavioral intentions.

Figure 1 depicts the proposed model reflecting the proposed relationships among the seven constructs.

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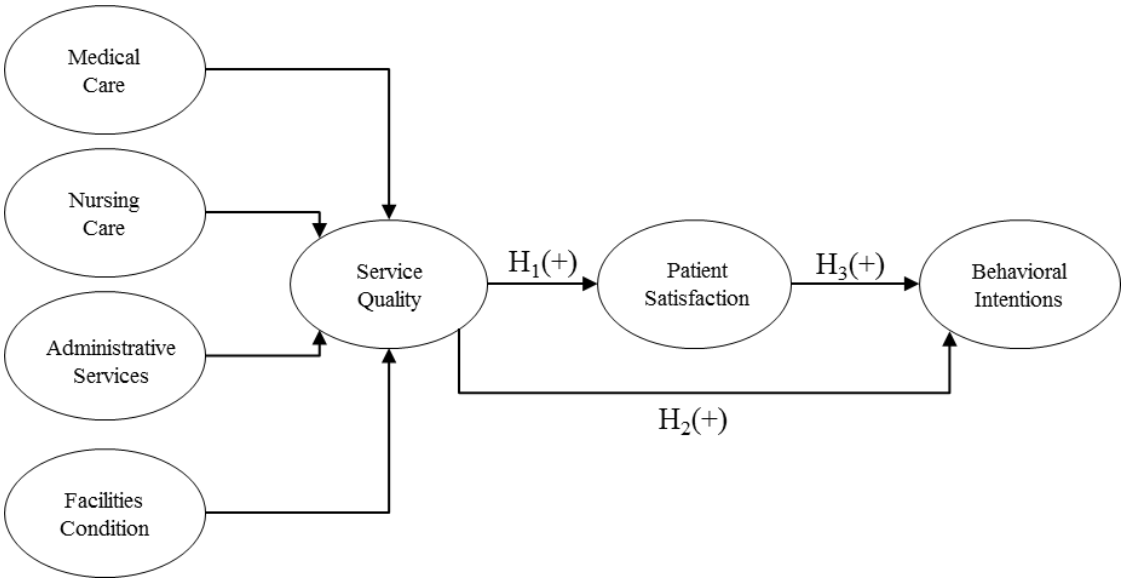

Figure 1. *Proposed modelResearch Methodology*

Measures and survey instrument design

Data were collected through a questionnaire developed to understand patients' perception about primary healthcare service quality as well as their satisfaction and intentional loyalty. The questionnaire was divided in five sections: the first addressed general information about respondents' demographics and primary health care usage pattern (frequency and motives). The next four sections addressed specific questions about patients' perception regarding hospital's facilities, administrative processes, medical, and nursing care.

The scales used to measure the four primary healthcare service attributes were adapted from the studies of Dagger *et al*., (2007) and Raposo *et al*. (2009). The perceived quality of primary healthcare services was modeled as a higher-order formative construct; therefore, particular attention was paid to the selection of relevant indicators. In formative-indicator models, the meaning of the latent construct is derived from its constituent parts. Since each indicator uniquely contributes to the conceptual domain of the latent construct, the consequences of dropping a formative indicator from a measurement model are potentially much more damaging than with reflective-indicators.

The scales used by Dagger *et al*. (2007) were adapted to measure patient satisfaction, reflecting general patients' satisfaction, pleasure, and delight from service experience, and behavioral intentions, reflecting patients' revisit intentions and likelihood to recommend the service provider to their surrounding. An English version questionnaire was translated into Greeks by a bilingual research assistant and then back-translated by another research assistant not related with the study. No major discrepancies were observed between the original and the back-translated version. All items were measured on 5-point Likert scales anchored at 1 (strongly disagree) and 5 (strongly agree).

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Sample and data collection

The target population of this study was users of primary healthcare services in the district of Athens. Eight hospitals were selected for data collection. Four of them were specific disease hospitals and the others were general hospitals. A stratified random sampling was utilized with a sampling ratio of 1:5 meaning that for every five patients that got out of the clinics one was interviewed. 700 questionnaires were distributed (650 in morning clinics and 150 in afternoon clinics). The fieldwork was conducted in September 2013. Contacts were made at different times of the day and days of the week in order for day and time related bias to be eliminated. The procedure resulted in 420 filled questionnaires of which 407 usable questionnaires were coded for data analysis, yielding a net response rate of about 58%. In relation to age, 14% of respondents were in the 18-24 age-group; 19% in the 25-34 age-group; 19% in the 35-44 age-group; 20% in the 45-54 age-group; 13% in the 55-64 age-group; and 13% were above 65 years old. 3% of the respondents failed to report their age. 54% of the respondents were married and 29% were single. In terms of monthly income, 33% of the respondents' monthly salary is less than €1,000; 19% gets between €1,000 and €2,000; and 6% gets more than €2,000. 33% of the respondents failed to report their monthly income. In terms of educational background, 34% of respondents have a university degree. Finally, 56% of the respondents have visited primary health care services less than 6 time during the last twelve months; 13% between six and twenty times and 3% more than twenty times. 18% of the respondents failed to report the services usage frequency.

Using the Armstrong and Overton (1997) procedure, nonresponse bias was evaluated by comparing early respondents with late respondents for all constructs considered in this study. No significant differences were recorded at the 0.050 level of significance.

Data analysis method

The model was estimated using Partial Least Squares (PLS), given that PLS is more suitable for relatively complex models and when formative constructs are included (Becker *et al.*, 2012). Data analysis involved a two-phase approach in order to assess the reliability and validity of the measures before using them in the research model. The first phase includes the analysis of the measurement model, while the second one, examines the structural relationships among latent constructs (Hair *et al.*, 2011).

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EMPIRICAL RESULTS

Measurement model assessment

The test of the measurement model involves the estimation of item reliability, internal consistency, convergent validity and discriminant validity of the study's first-order constructs, which indicate the strength of measures used to test the proposed model (Hair *et al*., 2011).

The results are given in Table 1. Individual item reliability is adequate when an item has a factor loading greater than 0.7 on its respective construct, which implies more shared variance between the construct and its measures than the error variance (Hair *et al*., 2011). The factor loadings of all items, as shown in Table 1, exceed the threshold value of 0.7 providing strong support for the item reliability of the latent constructs. The reliability of all constructs was examined using the Cronbach's Alpha (CA) and Composite Reliability (CR) measures. Hair *et al*. (2011) suggest that a value of 0.70 provide adequate evidence for internal consistency. As shown in Table 1, CA and CR values of all measures included in the study exceed 0.86 and 0.92 respectively suggesting that all measures were good indicators of their respective components. The average variance extracted (AVE), which indicates the amount of variance that is captured by the construct in relation to the variance due to measurement error, was used to assess convergent validity. The AVE value for each constructs, as shown in Table 1, was above 0.66, indicating convergent validity, since all AVE values exceed the recommended cut-off value of 0.5 (Hair *et al*., 2010). Finally, the discriminant validity among first-order constructs is examined by investigating their inter-correlations (Table 2). The inspection of the matrix of constructs' intercorrelations, shows that the square root of AVE extracted from each construct, is higher than its shared variance (i.e. the correlations between that construct and any other constructs) (Hair *et al*., 2011). Therefore, all constructs in the proposed model satisfy the discriminant validity criterion.

Construct	Items	MV	SD	Std. Loading	t-value	CR	CA	AVE
Medical care	MC1 time spend with the patient	3.69	0.88	0.78	39.56	0.94	0.93	0.66
	MC2 accurate info about illness	3.80	0.90	0.83	48.39			
	MC3 medication instructions given	3.87	0.91	0.78	33.58			
	MC4 lifestyle instructions given	3.77	1.01	0.75	27.28			
	MC5 kindness	3.89	0.93	0.82	45.08			
	MC6 communication	3.85	0.97	0.84	54.28			
	MC7 interest	3.86	1.00	0.86	50.34			
Nursing care	NC1 willingness to serve	3.49	0.98	0.87	65.32	0.97	0.96	0.78
	NC2 kindness	3.48	1.03	0.88	66.22			

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	NC3 communication	3.41	1.08	0.90	77.95			
	NC4 family support given	3.52	1.00	0.86	50.38			
	NC5 personal support given	3.35	1.06	0.90	91.47			
	NC6 service speed	3.34	1.04	0.83	48.96			
	NC7 interest	3.37	1.04	0.91	80.16			
Administrative services	AS1 admittance procedures	3.28	1.02	0.79	31.57	0.94	0.93	0.67
	AS2 discharge procedures	3.42	0.95	0.81	41.09			
	AS3 staff's service speed	3.25	1.01	0.83	43.03			
	AS4 staff's behavior	3.41	0.98	0.85	52.22			
	AS5 waiting time	2.98	1.10	0.76	31.46			
	AS6 time consistency	3.17	1.09	0.76	31.46			
	AS7 staff interest	3.21	0.99	0.85	51.62			
	AS8 staff communication	3.30	0.98	0.82	45.05			
Facilities conditions	FC1 premises cleanliness	3.46	1.10	0.87	71.05	0.95	0.94	0.70
	FC2 toilet cleanliness	3.17	1.20	0.83	47.69			
	FC3 waiting areas' comfort	3.28	1.14	0.89	73.42			
	FC4 premises adequacy	3.31	1.12	0.87	59.29			
	FC5 room temperature	3.55	1.00	0.83	40.94			
	FC6 access for people with disabilities	3.41	1.08	0.81	36.71			
	FC7 signing	3.67	1.08	0.79	35.18			
	FC8 operation time comfort	3.36	1.05	0.76	30.97			
Patient satisfaction	PS1 general satisfaction	3.59	0.84	0.86	48.52	0.92	0.86	0.78
	PS2 happiness	3.58	0.91	0.91	90.58			
	PS3 delight	3.48	0.92	0.89	65.26			
Behavioral intentions	BI1 revisit intentions	3.37	1.10	0.96	117.11	0.96	0.92	0.92
	BI2 positive referrals	3.35	1.16	0.96	149.72			

NOTE: MV mean value, SD std. deviation, CA Cronbach's alpha, CR composite relaibility, AVE average variance extracted

Table 1. *Measurement model results*

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Construct	Medical care	Nursing care	Administrative services	Facilities conditions	Patient satisfaction	Behavioral intentions
Medical care	***0.81***					
Nursing care	0.62	***0.88***				
Administrative services	0.64	0.51	***0.82***			
Facilities conditions	0.58	0.43	0.67	***0.83***		
Patient satisfaction	0.60	0.40	0.54	0.51	***0.89***	
Behavioral intentions	0.61	0.51	0.55	0.55	0.60	***0.96***

NOTE: Diagonal entries in bold-italics are square roots of AVE

Table 2. *Discriminant validity assessment*

A commonly-used method of approximating second-order reflective-formative type II factors is the repeated indicator approach (Becker *et al*., 2012), where the second-order factor is directly measured by using items of all its lower-order factors. The advantage of the repeated indicator approach is its ability to estimate all constructs simultaneously instead of estimating lower-order and higher-order dimensions separately. Thus, it takes the whole nomological network, not only the lower level or the higher level model, into account. Following Becker *et al*.'s (2012) recommendations for the repeated indicator approach, Mode B with path weighting were used to determine the mode of measurement for the higher-order construct and the inner weighting scheme respectively.

The measurement quality of service quality construct, which conceptualized as a formative second-order factor, was tested following the suggestions by Diamantopoulos and Winklhofer (2001). First, the correlations among the four first-order constructs were examined. As shown in Table 2, the correlations among the first-order service quality related dimensions range from is 0.43 to 0.62 with an average of 0.43. This indicate that service quality is better represented as a formative rather than a reflective second-order construct, since the latter usually exhibit extremely high correlations (≥ 0.80) among the first-order factors (Pavlou and El Sawy, 2006). Furthermore, the first-order service quality-related components were found to have significant path coefficients in forming customer perception about service quality. Results suggest that among the factors forming service quality perception, medical care (β = 0.51; t = 8.57) is the most important, followed by facilities conditions (β = 0.30; t = 4.51), administrative services (β = 0.24; t = 3.68), and nursing care (β = 0.13; t = 2.01). Also, the variance inflation factors (VIF) were computed for these first-order sub-dimensions to assess multicollinearity. VIF values above 10 would suggest the existence of excessive multicollinearity and raise doubts about the validity of the formative measurement (Diamantopoulos and Winklhofer, 2001). The VIF values for the first-order service quality dimensions range from 1.68 to 2.23. Therefore, multicollinearity is not a concern for the service fairness construct.

Structural model results

The PLS method was also used to confirm the hypothesized relationships between the constructs in the

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proposed model. The significance of the paths included into the proposed model was tested using a bootstrap resample procedure. In assessing the PLS model, the squared multiple correlations (R^2) for each endogenous latent variable were initially examined and the significance of the structural paths was evaluated. The proposed relationships are considered to be supported if the corresponding path coefficients have the proposed sign and are significant.

The PLS results for the structural model are presented in Table 3. As it is shown, all path coefficients were found to be significant at the 99.9% confidence level, providing support for hypotheses H_1, H_2 and H_3 validity. More specifically, service quality significantly affects patient satisfaction ($\beta = 0.66$; $t = 17.44$) explaining 44% of its variance, and both service quality ($\beta = 0.52$; $t = 9.31$) and patient satisfaction ($\beta = 0.26$; $t = 4.44$) directly affect behavioral intentions explaining 51% of its variance.

Hypothesis	Path	Coefficient	t-value	R^2
H1 accepted	Service Quality → Patient Satisfaction	0.66	17.44	0.44
H2 accepted	Service Quality → Behavioral Intentions	0.52	9.31	0.51
H3 accepted	Patient Satisfaction → Behavioral Intentions	0.26	4.44	

Table 3. *Results of the structural model*

To estimate the indirect effect of service quality on behavioral intentions, the method advocated by Hayes (2013) was used. The macro Process for SPSS and the Sobel test were implemented using as input the latent variable scores obtained in PLS analysis (Hayes, 2013). An indirect effect is considered significant if the 95% confidence interval does not include zero or the Sobel value is significant at 5% level. As shown in Table 4, which depicts the indirect and total effects of service quality on behavioral intentions, the value of the indirect effect of service quality on behavioral intentions through patient satisfaction is 0.17 and is statistically significant at least at 95% confidence level, since the relevant confidence interval does not contain zero.

Path	Effect	Coefficient	Std. error	Sobel z	LL95CI	UL95CI
Service Quality → Patient Satisfaction → Behavioral Intentions	Indirect	0.17	0.05	3.63^{**}	0.09	0.27
	Total	0.69	0.04		0.60	0.77

NOTE: Values are calculated through a bootstrapping routine with 2,000 samples; LL(UL)95CI Lower (Upper) Limit of 95% Confidence Interval; ** $p < 0.001$

Table 4. *Bootstrap results- indirect and total effects*

Moreover, the Sobel test revealed that the mediating impact of patient satisfaction on the service quality-behavioral intentions relationship is significantly different from zero ($z = 3.63$; $p < 0.001$), confirming the presence of the partial mediation.

ISBN: 978-9963-711-37-6

CONCLUSIONS, LIMITATIONS, AND FUTURE RESEARCH

The objective of the current study was the development of a service quality instrument to monitor and improve service quality in the primary healthcare services setting. The findings suggest that customers evaluate primary healthcare services quality at an overall level, which is composed by four primary dimensions: medical care, nursing care, administrative services and facility conditions. In particular the results indicated that patients' perception of services delivered by medical staff is the most significant factor of overall service evaluation. The perceptions about facilities and administrative services effectiveness appeared to be the second and the third most important factors to overall service assessment, while nursing care, was the least significant predictor of overall service quality, since in the primary healthcare service setting patients interact much more with physicians and administrative staff than with nursing staff. These findings support the results of Otani *et al*. (2005), Dagger *et al*. (2007) and Raposo *et al*. (2009).

The findings of the current study are also suggesting that primary healthcare service quality is an important driver of patients' satisfaction and behavioral intentions, underscoring its importance as a decision-making variable (e.g. Brady *et al*., 2005; Dagger *et al*., 2007; Ladhari and Rigaux-Bricmont, 2013, Ng and Russell-Bennett, 2015). The stronger effect of service quality on behavioral intentions, than those of patient satisfaction on behavioral intentions, indicates that cognitively assessment of primary healthcare service quality is more important than that of emotional assessment in determining patients' future behavior. This result is in accordance with the findings of Chang *et al*. (2013) who suggested that "high satisfaction" alone is not a good predictor of patient loyalty. Patient satisfaction is also enhancing the effect of service quality as they both affect behavioral intentions (Dagger *et al*, 2007). These findings suggest that decision makers should consider both service quality and patient satisfaction as important strategic objectives, because these two concepts provide a way to attain favorable patients' behavioral intentions.

This study has some limitations that should be considered when interpreting its findings. First, the findings and the implications of this research were obtained using a cross-sectional study. This reduces the ability of the study to reflect the temporal changes in the research constructs. The model developed could be applied to a longitudinal study to investigate the effect of the over time patients' perception changes. Second, the relationships among primary healthcare service attributes, patient satisfaction and behavioral intentions were validated with data from one country. Performing the study across different countries would provide evidence about the generalizability of the service quality dimensions and the robustness of the relationships among the constructs determining patient satisfaction.

ISBN: 978-9963-711-37-6

Funding: This study was financially supported by a research project conducted by the department of Health Economics of the Technological Educational Institute of Athens and funded by the European Social Fund (E.S.F.) and the Ministry of Education, Lifelong Learning and Religious Affairs of Greece 2012-2015.

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 ISBN: 978-9963-711-37-6

A NEW PARADIGM: OPEN SOCIAL INNOVATION. THE CASE OF GOOGLEGLASS4LIS

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ABSTRACT

Social innovation projects are tough to sustain and support because, on the one hand, the public administrations do not usually have enough skills and resources and, on the other hand, the use of partnerships with private firms can entail problems and obstacles hard to overcome often leading to high rate of "cooperation failure". Therefore, due to the uncertainty of the market and of the atypical features of these projects, there is a need to rethink how to manage them. In this sense, the present paper aims to shed light on a new paradigm called Open Social Innovation (OSI) and, more specifically, on the collaborative relationships between actors of different nature with social purpose. To reach this goal we analyzed a single case study, the project GoogleGlass4Lis. Our results shows that a single-project collaboration must be managed with certain rules and models, especially in a stage closer to the market, where the sustaining and scaling of the project depends more on the commitment of the partners involved.

Keywords: *social innovation, open innovation, open social innovation, social projects, Public-Private-People-Partnership.*

INTRODUCTION

Literature offers many definitions of social innovation demonstrating how complex analytical draw boundaries to a phenomenon whose essential characteristics are manifested in practices (Mulgan et al., 2007; Pol and Ville, 2009; Dawson and Daniels, 2010; Howaldt and Schwarz, 2010). For these reasons, the multiplicity of definitions and uses of the term "social innovation" sometimes is inappropriate or hard to interpret.

Social innovation can be considered quite different from another innovations that comes from market competition and which purpose is the seek for profit. At the origin of these innovation processes are social pressures exerted by the existence of unmet needs (eg. health services), of wasted resources (eg. land consumption), environmental emergencies (eg. air quality towns) or social aspects (eg. the growing areas of discomfort and marginality).

 ISBN: 978-9963-711-37-6

The direct supply of products and services that meet those needs is no longer guaranteed either by the market or government. This political vacuum and market failure open the field to the resources and strengths of the private social entrepreneurship from below, to the community of citizens who organize to meet old and new needs, to optimize the use of resources (human and natural) and to ensure social improvement.

The practices of social innovation tend to be located on the border between non-profit, public and private entity, civil society (voluntary movements, collective action, etc ..), and these are the results of cross-contamination of interesting values and perspectives. In fact, it comes from new forms of collaboration and cooperation between individuals of different nature that find an alignment of interests to achieve a common goal, thus, social innovation has a strong collective dimension, not only belongs to the imagination and creativity of a single actor. From this point of view, however, the development of alliances, extended partnership and cooperation to achieve social purpose, which presents specific characteristics, implicates issues that require additional efforts of the involved actors to achieve the final goal.

In this sense, this paper aims to shed light on a particular topic like the social innovation and, more particularly, collaborative relationships between actors of different nature and industry with social purpose, analyzing and shedding more light to the new paradigm of Open social innovation (OSI). To reach this goal will be analyzed the project GoogleGlass4Lis, in which public and private entities are involved. The main goal of the project is to provide a technology solution in a cultural environment, which will allow deaf people to a complete museum experience.

The originality of this paper resides in the framework of analysis. In fact, we consider a single-project level as unit of analysis and not the individual firm. This allows us to build, through a series of managerial implications, a development model of social innovation projects fostered by a public-private partnership.

The reminder of the paper is structured as follows. Next section discusses the theoretical framework on social innovation and open innovation, highlighting how connections between the two fields contributed to the rise of the new phenomenon of open social innovation. Afterwards, the single case and results of the analysis is presented, describing the actors involved in the project, the roles, their final purposes and the key features of the project. The Final section discusses data providing managerial implications and interesting cues for future line of research.

ISBN: 978-9963-711-37-6

LITERATURE REVIEW

Social Innovation

As stated before, literature provided many different definitions of social innovation; many of them agree that it concerns all the action to achieve positive social change (Drucker, 2001; Porter and Kramer, 2011) and refers to new ideas that work in meeting social goals and social challenge (Bessant and Tidd, 2007; Lettice and Parekh, 2010; Franz et al., 2012). Moreover, the World Economic Forum defines Social Innovation as the "application of innovative, practical, sustainable, market-based approach that achieve transformative social and/or environmental change, with an emphasis on under-served populations" (World Economic Forum, 2014).

This means making available new solutions to social issues, including health and employment policies, but also at education, training and skills development, business support, industrial policy, urban development, etc., to ensure socially and environmentally sustainable growth, jobs and quality of life (Guide to social innovation, European Commission).

This happen commonly by identifying and delivering new services that improve the quality of life of individuals and communities, and by identifying and implementing new labor market integration processes, competencies, jobs, and forms of participation (OECD, 2010).

Social innovation policies can be pursued by individuals, firms and public organizations, each of which possess their own goals, often of a different nature (Pestoff, 2014; Defourny et al., 2014). Therefore, they represent a relevant opportunity for both the public sector and private firms to satisfy individuals and collective needs (Murray et al., 2010).

The social innovation approaches have different features:

- Open rather than close when it comes to knowledge-sharing and the ownership of knowledge;
- Multi-disciplinary and more integrated to problem solving than the single department or single profession solutions of the past;
- Participative and empowering of citizens and users rather than "top down" and expert-led;
- Demand-led rather than supply-driven;
- Tailored rather than mass-produced, as most solutions have to be adapted to local circumstances and personalized to individuals.

Here, the biggest difference with business innovation is that instead of introducing new types of production or exploiting new markets in themselves, social innovation aims at satisfying new needs not provided by the market (OECD, 2010), or creating innovative ways to include people in the workforce, giving them a place and a role in the production (Mulgan, 2007). Furthermore, social

 ISBN: 978-9963-711-37-6

innovation differs from other types of innovation in the outcomes and in particular types of relationships that creates, in the forms of cooperation and collaboration (Murray et al., 2010).

Unlike business innovation, which is often motivated by profit maximization, Social innovations has different objectives and often of non-monetary nature (Mulgan, 2006; Pol and Ville, 2009). This is proved in situations where social innovation is provided by an NGO or public institution, but the situation might be different in the presence of collaborations between public and private entities with the aim of offering new social solutions (Westley and Antadze, 2010). In fact, a social innovation could involve commercial interests (Westley and Antadze, 2010).

The process of innovation creation is often long and complex; in fact, it goes through some stages from idea generation result of the creativity of the individual or research groups, to implementation and usability of innovation itself, both for business innovation and social innovation. From this perspective, Murray et al. (2010) identified six distinct phases to implement a social innovation, from inception to impact, creating a framework to analyze actors, stakeholders and action that interact to meet social goals.

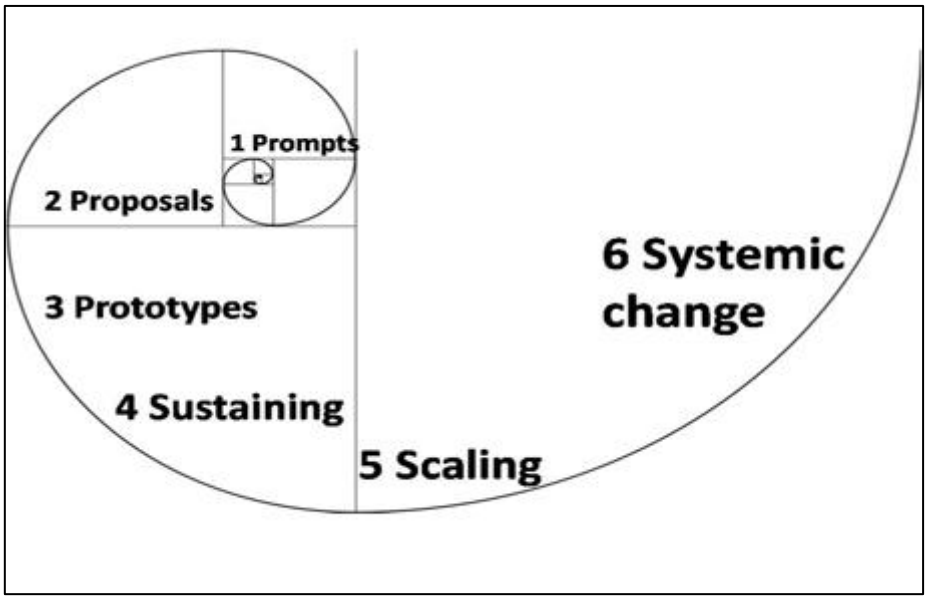

Figure 1. *Social Innovation phases (Murray et al., 2010)*

- The Prompts phase identifies the factors that inspire the need of innovation, in particular the problems to solve;
- The Proposals phase correspond to ideas generation to solve problems;

 ISBN: 978-9963-711-37-6

- The Prototypes phase include the first attempt to test ideas and improve the solution through iteration, trial and error;
- The Sustaining phase try to stream social innovation to guarantee a financial sustainability of the project;
- The Scaling phase consist of the strategies to spread innovations through an adaptive approach;
- The Systemic change is the last phase and regards transformation and differences reached compared to past framework.

This six-step model was developed mainly with reference to public sector and non-profit organizations, both those actors usually have lack of skills and competencies, especially technological. For these reasons, our work aims to investigate the feasibility and sustainability of such model in hybrid projects (public-private) where several actors collaborate with different purposes in a particular framework as the social one.

Open Social Innovation

Open innovation has established as one of the most popular and discussed topic in the innovation management literature in recent years.

The Open Innovation paradigm (Chesbrough, 2003), according to which the processes of innovation are no longer closed within company boundaries and focused exclusively on internal R&D, but rather open to collaboration with external parties, has embraced different disciplines and new areas over the years. In this sense, and in line with this paper, some studies have recently analyzed the relation between open innovation and social innovation by creating different analysis framework useful for understanding a topic in development (Chalmers, 2013; Martins and de Souza Bermejo, 2015).

Moreover, Chesbrough and Di Minin (2014) define open social innovation "the application of either inbound or outbound open innovation strategies, along with innovations in the associated business model of the organization, to social challenges"; this presupposes the presence of exploration and exploitation activities to pursue social challenge. For the authors, open social innovation is the perfect way to exploit current business models or to create new ones to meet the needs of under-served target populations that traditional-market mechanisms cannot reach. In particular, the inbound activities (Outside-In) identify the search for innovative solutions and new sources of knowledge from external partners to incorporate those developed internally (Chesbrough and Crowther, 2006; Chiaroni et al., 2010). The outbound activities refer to bring ideas to market selling IP and transferring technology and knowledge to other entities (Gassmann and Enkel, 2004). Moreover, a third type of process could

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be a strategic source of open innovation approach. In fact, the coupled process involves utilization of both inbound and outbound activities through a cooperation process and networks with other firms (Dahlander and Gann, 2010).

Furthermore, the authors state that open social innovation, and specifically the application of inbound and outbound open innovation strategies, is particularly useful in stage 3 (Prototypes), 4 (Sustaining) and 5 (Scaling) of the model proposed by Murray et al. (2010). Furthermore, they emphasize the open social innovation phenomenon through three case studies of non-profit organization among which Emergency, a humanitarian NGO that provides emergency medical treatment to civilian victims of war, adopted many inbound and outbound activities to enrich its strategies. In particular, Emergency acquires local competencies through trusted intermediaries which know the local environment (inbound), and transfers knowledge to local partners to ensure a good quality of service provided even after the departure (outbound).

As a result, the development of social innovations can arise from transferring knowledge and technology between different organizations or from a constant collaboration between several actors, including companies, public entities and people, establishing ecosystems which can generate knowledge and turn it into application (Ferraris and Grieco, 2014). Cooperation, in general, is considered a useful mechanism to facilitate the transfer of skills and technological knowledge between partners, to know and enter into new technology areas and to more effectively deal with the uncertainty of the technology itself and the market (Dias and Bresciani, 2006; Bresciani, 2010; Tardivo et al., 2011; Bresciani and Ferraris, 2014). Addictionally, Chalmers (2013) highlights how "openness" can overcome common barriers to social innovation and mitigate some of the risk of the innovation process.

Thus, social innovation can take place in collaborations across sectors, producing convergence, the full or partial integration of two or more product markets or industries that were not interconnected (Christensen, 2014).

Within this ecosystem, several actors are involved in social innovation processes. Westley and Antadze (2010) analyzed the dynamics that affect the relationship between the supply and demand for social innovation, highlighting the role played by the single actors.

Within open innovation research, most of the studies analyzes partnership between firms and very few studies analyzed hybrid collaborations such as public-private partnership (PPP) (van Ham and Koppenjan, 2001; West et al., 2014) or collaborations between universities and firms (Perkmann and Walsh, 2007; Perkmann and Walsh, 2009; Perkmann et al., 2013).

From these rare studies, it emerged some difficulties associated to the PPP, often due to the diversity in the cultural and competencies perspectives and the dissimilarities in the main goals.

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Partnerships between different actors, in general, present several problems and obstacles. The partnerships that aim to achieve social innovation have atypical features, especially if actors involved are public and private. First of all, the technological and scientific distance should not be too large if one of the prerogatives of the alliance is the continuous exchange of knowledge (Inkpen and Beamish, 1997); second, the objectives of individual participants could be different (Kale and Singh, 2009); third, the management of the Intellectual Property Rights (IPR) and knowledge sharing can be problematic (Hagedoorn et al., 2000).

An important aspect of the PPP is related to the governance model, which can ensure success or failure of the project. Specifically, the literature identifies three models of governance for these partnerships: relational, equity ownership and Contractual provisions (Kale and Singh, 2009).

DATA, RESEARCH QUESTION AND METHOD

Although there has been an increasing interest in social innovation in the last decade, research on this field is almost exclusively based on case studies which take into consideration organizations and contexts often different from each other (Mulgan, 2006; Cajaiba-Santana, 2013). Moreover, most of the case study on this field have a single-firm perspective. The originality of the present work is that takes into account the open social innovation process at single project level. This allows to highlight and analyze in depth the relationship management within the project, particularly in terms of activities, financial commitment, leadership and team compositions.

For these reasons, this contribution is presented as discussion paper with the aim of contribute to the topic in analysis by taking a first step toward a better conceptual understanding of the phenomenon in order to support future research.

Moreover, we consider the Research Question of Chesbrough and Di Minim (2014): how can open innovation contribute to the Six Phase model (Murray et al., 2010) to reach Social Goals?

Consequently, we formulate our research question: considering the different nature of the business innovation and social innovation, is it possible to build a sustainable model of open social innovation in which several public and private actors collaborate with different goals?

The case study approach is useful in such exploratory modes of research and allows a deeper understanding of particular situations which may then be utilized inductively to create better theory.

The study has been based on the single-case (holistic) model (Yin, 2003), with an explorative approach and the single social innovation project has been considered as the unit of analysis.

The data used for the analysis consist of in-depth interviews with actors and managers of all public and private involved in the project and documents provided by them and obtained on web.

Next section will show better the nature of the project and the single component who take part.

 ISBN: 978-9963-711-37-6

AN OPEN SOCIAL INNOVATION PROJECT: GOOGLEGLASS4LIS

GoogleeGlass4Lis is a project born from the idea of several actors to find a solution that will also allow the deaf to have access to the complete museum experience through the use, for the first time ever, of a "wearable device". It represents a particular case study because concerns a solution at social level resulting from private interest tested in a public context and, in particular, a cultural environment. For these reason, this project fits perfectly in the context of the Smart City and the model of the "4P" (Public-Private-People-Partnership) to provide opportunities to citizens and businesses to create, explore and test innovation at local level.

The Egyptian Museum of Turin, which holds one of the most important collections of Pharaonic civilization, has enthusiastically embraced this project with the ambition to win a record in terms of accessibility that exceeds the highest international standards. Furthermore, the first technology prototype was made translating into Italian Sign Language (LIS) descriptions of the statue of Ramesses II, a masterpiece sculpture and symbol of the prestigious museum in Turin.

The project began when Rokivo, an Italian company based in New York, won the contest "Google explorer", a Google strategy to test a new technology (Google Glass) through releasing a small number of prototypes to the developers who presented interesting and innovative projects. Google, which has the role of hardware-technology provider in the project, does not aim to make profit; its main purpose is to test the device (indirectly, through strategic partners) in very different areas and fields (transport, surgery, culture) before spread it and selling it on a large scale; this represents a clear outbound activities, the technology transfer to other firms. Recently, for the first time in Italy, Google Glass have been used during a heart surgery, evidence that open innovation activities can be very useful in the social field and, in particular, as a way of improving citizens' life.

Afterwards, the project was developed in synergy with Vidiemme Consulting, Polytechnic of Turin and the Ente Nazionale Sordi (ENS). More in particular, Vidiemme works closely with Rokivo for the application development and its compatibility with the Google device.

The Polytechnic of Turin and ENS, with the support of University of Turin worked closely to develop the ATLAS project, which aim was to develop a software able to convert automatically into LIS texts written in Italian language and translated to project content, through the use of a virtual actor, directly in the display of Google Glass device, to allow deaf people a full access to the experience and cultural museum.

Deaf in Italy are about 60 thousand, but as much as 10% of the population suffers from hearing impairment that adversely affect, significantly, on many aspects of daily life. The LIS, or Italian sign language, constitutes the first language of the deaf, while the Italian language is the second, and is not understood by all.

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Moreover, this is a solution that would ensure the full enjoyment of mass communications also to the deaf, with the intent to promote their social inclusion process.

The research activities for the development of the ATLAS project have required the analysis of natural language from a structural and semantic point of view, the development of an intermediate form of LIS written, the construction of a large multimedia database for the representation of the signs and the creation of a virtual actor for displaying them.

The ATLAS platform is able to adapt in very different fields of use such as, for example, the creation of interfaces for access to public services (such as voice announcements in railway stations, provided by LIS4ALL project) or display LIS information and messages addressed to the deaf on mobile device. From this point of view, the Polytechnic of Turin intends to test the application software and improve it to replicate the use in different contexts and environment.

The following table clarifies who are the project's participants and the roles of each of them.

ACTORS	**ROLE/ACTIVITIES AND OBJECTIVES**
Google (Private)	Technology provider (hardware) / technology testing purpose
Rokivo (Private)	Technology provider (software) / technology testing purpose
Vidiemme (Private)	Technology provider (software) / technology testing purpose
Egyptian Museum (Public)	Technology buyers / Service provider to end-users
Polytechnic of Turin (Public)	Technology providers (LIS translating software) / technology testing purpose
ENS (Public)	Knowledge suppliers, LIS consulting
Piedmont Region (Public)	Co-financier of ATLAS project

Table 1. *Actors and roles*

ANALYSIS OF RESULTS

From our interviews, it emerges that the project is in the Prototypes phase of the Social Innovation Phases (Murray et al., 2010). The technology has been tested but not widespread and scaled-up (exploitation stage). What emerges, thus, is a slowing of the project. In particular, from our analysis emerge some significant results: a) the project is stopped due to a lack of financial resources; b) the alliance governance is trust-based (relational) rather than formal-based; c) the distance between the objectives of the individual partner is not so large.

The lack of financial resources is the main cause for which the project is stopped. From the financial point of view, in the early stage phase, characterized by high uncertainty and high technological risk, the public entity should financially support the innovative project, while in the stage closer to the market, should be the private to give financial support for the project sustaining and scalability.

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Moreover, this project targets a niche market, served by a high-tech product which need long phases of testing and large amounts of funds to be sustained over time. In conditions of resources constraints, the public side cannot contribute as it should to foster the project. From this perspective, it emerges a managerial consideration. The most common barrier for sustain an open social innovation is related to financial aspects, so public's commitment become the main driver to sustain a project with social purpose.

From the analysis, it emerges another problem that contributed to curb the project; it concerns the alliance governance, based mainly on trust developed and self-enforcing (relational). In particular, there is no team built specifically to develop the project and there is no leader that guide the strategic choices and define guidelines to follow. This is a particular kind of alliance governance. Each partner contributes with its expertise and manages the partnership with continues contacts and exchange of information. This lead to, on the one hand, an increase in flexibility in the project management but on the other, to a loss of financial commitment. Moreover, a management model like this can support the development of ideas, proposals and prototypes (phases 1, 2 and 3 of the model provided by Murray et al. (2010), fig. 1) and support the exploration phase, but appears unsuitable for the phases 4 and 5 (sustaining and scaling).

Certainly, this factor may slow down the transition from pilot stages to implementation and scalability. In fact, some respondents have stated that the establishment of a leader would help to take a step to the stages.

Additionally, given the lack of contractual bonds, the success of the open social innovation project strongly depends on management capacity and coordination between the participants and on the development of trust. With a high degree of technological and market uncertainty, as found in the case study, the presence of a more formal organizational structure would facilitate the exchange of information, interaction and commitment between the parties.

The last aspect that emerged concerns the objectives of the single partners. Within PPP the divergence between the objectives of the public and those of the private might lead to the non-sustainability of social projects; in fact, the first usually has the pursuit of profit, while the second could have non-monetary purposes. The advantage of the alliance of GoogleGlass4Lis project lies in the alignment of the objectives of the participants and the technology proximity between the public and the private. In fact, Google, Rokivo, Vidiemme and the Polytechnic of Turin, providers of knowledge within the project, stated that their main goal was to test and improve the technology offered in a way that it can be applied later in different contexts and fields. These actors, in fact, are carrying out several projects of social innovation usually in collaboration with other parties. From this result, it can be noted that the technological gap between the parties is not so large (Inkpen and Beamish, 1997), thanks to the

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high technological skills and competencies of the Polytechnic of Turin (Public), and that there is not a significant divergence between individual goals (Kale and Singh, 2009).

DISCUSSION AND CONCLUSION

This paper identifies and highlights issues and factors supporting a project of social innovation, useful to public and private managers who will foster future projects.

In this sense, the results of the analysis provide us some cues. First, open social innovation projects supported by public-private partnership present atypical features than a classical open innovation project such as greater market uncertainty, possible divergence in the single objectives and different risk tolerance of the participants, as highlighted in the literature. Second, the uncertainty of the market emphasizes even more the problem of the lack of funding. From this point of view, the use of European funds for social innovation are a useful starting point for the early stage and the prototype phase of the technology, but does not ensure the dissemination of the same, and thus the implementation of the project. Moreover, the use of Pre-Commercial Procurement (PCP), a public-private partnership tool heavily promoted and encouraged also by the European Union, provides a solution to the problem above. PCP is a tool that allows public authorities to purchase technologically innovative solutions that meet their needs. Public procurers are acting as first buyer and share the risks and benefits of moving on from an initial state of research in pre-commercial products. It focuses on areas where there are still no commercial solutions offered on the market and can be considered as a process of mutual learning between the buyers, users and public and private providers.

Third, the alliance governance can determine the firms' exposure to transaction or coordination hazard. As seen in the analysis, the GoogleGlass4Lis partnership governance is based on trust developed between the partners without contractual bond or ties, there is no team built specifically to develop the project and there is no leader within the project who guide the strategic choices and define guidelines. These choices allow a more flexible exploration and testing of the new technologies reducing the need for formal control or bureaucracy, on the other hand are a threat for the commercialization stage of the product or service. From this point of view, the recent literature suggests two other mechanisms of alliance governance, equity ownership and contractual provisions (Kale and Singh, 2009).

Very often, public and private entities are reluctant to manage the alliance governance with a equity ownership model mainly because of legal constraints that it creates. On the other hand, however, this mechanism is useful when the public partner does not want to share their intellectual property (IP).

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Contractual Provisions is the third model of governance in public-private partnerships halfway between the joint ventures (equity ownership) and relational partnership. It is more flexible mechanism than the first and at the same time help managing exchange uncertainty.

As just stated, the presence or lack of contractual links can also impact on the management and treatment of intellectual property rights (IPR). The two extremes are represented by a closed approaches designed to protect intellectual property or an open approaches that are inspired more by the "open innovation" model. In the context of open social innovation projects, however, companies often choose a "strategy of partial opening" to build a reputation, gain market share and attract contributions from third parties (West et al., 2014). The choice of how to protect innovation very often depends on how the technology is close to the core business of the firm (it tends to use a closed model) or is more distant from it (using an open approach).

In conclusion, it can be stated that the commitment of all partners is a main driver for the success of open social innovation projects, and it can be supported and fomented by: a) strategic management of the alliance governance depending on the phase of social innovation model (fig. 1) in which the project is; b) the use of innovative tools such as PCP to align objectives between the parties and to steady the financial commitment over time.

As stated before, these projects are not easy to support because they could not guarantee an immediate economic return. More specifically, the implementation of new technologies in these projects, increases the degree of uncertainty of the project. Thus, from this point of view the commitment of individual actors participants must be greater and the choice of the partners become very important.

The paper shed light on this new topic, with a theoretical and conceptual contribution. Its development is very recent (Chesbrough and Di Minin, 2014) and need more case studies to better understand the nature of the phenomenon, from both the knowledge and technology transfer, and the organizational and governance point of view.

The major limitation of this research is that concerns only one case of open social innovation project. Therefore, we intend to investigate more projects through comparative analysis and we hope this study could draw inspiration to researcher.

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 ISBN: 978-9963-711-37-6

GENDER ROLE PERCEPTIONS AMONG FEMALE STUDENTS OF ECONOMICS FROM CHINA, GERMANY, MEXICO, RUSSIA AND TURKEY

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ABSTRACT

One of the most fundamental ways in which societies differ is the extent to which they prescribe or proscribe different roles to women and men. In order to analyze the social impact of gender roles the GLOBE study (2004) divided the notion of 'gender egalitarianism' into two parts – 'gender egalitarianism practices' which describe how egalitarianism is experienced and 'gender egalitarianism values' which measure how people feel gender egalitarianism should be realized. We hypothesize that societies that score high on gender egalitarianism values and show a large divergence between egalitarianism practices and values reject most the traditional gender roles. For our study we collected and analyzed data from 108 female bachelor students from China, Germany, Mexico, Russia and Turkey focusing on perceptions regarding gender roles in their home countries and their expectations regarding their careers and family life. Our results confirm our research thesis for China, Germany Russia and Turkey. On the one hand, we argue that the well-established egalitarianism in the Russian and Chinese society combined with a tensed economic situation in Russia and a very competitive background in China might have led to a renewal and better acceptance of traditional gender roles in these countries. On the other hand, countries where gender egalitarianism in practice is still behind like Germany and Turkey show a clearer trend for women to reject traditional gender roles.

Keywords: *gender equality, cultural values, egalitarianism, stereotypes, career expectations, career and family*

INTRODUCTION

Societies worldwide differ significantly in the way that they attribute gender roles. Often a gap exists between the way gender roles are played out in reality and the perception of gender roles by specific social groups, differing significantly among the variants of social status, level of education, living

 ISBN: 978-9963-711-37-6

environment, age and income. Expectations on how existing gender roles should be modified also depend on people's social and economic backgrounds.

For our study we collected data from a group of international female students from China, Germany, Mexico, Russia and Turkey. All students are enrolled in bachelor programs of economics, are about the same age and same level of education. Our aim is to investigate how perceptions regarding gender roles and their expectations for the future differ nationally. The selected countries represent a mix of fundamentally different cultures, as well as, of old and emerging economies.

Our research hypothesis is that countries with high gender egalitarianism values and a big difference between gender egalitarianism practices and gender egalitarianism values as defined in the Globe Study most reject traditional gender roles.

The first part of this paper offers a literature review of the most relevant studies that have examined gender roles in cross-country analyses in the past thirty years with focus on the aspects of nationality and gender in the seminal GLOBE (Global Leadership and Organizational Behavior Effectiveness Research) study (House *et al*. 2004). In the second part, we introduce and describe the methodology used for our own study and present our results. In the final part we discuss and evaluate the significant national variation of students' perception of gender roles and future expectations.

In some countries such as Germany much literature exists on gender issues. However, gender topics are seldom discussed in a comparative manner between countries from different cultural backgrounds. Our study tries to contribute to fill part of this gap.

LITERATURE REVIEW

Research into gender stereotypes has generally found gender stereotypes to be ambiguous in nature. Glick and Fiske (1996) for example base their model of ambivalent sexism on questions evaluating benevolent or hostile ascriptions to men and women. According to Eagly's social role theory (1987) differences in gender stereotypes and behavior patterns stem from the idea of work division with "men's occupancy of breadwinner and higher status roles and women's occupancy of homemaker and lower status roles" (2002, p. 574). The question of how these stereotypes vary across cultures was investigated by Hofstede in a survey with an international sample of IBM employees who were asked to rate the importance of fourteen work goals towards an "imaginary ideal job" (Dorfman and Howell, 1988, pp. 127-50). From these findings Hofstede (1980, pp. 176-211) developed the so-called 'masculinity/femininity dimension' to account for differences across the sexes and constructed models of so-called 'masculine and feminine societies'. A masculine society being one that expects men to work

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outside the home and women to stay at home or work in the community whereas a feminine society would expect men and women to equally share responsibilities out- and inside the home. According to Hofstede masculine societies with set goals of high income, recognition, advancement, and challenge predominate over feminine societies which aspire to good working relationships, cooperation among peers, living in a desirable areas and employment security.

The GLOBE study (House *et al*. 2004) provides an insight into the aspect of gender egalitarianism. It focuses on attitudes to gender and behavioral manifestations in society. Although gender stereotypes may be similar in different cultures it found that gender role ideologies vary significantly along a continuum from 'traditional' to 'modern' (pp. 359-60). The study is based on interviews with managers from three industries (food, finance and telecommunication) in 62 societies including the five countries of interest in this paper. Table 1 shows the grand means for measurements with regard to gender egalitarianism. The results for 'society practice' ("as is") were collected by surveying managers'perceptions of current practices at their workplace. They were also asked to assess their ideals regarding gender egalitarianism ('society values' – "should be"). The higher the score for value or practice, the more gender egalitarian a society is. The higher the difference between practices and values, the bigger the contrast between practices and ideals on gender.

Variable	Mean	Standard deviation	Minimum	Maximum	Valid N
Gender Egalitarianism Society Practices	3.37	0.37	2.50	4.08	61
Gender Egalitarianism Society Values	4.51	0.48	3.18	5.17	61

Table 5. *The grand means for GLOBE study measurements on gender egalitarianism, Means over a battery of items measured by a seven-level Likert scale (1 – society "is"/"should be" masculine according to a specific perspective; 7 – society "is"/"should be" feminine according to a specific perspective), Source: GLOBE study (House et al. 2004, p. 362)*

Table 2 lists the GLOBE study results for the countries under analysis in our paper.

	Society Practices	Society Values	Difference between Value and Practice
China	3.05	3.68	0.63
Germany	3.10	4.90	1.80
Mexico	3.64	4.73	1.09
Russia	4.07	4.18	0.11
Turkey	2.89	4.50	1.61

Table 6. *Measurements on gender egalitarianism / society practices and society values for the five countries of our study, Source: GLOBE study (House et al. 2004, pp. 365-366)*

According to the figures in table 2 Russia scored highest on gender egalitarianism practices which suggests that this society is the least male dominated among the five societies under consideration.

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Furthermore, Russia exhibits the smallest difference between practices and ideals, indicating a good match between "is" and "should be". China scored low on society practices (3.05) and society values (3.68), indicating that male values dominate in practice and also as an ideal. Germany scored middle-low (3.10) on society practices and very high on society values (4.90) and presents the largest divergence between "is" and "should be", indicating that male domination in the working environment is real but that the values are much more feminine. Mexico scored middle-low (3.64) on society practices and high on society values (4.73), indicating a masculine culture in practice, but more feminine values set as ideals. Turkey scored very low (2.89) on society practices and high on society values (4.50), indicating a clear masculine culture in the working environment, but predominantly feminine values or ideals set as goals.

The GLOBE research group also looked for correlations between their results and key social indicators in the domains of 'economic health', 'human condition', and 'political ideology'(House *et al.* 2004, p. 380).

In the same spirit we have gathered recent statistics on various indicators in table 3 for all five countries. We observe that some figures do not confirm the GLOBE study's statement that "the more gender egalitarian a society's values and/or practices, the greater various indicators of gender equality such as women's participation and representation in the labor force, governments and politics" (p. 380). Russia, for example, which, according to the GLOBE study, would be expected to be the most feminine, presents a high pay-gap and the lowest participation of women in politics. China, which is the least gender egalitarian according to the GLOBE study, presents the highest percentage of women participating in the labor force. Turkey presents the lowest percentage of women studying, the lowest percentage of women participating in the labor force, the highest pay-gap, and the lowest participation of women in parliament, confirming the very low value for society practice from the GLOBE study. The high society value found in the GLOBE study could be related to the very high percentage of firms with female participation in ownership – with these women setting the ideals for society.

	China	Germany	Mexico	Russia	Turkey
Fertility rate*	1.66	1.41 - one of the lowest fertility rates in Europe	2.22 - highest among the five countries of this study	1.52	2.06
Percentage of women among university graduates, 2011(UNESCO Institute for Statistics)	49.7%	57.3%	53.8%	Data n.a.; among university students women make up 87%*	45.7%
Percentage of women participating in the labor	68% in 2008	68%	45.3%	64.7%	28.7%

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force, 2011 (OECD 2014)					
Percentage of women on boards of listed companies*	No data	3%	7%	8%	8%
Pay-gap*	19% (Appleton and Xia, 2005)	23%	17.4 (Tjidens and Van Klaveren (2012)	22.4% (Gerber and Schaefer 2004, 48)	31%
Participation of women in politics / Parliament*	23%	33%	37%	14%	14%
Percentage of firms with female participation in ownership*	No data available	No data available	26%	29%	41%

Table 7. *The relevant statistics regarding gender issues for selected countries Source: *World Economic Forum 2013; **United Nation Population Division 2008, All data are valid for 2012 except when otherwise indicated*

METHODOLOGY

Questionnaire

All participants in our study filled in a questionnaire on various aspects of gender egalitarianism. In addition to socio-demographic data the questionnaire addressed seven categories:

- Gender role: stereotyping and preconception of women's roles and abilities
- Role of country and religion: social role theory
- Role of politics and legal perspectives
- Potential in chosen education field and degree
- Role of local organizations and corporate culture
- Preferred management style (feminine and masculine leadership)
- Female role models

The present analysis focuses on gender egalitarianism (practices and values) and gender roles, thus evaluating questions from the first and seventh category. The category "Potential in chosen education field and degree" was evaluated in a former paper , the other categories will be evaluated in future work.

Participants were asked to agree or disagree with the following statements:

- Married people are generally happier

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- Men's job is to earn money; women's job is the household
- A working mother can have a relationship with children as close as a non-working mother
- People without children lead empty lives
- A highly educated woman will try more often to combine work and family
- If you are a woman and if you have a brother/brothers, you were given the same chances to study as your brother(s)
- Working women should get paid maternity leave
- Working men should get paid maternity leave
- The father and the mother should have the same rights regarding parental leave
- Your partner should agree that you are professionally active even if you have children
- There is a significant pay-gap between men and women in your home country
- You are in favor of gender quotas in management boards
- Female top-managers in your country often stay single
- Female top-managers in your country often do not have children

Moreover participants were asked to name successful female managers in their country.

Statistical Methods

Two-tailed tests were used throughout and the type I error rate was set to be 0.05. The study is exploratory in character, whereby the significance level was not adapted to the multiple test situations. The answers ranging from "1 – strongly agree" to "5 – strongly disagree" were aggregated according to the top-two-boxes scheme, i.e. the values "1 – strongly agree" and "2 – agree" were put in the new category "agree" and the values "3 – neutral" to "5 – strongly disagree" were said to form the new category "do not agree" (for the ease of reading, we refer to this category with the term "disagree" in the following). The chi-square test was used to determine the independence of nationality and the items according to stereotypes and preferred management style respectively. The awareness of local female top managers was measured by simply counting the number of top managers marked.

Participants

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108 female bachelor students participated in the survey. Table 4 shows the distribution of students according to nationality. All students were studying economics. The German students all studied at one specific Southern-German University. Most of the Chinese, Mexican, Russian and Turkish students were exchange students at that same university while a low percentage was enrolled in universities in their home countries.

Nationality	
Chinese	23
German	38
Mexican	12
Russian	15
Turkish	20
Total	108

Table 8. *Students in the study by nationality*

RESULTS AND DISCUSSION FOR EACH COUNTRY

China

The majority of our Chinese respondents (64%) do not associate marriage with happiness. This might still result from the traditional subordinated position of women in the Chinese society (Zinzius, 2007). 50% (n=22 for this item) feel that people without children lead empty lives. 74% of our respondents want to have children later on. 100% of them want to benefit from maternity leave if they have children and 83% rate the nursing infrastructure as very important. 83% feel a working mother can have a good relationship with her children (China scored highest in this category, p=0.043), 80% having had their own mothers working full-time. This is not surprising as – according to the OECD report, we had 68% of women participating in the labor force in 2011 (Table 3). 91% reject the traditional separation of gender roles (job/household).This finding is astonishing as in China women are still expected to do the domestic work (Liu, 2014). The high percentage of students rejecting this role might result from the particular sample of students studying abroad and experiencing other life styles. 74% of our students say they would like to reach the upper or top management level in their career. This is in accordance with other studies. Fargel (2011) states that in 91% of Chinese firms women have positions in the upper management. 39% of the respondents feel there is a significant pay-gap in China and 48% are in favor of introducing quotas in management boards. Almost 80% believe that the top female managers often stay single and 58% believe that they are childless. The respondents were able to name several famous female Chinese top managers (15 answers with seven names mentioned) ranging from different branches such as real estate, electronics, automotive, household appliances, cosmetics and

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entertainment. The fact that Chinese students can name so many women top managers is of course also an effect of the high percentage (91%) of Chinese enterprises with women in top positions. The students feel that a child's relationship with a working mother can be as good as with a non-working mother. The students indicate that they want to combine work and family, using existing infrastructures and profiting from maternity leave. However, they also intend to reach the top management despite the fact that for them becoming a top manager implies a high likelihood of staying single and childless.

According to the GLOBE study's findings, China shows little divergence between society practices and values; society values being only slightly higher than the practices. The society practices are in the middle range and with 3.05 close to the over-all mean of participating countries (3.37), but the society values (3.68) are much lower than the over-all mean (4.51). This indicates that the Chinese society is not the best example for practicing egalitarianism, nor does it plan to develop in this direction. Other data supports this assumption: In practice, the majority of Chinese women are participating in the labor force, but very few are active in politics; the pay-gap is also high (19%, Appleton and Xia, 2005). Our results correlate well with the GLOBE study findings. The differencebetween practice (characterized by the majority of working women) and value (young female students want to reach the top management based on their qualifications and not because of gender quotas in management) will need time to be overcome. The only surprising result is the students' missing awareness of the existing pay-gap which might be due to the fact that our respondents have not started working yet.

Germany

The majority of our German respondents do not associate marriage (76%) or having children (80%) with happiness. Nevertheless 82% of them indicate that they want to have children later on. 87% want to benefit from maternity leave if they have children, 77% mentioning that working men should also receive paternity leave (highest result of the five countries) and 92% rate the nursing infrastructure as very important. In fact, since the introduction of "Elterngeld" in 2007, i.e. payments after the birth of a child varying from 300€ to 1.800€ per month depending on the pre-birth income of parents that are paid for a paternity leave, fathers stay home more often and spend more time with their children (Wrohlich *et al.*, 2012). This allows women to restart in their jobs after the birth of a child. Only 63% of our respondents feel a working mother can have a good relationship with her children, with only 29% of their mothers working full-time. 92% reject the traditional separation of gender roles. This correlates perfectly with a study of Allmendinger *et al.* (2013) with 501 young adults in which 94% of the women reject the statement "My partner should earn the money for our family, I should be responsible for the household and the children". German women want to contribute to the financial situation while they do not want to be exclusively responsible in that context. Only one percent of the women agree to the

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opposite statement "I should earn the money for our family, my partner should be responsible for the household and the children."

Only 29% of our respondents say they would like to reach the upper or top management level in their career. This value differs significantly from the other countries ($p<0.001$). 73% of the respondents feel there is a significant pay-gap in Germany, but only 32% are in favor of introducing quotas in senior management and boards of directors 42% feel that the top female managers often stay single and 59% feel that these top managers often do not have children. Angela Merkel was referenced five out of six times, displaying the unique position of Mrs. Merkel in the female German leader's landscape. Angela Merkel is married but indeed without children. From our results we perceive a split society, where German women need to choose between two worlds: top management without children or low to middle management with children. These results suggest a large divergence between society practice and value which is confirmed by the GLOBE study where Germany's society practices score in the middle range (3.1) but below the overall mean (3.37), while the society values (4.9) are higher than the overall mean (4.51). This implies that the German society plans to develop dramatically in the direction of a more egalitarian society. This is confirmed by other data as well: In practice, a big majority of the German women are participating in the labor force (33% of them working part-time), but the pay-gap is very significant (23%) and the percentage of women on boards is very small (3%). The very high society values are visible in the high percentage of women studying (57% of the graduate students are female) and the relatively high percentage of women in parliament (33%). All in all, our findings support the GLOBE study's results.

Mexico

58% of our Mexican respondents do not associate marriage with happiness and 100% disagree with the statement that "People without children lead empty lives" (strongest disagreement, $p=0.001$). Nevertheless 100% indicate that they want to have children later on. Guendelman *et al*. (2001) emphasize that conventionally a woman's mission in Mexico is seen in motherhood and her identity is seen in reference to her family. Yet, gender roles in Mexico are in transition so that a family planning survey (CONAPO, 1998) states that only a small percentage still feels that domestic tasks are to be done by women alone (Guendelmann *et al*., 2001). However, according to the study of Lirio *et al*. (2007) the actual support from spouses is still very low in Mexico as far as household work and child care are concerned. 83% of our respondents want to benefit from maternity leave if they have children, 58% mentioning that working men should get paid paternity leave as well. 100% rate the nursing infrastructure as very important in their decision process. Only 50% feel that a working mother's relationship to her child can be as good as that of a non-working mother, with only 33% of the

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respondents' mothers working full-time. 83% reject the traditional separation of gender roles (job/household). 92% of our students aspire to the upper or top management level in their career. There seem to be significant generational changes between the mothers (25% not working mothers, only 33% working full-time) and the respondents want to reach the top management. However these young women do not want to refrain from having children, which is a major difference to Germany. 75% of the respondents feel there is a significant pay-gap in Mexico and 75% are in favor of introducing quotas in management and boards 58% feel that the top female managers often stay single and childless (42%). The respondents were not able to name many famous female Mexican top managers. From our results we see a society that is rapidly changing. Young women are torn between their values – having children and taking care of them while at the same time aiming to reach top management levels. This might explain why they are in favor of quotas and why their political involvement is comparably strong – to leverage egalitarianism in the business world by legislative means. These factors might also be responsible for the larger divergence between society practices and values found in the GLOBE study. At 3.64 the Society practices are in the middle range but higher than the overall mean (3.37), indicating an above average level of egalitarianism. The society values (4.73) are slightly higher than the mean (4.51). This implies that the Mexican society plans to develop further in the direction of a more egalitarian society. The data which are available for Mexico correlate well with this premise: In practice, Mexican women have many children (highest fertility rate among our five countries) and the majority of the Mexican women do not participate in the labor force. The pay-gap is lower than in the other countries. The participation of women in politics and the percentage of women on boards is (7%) is comparably high. Rodriguez (2003) postulates that many Mexican women in politics feel that they should serve as a role model for younger girls. Our findings support the GLOBE study results.

Russia

73% of our Russian respondents associate marriage with happiness (highest result with p=0.005) and only 40% disagree with the statement that "People without children lead empty lives" (strongest disagreement, p=0.001). 73% of them indicate wanting to have children later on. Ashwin (2001) points out that after the ideology of the Soviet Union in which it was seen as women's duty to have children for the state there has been a transformation in the view of motherhood which is increasingly seen as an individual choice. 93% of our students want to benefit from maternity leave if they have children, 53% mentioning that working men should get paid paternity leave (lowest result). 86% rate the nursing infrastructure as very important. Only 40% feel a working mother can have a relationship with her children that is as good as that of a non-working mother – 80% of their mothers worked full-time. This could imply that our respondents do not rate the relationship to their working mothers positively. This

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is in a way astonishing as pre-1989 it was common that men and women were both part of the working force due to the Marxist principles of class. However, there were policies allowing women to both work and take care of children (Hunt/Crozier, 2011, p. 143). In so far, working women have a tradition in Russia although post-1989 the percentage of women among the working population declined steadily (Hunt/Crozier, 2011, p. 145). Only 67% reject the traditional split in gender roles (lowest result with p=0,076) and 80% say they would like to reach the upper or top management level in their career. Only 7% of the respondents feel there is a significant pay-gap in Russia and only 25% are in favor of introducing quotas. 53% feel that the top female managers often stay single and only 20% feel that these top managers are often childless. The respondents were not able to name many famous female Russian top managers. Four names were mentioned, with only one from the field of business.

These findings contradict the GLOBE study's findings, where Russia shows very little divergence between society practices and values with society values only slightly higher than the practices. The society practices are with 4.07 in the upper range and much higher than the overall mean (3.37). At 4.18 the society values are slightly lower than the overall mean (4.51). According to these figures the Russian society should disclose best practice for egalitarianism. The data available for Russia support this premise: In the practice 65% of the Russian women are participating in the labor force, and 87% of graduate students are female, which is a remarkably high number. Also 29% of all companies have female participation in ownership, the highest rate among the five countries considered. However, the pay-gap is also high (22%) and the participation of women in parliament (14%) is lower than in the other four countries. In this case our results do not corroborate with the GLOBE study's findings. We found a great divergence between values (getting married, accepting traditional gender roles, not being in favor of working mothers) and practices (working mothers, majority of graduates are female, will to reach top management). Although Russia shows very high gender egalitarianism practices and values as defined in the Globe Study, our Russian respondents reject the least the traditional gender roles. The difference between gender egalitarianism practices and values is the smallest one among our results.

Turkey

83% of our Turkish respondents do not associate marriage with happiness and 75% disagree with the statement that “People without children lead empty lives”. 80% of them indicate wanting to have children later on. 75% want to benefit from maternity leave if they have children, 65% mentioning that working men should get paid paternity leave. 90% rate the nursing infrastructure as very important. 45% feel a working mother can have as good a relationship with her children as a non-working mother, with only 10% having had their own mothers working full-time (lowest result). 95% reject the traditional split in gender roles. 90% say they would like to reach the upper or top management level in

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their career. This is in accordance with other studies. While traditionally Turkish women's role was in the domestic domain, Akdeniz-Taxer (2011) cites a representative study of Kalaycıoglu and Toprak in which 92.2% of the participants stated that women who wished to work outside the home should be able to do so. Although Turkish parents grant their sons more independence then their daughters (Kagitcibasi, Sunar, 1997, p. 147) the percentages of Turkish women in jobs with a high reputation are surprisingly high. In 1989, 24.4% of all lawyers were women compared to 19.7% in the United States, 38.5% of the dentists were female compared to 8.9% in the US (Kagitcibasi, Sunar, 1997, p. 150). Only 10% of our respondents feel there is a significant pay-gap in Turkey but 73% are in favor of introducing quotas. Only 44% feel that the top female managers often stay single and 37% feel that these top managers are often childless. The respondents were well in position to mention famous female Turkish top managers. All managers mentioned are married, have children and are from large family companies where they took over after the father or the husband died (Güler Sabanci was referenced 9 times). Our results indicate a split society where the majority of women still evolve in a traditionally patriarchal society with distinct gender roles and high pay-gaps for working women. However top female managers lead large family companies, establishing best practices for young females. This correlates well with the high society values found by the GLOBE study.

According to the GLOBE study Turkey exhibits a very large divergence between society practices and values. At 2.89 society practices score lowest among the five countries and much below the overall mean (3.37), indicating that egalitarianism has not yet been established, while society values are at 4.5 as high as the mean for all countries (4.51). This implies that the Turkish society plans to develop dramatically in the direction of a more egalitarian society. The data which are available for Turkey supports this premise. Turkey has the lowest participation of females in the task force (less than 30%) and in graduate programs at universities (46%). These data combined with a high fertility rate and a very high pay-gap (highest at 31%) lead to the picture that egalitarianism has not made much progress in Turkey yet. However the percentage of women on boards is higher than in the other countries (8%) and 41% of the firms have female participation in ownership. This can be related to the high number of family and private equity owned companies in Turkey.

DISCUSSION OF OUR RESEARCH THESIS

In table 5 we summarize the difference between practices and values from the GLOBE study values, and our results with respect to the acceptance of traditional gender roles.

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Country	China	Germany	Mexico	Russia	Turkey
Difference between value and practice / GLOBE Study	4	1	3	5	2
Highest rate for Value egalitarianism	5	1	2	4	3
Propensity to marriage	3	2	4	5	1
Propensity to traditional gender roles	3	2	4	5	1
Propensity to working mothers	1	2	3	5	4
Desire for children	4	2	1	5	3
Total for our results Gender roles	3	1	4	5	2

Table 9. *Summary of all presented data (1 – highest result, 5 – lowest result)*

Our research hypothesis was that countries with a high value in gender egalitarianism and a large difference between gender egalitarianism practices and values as defined in the Globe Study would most reject traditional gender roles.

Our results in table 5 confirm this thesis for Germany and Turkey, both countries having very high values, very high differences and rejecting the most the traditional gender roles according to our results.

Also China and Russia fit very well with our thesis, both countries showing a small difference between practices and values and the respondents from these countries rejecting the less the traditional gender roles.

The case of Mexico is more difficult to interpret because the results are in middle range.

CONCLUSION

Our results confirm our research thesis, and lead us to the following conclusions:

- In countries where gender egalitarianism practices are high and do not differ much from gender egalitarianism values (leading therefore to a small difference between the two), resistance against the traditional gender roles is relatively low. A possible explanation for this phenomena could be that women already financially taking care of themselves are actually more enclined to accept more traditional gender roles which would allow them to rely more on men.

- In countries like Germany and Turkey where gender egalitarianism practices are low and very different from gender egalitarianism values (leading therefore to a big difference between the two), resistance against the traditional gender roles seems to be higher. A possible explanation

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might be that in these countries traditional gender roles still prevail. Young qualified women reject these traditional roles and strive for an ideal which would allow them more independency.

- Obviously some countries like Mexico are in between, and the limited number of parameters which were used in our present work do not allow to draw conclusions in this case.

- Because of the good correlation between our thesis and our results for four from five countries, we feel that the combination between the parameters high gender egalitarianism value and difference between gender egalitarianism value and practice is a useful indicator for assessing the propensity for acceptance of traditional gender roles.

The size of our sample was rather small, so that we intend toconduct further work with enlarged sample sizes for two representative countries like Russia and Germany.

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 ISBN: 978-9963-711-37-6

TO GROW OR NOT TO GROW: IS IT REALLY JUST A RATIONAL CHOICE?

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ABSTRACT

In this paper, we explore the process of growth intention of actual entrepreneurs. A qualitative approach is conducted to elicit and analyze the salient beliefs of entrepreneurs towards growth. By focusing on entrepreneurs who strongly want to grow their firms and entrepreneurs who refuse or renounce to grow their firms, we highlight the fact that growth intention and no-growth intention reflect distinct constructs. Whereas growth intention appears to be mainly stimulated by affective beliefs and personality characteristics of the entrepreneurs, which reflects an emotional and psychological process, no-growth intention is mainly stimulated by instrumental beliefs, which reflect mostly a rationalized phenomenon and a cognitive process. The implications for future research in the field of entrepreneurship, as well as for policy makers, are discussed.

Keywords: *Growth intention, Theory of Planned Behavior, Salient beliefs, Instrumental beliefs, Affective Beliefs, Personality, Rationality.*

INTRODUCTION

SMEs growth is a central topic of entrepreneurship and concomitantly a political concern. The predominance of small businesses in economic dynamism has been highlighted in the United States by the work of Birch (1987). In the European Union, a large part of the economy is also constituted by SMEs: 20 million of SMEs employ 86.8 million people (European Commission, 2013). However, all SMEs do not contribute equally to economic development. In order to better fulfill the goals of wealth and employment creation, SMEs growth is required. Whereas policy-makers place an increasing attention on the growth of SMEs, numerous studies claim that the majority of firms start and remain small during their lifespan (Gimeno *et al.,* 1997; Gilbert *el al.,* 2006; Mckelvie and Wiklund, 2010). Paradoxically, growth is not always limited by the inability to grow but may rather reflect a limited desire of the entrepreneur to grow the firm (Cliff, 1998; Gilbert *et al.,* 2006). On this specific point, although research in entrepreneurship provided many explanations for firm growth, one of the most intriguing related issues to growth is that we don't know much about the first key driver for growth, *i.e.* the entrepreneur's intention. In particular, issues such as "How do beliefs and perceptions about

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growth form?" and "How do entrepreneurs really decide to grow or not their firms?" remain empirical questions so far (Wright and Stigliani, 2012).

The purpose of this paper is to explore the process of entrepreneurs' growth intentions. Two research questions underpin our study. The first question deals with the beliefs which lead to the formation of growth and no-growth intention: what beliefs influence growth intention? In an explanatory perspective, the second question deals with the factors which enhance the beliefs: what are the factors that may shape the beliefs towards growth?

To bring answers to these issues, we conducted an in-depth qualitative research, based on an exploratory extension of the formative research described by Ajzen (1991). 32 interviews and 2 focus groups were conducted during 2013-2014. Our results indicate that growth intention and no-growth intention reflect distinct constructs. Personality characteristics and affective beliefs, symbolized by "having fun", "competitive spirit", "creative spirit", appear to be the major factors which shape a positive attitude towards growth. Growth intention seems to be principally an emotional and psychological phenomenon. By contrast, no-growth intention is a rationalized construct, which indicates a decision, based on instrumental beliefs such as perceived risks of regulation constraints, management constraints and industrial constraints. The rest of this paper is declined in four parts. First, we evoke the theoretical foundations of our research, including our theoretical framework, which constitutes a focus on salient beliefs in the theory of planned behavior. We then present our research method, a qualitative study principally based on interviews with expert entrepreneurs. In the third part, we explore the process of growth intention. Finally, we discuss the main implications of our research, its limits and its perspectives.

THEORETICAL FOUNDATION

The entrepreneur's intention, a missing link in our understanding of firm growth

The topic of firm growth in entrepreneurship research has attracted increasing interest and motivated important contributions to the field (McKelvie and Wiklund, 2010). Despite this dynamism, some authors argue that our understanding of firm growth has been slow and the results miscellaneous (Coad, 2007; Wiklund and Shepherd, 2009; McKelvie and Wiklund, 2010). In particular, a missing link to improve our knowledge of firm growth concerns the crucial issue of entrepreneur's intention, his decision to grow or not his business. This issue has been neglected in previous research (Gilbert *et al.*, 2006; Wright and Stigliani, 2012). Yet, the unwillingness of entrepreneurs towards growth was highlighted whatever the national particularities (Birley and Westhead, 1990; Kolvereid, 1992; Schivardi and Torrini, 2008; Levie and Autio, 2013; Chabaud, 2013). Whereas growth often has the connotation of normal or natural (Penrose, 1959), most entrepreneurs do not want to grow their

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businesses and most companies start and stay small throughout their life cycle. To gain insight into this issue, Wright and Stigliani (2012) provide several research questions. The authors suggest a need to investigate the entrepreneurs' beliefs about growth, as well as the mechanisms which lead to the growth decision. In this paper, we explore these elements.

A clarification of growth intention

According to Fayolle and Linan (2014), the intention is a central concept in the field of entrepreneurship, which was widely mobilized through models designed by Bird (1988), Shapero and Sokol (1982) and Ajzen's Theory of Planned Behavior (TPB). Intention is not only a central concept for organizational emergence but also for growth. Sadler-Smith *et al.* (2003) note that an essential characteristic of entrepreneurial behavior is the intention to grow the firm. The literature on growth intention reflects several different terms but also several different types of entrepreneurs studied. Some studies consider the ambitious entrepreneurship and focus on nascent entrepreneurs and early entrepreneurs (Stam et *al.*, 2009; Stam *et al.*, 2011; Levie and Autio, 2013). Others studies consider actual entrepreneurs' growth aspirations (Wiklund *et al.,* 2003; Cassar, 2007; Dutta and Thornhill, 2008). As reported by Douglas (2013), there is also a multiplicity of terms to evoke intention: "aspirations, intentions, preference, or willingness". In order to clarify our approach, we follow the same definition of growth intention than Dutta and Thornhill (2008). Growth intention reflects the entrepreneur's goals or aspirations for the growth trajectory she or he would like the venture to follow. In our view, growth is a quest for expansion, as evoked by Penrose (1959). With respect to this definition, we assert that a growth oriented entrepreneur is someone who pursues goals of sales, development and employment, someone who wants his firm to be as large as possible. This conception was chosen in some quantitative studies (Davis and Shaver, 2012) and particularly fits the actual social and economic contextual challenges.

Key drivers and inhibiting factors of growth intention

An extensive literature review of key drivers and inhibitors of growth intention is not our objective and is beyond the ambition of this paper. According to the meta-analysis of Levie and Autio (2013) the studies of Dutta and Thornhill (2008) and Morrison *et al.* (2003), three main categories of factors of growth intention are identified: individual, organizational and environmental. We summarize the key drivers and the inhibiting factors of growth intention in Table 1.

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	Key drivers of growth intention	Inhibiting factors of growth intention
Individual level	High Educational level Experience Self-efficacy Risk taking propensity Need for achievement Expectations of financial gains Skills (Strategic, entrepreneurial and managerial)	Independence Loss of control Lack of ambition and vision Own workload Own work intensity
Organizational level	Resource availability Stakeholder involvement Entrepreneurial team orientation Market orientation Improve Employee wellbeing Firm characteristics (size and age)	Constrained managerial competencies Narrow skills base Reduce employee wellbeing Lack of organizational structure Crisis survival ability
Environmental level	Competitive conditions Competitive networks Public sector regulation Labor market	Industry life cycle Weak power position within the industry sector and markets Burdensome regulations Rules and laws Corruption

Table 1. *Key drivers and inhibiting factors of growth intention, adapted from Davidsson (1989);Kolvereid, (1992); Wiklund et al. (2003); Cassar (2007);Morisson et al. (2003); Levie and Autio (2013); Estrin et al. (2013)*

Salient beliefs in the theory of planned behavior (TPB)

Most studies which place a focus on growth intention use the TPB (Ajzen, 1991) to assess variables which reinforce intention or decrease intention. We clarify our theoretical framework bellow. Figure 1 exhibits our theoretical framework, adapted from the model of TPB by Ajzen (1991). TPB assumes that human behavior is intentional and planned. The intention is influenced by three kinds of factors: attitude, subjective norm and perceived behavioral control. Attitude towards behavior is an evaluation of the consequences of the behavior. The perceived subjective norm is the consideration of the opinion of other regarding one's behavior. Finally, perceived behavioral control refers to perceptions of factors that can help or hinder the result of a behavior.

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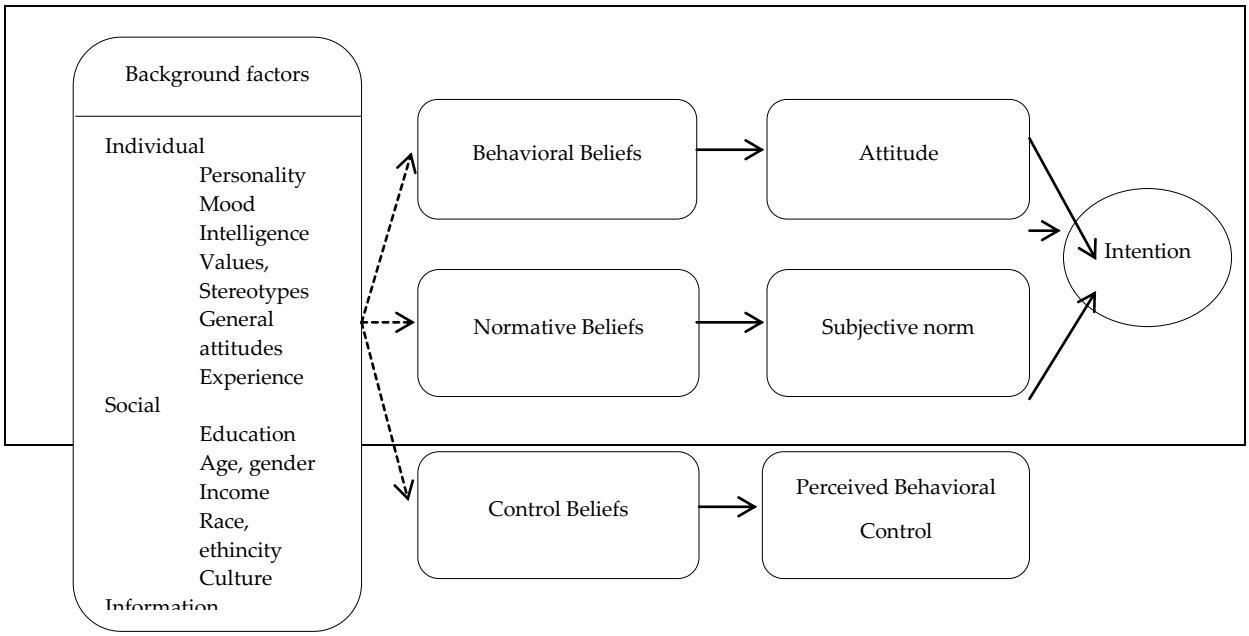

Figure 1. *Theoretical framework, adapted from Fishbein and Ajzen (2010)*

In addition to the three constructs which directly influence the intention, some salient beliefs (behavioral, normative, control) contribute to shape the attitude, the subjective norm and the perceived behavioral control. Finally, salient beliefs are also influenced by background factors. It could be demographic characteristics, personality characteristics, and social structure variables and so forth (see Fishbein and Ajzen, 2010). In this paper, we focus on salient beliefs and background factors in the process of growth intention. In particular, we are interested in the distinction between instrumental beliefs (*e.g.* advantages/disadvantages) and affective beliefs (*e.g.* enjoy/dislike) which affect attitude towards a behavior. According to French *et al.* (2005), "*the affective component of attitude refers to emotions and drives engendered by the prospect of performing a behavior. This is in contrast to the instrumental component of attitude, which refers to a more cognitive consideration of the extent to which performing a behavior would be advantageous*".

METHODOLOGY

As Ajzen notes is in own website: *"The TPB was developed to predict and explain human social behavior… Like other theories of this kind, it can be used as a heuristic framework to guide questions to be raised in qualitative research…The only part of these methods that requires qualitative research is the elicitation…of readily accessible behavioral, normative, and control beliefs"*. The TPB follows an accurate design research. Formative research constitutes a phase to identify salient beliefs, which are the most important constructs of the theory in a pragmatic view: changing a behavior implies, at first, changing beliefs.

Data collection

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We decided to extend the formative research described by Fishbein and Ajzen (2010). We conducted 29 interviews with expert entrepreneurs in the North of France. To adopt a complementary perspective, three persons providing business support to SMEs were also interviewed. Beyond the interview process, one of the researchers attended major exhibitions of SMEs nationwide, which allowed collecting additional data. Much attention has been paid to the selected companies that are companies that have already experienced growth. Three categories of companies were targeted: 15 to 50 employees (16), 50 to 250 employees (10) and mid cap companies, above 250 employees (3). The turnover of companies begins at 1.6 M€ to 390M€ with a mean at 37 M€. The size of companies range between 15 until 1300 employees, with a mean at 154 employees. In addition, we conducted two focus groups. The first was with a mid-cap entrepreneur in automotive industry (1200 employees, 500M€), a start-up creator who knew failure (30 employees, 1.8M€), a fast growing firm leader (9M€ in 2009; 37M€ in 2014) and a coach, former regional chairman of entrepreneur network groups. The second focus group was conducted with some exceptional entrepreneurs. The first entrepreneur started with 12 employees in 1970 and founded a firm with 18 000 employees and 1.087 billion turnover today. The second bought with one euro the major companies of bicycles in Europe and build the most important group of bicycles in Europe. The third expert was a mid-cap company leader (30M€; 200 employees). Finally, an expert in accompaniment of entrepreneurs was present. Table 2 shows the major phases of data collection.

	Data collection	Duration of interviews		
Phase one	29 interviews entrepreneurs	Min	Max	Mean
		46 min.	120 min.	69 min.
	3 experts (2 chambers of commerce, one lawyer)	54 min; 55 min; 147 min.		
	8 testimonies conference	66 min and 100 min		
Phase Two	Focus group 1 (4 experts)	180 min.		
Phase Three	Focus group 2 (4 experts)	164 min.		

Table 2. *Major steps of data collection*

Semi structured interviews and Data analysis

The interviews were semi-structured, and focused on three mains areas: 1) Trajectory (past, present, future) of companies and trajectory of entrepreneurs (experiences and formations); 2) Growth, perception of growth, intention of growth, perception of risks and benefits of growth, perception of barriers and levers for growth, perception of others about the growth of their firms; 3) Characteristics of entrepreneurs, values, motivations, goals, personality, skills; 4) The reason why some entrepreneurs don't want to grow their firms. Nvivo 10 was used to categorize and encode the material, which was extremely rich and complex. 6 levels of analysis were employed. At the first level, we encode a general representation of growth (individual, organizational, social, spatial, economic and temporal). This

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makes sense in order to clarify the concept of growth, how entrepreneurs perceive growth. The second, the third and fourth level constitute the major beliefs in TPB, behavioral belief, normative beliefs and control beliefs. The fifth level collects the characteristics of entrepreneurs. Finally, the sixth level categorizes the cases in regard to growth intention.

RESULTS

In addition to the work of categorization mentioned above, we clarify the cases in regard to growth intention. 4 categories of entrepreneurs were identified: entrepreneurs who strongly pursue growth in size of their businesses (HGO); entrepreneurs seeking growth in size of their businesses, but with clearly identified boundaries (MGO); entrepreneurs who do not seek growth size of their businesses because of perceived capabilities and perceived opportunities. Finally, the entrepreneurs who are pursuing a "bricolage" size of their business, with reference to Baker and Nelson (2005). Table 3 clarifies these categories in regard of the firms studied.

Type of entrepreneurs	High Growth Oriented Entrepreneurs (HGO)	Medium Growth Oriented Entrepreneurs (MGO)	Refusal and renouncement growth oriented entrepreneurs	Bricolage growth oriented entrepreneurs
Number of firms	15	5	3	5
Goals	Sustainability	Sustainability	Survival	Income
	Speculation		Income	

Table 3. *Type of entrepreneurs of the sample of the study*

Concerning HGO, two types of entrepreneurs can be identified. The first type gathers the entrepreneurs who pursue an aim of growth for sustainability. This type collects founders but also family business descendants. The other type gathers the entrepreneurs who pursue an aim of valorization, *i.e.* they want to sell their businesses in the more or less long term. Concerning the MGO, they are aware of growth but only in an interstitial view of their market. Contrary to the category of HGO entrepreneurs, they do not consider all sources of growth. The other categories refuse or renounce to grow. This category gathers independent oriented entrepreneurs and is more evoked by interviewees that we met in our sample. We also found entrepreneurs who knew a fast growing period, which conducted their firms to a risk of failure. Finally, the bricolage category gathers the entrepreneurs who grew their firms until they faced to more stringent employment protection legislation (EPL), and then they focused on financial prospects by avoiding growth.

Salient Beliefs

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The behavioral instrumental beliefs (attitude) of all categories, the major codes, as well as some verbatim, are collected in Table 4.

Benefits	
Strategic criteria Reach a critical size Increase its credibility vis-à-vis stakeholders	[…] As our colleagues at similar or greater size continue to grow, if we want to stay in the lead pack… we need to continue to grow […] (MID 1)
Human resource criteria Enhance the wellbeing of employees in the company Increase skills in organization	[…] There can be big debates is that growth brings happiness. At my level, I know, that's not what makes me live but employees, below, the growth it brings them salary outlook… […] (SME 2)
Financial criteria Improve the outcome of the firm Increase its independence from stakeholders Economic scales	[…] But growth is essential. If this year we had the same turnover in absolute value than last year, it was worse in income… Growth, for me, it is a necessary condition for the sustainability of the business […] (SME 8)
Entrepreneur's individual criteria Free up time to step back Devote themselves to meaningful tasks	[…] There was something else I wanted in terms of growth, it was the ability not to be indispensable. You need a certain size, to fund top management […] (SME 16)
Organizational criteria Provide flexibility and versatility in the organization More structured organization	[…] At this level of firm size, it begins to be cutting tasks. When you are in smaller structures, you are much more cross. […] (SME 23)
Risks	
Financial criteria Irreversibility of growth, prevent growth risk Grow too quickly without consolidation To be more dependent on financial institutions, customers, suppliers Multiply financial risks (liquidity, unpaid)	[…] In four to five months, we lost more than 30% of our turnover. Chance would have it still; they also lost LM with € 800,000 in revenue. That is unmanageable. In these situations, one of the great difficulties of the company is to be able to reduce its wings at the same rate it has the risk of losing sales […] (SME 11)
Human resource management and regulation criteria Withstand the effect of more stringent EPL Recruit permanent employees Increase the risk of employment tribunal Increase human resources management problems Reduce the wellbeing of employees	[…] I think that there are particular thresholds. There are thresholds. The threshold for us is 49. Who said above, says HRD, said unions, lots of things. The stage from 49 to 55, you do not earn much revenue as well as margins but cons; you create a big load behind […] (SME 20)
Organizational criteria Adjust the structure, find suitable management	[…] Growth, we need to take it on. It's nice to grow, but we must be able to produce, it is often the problem… we must

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Losing the corporate culture	adapt, we must adapt the tool behind […] (SME 21)
Entrepreneur's individual criteria Be more in management than in the original business Losing Secrecy Losing control Balance energy expended perceived benefits	[…] It is this that I often see in small organizations, who are struggling to grow, bosses, leaders are struggling to delegate. To me, it's huge. Fear of open transparent. Everything is double locked in a cupboard. When it takes a decision, it is only he who can give it, when deciding a recovery or a thing is the same, there is only one who can decide […] (SME 11)

Table 4. *Major categories and codes of Behavioral Beliefs (Attitude)*

Concerning the normative beliefs, one of the most surprising results is that encouragement and discouragement for growth is ambivalent. Employees, as well as peers, financers and experts can both be drivers and inhibitors for growth, whereas the family environment is important, but not often decisive in the entrepreneur's growth decision. Table 5 collects some verbatim about normative beliefs, which here are not exhaustive, and exhibit the ambivalence of encouragement and discouragement towards growth.

Normative Beliefs	
Employees	[…]I have a project to put a cabin powder coating is an investment of € 300,000, I make every year a small mail with wages and say that's where we're going, projects of the year. Employees were concerned; they were saying that we need to hire 10 people […] (SME 21) […] 5% of employees disapprove growth; there are always those who are afraid that we lose our soul, it was better before, nostalgic […] (SME 2) […] I have a feeling that enough paradoxically, those who want the most growth is employees […] (MID 1)
Peers	[…] It hounds us, there are discussions about that, if you're past 51, you suck. You fly away at 90 or 100 or falls below, but do not stay there. It's amazing to talk like that […] (SME 23). (About the more stringent Employment Protection Legislation) […] There really isolation. Getting out the head of the handlebar. When you are in a working commission and you have eight or nine other leaders who rely on you to work with, you go there, and you are forced to get you the head of the handlebar. It is an obligation […] (SME 8)
Family	[…] My wife, my mother, because it scares them, they are completely different characters. My wife is not a view of ambition, she is next, she does its accounting, she loves her job done, but she did not like an optical development ambition etc. Expand investment, she sees the risks, she does not see the fun! […] (SME 18)

Table 5. *Ambivalence of normative beliefs*

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Finally, the control beliefs, which include factors that facilitate or impede growth, are close to behavioral beliefs. Economic conditions, industry conditions and legal, fiscal and social conditions (stability and rigor) are raised by interviewees as the major levers and barriers for growth, whatever their orientation towards growth. One element has to be highlighted: the availability of human resources, despite a context of growing unemployment, is regularly evoked, *i.e.* by the majority of the entrepreneurs, as a major barrier of growth and growth intention.

Growth intention: a principal influence of affective beliefs and personality characteristics, which reflect an emotional and psychological process

Over the past decades, the motivation of the entrepreneur to grow has been mainly seen as a profit motive, an opportunity to make money (Penrose, 1959; Cassar 2007). Based on this assumption, growth intention is essentially viewed as rational and instrumental. Obviously, there are instrumental beliefs in the decision to grow. In particular, the fact that firm reaches a sufficient size to grasp new markets, as we mentioned above. As well, HGO entrepreneurs who pursue an aim of valorization follow rational expectations. But beyond these rational criteria, the encoding work, which shows three times more references for risks than benefits, leads to the interpretation that growth intention is not widely rational. In fact, HGO entrepreneurs immediately link affective beliefs and components of their personality to the growth of their business. Affective beliefs and personality contribute to generate instrumental beliefs, well-matched with a thirst for growth. During the study, we were surprised by how entrepreneurs persuade themselves that growth is the only best way for the firm. Elements such as "necessity" and "obligation" are suggested about their strategic options to grow, whatever the industry context. This led to the proposition that growth intention is an emotional and psychological phenomenon at first. Three forms of emotional and psychological factors that shape growth intention are identified in our study.

The first is creative spirit. Some of the HGO entrepreneurs have a deep desire to create. They are passionate by creation and growth is a process which makes possible the multiplicity of projects creation, within the company, or, for serial entrepreneurs, by a process of proliferation of new business ventures. A second form of factors is the competitive spirit. HGO entrepreneurs are competitors, who love to win. They evoke sport, competition and refer to their childhood, when they always intended to play and win. Finally, the third form is more natural than non-rational, since it concerns heritage. The descendants of successful family firms are responsible. They consider having an obligation to grow and take care of their employees as well as their community. In this case, growth for sustainability is viewed as an obligation to preserve employment and appears to be a value of the firm, a cultural attribute. Table 6 shows the three emotional and psychological forms of growth intention.

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Creative Desire	[…] There is a desire, one time, there is a desire to build a thing to say I do that, the thing develops like a Lego, I put a piece…there is still a surfeit of always wanting to create […] (MID 2) […] I subscribe myself resolutely in this logic of pure creativity…Money is not my engine. My engine is creation […] (SME 1) […] And there are true entrepreneurs, curious, with risk-taking; they have ten projects to come out one … We constantly have a thousand projects, that's for me a true entrepreneur […] (SME 16).
Competitive spirit	[…] It must also be a part of nature, to say I really want to win. I did a bit of sport as a youngster, I wanted to win… […] (SME 15) […] It was more about the sport as an entrepreneur value, it must be measured, it is necessary to rub; you have to want to win […] (SME 12) […] What I know is that when I was a kid, there's nothing made me happier than to win. My biggest pleasures I've had in the sport. Growth, for me, it is conviction. This is something that is very close to the sport […] (FC1)
Heritage	[…]The purpose is sustaining, sustain jobs here […] (MID 1) […] I like the action. I like to build. It's something that I have. There is also a very strong motivation, I realize in retrospect, I had the chance, I feel privileged to inherit a tool, a way, and I applied […] (FC1) […] Then there is the moral duty to the father, globally since it is his baby, and then there was all the pressure of employees, who say: is that the son is going to be as good as the father […] (SME 2)

Table 6. *Three emotional and psychological forms of growth intention*

To summarize this approach of growth intention as an emotional and psychological phenomenon, we conclude by a sentence of the most successful entrepreneur we have met during the focus group 2: […] Since childhood, from the age of 10, I've always been an entrepreneur. When you are an entrepreneur, it is normal, you want to develop ... first, you have to have the will, we cannot acquire it… this will to develop; it goes by the person… I always wanted and a lot of what I did, I dreamed it before […] (FC2). Those testimonies show how HGO entrepreneurs are firstly interested by the process of growth in itself. The prospect of performing the behavior of growth is a way to produce positive emotions such as hope, joy, dream, amusement and so forth. The evaluation of perceived risks and benefits or perceived advantages and disadvantages appears to be secondary.

No-Growth intention: a principal influence of instrumental beliefs, which reflects a decision

Unlike growth intention, no-growth intention is accurately guided at first by instrumental beliefs. Elements such as regulation constraints or economic conditions are the major inhibiting factors of growth intention, as behavioral beliefs and control beliefs mentioned above. Particularly, the relation

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between regulation and Human Resource Management is identified in this study as the major inhibiting factors of growth intention. Entrepreneurs who refuse and renounce to grow are anxious of employee's behavior, of the fact to introduce unions in their firms and so forth. Most of the time, growth is assimilated as problems: […] It's not worth doing growth anyway, I will have more problems. It is a choice too. Following is find ways to circumvent the provisions. What are we going to set up in business? To not have to do with this type of problem […] (SME 17);

[…] I'm not triple an activity and triple the size if it means I triple my troubles. I prefer, if that's the logic, halve activities…and like that, I halved my troubles […] (SME 23).

Finally, the hierarchy of factors and beliefs that shape growth intention and no-growth intention could be schematized as in figure 2. The first factors that shape Growth intention are personality characteristics and affective beliefs. These components contribute to generate instrumental beliefs in which growth is seen as necessary for the firm. A positive attitude is stimulated. Emotional and psychological components play a considerable role in the process of growth intention. By contrast, the first factors that shape no-growth intention are instrumental beliefs, such as perceived risks of management constraints. These components generate affective beliefs, such as anxiety and anger, which stimulate a negative attitude towards growth. Rational and cognitive components play a central role in the process of no-growth intention.

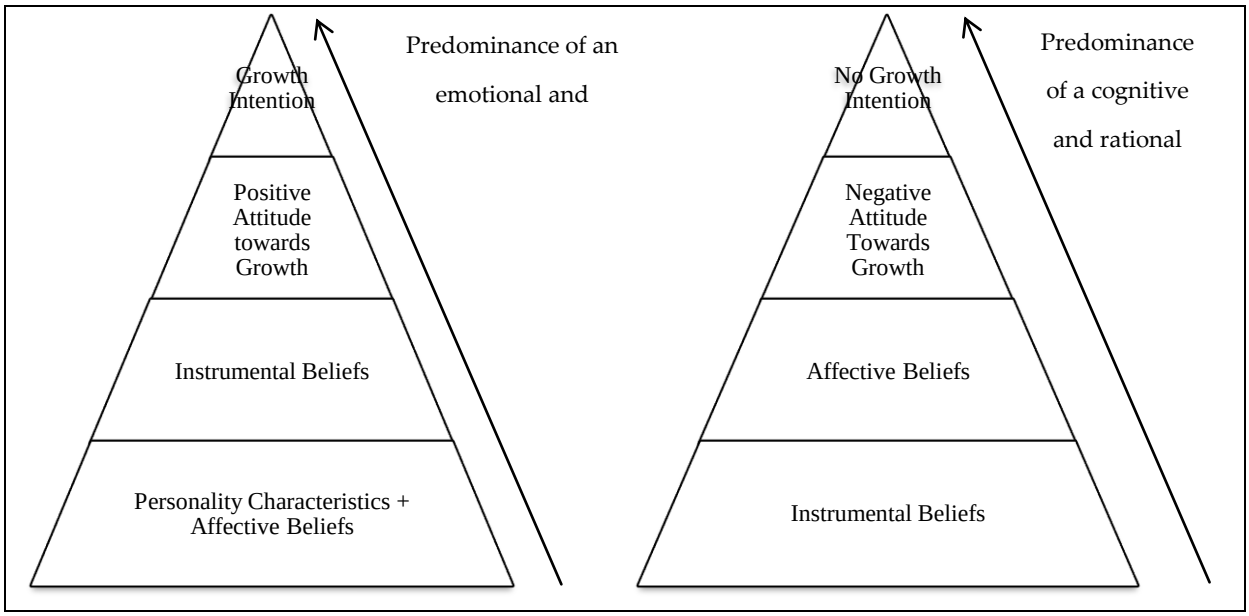

Figure 2. *The hierarchy of factors which shape Growth Intention and No-Growth Intention*

DISCUSSION AND CONCLUSION

In this paper, we explore the growth intention process. To gain insight into this issue, we analyzed the salient beliefs of entrepreneurs towards growth, as well as some background factors that can influence growth intention. By focusing on entrepreneurs who strongly want to grow their businesses and

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entrepreneurs who refuse or renounce to grow their business, we show that growth intention and no-growth intention are distinct constructs. Whereas growth intention refers rather to a predominance of an emotional and psychological process, no-growth intention refers rather to a predominance of a cognitive and rational process. Our study suffers from some limitations. The results, particularly the hierarchy of factors that shape growth intention and no growth intention, should be confirmed in quantitative studies. Furthermore, our study was conducted in France, a country which is concerned by national particularities, especially regarding the employment protection legislation.

Nevertheless, our study provides an extensive review of beliefs in the process of growth intention as well as promising avenue of research in entrepreneurship studies and implications for policy makers. To date, the determinants of growth intention have been widely analyzed towards a rational approach, based on expected utility model. This perspective is insufficient to explain the fact that unwillingness to grow is a generalized phenomenon, whatever the national particularities. Levie and Autio (2013) consider that United Kingdom appears to suffer from a lack of growth intention. Neneh and Vanzyl (2014) reached to the same conclusions for South-African entrepreneurs. In United States, Gundry and Welsch (2001) and Cassar (2007) show that there is a distinction between entrepreneurs' growth intention. The situation is identical in Norway (Kolvereid, 1992), in France (Chabaud, 2013) or in Italy (Schivardi and Torrini, 2008). Most of the time, the only identified lever to enhance growth intention is to reduce the stringency of regulation and employment legislation. This assumption, which is based on instrumental beliefs, is certainly partially true, but incomplete. If growth intention was only a rational phenomenon, largely explained by the stringency of employment protection legislation, entrepreneurs in United Kingdom should strongly intent to grow in comparison to Germany or France. The indicators of Employment Protection Legislation are more favorable to growth in United Kingdom than in France or Germany. In the same way, if growth intention was only rational, how could we explain the fact that, as Wiklund *et al.* (2003) and Bowen (2008) note, entrepreneurs with strong ambitions may pursue their goals irrespective of potential administrative complexities.

Our study reveals that in addition to a focus on instrumental beliefs and rational thinking, fundamental issues must be taken into consideration, in particular at the affective beliefs level. Combining these emotional and psychological components with rational components is a way to improve our knowledge of the growth intention process. This perspective fits with research on entrepreneurial emotions (Baron, 2008; Cardon, 2012), as well as with the renewal of interest in entrepreneurs' personal characteristics (Baum and Locke, 2004; Shane *et al.*, 2010). Future research might examine in depth how entrepreneurs are passionate by growth and why entrepreneurs are

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passionate by growth. This implies to put the person, individual traits and characteristics, at the heart of the process of growth.

For policy makers, these results imply that beyond a generic economical approach of the barriers and levers for growth, a reflection should be conducted at a societal and cultural level. Numerous public campaigns and actions have contributed to change the sensitivity of people for sports or wellbeing and health. In a similar vein, policy makers have managed actions and campaigns to create a culture of entrepreneurship. To date, entrepreneurship is better appreciated by people, whatever the country. If policy makers want to develop growth, they should not be confined only in a rational perspective of growth, but consider the affective elements and conduct reflection and actions to create and change the feeling for growth.

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ISBN: 978-9963-711-37-6

SPIN-OFF AND MARKET REACTION: WHAT IS THE WSJ ROLE?

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ABSTRACT

This study investigates the effect of the publication of spin-off news, published between 2000 and 2013 in the Wall Street Journal (WSJ), on the abnormal returns of companies involved in the deal. The results of the empirical analysis developed through an event study on a sample of 179 listed companies show: i) positive and statistically significant CAAR in the event window (-1,1), (-1,0) and (0,1) for the announcement of a spin-off operation; ii) positive and statistically significant CAAR in the event window (-1,0) and (0,1) for spin-offs which news was published in the WSJ within a week of the announcement: the most important newspapers seem to affect stock prices while not providing any new information, confirming the findings of existing studies; iii) from the comparison between CAARs in relation to the announcement date of spin-off deal and the publication of the rumour on the WSJ, news on the spin-off operation produces an impact on the investors' behaviour, both in the moment when the rumour is published on the Wall Street Journal and when the announcement of the operation itself is released, although the reaction is more evident at the moment of the rumour's publication, during which average higher CAR is achieved compared to when the operation is announced.

Keywords: *Restructuring, Spin-off, Media, Event Study*

1. INTRODUCTION

In perfect and complete markets, the release of new information should have no effect on stock prices. However the dissemination of news relating to the companies listed and not only has an impact on stock prices, due to incomplete markets.

Several studies have noted that spin-offs announcements produce positive abnormal returns (Chemmanur, Liu, 2010; Veld, Veld-Merkoulova, 2009; Chemmanur, Yan, 2004; Veld, Veld-Merkoulova, 2004; Desai, Jain, 1999; Daley, Mehrotra, Sivakumar, 1997; Cusatis, Miles, Woolridge, 1993; Rosenfeld, 1984; Schipper, Smith, 1983; Miles, Rosenfeld, 1983; Hite, Owers, 1983) that are further amplified in relation to: i) the spin-off size, ii) the improvement of industrial focus, iii) the

 ISBN: 978-9963-711-37-6

existence of information asymmetry, iv) regulatory and tax advantages, v) link with M&A or takeover deals.

This study aims to investigate the media effect on investors behavior after a spin-offs announcement, comparing it with the effect created by the rumor publication on Wall Street Journal.

I had examined the media variable, since they are basic in the production and circulation of news in financial markets.

For this purpose, I had analyzed the impact that the dissemination of spin-off deals news published between 2000 and 2013 on the "Wall Street Journal" (WSJ) has on stock prices of companies involved in the spin-offs deals at the time of their announcement.

The same analysis is then carried out for the spin-off deals, whose news was published in the WSJ before the announcement date (rumor): in this case, the analysis will be made to the date of news publication on WSJ in order to check whether the announcement effect has already been discounted by the market, given the news "leak" about the same spin-off deal.

In order to measure the media influence, I had chosen to consider the "Wall Street Journal", because it is the first financial daily for number of copies sold[1]: for the characteristics of diffusion and influence, the WSJ has been considered crucial in bringing about the problems of Enron, leading to inspections by regulatory bodies and following the collapse of the same company (Salter, 2008)

I had regarded as spin-offs news, given the recent increasing use of this disinvestment deal due to the current financial crisis. Allowing to enhance the industrial focus and to release the hidden economic value of very diversified firms, the spin-off deals are back in fashion: for this reason, the media has put aside them an increasingly significant space.

The contribution of this paper is manifold. First, the analysis accounts for the possibility that investors' behaviour is influenced by the moment of spin-off deals news are published on WSJ. Second, the paper considers spin-off deals and their interaction with media role in the dissemination of spin-off news, while previous studies assessing stock reaction to news focuses on different variables.

[1] According to Editor&Publisher.

ISBN: 978-9963-711-37-6

This paper is structured as follows.

Section 2 reviews the related literature with regard both to the effect that the spin-off announcement has on investors behavior (2.1) and the role of media in the process of news dissemination (2.2). Section 3 shows event study methodology adopted in order to measure stock reaction to spin-off news. Section 4 describes the sample, section 5 presents the results and conclusions are drawn in section 6.

2. LITERATURE REVIEW

2.1 Spin-off and abnormal return

The topic of corporate restructuring, intended as a set of activities aimed at the ownership reorganization, operations turnaround and disinvestment deals, is an issue that has once again become topical, and then dealt by the specialized media, as a result of the difficulties faced by the companies at the recent financial crises. Spin-offs fall into divestment deals. Specifically, a spin-off occurs when a part or the whole of a company's assets, called parent company, is spun off into a separate and independent company, whose shares are distributed to existing shareholders, often without any tax implications for the parent company. The distinguishing feature of a spin-off than other restructuring deals is the absence of a cash flow for both the parent company and for the spin-off.

In perfect and complete markets, the spin-off announcement should not change the company's value except in the case where investors expect benefits in terms of future cash flows arising from the elimination of negative synergies through the spin-off deal. However, even when there are no expected benefits, a spin-off deal can lead to an increase in firm value due to incomplete markets.

Several studies have agreed that spin-off announcements generate positive abnormal returns. Moreover, some scholars have observed, corresponding to the spin-off announcement, positive abnormal returns higher when:

- the spin-off is large size (Veld e Veld-Merkoulova, 2009; Chemmanur e Yan, 2004; Miles e Rosenfeld, 1983; Hite e Owers, 1983);
- the spin-off is industrial focus increasing (Veld e Veld-Merkoulova, 2009; Chemmanur e Yan, 2004; Krishnaswami e Subramaniam, 1999; Desai e Jain, 1999; Daley, Mehrotra e Sivakumar, 1997);

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- there is a strong information asymmetry between the parent company's management and outside investors (Chemmanur e Liu, 2010; Veld e Veld-Merkoulova, 2004; Krishnaswami e Subramaniam, 1999; Habib, Johnsen e Naik, 1997);
- the spin-off deal is made to take regulatory or fiscal advantages or as a deal not subject to tax (Veld e Veld-Merkoulova, 2009; Krishnaswami e Subramaniam, 1999; Desai e Jain, 1999; Schipper e Smith, 1983);
- the spin-off deal is made to ease following M&A or takeover deal (Chemmanur et al., 2010; Chemmanur e Yan, 2004; Cusatis, Miles e Woolridge, 1993; Hite e Owers, 1983).

2.2 Media and investors' behaviour

Factors related to the recent increased use, this disinvestment operation has known by virtue of the latest financial crises, as well as the widespread belief that spin-off announcements may generate positive abnormal return, have contributed to rousing the debate on spin-off in the past years. This is a topic on which the media are focusing more and more.

In this regard, one can suppose that following a spin-off announcement, the media may influence abnormal returns: news concerning spin-off – for instance regarding M&A operations, as well as other corporate reorganization operations or, more generally, corporate news - can play a significant role in the investment selection process by influencing the investors' sentiment.

If information assumes such a pivotal function when it comes to the efficiency of financial markets, the media are thus fundamental as far as news production and distribution are concerned.

Therefore, news and media influence people's behaviour, investors in particular: when making a choice, they act in conjunction with news content and the way in which information is delivered, thus modifying stock prices trends on the financial markets. Deephouse (2000) observes that the mass-media can fulfil two different - often not conflicting - functions in the financial markets. First, the media act as an *information broker* by simply spreading information *passively*, second, they represent an *active participant*, whose comments allow players operating in the market to better assess their investment choices.

Media can affect investor's behaviour to a different extent, depending on whether it manages to capture their attention (Pollock, Rindova e Maggitti, 2008; Barber e Odean, 2008; Hong, Kubik e Stein, 2004; Barber e Odean, 2003), by advertising certain stocks more than others (Lehavy e Sloan, 2008; Li, 2004): in theory, a shock in the investor's attention levels may influence financial markets trends. Several empirical studies focus on this relationship (Chemmanur and Liu, 2011; Gao and Oler, 2011;

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Da, Engelberg and Gao, 2011; DellaVigna and Pollet, 2009; Barber and Odean 2008; Fehle, Tsyplakov and Zdorovtsov, 2005; Huberman and Regev, 2001). Chemmanur and Liu (2011) maintain that a rise in the investors' level of attention can cause a temporary increase in stock returns, while at the same time can decrease future profits, both in the short and in the long run. Gao and Oler (2011) compare the returns of companies where takeover operations are anticipated by rumour with those where they are not. The authors observe that in the case that acquisition operations are preceded by rumours, these are thereby followed by a significant reaction in both returns and trading volumes.

Within the event study methodology, Johnson, Ellstrand, Dalton and Dalton (2005) analysed the impact made by the publication of administrative committees' ratings in the magazine *Business Week*. The research confirmed their initial hypothesis: the publication of governance news (positive or negative) has an even greater impact compared to the governance information publicly released by the companies on their abnormal stock returns.

Huberman and Regev (2001) compare the news impact which appeared in the *New York Times* to the effect made by the same news, published over five months earlier, on the magazine *Nature* and several other popular newspapers – including the *Times*. Results show how daily newspapers can influence stock price, even without distributing new information, confirming the crucial role they exercise on the investors' attention: indeed, despite being first-hand news, the impact of the companies' returns news published in the magazine *Nature*, is much less significant when compared to the reaction triggered by the news publication on *New York Times*.

In this perspective, the first two research hypothesis are:

H1: the diffusion of spin-off news as Wall Street Journal increases the effect that the spin-off announcement will have on the investors' behaviour, reflected in stock price variations.

H2: If the spin-off news publication on WSJ is earlier than spin-off announcement (rumor), the effect of spin-off announcement on the investors' behaviour is lower than the effect of spin-off news

3. METHODS

An *event study* approach (Campbell *et al*., 1997) is used to assess whether the stock returns of firms influenced by spin-off news display abnormal returns (AR) around the announcement date and news date (*t*). Similar to previous studies (Tetlock *et al*., 2008; Tetlock, 2007; Coval and Shumway, 2001), this paper posits that a small number of investors directly observe firms' activities, while most investors collect second hand information. With this in mind, our analysis examines whether abnormal returns

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occur at the time of release of news of the event in WSJ, rather than when the company concerned makes an announcement.

The first step is the estimation of the AR, that is the forecast errors of a specific normal return-generating mode. I had estimated daily AR using market model regressions by applying OLS-regression methodology for time series of one full trading year (252 trading days), previous the most remote event window (Mentz e Shiereck, 2008).

$$AR_{j,t} = R_{j,t} - \hat{\alpha}_j - \hat{\beta}_j R_{M,t}$$

Where:

$R_{j,t}$ is the total return, corrected by the dividend of the stock j on the day t; $R_{M,t}$ is the market index in the branch which the company belongs to on t day. In order to verify statistical significance, it was decided to follow the approach taken in a few recent studies (Mentz, Schierek, 2008), that suggest the implementation of Boehmer's et al. test statistic (1991), which applies a correction factor to the standard deviation.

When it comes to determining the event window, I had used a window previous the date of the information disclosure [i.e. (–1; 0)], the date of the information disclosure (announcement/rumour) [i.e. (0; 1)] and five further windows [i.e. (0; 3), (0; 5), (0; 10), (0; 15) e (0;20)].

4. SAMPLE

The spin-off deals relevant to our analysis are those surveyed by the database *Zephyr - Bureau Van Dijk* between 2000 and 2013. Only the deals made by the quoted parent companies where the date of the operation announcement (rumour) is definitely known were selected. Such conditions are essential in order to assess, through the event study methodology, the abnormal returns of the stocks in the companies involved.

For each deal, the time series of the parent company's returns was extracted from the database *Datastream*. It was decided to use the series of total return prices, as it included capitalised dividends over that time; from this series, daily profits were singled out through the logarithm of the relationship between the price on day t and the price on day t − 1. As far as benchmarks were concerned, the sectorial indexes referring to those markets in which the companies analysed were quoted and are extracted from the database *Datastream*: therefore, the results obtained will not be concerning a single stock market.

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It was decided to eliminate the operations related to companies where their time series – necessary for an evaluation of the market model over a span of 252 days – were unavailable; the final sample is composed by 179 companies, so arranged in table 1.

Table 1. Sample

	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**Total**
EUROPE	1			2	2	4	6	3	4	2	4	4		1	**33**
NOTH AMERICA	1	2	3	3	4	10	5	8	14	9	6	21	3	2	**91**
AUSTRALIA and NEW ZEALAND				2			2	2	1		1	1			**9**
INDIA					6	4	1		4	5	2	2			**24**
EAST ASIA					8	2	1	2	1		3	5			**22**
TOTAL	**2**	**2**	**3**	**7**	**20**	**20**	**15**	**15**	**24**	**16**	**16**	**8**	**3**	**3**	**179**

Source: Author's adjustement on *Zephyr* data.

The number of operations was very restrained between 2000 and 2003; it increased between 2004 and 2011, to finally slow down again in the two last years. This trend mirrors the impact of the economic crisis, a confirmation of the fact that such operations are widely employed in economic downturn. When it comes to the geographical connotation of the parent company, a certain preponderance of North American companies was noticed, followed by European, Indian and East Asian companies. The reaction of the market to the operation announcement, intended as a press release, will be observed in relation to a few variants; doing so will help with understanding whether news publication, its semantic aspect and the investors' attention level contribute to value creation or to value destruction for shareholders.

To begin with, the sample is divided in spin-off operations announced on the "Wall Street Journal", and operations that instead were not. The sample turns out to be composed by 93 operations published on the "Wall Street Journal" and 86 operations that did not appear on the same daily newspaper. The spin-off operation disclosed by the "Wall Street Journal" appear to be roughly half of the overall sample size. This trend can be reasonably explained by media choices of publishing only

 ISBN: 978-9963-711-37-6

spin-off announcements involving more relevant companies[1]. As far as the publication on the "Wall Street Journal" is concerned, according to the existing literature, it is deemed necessary to observe the very moment in which it takes place.

According to the date of publication, the following instances were identified:

i. 68 events in which news was published in a date prior to the announcement date (so-called rumours)
ii. 15 events in which news appeared on the *Wall Street Journal* on a date following the announcement date, but no later than a week afterwards[2];
iii. 5 events in which the publication date corresponds to the announcement one[3];

Finally, in order to verify whether in the case of a rumour about spin-off operations, the impact on the returns on the date of the announcement will appear less significant than the effect on the day of news disclosure, the empirical test was repeated on those 69 companies subject to rumour, taking the date of news publication on the *Wall Street Journal* as the event date.

5. RESULTS

Table 2 shows the estimated *Cumulative Average Abnormal Returns* (CAARs) in different event windows, referring both to the whole sample and to the spin-off operations published on the *Wall Street Journal*. The results of the significance test (Z-stat) are also reported here, together with the minimum and maximum value of the calculated CAARs and with the percentage of companies who experienced abnormal positive returns.

The analysis was based on event windows prior to and following the dates of news announcement and news disclosure, so to understand whether cumulative abnormal returns are a consequence of market reactions and/or its ability to anticipate news.

In regard of the whole sample (Table 2 – Panel A), for the greater part of the event windows examined, value creation for the shareholders of the involved companies is highlighted; however it is only statistically relevant in the event windows (-1,1), (-1,0) and (0,1), where the average CARs values

[1] It is not a case that companies such as Motorola, Fujitsu, GUS plc et al. are included in this portion of the sample.
[2] One must bear in mind that the stock week is formed by 5 working days; the essay is thus referring to the event window (0.5).
[3] 5 operations were excluded from the counting as their publication date was later than the announcement date, and therefore cannot be part of the event window (0.5).

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correspond to 1,34%, 1,04% and 0,59% respectively.

This result confirms Veld and Veld-Merkoulova thesis (2004), according to which the a spin-off announcement is received positively by the market, generating positive returns on average, especially around the date of the announcement, to then return to normal values in the following days.

By observing the spin off operations published on the *Wall Street Journal*, positive CAARs are found in all the event windows examined, except for symmetrical windows (-20, 20) and (-15,15); however, they only just become statistically relevant in the event window (-1,1), (-1,0) and (0,1), with a confidence level of 95% in the first two and of 90% in the window (0,1), identifying values equivalent to 1,23%, 0,91% and 0,73% respectively. The disclosure of the news by the press enhances the effect generated by a spin-off announcement, thus confirming Huberman e Regev results (2001).

Table 2. CAARs of whole sample (PANEL A) and CAARs of spin-off deals with news publication on WSJ (PANEL B) related to announcement date.

	CAAR (%)	Z - stat	CAR Min (%)	CAR Max (%)	% CAR Pos[(b)]
Panel A –Whole Sample					
(-20,20)	-0,84%	-0,517314	-83,38%	123,63%	51,14%
(-15,15)	-1,00%	-0,934293	-77,70%	104,49%	48,30%
(-10,10)	-0,50%	-0,247096	-75,01%	48,77%	51,14%
(-5,5)	0,26%	0,224916	-75,17%	52,56%	57,39%
(-3,3)	0,19%	0,615521	-74,93%	34,71%	52,27%
(-1,1)	1,34%	3,170220****	-26,82%	29,02%	55,68%
(-1,0)	1,04%	3,038745***	-20,17%	29,50%	57,39%
(0,20)	-0,14%	-0,170534	-58,28%	80,23%	51,70%
(0,15)	-0,39%	-0,660276	-50,34%	71,48%	48,30%
(0,10)	0,13%	-0,147061	-63,06%	45,95%	48,30%
(0,5)	-0,07%	-0,627445	-27,97%	29,43%	51,70%
(0,3)	0,09%	0,065811	-25,23%	23,68%	48,86%
(0,1)	0,59%	2,057647**	-21,22%	18,28%	53,41%
Pane B – Spin-off deals with news publication on WSJ					
(-20,20)	-0,56%	-0,319283	-83,38%	39,45%	57,78%
(-15,15)	-1,21%	-0,900122	-77,70%	48,73%	51,11%
(-10,10)	0,27%	-0,008719	-75,01%	48,77%	54,44%
(-5,5)	0,39%	0,118444	-48,89%	47,58%	62,22%
(-3,3)	1,02%	0,991762	-48,04%	34,71%	60,00%
(-1,1)	1,23%	2,404017**	-26,82%	29,02%	60,00%
(-1,0)	0,91%	2,537416**	-17,66%	29,50%	63,33%
(0,20)	0,79%	0,006232	-58,28%	80,23%	56,67%
(0,15)	0,39%	-0,294240	-50,34%	71,48%	56,67%
(0,10)	1,07%	0,290697	-63,06%	45,95%	55,56%
(0,5)	0,37%	-0,284600	-27,97%	29,43%	60,00%
(0,3)	0,79%	0,734088	-13,57%	23,68%	60,00%
(0,1)	0,73%	1,763277*	-16,63%	18,28%	60,00%

[(a)] The symbols *, **, and *** represent significance levels of 10%, 5% and 1% respectively

[(b)] Percentage of companies with a positive CAR in the sample.

In reference to the results obtained the moment when news is disclosed on the *Wall Street Journal*

ISBN: 978-9963-711-37-6

(Table 3), if the operation is subject to rumour (Panel A), positive abnormal returns will be on average remarked in all of the symmetrical windows following the announcement date, although they can be considered statistically relevant only in the windows (-1,1), (-1,0) and (0,1). Similarly to what occurs when considering whether news is published or ignored by the "Wall Street Journal" (Table 2 – Panel B), the effect produced by the spin-off announcement on the returns of the companies involved appears to be amplified if the press disclosed news on a date prior to the announcement. The same occurs for the spin-off operations published on the *Wall Street Journal* within a week of their announcement (Table 3 – Panel B): in the event windows (-1,0) and (0,1) both average and significant cumulative positive returns are displayed. The top and leading newspapers can influence stock trends without even providing any new information. The publishing of news concerning a spin-off operation, despite not being first-hand as it follows the operation announcement, still contributes to value creation for the shareholders.

These results confirm the first research hypothesis.

Table 3. CAARs of spin-off deals related to news publication date on WSJ.

	CAAR (%)	Z - stat	CAR Min (%)	CAR Max (%)	% CAR Pos[(b)]
Panel A – Spin-off deals with *rumors* on WSJ					
(-20,20)	-0,21%	-0,216495	-83,38%	39,45%	56,06%
(-15,15)	-0,73%	-0,912586	-66,90%	48,73%	46,97%
(-10,10)	0,93%	0,326834	-27,92%	48,77%	51,52%
(-5,5)	0,75%	0,212694	-20,03%	47,58%	59,09%
(-3,3)	0,95%	0,629496	-13,86%	34,71%	57,58%
(-1,1)	1,18%	2,149921**	-7,81%	24,29%	57,58%
(-1,0)	0,54%	1,851769*	-11,42%	7,90%	60,61%
(0,20)	2,26%	0,626446	-58,28%	80,23%	57,58%
(0,15)	1,86%	0,421834	-50,34%	71,48%	56,06%
(0,10)	2,57%	1,506197	-15,02%	45,95%	56,06%
(0,5)	1,17%	0,342627	-15,21%	29,43%	63,64%
(0,3)	1,21%	0,904865	-10,83%	23,68%	62,12%
(0,1)	0,94%	1,649544*	-9,41%	18,28%	57,58%
Panel B – Spin-off with publication on WSJ following the announcement					
(-20,20)	-4,39%	-1,227830	-42,45%	6,59%	50,00%
(-15,15)	-4,92%	-1,198316	-53,08%	8,75%	42,86%
(-10,10)	-0,87%	-0,370524	-4,25%	4,18%	50,00%
(-5,5)	-0,35%	-0,250807	-4,97%	6,26%	50,00%
(-3,3)	1,03%	1,014460	-2,39%	5,91%	57,14%
(-1,1)	1,33%	1,619305	-3,12%	7,18%	71,43%
(-1,0)	1,60%	1,652200*	-2,87%	7,49%	71,43%
(0,20)	-3,04%	-0,961689	-41,39%	9,21%	42,86%
(0,15)	-3,93%	-1,230286	-49,11%	6,84%	50,00%
(0,10)	-0,47%	-0,712853	-7,53%	5,71%	50,00%
(0,5)	0,19%	-0,255134	-3,29%	7,37%	64,29%
(0,3)	1,05%	0,894953	-2,70%	5,37%	78,57%
(0,1)	1,39%	1,813875*	-2,88%	6,76%	78,57%

[(a)] The symbols $*$, $**$, and $***$ represent significance levels of 10%, 5% and 1% respectively

[(b)] Percentage of companies with a positive CAR in the sample.

ISBN: 978-9963-711-37-6

Table 4 (Panel A) shows the estimated CAARs for those spin-off operations published on the *Wall Street Journal* on a date prior to the operation announcement, taking the date of news publication as the event date. As displayed in the event window (-1,0), a positive CAAR - statistically significant - can be observed, with a confidence level of 95%: it thus seems that investors anticipated the spreading of the rumour by means of press, highlighting the presence of informed investors on the market. These results may also be interpreted as the revelation of insider trading activity. This may well be considered a plausible hypothesis, yet it does not seem likely. Insider trading usually occurs in secret circumstances (for instance, when negotiating small quantities repeatedly in time) in order to avoid abnormal variations on the stock returns that would expose the event to the market before its official announcement, and at the same time reveal to the authorities the unlawful activity.

In the event windows following the rumour publication date, value destruction arises for shareholders of those societies involved in spin-off operations. This result implies that, after the initial positive reaction (which anticipated the spreading of the news) as far as the investors are concerned, the shareholders react negatively to the publication of the rumour on the *Wall Street Journal*, judging it less reliable than the official announcement of the operation. Such reaction is confirmed for CAARs found also in the slot (-1,0): the investors react in a significant manner to the publication of the rumour on the *Wall Street Journal*.

From the comparison between cumulative average abnormal returns, the announcement date of spin-off deal and the publication of the rumour on the *Wall Street Journal* (Table 4 – Panel B), it emerges that, in the symmetrical event windows with the exception of the event window (-1:1), the spread of the rumour generates a supplementary-return. The average CAR displayed in the window (-1,0) confirms such reaction: the investors respond in a significant manner to the rumor publication on the *Wall Street Journal*. Instead, in the following windows, it is the announcement that creates value for the shareholders. The investors in the phases following the information diffusion appear to place more confidence in the announcement, rather than in the publication of the rumour. This being an official statement, they feel "reassured" of the fulfilment of the operation. The spin-off deals news produces an impact on investors' behaviour, not only when the rumour is published on the *Wall Street Journal*, but also when the operation itself is announced: yet, the reaction is more visible at the time of the publication of the rumour, as higher CAAR is achieved, compared to the time of the announcement.

The effect generated by the publication of the news on the *Wall Street Journal* on a date prior to the spin-off announcement is not entirely extinguished: indeed, at the time of the announcement, a positive abnormal cumulative return is, on average, distinguished, although it is less significant.

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Some investors do not appear to be affected by the publication of the news on the *Wall Street Journal* as they place more confidence in the announcement of the spin-off operation.

Table 4. CAARs of spin-off deals related to rumor date (PANEL A) *versus* CAARs of spin-off deals related to announcement date (PANEL B).

	PANEL A: Rumor Date					PANEL B: Announcement Date				
	CAAR(%)	Z - stat	CAR Min (%)	CAR Max (%)	% CAR Pos[(b)]	CAAR(%)	Z - stat	CAR Min (%)	CAR Max (%)	% CAR Pos[(b)]
(-20,20)	0,30%	-0,067177	0,946441	-77,82%	61,24%	-0,21%	-0,216495	-83,38%	39,45%	56,06%
(-15,15)	0,48%	-0,060743	0,951564	-61,97%	46,54%	-0,73%	-0,912586	-66,90%	48,73%	46,97%
(-10,10)	0,76%	0,153647	0,877888	-73,51%	48,29%	0,93%	0,326834	-27,92%	48,77%	51,52%
(-5,5)	1,26%	0,586012	0,557868	-59,32%	56,33%	0,75%	0,212694	-20,03%	47,58%	59,09%
(-3,3)	0,68%	0,342817	0,731736	-55,30%	60,60%	0,95%	0,629496	-13,86%	34,71%	57,58%
(-1,1)	0,71%	1,024306	0,305691	-42,81%	33,81%	1,18%	2,149921**	-7,81%	24,29%	57,58%
(-1,0)	1,75%	2,193321**	0,028284	-21,84%	30,72%	0,54%	1,851769*	-11,42%	7,90%	60,61%
(0,20)	-3,49%	-2,05457**	0,039920	-74,38%	19,41%	2,26%	0,626446	-58,28%	80,23%	57,58%
(0,15)	-2,74%	-1,735353*	0,082678	-59,54%	21,31%	1,86%	0,421834	-50,34%	71,48%	56,06%
(0,10)	-2,17%	-1,656223*	0,097677	-61,22%	17,62%	2,57%	1,506197	-15,02%	45,95%	56,06%
(0,5)	-1,67%	-1,647443*	0,099467	-50,03%	19,87%	1,17%	0,342627	-15,21%	29,43%	63,64%
(0,3)	-1,58%	-1,392877	0,163657	-51,34%	20,30%	1,21%	0,904865	-10,83%	23,68%	62,12%
(0,1)	-1,21%	-1,250726	0,211034	-43,49%	19,04%	0,94%	1,649544*	-9,41%	18,28%	57,58%

[(a)] The symbols *, **, and *** represent significance levels of 10%, 5% and 1% respectively

[(b)] Percentage of companies with a positive CAR in the sample.

6. CONCLUSION

The media is relevant to the process of news disclosure and circulation within financial markets. The moment in which news is disclosed may contribute to the formation of the investors' expectations on the returns of the subjects operating on the market, thereby improving the market's informational efficiency.

In the past few years, the media has put aside an increasingly significant space to corporate restructuring operations, chiefly to spin-off operations, that are back in fashion due to the financial crisis.

On one hand, the economic crisis uncovered companies' weaknesses on both the industrial and the financial level, on the other, it meant a chance for these very same companies to rethink their strategies and their internal structures in order to boost their growth and their competitiveness.

 ISBN: 978-9963-711-37-6

This study aims to assess whether the effect generated by the announcement of a spin-off operation on companies' performances can be amplified by the circulation of spin-off news within specialised press.

Using the database *Zephyr – Bureau Van Dijk*, 179 spin-off operations were selected. All of them were implemented between 2000 and 2013 by quoted parent companies and the dates of the announcement are definitely known. Amongst these operations, 90 were published on the *Wall Street Journal*: the news (approximately 105 pieces, an overall number of 94,383 words) was obtained from the database *Factiva* and through the text analysis methodology it was possible to define the positive or negative value of the content and the expressive tone used. The results of the analysis carried out as an event study (with observation of abnormal returns on event windows of diverse scale) show how the announcement of a spin-off operation, when considering the whole sample, generally generates value creation for the investors of the companies involved.

This confirms the evidence presented by the existing literature, according to which the announcement of a spin-off operation is received in a positive manner by the market, producing positive returns on average, especially around the announcement date, to then return to normal values in the days following the announcement. The announcement itself has the ability to release the economic value hidden within the parent company. Such a result proves even more evident if related to the market reaction in relation to spin-off operations reported on the *Wall Street Journal*: the investors seem to appraise stocks coming from companies implementing spin-off operations which were discussed by the press, thus amplifying the effect of the announcement on returns, quite notably in the day following the announcement itself. As far as the publication on the *Wall Street Journal* is concerned and according to the literature examined, it is deemed necessary to identify the moment in which publication occurs. Similarly to what happens when taking into consideration whether news was published or not on the *Wall Street Journal*, the effect generated by the announcement of spin-off operations on the returns of the companies involved appears to be amplified if news was disclosed by the press on a date prior to the announcement.

This effect seems even more evident for those spin-off operations published on the *Wall Street Journal* within a week of their announcement, confirming the first research hypothesis, according to whom the top and leading newspapers can influence stock trends, even without providing any new information. The publication of spin-off news, even if not "first-hand" news as it follows the announcement, contributes *de facto* to value creations for the shareholders. Finally, by comparing the average abnormal cumulative return registered on the date of the announcement with the ones of the date of the rumour publication on the *Wall Street Journal*, it is observed that in the symmetrical windows, it is

 ISBN: 978-9963-711-37-6

the rumour publication which generates a supplementary-return, while in the following windows, the announcement creates value for the shareholders.

The investors seem to place more confidence in the announcement rather than in the publication of the rumour, as being an official statement, it "reassures them" of the fulfilment of the operation. In relation to the event date taken into consideration, news on the spin-off operation produces an impact on the investors' behaviour, both in the moment when the rumour is published on the *Wall Street Journal* and when the announcement of the operation itself is released (although the reaction is more evident at the moment of the rumour's publication, during which average higher CAR is achieved compared to when the operation is announced). The market however, does not completely extinguish the effect generated by the publication of the news on the *Wall Street Journal* on a date preceding the announcement of the spin-off operation: indeed, at the time of the announcement and although less significant, an abnormal cumulative return is distinguished.

Some investors therefore seem to remain indifferent to the publication of news on the *Wall Street Journal*, placing more confidence in the announcement of the spin-off operation.

The media variable, when it comes to spin-off operations, acquires relevance as it influences the investors' behaviour. If the news of the spin-off operation is spread "by the means of the press", irrespective of the time when it ensues, the spin-off operation will cause value creation for the shareholders, proving to be even more effective in liberating the economic value hidden within the parent company. Hence, the contribution of this study to the existing literature is believed to be twofold: to begin with, it contributes in enriching spin-off literature by taking into account the media variable; it also attempts to increase the number of studies on the impact of media on investors' behaviour.

Future developments of this study will on one hand focus on including in the analysis the trading volumes in order to study if the media variables affect also on this market variable. On the other hand, the focus will also be on integrating an analysis of variables that will allow in examining whether and in what way the investors' characteristics influence the use and the elaboration of the information employed.

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 ISBN: 978-9963-711-37-6

COMBINED SOCIAL AND PRIVATE HEALTH INSURANCE VERSUS CATASTROPHIC OUT OF POCKET PAYMENTS FOR PRIVATE HOSPITAL CARE IN GREECE

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ABSTRACT

The high level of out of pocket payments (OOPs) constitutes a major concern for Greece and several other European countries as a result of the significant down turning of their public health finances due to the euro-debt financial crisis. Basic objective of this study is to provide empirical evidence on the effect of combining social health insurance (SHI) and private health insurance (PHI) on OOPs. Further this study examines progressivity (regressivity) between the funding sources of health care financing and the financial catastrophic impact of OOPs on insured's welfare. Conducting a cross sectional survey in Greece with widely accepted methods, we find that the combination of SHI-PHI has a strong negative impact of policyholders' OOPs for inpatient health care in private hospitals. Furthermore, we show that SHI coverage is not sufficient by itself to manage with this issue, while the health funding contribution by the poor people is greater than its share of financial wellbeing. Drawing evidence of Greece, a country with huge fiscal problems that has suffered the consequences of the economic crisis more than any other, could be for policymakers the starting point to consider the perspective of SHI-PHI co-operation against OOPs more seriously.

Keywords: *OOPs, SHI, PHI, regressivity, financial catastrophe, informal payments, Greece.*

1. INTRODUCTION

The economic adjustment programs and the tough monitoring policies for several European countries, as a result of the current euro-zone debt crisis, create reasonable doubt as to whether health systems are capable to offer financial protection to their citizens (Karanikolos et al., 2013).

Despite the fact that a main objective of health systems is to encourage risk pooling mechanisms against high OOPs (Dukhan et al., 2010) the implementation of public budget restraints due to the bailout agreements on health for countries such as Greece, Portugal, Ireland cause negative effects on

 ISBN: 978-9963-711-37-6

health care utilization and financing (Goranitis et al., 2014; Fahy, 2012). Also, in countries with pre-existing fiscal problems like Spain and Italy the austere policies on public budgets result damaging consequences on health care systems (Bosch et al., 2014; De Belvis et al., 2012). Regarding Greece, several studies provided evidence that health trends and finances deteriorated as a result of the recent financial crisis (Kondilis et al., 2013; Vandoros et al., 2013).

Nevertheless, both before and after the significant cost-cutting strategies on health budgets, Greece, traditionally exhibits one of the highest OOPs ratios amongst developed economies (Niakas, 2013). Particularly for the year 2013, Greece recorded OOPs of around 30.7% as a share of current health expenditure (CHE) noting an increase of 6.36% compared with 2012 (OECD, 2015). Noteworthy also is the fact of the informal OOPs for health care especially to public providers which approximates the 20% of the total private health spending (Kyriopoulos et al., 2014; Lyberaki & Tinios, 2014). Apart from OOPs the rest financing types of Greek health sector are the state budget (taxation), SHI and PHI contributions (Siskou et al. 2008). The Greek public health funding in 2013 as a share of CHE was one of the lowest of the E.U. (28) countries, 65.53% (OECD, 2015). The financing of health system through PHI diachronically represents a minor share (2.9% in 2012 and 2013) to CHE and covers the 12.5% of the population at a duplicate basis (OECD, 2014, 2015; Biro, 2009). For Greece, the private hospital expenditure in 2012 ranged to 2.067 billion Euros, while the main financial contributor with the outstanding allocation 45.48% was the OOPs of insured (OECD, 2014).

Since health risk constitutes an unpredictable factor the aforementioned statistics drive this study to test the following research hypotheses:

1. The SHI funding, the mandatory SHI with complementary PHI coverage, individuals' income, age, gender, educational level, type of received inpatient care determine the extent of OOPs.
2. SHI's mandatory coverage and SHI with additional PHI protect individuals from catastrophic health expenditures.
3. The Greek health care system financing for private inpatient services is not equitable.

Thus, the basic objective behind this study is to investigate the effect of combining SHI and duplicate - complementary PHI coverage on OOPs. Further, another basic aim is to assess the catastrophic impact of OOPs on Greek individuals for hospital-based care in private hospitals contracted with the unique Greek SHI carrier. Moreover, with a respect to explore equity in health care expenses, our aim is to empirically analyze progressivity (regressivity) of the overall health financing system for inpatient care in private hospitals in Greece.

Specifically, our paper addresses the following research questions:

(i) Which is the association of the financing sources of SHI, PHI and other crucial factors on OOPs for inpatient health care?

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(ii) Can SHI with complementary PHI coverage face the considerable or even catastrophic OOPs?

(iii) Is the share of health payments contributed by the poor socioeconomic strata less or greater than its living standards;

While a substantial number of published studies has examined catastrophic OOPs for health care, the majority of them focuses on developing countries (Scheil-Adlung and Bonan, 2013). Indeed, almost of all the literature has dealt with this phenomenon in developing and low income countries, with rudimentary public health coverage (e.g. Kwesiga et al., 2015; Onwujekwe et al., 2014; Van Minh et al., 2013; Selvaraj & Karan, 2012). Little evidence exists about high or catastrophic OOPs in developed economies and no one of the published studies uses data concerning the major health public retrenchments due to the post financial crisis emergence era (Kronenberg and Barros, 2013; Scheil-Adlung and Bonan, 2013; Dukhan et al. 2010; Murray et al., 2003; Xu et al., 2003)

Furthermore, although a limited body of literature has dedicated substantial effort to empirically analyzing the effect of PHI on OOPs for several developed European countries, it only focused on the over 50's group of individuals and based on data prior to the financial crisis and its recession severity to economies like Greek (Paccagnella et al., 2013; Schultz and Tadesse, 2006; Holly et al., 2005). The empirical literature has no provided evidence of additional PHI to SHI against OOPs for a wide range of ages in developed countries, which were plagued by the economic crisis and have been suffered from health spending cuts. Also, after the outbreak of the 2008 financial crisis, no previous study has extensively examined the progressivity of health care financing in Greece for inpatient services in private hospitals.

We focus on private hospitals' inpatient events because this kind of services, as compared with outpatient, results in high OOPs or even in catastrophic individuals' expenditures (Dutta and Husain, 2012). Shin (2012) found evidence using grouped-data cases that PHI in South Korea has a limited negative degree on OOP health payments. Despite the significant contribution knowledge of Shin (2012) to examine the association of PHI with the other three major financial sources of Korean health system (state, SHI and OOPs financing), he states that there is a need for future research for analyzing PHI coverage effects on OOPs at a individual level. Further, Thomson et al. (2014) noted that is necessary to gather better data in order to fully understand the effects of the economic crisis on financial protection and equitable financing of health care systems. We manage to gather data including the major financing resources of inpatient events; information on such hospital payment practices is not systematically available and extremely difficult to be collected (Paris et al., 2010).

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The present study aims at contributing to fill the important gap in the literature by examining the catastrophic impact of OOPs for a developed country after the outbreak of the financial crisis and providing an empirical analysis of the effects of combining SHI and PHI on individuals' OOPs not only for people aged 50 and over. The high degree of reliance on OOPs, in Greece and other heavily affected by the crisis countries, can turn out to be the starting point for policymakers to revise the currently ineffective of providing financial protection health systems. On evidence drawn from the financially hard-pressed Greek health care system, our study considers lessons of promoting and developing a system based on the pillars of co-operation between SHI and PHI.

2. THE NEW SOCIAL HEALTH CARE FINANCING AGENT IN GREECE.

The most crucial reform that the Greek state had ever done on the health sector, since the introduction of the National Health System in 1983, was the merger of the majority of SHI funds into a unique insurance carrier under the name National Organization for the Provision of Health Services (EOPYY) (Pappa et al., 2013). This SHI structural development is not innovative since similar patterns are detected inside and outside Europe (Karakolias & Polyzos, 2014; Kwon, 2009). Before the establishment of EOPPY in the beginning of 2012, a fragmentation of SHI funds (more than thirty) was operating on Greek health system resulting horizontal inequity for individuals. Thus, different occupational groups of insured with the same labor remunerations were paying different SHI contributions as well they were enjoying different benefits, health care access and utilization (Van Gool & Pearson, 2014).

By accepting influences from Western Europe the Greek health system continues to operate under a backdrop of mixed financing systems (Wagstaff, 2009). The operation of the former SHI funds under the umbrella of EOPYY, which largely relies on mandatory employees' and employers' contributions, basically simulates the German ¨Bismarckian¨ model (Economou & Giorno, 2009). The Greek health care system can be attributed as a SHI financing system such as the French, German, Korean and Japanese, mainly based on social contributions despite supplementary funding assistance from the tax-financed state revenues on SHI funds and NHS (Paris et al., 2010).

The new SHI fund operates as a monopsonist insurance player in the market. It purchases outpatient and inpatient health care services for its members from public and private health care providers under contract and covers the 95% of the insured and the 79% of the total population (OECD, 2014; Groenewegen and Jurgutis, 2013).

Despite EOPYY's public health insurance profile, it moves to strategic purchasing of health services from private providers, including contractual mechanisms and payment systems, in order to ensure efficiency and affect equity of access in health system performance due to the overcrowded Greek

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public health care facilities (Thomson et al., 2014; Sissouras, 2014). Based on Keegan et al. (2013), the consequences of the economic crisis, as the rise of unemployment and households' income decline, led to an increase in demand for public health care services with limited financial resources to satisfy it. Kaitelidou and Kouli (2012) referred that the increase in demand for public health services in Greece can have a negative impact on the capability of the health system to maintain standards of care. Thus, financial crisis' consequences and chronic problems of Greek public hospitals (e.g. long waiting times for operations, low amenities standards, considerable volume of informal OOP) can drive population to the private hospital sector, despite the high formal cost sharing and extra billing payments in times of income strain, in order to meet the aim of inpatient treatment (Keegan et al., 2013; Kentikelenis et al., 2011). Hence, EOPYY recognizing the existing problems in public health sector, suggests that the private affiliated hospitals with the Organization perform important task, provide quality health services which some of them are not performed by the public sector or the latter is not sufficient enough to cover them (EOPYY's Press Release 09.22.2014).

In addition to its basic objective to provide equal, efficient and cost effective health care options, eliminating, thus, past inequalities, an important role it also plays is controlling and even reducing the public health care expenditure (Kaitelidou & Kouli, 2012).

The rigorous financing agenda which Greek health policymakers implemented during the last four years following the fiscal hints of Troika (E.U., E.C.B and I.M.F) allows for doubts to arise on whether EOPYY has succeeded in its aforementioned tasks (Economou et al., 2014; Sissouras, 2014).

3. AN OVERVIEW OF PRIVATE HEALTH INSURANCE.

A close look at PHI in OECD countries, revealed four distinct functions of the institution according to the type and extent of its coverage. First, substituting or acting as alternative of SHI where PHI offers an all-inclusive health care coverage (Preker et al, 2010). Second, supplementing SHI by providing, in part or in full, benefits that social insurance is not (Kumar et al., 2014). Third, offering coverage for health services already included under SHI, with the purpose to ensuring better access to private health care providers and new technology treatments (Kiil, 2012). Last but not least, offering complementary benefits that are provided to insured, against additional premium payment, along with SHI ones. Complementary PHI provides full or partial financing for health care for not fully reimbursed costs by the SHI (Basset and Kane, 2007). Despite, the strong or weak presence and even the different functions of private health insurers in OECD countries, PHI is an important primary or alternative source of health care financing (Pearson and Martin, 2005; Docteur and Oxley, 2003).

The high proportion of OOPs to THE and the generous benefit basket of publicly-financed coverage over the years, significantly obstructed the development of the PHI institution in Greece (Thomson

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and Mossialos, 2009; Davaki and Mossialos, 2005). The PHI funding to THE in Greece, also ranges in low levels due to: (a) lack of confidence of population to the private insurance market (e.g. cream skimming), (b) lack of insurance awareness, (c) the belief of individuals that are fully covered from the SHI, (d) the limited income of individuals, (e) absence of suitable products to fill the gaps of social insurance and (f) several other social and cultural factors (Economou, 2010; Siskou et al, 2009). Mossialos and Thomson (2004) mention that the informal direct spending to health providers is a cultural custom which acts as a brake against the development of PHI in countries like Greece. They continue, that Greek people prefer to directly pay a doctor in order to ensure faster access and better quality to public health facilities rather than a third party as a PHI company.

3. STUDY METHODS

3.1 Sample Design and Research Instrument.

According to our study's objectives we carry out a cross-sectional survey. With a view to present a more comprehensive understanding of OOP, SHI and PHI funding for inpatient health care in private hospitals, we implement a non-probabilistic sample strategy in order to target a specific population which is quite difficult to be located otherwise (Bryman and Bell, 2003). Thus, our objective was to gain accessibility, isolate and examine a well-developed sample of Greek insured individuals who had experienced inpatient health treatment in private hospitals in Greece. The targeting of a specific group applies better with the convenience sample method (Wang et al. 2004). Further, due to the lack of a sampling frame (i.e. completed list of the target population), the use of convenience sampling (non – probability) with specific criteria for the selection of the respondents was considered suitable, while is the usual approach in similar studies (Gupta and Trivedi, 2014; Laokri et al., 2014; Kankeu et al., 2013; Dekker & Wilms, 2010; Saksena et al., 2010; Burak and Vian, 2007; Vian et al., 2006; Belli et al., 2004). Inclusion criteria for the sample are that individuals should be insured aged 18 years or older who had received inpatient health treatment. Furthermore, the adoption of the exclusion criterion of freelancers and entrepreneurs to participate in our survey as health care consumers due to the false declaration of their income intending tax evasion was abrogated meant by the implementing of convenience sampling (Matsaganis et al., 2012)

The collection of quantitative data (such as SHI funding, PHI funding, OOPs, income etc.) expressed as a monetary value based on a structured questionnaire. The structured questionnaire based on questions regarding health care financing (Balasubramanian et al., 2015; Nguyen et al., 2015; Van Minh et al., 2014; Tediosi et al., 2008). In order to minimize non response and maximize the quality of the data collected, the questionnaire was completed through a personal interview with each respondent (Stepurko et al., 2010). The combination of convenience sampling and personal

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interviewing enabled us to gather sensitive data, such as: informal (thus illegal) payments to surgeons and anesthetists, in a relatively high response rate (Stepurko et al., 2010). Whenever applicable, participants were also asked to present their related financial documents (receipts, pay-roll sheets) (Yin, 1994).

Lavado et al. (2013) support the view that household expenditure surveys are not suitable to measure OOP and a good practice for this could be the rigorously tracking of OOPs outflows at selected validation sites (hospitals, clinics etc). Respondents in this survey were selected and interviewed outside of several private hospitals and the regional departments of social insurance fund with the precondition to have received inpatient care after a health shock in affiliated private hospitals with E.O.P.Y.Y. With a view to eliminate any recall period biases of the examined health expenditures the particular selection of the aforementioned locations for conducting the survey enabled us to ask the participants as directly as we could, avoiding in such a way any human memory losses (Lu et al., 2009).

In order to achieve a suitable sample of hospitalized patients and control for any uncertainty and bias of convenience sampling, we collected information on both genders, a wide range of age, various salaried employees and pensioners, various socioeconomic statuses and education levels in the main urban centers (Athens, Thessaloniki, Crete) of the country (Skowronck and Duerr, 2009). Further, we employed the equations of Cochran (1963) which is cited to Israel (1992) and Kraska-Miller (2013) respectively, as expressed below to yield the minimum number of hospitalization events required, aiming to provide evidence that our sample is representative of the population we are focused on our study.

$$1.\ SS = \frac{Z^2 * (p) * (1-p)}{C^2} \quad \text{(i)} \qquad\qquad 2.\ SS = \frac{X^2_{(1)} * (N) * (pq)}{d^2(N-1) + X^2 + p(1-p)} \quad \text{(ii)}$$

Regarding, the estimated prevalence of SHI and PHI population parameters in 2013 for policyholders, who received hospitalization health services in affiliated with EOPYY private hospitals, and using the above formulas, 102 needed for SHI insured and 14 for policyholders with the mandatory SHI and a parallel PHI.

Finally, the survey was conducted from June 2013 until December 2013 where 426 insured hospitalized once during this time interval willingly agreed to participate of a total of 551 respondents which were contacted. The majority of them (364) were covered for health care only by SHI, and 64 of them combined SHI and PHI.

3.2 Determination of the study variable “out of pocket payments” (OOPs).

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According to Mossialos and Thomson (2002) all health care expenses that are paid directly by the health consumers can be labeled as OOPs while their main categorization is: on a) direct payments, b) formal cost sharing and c) informal payments.

- Direct payments: Direct payments represent health care expenditures, not covered by any insurance carrier, social or private.
- Formal cost sharing: The financial participation of insured on health expenses is a useful tool for SHI and PHI to reduce demand for unnecessary utilization of health services and control health expenditure (Drechsler and Jutting, 2005). Especially for PHI formal cost sharing is an important instrument of addressing with moral hazard and uncovering health risk of applicants (Schmid et al., 2010). The three main categories of formal cost sharing are co-insurance, co-payment and deductibles (Rombaldoni, 2012) Regarding SHI in our study, EOPYY imposes to its insured members a statutory co-insurance rate 30% or 50% on Greek Diagnosis Related Groups (DRG's) total costs depending on their former social security integration (3054/18-11-2012 Gazette of the Government). Concerning the PHI contracts of our participants the formal cost sharing is represented both by co-insurance rates and deductibles which respectively constitute percentage and fixed amounts paid by the insured before any official financing of the PHI coverage. According to Thomson and Mossialos (2009) the PHI for profit companies in Greece, except of the upper ceiling benefits reimbursement, use the co-insurance rates for inpatient care outside their official hospital network and the deductibles for encouraging their clients to activate primarily their social security.
- Informal or ¨under the table¨ payments: A definition that can be attributed to this illegal kind of health spending is the voluntary or sometimes extortionate compensation (in cash or in a form of gift) from patients to public doctors for ensuring better medical care and faster access to health services (Chereches et al., 2013). Although, reports for this phenomenon are mainly observed in former-socialist and developing countries, it is also relevant in developed economies with under-funding health systems like Greece and Turkey (Kaitelidou et al., 2012; Dimova et al., 2011; Tatar and Kanavos, 2006). Regarding the scope of our study which focuses on inpatient health care in affiliated with EOPYY private hospitals the informal payments represent the tax free financial payments from health users to health providers (no issue of legal receipts by surgeons and anesthetists) (Stepurko, 2010).

Based on the above, we define OOPs to be the aggregate amount of these hospital care expenses which were non-refunded to insured by the SHI or PHI coverage (see session 3.4). Specifically, we move on a demarcation of OOPs for inpatient health treatment into four main categories as given in Table 1.

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Table 1 The categorization of OOPs for inpatient health care to private hospitals.

	Abbrev.	Categorization	
Aggregate OOPs	OOPs		SCI+FPC+FPP+IPP
1.Statutory SHI & PHI co-insurance	SCI	Formal Cost Sharing	SHI-30% or 50% respectively of Greek DRG's pricing practice PHI- deductibles depending on the contract
2.Formal payments to Clinics	FPC	Direct Payments and Formal Cost Sharing	OOP-extra charges with the issue of legal invoices PHI co-insurance rates depending on the contract
3.Formal payments to Physicians	FPP	Direct Payments and Formal Cost Sharing	Spending with the provision of legal tax services receipt to insured. PHI co-insurance rates depending on the contract
4.Informal payments to Physicians	IPP	Informal Payments	Spending without the issue of legal tax document. No reimbursement from SHI or PHI

3.3 SHI contributions and PHI premiums.

Despite the "equal access for all in a single health service system" EOPYY's main objective the SHI contribution basis varies even today depending on insured's former social security fund (Wingfield, 2012). For salaried employees who were included in our study the SHI payroll levies and employer-based contributions were determined depending on their occupational profile and their SHI fund position. With the launch of EOPYY in 2012, the SHI contribution rate for health care became the same for all pensioners whose healthcare provider is EOPYY and was determined at the rate of 4% of gross pensionable earnings (Law 3918/2011 published in the 31'A/02-03-2011 Gazette of the Government).

Regarding PHI inpatient health care coverage, Greek population has the option to pay a risk-rated premium for individual contracts or a collective pre-payment health financing arrangement especially for big firms aiming to a complementary extra risk pooling mechanism, despite the compulsory SHI practice (Economou, 2010). The individuals in our study held either individual or collective duplicate complementary PHI contracts by profit-making insurance companies paying with non-income-related premiums in order to supplement the social security (e.g. faster access, new technology services) or to complement their reimbursements by bridging the gap between SHI hospitalization indemnities and the market prices (Paccagnella et al., 2013; Dukhan et al., 2010).

3.4 Statistical Analysis - Variable Construction of inpatient health funding.

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The funding sources of our hospitalization events are SHI, PHI and OOPs. Following, Zhang and Liu (2013) we used a properly customized to our micro level data computation approach in order to illustrate an equation form comprising the overall health care funding as follows:

THE = SHI + PHI + OOPs

The monetary value of OOPs was estimated by deducting the monetary value of SHI and PHI reimbursement (post insurance funding mechanisms) from the aggregate hospital expenditures for each inpatient episode.

OOPs = THE – (SHI + PHI)

where OOPs = SCI + FPC + FPP + IPP as presented in Table 1.

We adopted a multivariate regression-based approach aiming to present the influence of potential relevant factors on OOPs for inpatient health care. With a view to examine the relationship between total OOPs and exploratory variables we considered that the estimation of an ordinary least squares (OLS) regression model with a logarithmic transformation of our dependent variable (total monetary OOPs – continuous) would be the most appropriate approach (e.g. Malik and Azam, 2012; Salti et al., 2010).

Inspired by the model of Paccagnella et al. (2013) for each hospitalized insured i the potential association between OOPs and SHI, PHI and a vector of characteristics (Y) that are hypothesized to affect individuals' OOPs, was expressed as follows:

$$OOPs_i = f(SHI_i\ , Y_i\ , PHI_i\ , u) \quad i = 1, \ldots, n$$

Following also, previous literature the independent variables include both quantitative parameters such the SHI funding, annual gross income (AGI) and age of hospitalized insured and qualitative which were expressed as dummies like gender (1=male, 0=female), educational level (1=tertiary, 0=no), surgery in hospitalization events (1=yes, 0=no) and possessing of a complementary PHI scheme parallel to the mandatory SHI (1=yes, 0=no) (e.g. Yamada et al., 2014; Almeida and Sarti, 2013; Ewelukwa et al., 2013). It should be mentioned that the last dummy, in contrast with Paccagnella et al. (2013), was treated as an exogenous variable and not as a binary endogenous. We did not move on specific formulations of endogenizing the dummy variable of PHI since the aim of this study was to examine the effect of the latter on OOPs and not the crucial determinants of holding PHI. Further, the sampling technique and the minimal recall option to gather categorized financing data from individuals who had experienced a health shock and therefore had incurred private expenses from

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obtained inpatient treatment limited the phenomenon to have observations on our dependent variable (OOPs*i*) truncated to zero value (Cederberg and Mahal, 2010).

To control for non-normality, except the OOPs, SHI funding, annual gross income and age of insured were also transformed to log scale. Therefore, our transformed multivariate regression model is:

$$\ln(OOP_i) = b_0 + \mathrm{b}_1 \times \ln(\mathrm{SHI}_{1\mathrm{i}}) + b_2 \times \ln(AGI_{2i}) + b_3 \times \ln(A_{3i}) + b_4 \times G_{4i} + b_5 \times THC_{5i} + b_6 \times E_{6i} + b_7 \times PHI_{7i} + u_t$$

$$OOP_i = SCI_i + FPC_i + FPP_i + IPP_i$$

All explanatory variables were entered in the model and statistical significance was assessed at $p<0.05$. Statistical analysis was conducted using the econometric software package EViews.

3.5 Measurement of the financial impact of OOPs.

The three main measures of living standards are income, expenditure and consumption (O'Donnell et al., 2008; Wagstaff et al., 1999). O'Donnell et al. (2008), Wagstaff et al. (2003) and Younger (1996) support the view that consumption expenditure is a better indicator than income in developing and low income countries than the utilization of income. This is due to the presence of a large informal and unorganized labor sector in these countries. Nevertheless, several studies for developing countries use income as a measure of socio-economic status (SES), an indication that the choice depends on data availability (e.g. Almeida & Sarti, 2013). Depending, on O'Donnell et al. (2008) and Wagstaff et al. (1999) which reported that income is an appropriate measure of SES for developed economies and following similar studies (e.g. Kwesiga et al., 2015; Wingfield et al., 2014) we carried on our study based on annual gross income (AGI) of insured. According to the availability of our gathering data, the AGI per insured comprised salaries for labor services and pensions earnings during the last 12 months and is gross of taxation, SHI contributions and PHI premiums (Wagstaff et al., 2003).

3.5.1 Catastrophic OOP health care payments.

Catastrophic OOPs for health care can be attributed as these payments which require a remarkable proportion, in excess of a given pre-defined critical limit, of households' resources (O'Donnell et al., 2008; Van Doorlaer et al., 2006; Xu et al., 2003; Pradhan and Prescott, 2002; Feder et al., 1987; Berki, 1986). According to Wagstaff and Van Doorslaer (2003) the inviolable treaty and ethical conception of fairness in health care expenses necessitates that no one household ought to spend more than a given proportion of its income on health treatment (so called *z*). If it spends for health care in excess of this cut-off point (*z*) these payments can be labeled as catastrophic.

For the purposes of this study we classified health expenditures (*OOP=T*) as catastrophic if they exceed 10% of the insured's AGI (see also Selvaraj and Karan, 2012; Prinja et al., 2012; Castillo-

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Riquelme et al., 2008). With a view to investigating whether the percentage of our sample exceeding this pre-defined threshold of 10% (z) we calculated an indicator (E) which takes values 1 or 0 if $(\frac{Ti}{xi}) > z$ or $(\frac{Ti}{xi}) < z$ respectively (O'Donnell and al., 2008)

$$E = 1[(\frac{Ti}{xi}) > z]$$

Aiming to compare the impact of inpatient OOPs on individuals' income we separated our examined insured population into two sub-groups (Saksena et al., 2011; Schneider & Hanson, 2006). The first sub-group comprises individuals having only the compulsory SHI. The second one includes individuals holding a combination of SHI and PHI coverage in order to quantify the impact of OOPs on their welfare regarding the difference of their insurance coverage. For the first sub-group we generated our fractional variable using the ratio of OOPs to AGI of insured (Adhikari et al., 2009). Thus, our critical threshold for the catastrophic impact of OOP payments is:

$$Catastrophic\ Health\ Expenditures = 1\ \ if\ \frac{OOP}{AGI} > 0.10$$

and

$$Non\ Catastrophic\ Health\ Expenditures = 0\ \ if\ \frac{OOP}{AGI} < 0.10$$

We considered crucial for the second sub-group of individuals to add to the continuous variable of OOPs the annual PHI premiums in order to identify the impact of health expenditures relatively to the first sub-group (Supakankunti, 2010; O'Donnell et al., 2008; Merlis, 2002). We did not include to OOPs factors such as employer and employee SHI contributions as a common feature between the two sub-groups.

$$Catastrophic\ Health\ Expenditures = 1\ \ if\ \frac{OOP + PHI\ premiums}{AGI} > 0.10$$

and

$$Non\ Catastrophic\ Health\ Expenditures = 0\ \ if\ \frac{OOP + PHI\ premiums}{AGI} < 0.10$$

3.5.2 Incidence and Intensity of catastrophic OOP health care payments.

For the purposes of our study we used the most common and widely accepted method for measuring incidence and intensity of catastrophic health expenses which is based on the construction of various critical thresholds ranging from 5% to 25% of OOPs as a share of individuals' living standards (see

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O'Donnell and Van Doorslaer, 2005; Wagstaff and Van Doorslaer, 2003). Following the literature, we compute the Headcount (HC), Overshoot (O), concentration indices (CE and CO) as well as rank weighted (RW) HC and O indices (Flores et al., 2008; O'Donnell et al., 2008; Wagstaff, 2008; Limwattananon et al. 2007; Wagstaff & Van Doorslaer, 2003; Wagstaff et al., 2003; Wagstaff et al., 1991; Lerman & Yitzhaki, 1989; Wagstaff et al., 1989 for more details). Especially for the concentration indices (CE and CO) we apply the convenient regression approach proposed by Kakwani et al. (1997).

$$2\sigma_R^2\left[\frac{y_i}{\mu}\right] = \alpha + \beta R_i + u_i \quad \text{(iii)}$$

3.5.3 Measuring progressivity of health care payments financing.

The most popular method to estimate the equity and the redistributive impact of health care expenditures from several funding mechanisms is the Kakwani (1997) progressivity index. The theoretical conception is that in a progressive health care system the proportion of health expenses contributed by the worse-off individuals will be less than its proportion of their ability to pay (ATP) and conversely in a regressive health care system the health funding contribution by the worse-off will be greater than its share of ATP (O'Donnell et al. 2008; Daniels et al., 2000).

The Kakwani index (π_κ) ranges from -2 to 1. In the case of a positive(π_κ) the health system is progressive and the concentration curve lies outside Lorenz curve and vice versa if (π_κ) takes a negative value. In the rare case of proportionality (π_κ) equals zero, resulting a graphical representation attribute where Lorenz curve and concentration curves coincide (Wagstaff et al., 2011; Wagstaff and Van Doorslaer, 2000; Kakwani, 1977)

We made use of convenient regression formula aiming to calculate values for the Kakwani index for each health payment variable (Wagstaff et al., 2003).

$$2\sigma_R^2\left[\frac{h_i}{\eta} - \frac{y_i}{\mu}\right] = \alpha + \beta R_i + u_i \quad \text{(iv)}$$

In accordance with the availability of our data and, although health funding are also allocated through direct and indirect taxes, we did not include issues as such, but we focused on the three main core financing sources of inpatient health care in private hospitals for Greece (OECD, 2015).

Especially, we analytically calculated two overall Kakwani progressivity values for the provided inpatient health care taking into account the estimated funding allocation sources (SHI, PHI & OOPs' categorization) of our survey and the reported financing contribution basis from OECD for the nearest year 2012 (OECD, 2014). We based on the following formula (O'Donnell et al., 2008):

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$$\pi_{\kappa}^{overall} = \sum i \; w_i \, \pi_{\kappa,i} \quad \text{(v)}$$

4. RESULTS

Descriptive Results

Our survey comprises 229 men (53.76%) and 197 women (46.24%). The average age of hospitalized individuals was 50.39 years. The average AGI of participants was €15,228.34. The average OOP spending was €2,035.72, corresponding to 13.37% of average AGI of individuals. The THE of these inpatient cases was €1,592,616.75 while their financing allocation is presented in Table 2. Considerable attention should be given to the share of the informal total payments to physicians which is greater than 14% of overall inpatient OOPs and almost 8% of THE.

Table 2 The funding sources of hospitalization cases (*N*=426).

Funding Sources	€	%
SHI	618.809,00	38,85
PHI	106.590,60	6,69
OOPs total	867.217,15	54,46
Total Health Expenditure	1.592.616,75	100,00

Allocation of OOP payments	€	% of total OOPs	% of THE
Private Clinics Total Payments (SCI)	160.825,14	18,54	10,10
Private Clinics Total Payments (FPC)	305.228,33	35,2	19,18
Formal Total Payments to Physicians (FPP)	275.598,68	31,78	17,30
Informal Total Payments to Physicians (IPP)	125.565,00	14,48	7,88
Total OOP payments	867.217,15	100,0	54,46

The segregation between the two subgroups illustrates interesting issues to be discussed to our study (Table 3). For the SHI-PHI subscribers' group the share of OOPs to THE nearly amounts the 12.50% compared with the remarkable 60.07% of the SHI insured. Additionally, no one of the PHI policyholders informally paid a physician due to the potential PHI indemnity by providing an official receipt of medical services in contrast with the first sub-group where both parties make synergies to evade financial losses from taxation. Also, results represent that decreasing age constitutes an important factor of PHI holding (Banks et al., 2009). Finally, our findings are in line with other studies regarding the positive associated effect of higher income and better educational attainment on PHI holding (Paccagnella et al., 2013; Mossialos and Thomson, 2004; Besley et al., 1999).

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Table 3 Descriptive Statistics between the sub-groups.

1st Sub-group (SHI) N=362		2nd Sub-group (SHI-PHI) N=64	
Men:	191 (52,76%)	Men:	38 (59,38%)
Women:	171 (47,24%)	Women:	26 (40,63%)
Average Age:	52,51	Average Age:	38,38
Range:	22-75	Range:	26-55
Tertiary Education	105 (29,01%)	Tertiary Education	44 (68,75%)
Average AGI:	14.578,14	Average AGI:	18.906,04
Average OOPs:	2.330,91	Average OOPs:	366,07
		Average OOPs*:	884,71
Funding Sources	€ (%)	Funding Sources	€ (%)
SHI	560.859,09 (39,93)	SHI	57.949,91 (30,83%)
PHI	0,00 (0,00)	PHI	106.590,6 (56,71)
OOPs	843.788,96 (60,07)	OOPs	23.428,19 (12,46)
Total Health Expenditure	1.404.648,05 (100,00)	Total Health Expenditure	187.968,70 (100,00)
Allocation of OOP payments	€ (%)	Allocation of OOP payments	€ (%)
Private Clinics Total Payments (SCI)	153.429,53 (18,18)	Private Clinics Total Payments (SCI)	7.395,61 (31,56)
Private Clinics Total Payments (FPC)	299.749,43 (35,53)	Private Clinics Total Payments (FPC)	5.478,9 (23,39)
Formal Total Payments to Physicians (FPP)	265.045,00 (31,41)	Formal Total Payments to Physicians (FPP)	10.553,68 (45,05)
Informal Total Payments to Physicians (IPP)	125.565,00 (14,88)	Informal Total Payments to Physicians (IPP)	0 ,00 (0,00)
Total OOPs	843.788,96 (100,00)	Total OOPs	23.428,19 (100,00)

* The OOPs here also includes the annual premiums for holding a PHI contract.

Regression Results

Table 6 shows the multivariate regression results regarding the impact of exploratory variables on OOPs in order to provide answers for research question 1. The control factors that positively influence OOPs are SHI funding, surgery process during inpatient stay and gender (with p<5%). An increase of 1% in the logarithmic SHI hospitalization funding has a positive effect of 0,64% on OOPs. Surgery processing which results in extra payments to surgeons and anesthetists also has a positive influence

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on OOPs. Gender also has an effect on OOPs, with males having higher OOPs. Diametrically opposed the regression results revealed that individuals' option to hold a PHI contract along with the compulsory SHI coverage succeed in reducing the size of the logarithmic OOPs. The effects of individuals' income, age and education level do not show a major impact on OOPs level and also are not statistically significant (with p>0.05).

Table 6 Relation between OOPs and independent variables

Variable name	Coefficient	Std. Error	t - Statistic	p - value
Constant	1,486394	0,357660	4,155886	**0,0000**
SHI	0,642301	0,041471	15,48803	**0,0000**
Income	-0,043481	0,077482	-0,561180	0,5750
Age	-0,081463	0,128602	-0,633450	0,5268
Gender	0,086349	0,028460	3,034019	**0,0026**
Surgery	0,217927	0,035002	6,226143	**0,0000**
Tertiary Educ.	-0,000592	0,033909	-0,017486	0,9861
SHI-PHI	-0,896062	0,042900	-20,88740	**0,0000**
R-squared: 0,7012				

Catastrophic incidence and intensity results.

Aiming to answer research question 2, Table 4 provides information for the incidence and intensity of catastrophic payments between the two sub-groups. The Headcount and Overshoot indices present a descending trend with the increase of the pre-defined thresholds. The results reveal that the percentage of individuals suffering from catastrophic OOPs amounts the remarkable (HC) 69.64%. Summarizing, incidence and intensity results demonstrate that the worse-off SHI individuals spend more proportionally than the better off and are more likely to experience catastrophic inpatient OOPs in private hospitals.

Regarding, the 2nd sub-group, which comprises SHI with additional PHI policyholders, the scenery changes dramatically. A hospitalized individuals' percentage of 51.56 (HC), spent for OOPs and PHI premiums less than 5% of their AGI. A 46.88% of them made health payments which ranged between 5%-10% of their AGI. A minor 1.56% represents one insured that proceeded on health expenditures greater than the catastrophic living standards' benchmark of 10%. The negative values of concentration indices (CE and CO) and the un-weighted HC and O related with RWH-RWO demonstrate similar patterns with the first sub-group.

Table 4 Catastrophic Incidence and Intensity for inpatient health care in private hospitals.
SHI coverage policy-holders *(N=362)*.

Incidence of catastrophic OOPs – Headcount Index				
	OOPs as a percentage of Annual Gross Income			
Threshold	5%	10%	15%	25%
Headcount Index (HC)	88,12%	69,64%	47,83%	23,00%
Concentration Index (CE)	-0,2298	-0,2098	-0,1808	-0,1508
Robust SE:	0,0263	0,0261	0,0275	0,0317
Prob:	0,000	0,000	0,000	0,000

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Rank Weighted Headcount Index (RWH)	108,37%	84,25%	56,48%	26,47%
Intensity of catastrophic OOPs – Overshoot Index				
	OOPs as a percentage of Annual Gross Income			
Threshold	5%	10%	15%	25%
Catastrophic Payment Overshoot (O)	15,26%	11,30%	8,39%	5,01%
Mean Positive Overshoot (MPO)	17,31%	16,23%	17,55%	21,77%
Concentration Index (CO)	-0,2961	-0,339	-0,3352	-0,3235
Robust SE:	0,0339	0,0422	0,0511	0,0679
Prob:	0,000	0,000	0,000	0,000
Rank Weighted Overshoot (RWO)	19,78%	15,13%	11,20%	6,63%

SHI-PHI coverage policy-holders *(N=64)*.

Incidence of catastrophic OOPs – Headcount Index				
	OOPs+PHI Premiums as a percentage of Annual Gross Income			
Threshold	5%	10%	15%	25%
Headcount Index (HC)	48,44%	1,56%	0,00%	0,00%
Concentration Index (CE)	-0,059	-	-	-
Robust SE:	0,0192	-	-	-
Prob:	0,005	-	-	-
Rank Weighted Headcount Index (RWH)	51,30%	-	-	-
Intensity of catastrophic OOPs – Overshoot Index				
	OOPs+PHI Premiums as a percentage of Annual Gross Income			
Threshold	5%	10%	15%	25%
Catastrophic Payment Overshoot (O)	1,15%	0,03%	0,00%	0,00%
Mean Positive Overshoot (MPO)	2,38%	1,72%	-	-
Concentration Index (CO)	-0,1829	-	-	-
Robust SE:	0,059	-	-	-
Prob:	0,005	-	-	-
Rank Weighted Overshoot (RWO)	1,36%	-	-	-

Assessment of Progressivity Results.

The overall inpatient health care funding in contracted, with EOPYY private hospitals was regressive with a Kakwani progressivity value = -0,13593 indicating that the health funding contribution by the worse off was greater than its share of ATP, answering thus research question 3. Similar patterns are identified taking into account the relative allocation of financing agent (mechanism) in total private expenditure for Greece by an external database for the nearest reported year, = -0,15923 (OECD, 2014). The main reason that led to the overall financing regressivity is the remarkable proportion of OOPs to THE, especially on account of their categorized relative weights to total funding. Moreover, the regressivity of OOPs can also be verified by observing the Figure 1. The concentration curves for the four types of OOPs intersect the 45° line of equality, lie inside and dominate Lorenz curve indicating in this way that insured's private health spending is strong regressive. The Kakwani index for PHI premiums was calculated at -0.25911, while PHI concentration curve's placement is completely inside

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Lorenz curve; this confirms the regressivity of PHI expenditures. In contrast, the total SHI contributions of the merged former insurance societies to EOPYY are marginally progressive, where the Kakwani index exhibits a positive value (0,02995). The Kakwani value for SHI is statistically near to zero since the contribution rate is the same for every insured's earnings regarding the SHI society which belongs. In Figure 1 SHI (employee-employer) contributions' concentration curve slightly lies outside Lorenz curve; this confirms their progressivity.

Table 5 Health finance by source and estimated Kakwani indices for hospitalization care in private hospitals for (*N*=426).

Funding Sources	Share of THE	Method of Allocation	Kakwani by source*	p -value	Robust SE
SHI	0,3885	estimated	0,02995	0,022	0,0130
PHI	0,0669	estimated	-0,25911	0,000	0,0290
OOP SCI	0,1010	estimated	-0,31158	0,000	0,0358
OOP FPC	0,1918	estimated	-0,22297	0,000	0,0227
OOP FPP	0,1730	estimated	-0,20225	0,000	0,0405
OOP IPP	0,0788	estimated	-0,26664	0,000	0,0659
Aggregate Financing	1,0000	Kakwani for Total Health Finance	-0,13593		

* significantly different from zero at 5%

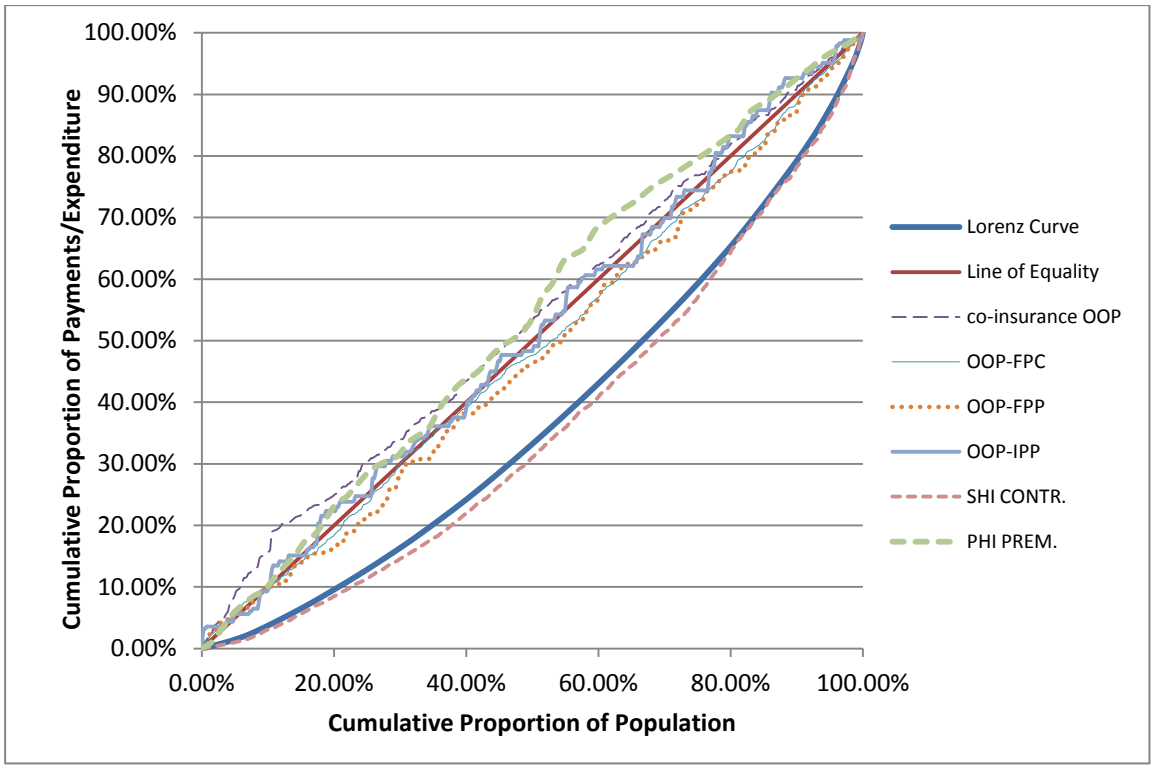
Funding Sources	Share of CHE	Method of Allocation**	Kakwani by source*	p -value	Robust SE
SHI	0,3727	reported	0,02995	0,022	0,0130
PHI	0,1723	reported	-0,25911	0,000	0,0290
OOPs aggregate	0,4548	reported	-0,27653	0,000	0,0237
Aggregate Financing	0,9997	Kakwani for Total Health Finance	-0,15923		

* significantly different from zero at 5%

** Source OECD, 2014 Health Data – Private Hospital Exp. in Greece nearest year 2012.

Figure1 Lorenz curve and concentration curves of the inpatient health-care financing.

ISBN: 978-9963-711-37-6



DISCUSSION

Our econometric results show that SHI has had a positive impact on OOPs. The low benefit level of Greek SHI DRG's reimbursement policy, the implementation of high co-insurance rates for inpatient events and the high pricing policy of private hospitals because of their upgraded amenities and new technology treatments compared with them of NHS's public hospitals justifies this paradoxical situation. This phenomenon is also described by previous studies and is associated with the aforementioned reasons (Wagstaff and Lindelow, 2008; Ekman, 2007). Based on our findings, the case of surgery conducted during the hospitalization in private hospitals also assists in increasing OOP spending of both sub-groups (Siskou et al., 2008). The SHI with additional PHI subscribers may also be burdened with co-insurance rates for surgeons' and anesthetists' remunerations depending on the affiliation or not among private insurers and private hospitals. The male gender shows to predict OOPs positively probably because of its greater prevalence according to the medical literature (e.g. Henderson, 2011; Dueñas et al., 2011) on cardiovascular diseases and thus to costly operations (CABG, coronary angioplasty and stenting).

Previous studies give diversified findings regarding PHI importance on reducing OOPs (Shin, 2012; Ekman et al., 2008; Holly et al., 2005). A different econometric approach by Paccagnella et al. (2013) among the over fifties in Europe (SHARE) gave evidence that the voluntary PHI in Austria, Denmark, Italy and Spain affects positively the OOPs. The same authors identified that supplementary PHI has a significant effect in reducing the burden of OOPs for the Netherlands while in Belgium, France,

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Germany, Greece, Sweden and Switzerland it does not have a statistically significant effect on OOPs. However, it is clearly demonstrated from our regression and incidence-intensity results that the existence of mandatory SHI and complementary PHI coverage constitutes an efficient pre-payment risk pooling mechanism against catastrophic OOPs.

Murray et al., (2003) exhibited that the share of Greek households facing catastrophic health expenditures between the years 1993-2000 reached a 3.29% whereas the percentage of households impoverished due to OOP spending was 0.56, classifying Greece amongst the worse positions with Spain and Portugal. Households' protection from catastrophic direct health costs imposes a ratio of OOPs to THE less than 15-20% (Mc Intyre et al., 2008). Our findings indicate that the Greek SHI coverage does not protect efficiently its members against catastrophic OOPs. The significant percentage (69.64%) of the mandatory SHI policyholders to exceed the catastrophic benchmark of OOPs to AGI, indicates that hospitalization in private hospitals in Greece is financially prohibitive. **Regarding the first sub-group of insured,** our catastrophic incidence and intensity results demonstrate a higher tendency for the poor to exceed the catastrophic health spending threshold. The coverage of inpatient health spending in private hospitals by the poor is proportionately greater than the wealthier. Similarities as our results detected in India (Selvaraj and Karan, 2012), in China (Zhang et al., 2010), in Nepal (Saito et al., 2014), in Ghana (Amporfu, 2013), in Iran (Rezapour et al., 2012), in Lower Myanmar (Lwin et al., 2011) and in Western Balkan countries (Bredenkamp et al., 2011). Nearly, the absolute majority of SHI with additionally PHI policyholders managed to keep the Headcount Index below the critical limit of 10% of their AGI which's excess classifies OOPs as catastrophic.

The substantial proportion of OOPs in the southern countries of E.U. (Greece, Italy, Portugal, Spain and Cyprus) is further deteriorated taking into account the fact that the distributional government policies of tax and social insurance systems becoming more regressive (Rombaldoni, 2012). Especially, for health systems such as the Greek with limited financial protection, in which OOPs are extremely significant and the hidden health economy thrives over time, the treaty of equity in health funding is rebutted resulting thus the worse off groups to pay the price of high health expenses (Economou, 2010). Our overall regressivity results confirm the literature. SHI appears progressive in countries with mandatory universal coverage, PHI is regressive due to the non-binding of premiums with insured's income and when health funding predominantly relies on OOPs the health system is characterized most regressive (Crivelli and Salari, 2014; Gottret and Schieber, 2006; De Graeve and Van Ourti, 2003; Thomson and Mossialos, 2004; Murray et al., 2000). Based on our results from Kakwani indices, the poorer socio-economic groups spend more than their ATP for inpatient health services in private hospitals than the better off population, making the system regressive and dispelling the principle of

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vertical equity in health care funding (O'Donnell et al., 2008). Similar current findings for OOPs' regressivity presented in low income countries in Africa (Onwujekwe et al., 2014; Mtei et al., 2014; Munge and Briggs, 2013; Ataguba and Mc Intyre, 2012; Mills et al., 2012; El Gazzar et al., 2010), in Middle East (Abu-Zaineh et al., 2008) and in Latin America (Seinfeld and Besich, 2014). For European countries, OOPs' regressivity was ascertained in France (Debrand and Sorasith, 2010), in Estonia (Võrk et al., 2009) and in Hungary (Baji et al., 2012). The progressivity of OOPs in the low-middle income Asian countries(e.g. Bangladesh, Sri Lanka, Thailand) occurs because of the utilization and access of health services more from the rich population than the income confined poor strata, fact that constitutes equity in health financing more theoretical rather than a real situation (Joe and Mishra, 2009; Van Doorslaer et al., 2006, 2005). In Australia, the distribution of OOPs over time is regressive, while all health systems reforms since 1984 did not manage to affect efficiently the health care financing, except the Lifetime Cover Scheme in the beginning of 2000 which encouraged population to purchase and hold PHI coverage with positive progressive outcomes on health funding (Hajizadeh et al., 2014)

In addition, our findings confirm previous studies regarding informal OOPs in the Greek health sector (Nikolentzos and Mays, 2008; Papanikolaou and Ntani, 2008). Our descriptive results indicate that informal OOPs are a major driver of health care financing in Greece and occur not only in the publicly-financed NHS hospitals **but also in private health market (**Souliotis et al., 2015)**. Regarding informal OOPs,** Greece, a country that counts its accession to E.U. since 1981 can only be compared **with the former Eastern Bloc countries (**Gordeev et al., 2014; Tambor et al., 2014), with Turkey (Brown et al., 2014) and generally with low and middle income countries (Kankeu et al., 2014; Lindkvist, 2013). The paradox is that while, in Greece the combat against tax evasion is a vital governmental objective in order to achieve debt sustainability and restore public finances, our findings suggest different conclusions (Apergis and Cooray, 2015; Exadaktylos and Zahariadis, 2014).

5.1 Policy Implications.

Policymakers have to implement radical measures in order to reduce the extremely high formal and informal OOPs, to ensure vertical equity in health care funding and to encourage the institution of PHI to complement the mandatory SHI.

No one can doubt the considerable role performed by private hospital sector as an alternative health provider (Duckett, 2005) to the underfinanced and overcrowded Greek public hospitals (Sissouras, 2014) despite its high pricing policy for inpatient services. However, the Greek state must allocate more financial sources to public hospitals. The improvement of public hospitals' provided services can

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offer especially to the vulnerable and worse off groups of population better accessibility avoiding thus their extra-billing option to private hospitals (Kyriopoulos et al., 2014).

Also, policymakers should revise the pricing policy of Greek DRG's for inpatient cases in affiliated with EOPYY private hospitals. While the international experience suggests that a DRG includes any kind of medical and non-medical health care (Polyzos et al., 2013), the SHI reimbursement policy exempting surgeons' and anesthetists' cost components of DRG accounting, resulting thus the individuals to deal with these financial consequences in private hospitals (Niakas, 2013).

Policymakers should emend co-insurance rates with consideration to insured income level or either by substantially reducing or eliminating them for people with chronic health conditions (Lee and Shaw, 2014). Due to the Greek fiscal restraints, it is recommended the revision of Greek DRG's pricing and the readjustment of co – insurance shares to be replaced by higher SHI contributions and a more efficient tackling to tax evasion in health system.

Furthermore, although to other countries gate-keeping for secondary health care is compulsory and encouraged by financial incentives, in Greece is not a prerequisite norm incurring thus financial costs for SHI and insured from unnecessary use and a supplier-induced demand practice of health services (Economou et al., 2014; Paris et al., 2010).

Another important issue that policymakers should to settle directly is the significant delay of EOPYY's payments to private hospitals (Karakolias and Polyzos, 2014). In addition, the extra "haircuts" to private hospitals through re-bate, claw-back and retroactive upper ceiling mechanisms bring financial hardship to their budgets and thereby result higher OOPs to insured (167A/23-07-2013, 2243/18-08-2014 Gazettes of the Government).

Finally, the state should reinstate tax incentive policies for individually PHI policyholders. The economic downturn on Greeks' pay roll scale and the evidence of strong positive link between individuals' high income and purchasing of PHI impose to the state to revise the dissuasive legislation (4110/2013 and 4172/2013 Gazettes of the Government). On the other side PHI firms should promote more flexible and premium affordable coverage programs meeting the tough economic situation of the potential subscribers (Economou, 2010).

CONCLUSIONS.

Our results exhibit that EOPYY managed to ensure for all insured equal access and utilization to inpatient health care in private hospitals irrespective of socioeconomic criteria but failed to protect Greek population from catastrophic OOPs. On the other hand, our findings may help policymakers and insured to revise their views about PHI potentiality against financial catastrophe when a health

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risk occurs. The cost-containment of public finances has made the health system financing more regressive because it depends on low SHI benefit packages and high sharing rates creating hence redistributive inequity. Additionally, direct formal and informal payments compound more the financing inequity problem. The deep recession of the Greek economy in the current period cannot reverse this situation with the given SHI contributions. The predominant trend of reliance on OOPs in Greek health system imposes higher levels of catastrophic health expenditures (Saksena et al., 2014) and panders an inequitable climate of health financing (De Graeve and Van Ourti, 2003). Nevertheless, the extremely high share of OOPs in Greece and other hard influenced by the crisis countries requires from policymakers to face PHI as an alternative source of health financing in order to reduce the financial ruin of households' OOP spending and improve funding fairness on their health care systems.

Endnotes

(i) SS corresponds to the required sample size. We used as inputs the Z-value of 1.96, a 5% (C) margin of error and an estimate of the (p) prevalence of insured's hospitalization in private hospitals.

(ii) SS is the sample size, $X^2_{(1)}$is the chi-square value (3.84), N is the known number of hospitalization cases in private hospitals under EOPYY's coverage, p and q are the population proportions and d^2 is the desired degree of accuracy (0.0025).

(iii) The regression coefficient β reflects the values for concentration indices. Continuing, yi is whenever the examined health variable of interest, μ its mean, σ_R^2 is the variance of the fractional variable of N insured individuals in socioeconomic distribution ranking by their income. Ri reflects the insured's individual cumulative proportion in the annual gross income distribution where observations are classified in ascending order to sum up to 1, based on the formulation of Lerman and Yitzhaki (1989): $R_i = \frac{1}{n}\sum_{j=1}^{i=1} w_j + \frac{1}{2}w_i$. Although the simplicity of the most common computational method of convenient covariance $C = 2cov\left(\frac{y_i}{R_i}\right)\mu$ (Wagstaff et al., 2003) calculating concentration indices, we implied the convenience regression method in order to estimate the standard errors of CE or CO.

(iv) Where hi is the health payment variable for insured individual i, yi is it's his/her ATP variable, η and μ are their averages respectively and σ_R^2 is the sample variance of the fractional rank. The Kakwani index is represented by the estimation of β from the OLS equation results as well as its standard error. Just as before to concentration indices we modeled the OLS equation with the option of the Heteroskedasticity Consistent Covariances (White) for the presence of any heteroskedasticity (i.e. we obtain more efficient estimates by correcting the standards errors).

(v)Where w_i denotes the proportion's weights of each health funding allocation source of inpatient total health expenditures to private hospitals and $\pi_{\kappa,i}$ indicates the Kakwani index for this source.

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 ISBN: 978-9963-711-37-6

MEASURING THE IMAGE OF ETHICAL FOOD

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ABSTRACT

In the last decade, the topic of ethical food has assumed increasing importance in the international literature as consumers become more and more aware about what they eat. Despite several studies having been carried out on this topic, there is a lack of literature specifically on the image of ethical food and its characteristics. This paper aims at offering a descriptive and prescriptive model for measuring the image of ethical food which is able to reflect the contribution of different dimensions. This aim is pursued through a literature review of the main drivers affecting the image of ethical food, and the development of a measurement instrument that uses several possible dimensions. Results show that ethical food image may be affected by five dimensions: sustainability of ethical food, attributes, food uniqueness, psychological characteristics, and holistic characteristics. This paper provides a theoretical framework, which in the future could be applied to particular areas of research and allow the exploration of the potential of ethical food in related sectors such as tourism.

Keywords: *Measurement; Ethical Food; Ethical Food Image; Tourist Destination; Likert Scale; Sustainability.*

INTRODUCTION

In recent years the topic of ethical food has been increasingly at the center of international debate and indeed could be considered a real driver of tourism competitiveness (Viassone and Grimmer, 2015). Food is considered ethical when it conforms to the following features: (1) it is produced in a natural and biological way, without the use of chemical substances which may damage the health of consumers or damage the environment; (2) it's production is not exploitative of workers and does not contravene laws and agreements regarding human rights, and (3) it is produced as much as is possible only at a short distance from the point of sale (Lindeman and Väänänen, 2000).

Issues concerning animal rights and welfare, environmental degradation, consumption, human exploitation, hunger, and sustainability fall under the scope of food ethics (Monaghan, 2012). The ethical food sector is sizable and accounts from 5 to 10% of the total food and beverage trade globally

 ISBN: 978-9963-711-37-6

(Sarkar, 2014). It is generally argued that a more ethically-based food system should pursue improved well-being, protection of the environment and improved public health (FAO, 2001), and that ethical choices are important not only for society but also for individual consumers (Context Marketing, 2010). Consumers are becoming more and more aware of their consumption choices, and their impact; in particular, this awareness is shown in food consumption where ethical considerations apply to product, brand and channel choices (Sebastiani *et al.,* 2012; van Doorn and Verhoef, 2011; De Pelsmacker and Janssens, 2007).

For these reasons, the image of ethical food could play an increasing role in decisions to consume a range of products or services. There are several studies in the literature involving measurement of the image of a destination (Casalegno and Viassone, 2012; Echtner and Ritchie, 2003), or of a local cuisine (Peštek and Činjarević, 2014). However, none focus on the image of ethical food. While the topic of ethical food has attracted interest in recent years (Shaw *et al.*, 2015; van Doorn and Verhoef, 2011; Carbone *et al.*, 2009), there is a lack of work on the measurement of its image. This paper aims at proposing a descriptive and prescriptive model to measure the image of ethical food. To achieve this objective, this paper analyzes the literature about drivers affecting the image of destinations, food and ethical products, and creates a measurement framework to evaluate ethical food image. The results of this paper represent an important starting point to apply the model to specific areas/destinations, and could open, in the future, a useful debate on the effects of image on the choices of consumers.

THE CONCEPT OF ETHICAL FOOD

Food and ethics intersect in everyday practices as well as in abstract inquiry, and for this reason it is important to define clearly what 'food ethics' means. Food ethics could be considered as an interdisciplinary field that provides ethical analysis and guidance for human conduct in the production, distribution, preparation and consumption of food (Pollan, 2008). However, if ensuring that every individual has affordable access to sufficient and nutritious food is a moral imperative, the definition of ethical food is not so clear or shared in literature. Nonetheless, food is often the subject ethical questions because the food we eat, and the way we eat, are an integral part of social behavior and cultural patterns, which themselves differ in many ways (Rudd and Mills, 2014). Environmental and animal rights issues also have a strong influence on attitudes towards organic and ethical food, and the same occurs because of political motives (Biel and Grankvist, 2010; Honkanen *et al.,* 2006).

'Ethics' is a broad, flexible and often highly personal term when consumers apply it to food purchased in supermarkets or specialty stores (Context Marketing, 2010). Ethical food is the expression of several attributes and perceived benefits regarding how a food is produced or processed, its impact on the

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environment, adherence to quality and safety standards, and where food is sold and how it is priced. Generally, ethical food has been associated with environmentally responsible and sustainable production systems (Viassone and Grimmer, 2015). The main elements of the sustainability of ethical food concerns sustainable production, and within this concept local production and seasonality are favored. Similarly, waste reduction and reduced packaging could be considered as advantages of ethical food (van Doorn and Verhoef, 2011; Lindeman and Väänänen, 2000).

The debate on ethical food also investigates whether or not people have a moral obligation to act ethically in order to achieve sustainable development, or are individually overburdened by taking on a responsibility they cannot shoulder (Sinnott-Armstrong, 2005). In particular, the topic of ethics involving food encompasses, amongst other things, the following values:

- *the value of food*: food is considered essential for the survival of human beings;
- *the value of enhanced well-being*: the need to enhance the well-being of citizens as recognized by each nation. Charity is considered necessary to respond only to desperate and pressing situations but in order to provide for long-term improvements in well-being it is essential to have people with access to skills, capital, employment, education and opportunities; with regard to sustainable agriculture it should count on a viable rural infrastructure and an enabling policy environment;
- *the value of human health*: ethical and organic food is considered important for health reasons, with value placed on natural and less-processed food;
- *the value of natural resources*: very important here is the debate on the use of natural resources and on the necessity of sustaining certain resources for human survival and prosperity, and
- *the value of nature:* this encompasses environmental and animal welfare matters, as well as issues such as the preservation of natural areas, biodiversity and values such as beauty, complexity and integrity; these should play an important role in the decisions of governance for a territory.

Ethical questions related to the food sector are further linked to the challenge to meet the present needs for food supply, without impairing the future of humankind and nature (Raoult-Wack and Bricas, 2002). Thus, ethical food involves a set of ethical concerns raised about food: how it is produced, the meanings it carries, the implications and legacies it leaves. In this way, ethical food covers diverse values, each appealing to consumer behavior for different reasons and to different effect (Lang, 2010). For all these reasons, ethical food can be considered food produced in a natural way without the use of chemicals, without damage to the environment and exploitation of human labour, and without leading

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to any human suffering. Ethical food is thus most likely to be produced and consumed locally, and in such a way so as to avoid polluting packaging.

THE IMAGE OF ETHICAL FOOD: MAIN DRIVERS

The image of ethical food has not been studied directly in literature, though there are some important contributions offered by several scholars concerning similar objects of analysis. In particular, the study of the image of ethical food requires a consideration of three aspects in that it is necessary to analyze studies concerning the image of tourist destinations (given that the image of a destination can strongly affect that of its products), of food, and of ethical products. With regard to food and related sectors, literature has largely investigated the perceived image of tourist destinations (Casalegno and Viassone, 2012; Page and Connel, 2009; Olimpia, 2008; Hankinson, 2004; Echtner and Ritchie, 2003) or, more specifically, the image of local cuisine (Peštek and Činjarević, 2014). The image of a destination can be defined as "the sum of beliefs, ideas and impressions that a person has of a destination" (Crompton, 1979, p. 18), and Baloglu and MacCleary (1999) point out that images about destinations are based on perceptual/cognitive and affective/evaluative dimensions (see also Kim and Perdue, 2011). In this context, gastronomy can play a significant role in creating a quality visiting experience for tourists, and help in building a destination image (Viassone and Grimmer, 2015). In particular, a tourist could have an image based on their perception of a destination's food, cuisine or gastronomy, and this may be an important attribute that could be used in destination image building. Indeed, Trunfio *et al*. (2006) talk about 'enogastronomic' tourist attractions (immersing oneself in the culture of a destination, often with a culinary focus).

In considering the drivers affecting the image of tourist destinations, Casalegno and Viassone (2012) individuated five main dimensions: *functional characteristics*, that is, directly observable or measurable characteristics such as price (Echtner and Ritchie, 2003); *attributes*, how the tourist place or destination can be evaluated with common metrics; *psychological characteristics*, that is, characteristics in the mind of the tourist that can't be directly measured (friendliness, atmosphere) (Echtner and Ritchie, 2003); *holistic factors,* corresponding to a set of different impressions created in the mind of people (Reilly, 1990), and *level of uniqueness*, in terms of distinctiveness of features, aura and atmosphere. If we focus our object of analysis only to food and cuisine, recent research suggests that local cuisine image comprises four components or dimensions: food uniqueness and cultural heritage; food quality and price; nutrition and health benefits of food, and the affective image of food (Peštek and Činjarević, 2014). An older study by Lindeman and Väänänen (2000) also looked at motivations for choosing ethical food, and canvassed three dimensions: ecological welfare (including animal welfare and environmental protection), political values, and religion. In this regard, while the image of food in terms of local

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cuisine, and consumer motivations, has been looked at, ethical food remains an unexplored field with regard to the measurement of its image.

In the literature, it is suggested that most consumers make the automatic assumption that if a product is ethical it is also of a good quality. In particular, for several companies, ethical standards have become more important than the standards placed on quality, and this aspect has a meaningful effect on the marketing of companies everywhere. According to Sciarelli (2006), a very important factor for enterprises is the visibility of the firm, that is, the importance assumed by its image in the stakeholder's view. A higher visibility of the firm can lead to the use of ethics in order to improve the quality of strategy and marketing policies. In this regard, it has been found that consumers do respond positively to the ethical or environmental image of firms (Grimmer and Bingham, 2013). A very important role emphasized in the literature with regard to ethical food is its sustainability. This aspect concerns sustainable production, such as the creation of goods or services using economical, safe and non-polluting processes, being able to conserve energy and natural resources, and providing socially rewarding work for those involved in production and distribution. Generally, both local production and seasonality of ethical food are favored, in addition to waste reduction and reduced packaging (e.g., purchasing loose fruits and vegetables, avoiding small bottles, purchasing only what is necessary) (Viassone and Grimmer, 2015).

The contribution of this paper consists of merging the literatures on the image of destinations, of food and of ethical products, in order to propose a model for measuring ethical food image.

RESEARCH MODEL

Considering the increasing importance attributed to ethics in different fields such as tourism, finance, and so forth, its application to the food sector is a logical and obvious extension, particularly with regard to the concept of image. For this reason, the key issue of this paper is: how is it possible to measure the image of ethical food?

In order to provide an answer to this question, the methodology used in this paper consists of: (1) a systematic analysis of the drivers supported by literature with regard to the image of destinations, food, and ethical products, and (2) the creation of a prescriptive model able to canvass all the aspects affecting the image of ethical food and to provide a suitable measure.

Given the different drivers in the literature, the model proposed consists of five different drivers which may be relevant in order to gain a final measure of ethical food image. The measurement model could be structured in terms of a questionnaire based on the following characteristics:

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- *sustainability of ethical food*: in terms of safety and non-polluting production; reduced waste generation and the reward for the people involved in production and distribution, and in terms of preference for local and seasonal food;
- *attributes*: including freshness of food, nutritional content and price;
- *psychological characteristics*: involving sensations generated with regard to taste, to memories, to price and to the feeling of wellbeing generated by responsible action;
- *food uniqueness*: in terms of characteristics such as the ability to distinguish itself from competitors, and cultural heritage in terms of convergence of the food with the culture of reference, and
- *holistic characteristics*: in terms of suitability of the communication of food and the results of this experience.

Proposed measurement items that will be answered on a five-point Likert scale (1= strongly disagree to 5= strongly agree), are shown in Table 1.

The questionnaire is proposed to be completed by consumers who have already tried ethical food, not necessarily in the point of sale, and are aware that the food was ethically sourced.

The model, based on these five dimensions, is suitable to be tested on a relevant sample, asking respondents to express agreement or otherwise to the 22 items for a specific food object. This questionnaire could also be viewed as a variation of the SERVPERF questionnaire (Cronin and Taylor, 1992). The reliability of the instrument and its dimensions should be measured through the level of the Cronbach's Alpha, and appropriate convergent and discriminant validity tests undertaken to ensure the construct validity, stability and robustness of the measurement model. The model is displayed graphically in Figure 1.

ETHICAL FOOD
Sustainability of ethical food
Production of this food is realized through safe and non-polluting processes
Production of these goods is socially rewarding for the people involved in production and distribution
Local production of this food is favored
Seasonality production of this food is favored
Production of this food involves waste reduction and reduced packaging

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Attributes
This food is fresh
The nutritional content of this food is high
In general, my expectations about this food have been satisfied
Price is reasonable
Psychological characteristics
This food is good and genuine
This food evokes nostalgia for "dishes of the past"
I feel good in choosing this food because I know that I am making a responsible choice
This food is easy to find
Food uniqueness and cultural heritage
This food offers unique characteristics
The image of this kind of food is distinct from other kinds of food
This food reflects the moral beliefs and values of the culture it comes from
This food reflects the characteristics of the traditional cuisine
Holistic characteristics
Communication related to this food is suitable for the selected target
Proprieties of this food are well emphasized in shops and in restaurants
The medium used to communicate ethical food in restaurants and shops is the most appropriate
The experience of this food involves all the senses
In general, my expectations about this food have been satisfied

Table 10. *THE FRAMEWORK OF DRIVERS FOR THE MEASUREMENT OF THE IMAGE OF ETHICAL FOOD*

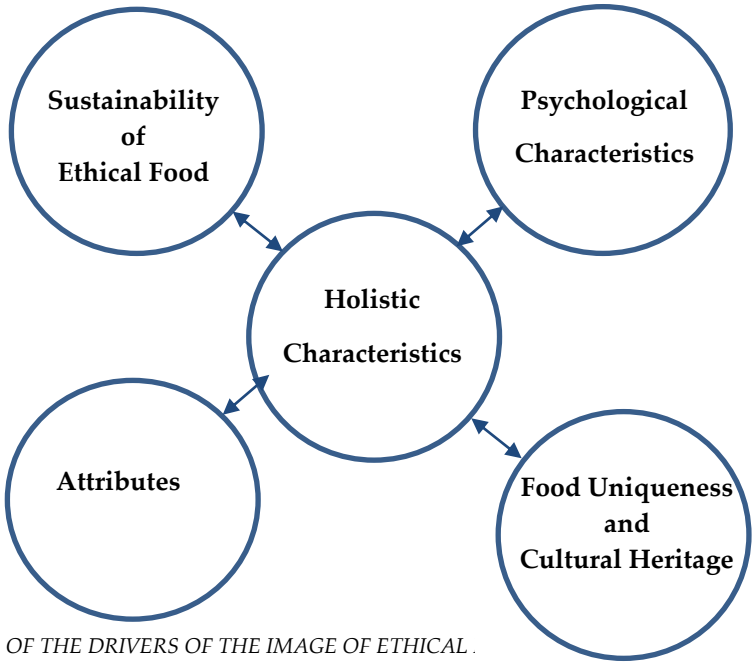

FIGURE 1. *MODEL OF THE DRIVERS OF THE IMAGE OF ETHICAL .*

In order to evaluate the image of ethical food in a global way, it will first of all be necessary to evaluate the image perceived by each single consumer involved in the survey. This will result in the average Qj of judgments provided by the same to the 22 sentences (Qij):

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$$Qj = \frac{\sum_{i=1}^{22} (Qij)}{22}$$

Then, the average of the value of Qj registered for all the consumers involved (corresponding to the global consumer perception of the image of ethical food) should be computed (Tardivo *et al*., 2013):

$$Q = \frac{\sum_{j=1}^{n} Qj}{n}$$

Generally, values higher than 3 should indicate a good image of ethical food (Viassone, 2011).

DISCUSSION OF RESULTS

The aim of this paper has been to develop a model and a measurement approach to assess the image of ethical food. This is an important endeavor due to the increasing value placed on ethics and ethical approaches in the literature (Shaw *et al*., 2015; Monaghan, 2012; Carrington et al., 2010), and more specifically due to the attention that ethical food and the ethical food sector now generates amongst consumers (Sarkar, 2014; van Doorn and Verhoef, 2011; Carbone *et al*., 2009). Viassone and Grimmer (2015) also argue that ethical food can be an important driver of tourism attractiveness, and discuss the case of the Slow Food movement. Slow Food can be seen as part of the cultural tourism market, which attracts tourists who are interested in unique culinary experiences and the consumption of local food and beverages.

As was stated in the introduction, while the topic of ethical food has, therefore, attracted attention in recent years, there is limited if any research on the measurement of its image. As a result, a review of related literature on destinations, food and ethical products was undertaken. Tourism destination image provides the most logical framework, as food and gastronomy are often an important part of destination image building (Peštek and Činjarević, 2014). Tourists, in this regard, will have both cognitive and affective reactions to a destination that may also be food related (Kim and Purdue, 2011). For example, a tourist might know that Paris contains a high proportion of Michelin Star restaurants (cognitive); like Paris as a destination as a result of this, and be excited about visiting (affective). The five dimensions of tourist destination image (functional characteristics; attributes; psychological characteristics; holistic factors; level of uniqueness) evaluated by Casalegno and Viassone (2012)

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provided a starting point, therefore, for the identification of factors that might also underlie the image of ethical food. Research on local cuisine image provided further ideas for the image of ethical food, with factors such as food uniqueness and cultural heritage; food quality and price; nutrition and health benefits of food, and the affective image of food, being identified (Peštek and Činjarević, 2014). Finally, the image of ethical products in general – for example, that such products are of high quality, sustainable, do not exploit workers, and reduce waste – suggested further factors for consideration (Viassone and Grimmer, 2015).

As a result of the literature review, five types/categories of drivers of ethical food image were proposed: sustainability of ethical food, attributes, psychological characteristics, food uniqueness and cultural heritage, and holistic characteristics. These drivers each consist of various individual issues, making up the 22 items on the planned questionnaire. As shown in Figure 1, four of the drivers – sustainability of ethical food, attributes, psychological characteristics, food uniqueness and cultural heritage – can be considered to be 'primary' in the sense that they each are directly measuring aspects of the ethical food product itself. The fifth driver – holistic characteristics – can be considered 'secondary' in the sense that it concerns communications and experiences that derive from the other four. In addition, it could be suggested that some of the drivers act in juxtaposition to one or more of the others. For example, attributes are more likely to be cognitive whereas psychological characteristics are more likely to be affective. In this regard, it might be expected that scores on these two dimensions will be negatively correlated (Kim and Purdue, 2011). Sustainability of ethical food and food uniqueness and cultural heritage may not be in juxtaposition to the same extent as attributes and psychological characteristics; however, the former is more aligned with cognitive image aspects and the latter with affective image aspects. Thus, scores for these drivers may also be negatively correlated. In this regard, it would also be expected that scores for sustainability of ethical food and attributes would be positively correlated, as well as scores for psychological characteristics and food uniqueness and cultural heritage.

THEORETICAL AND MANAGERIAL IMPLICATIONS

The main reason that researchers and marketers should be interested in concepts such as image is that these are mechanisms which are used, consciously or unconsciously, by consumers when they make consumption decisions. Kim and Perdue (2011) state that product image acts as a decision-making heuristic, that is, as an aid to managing and simplifying the complexity of consumer choice. As consumers often have limited knowledge about products, image acts as a proxy for the potentially large number of product attributes, thus reducing the amount of information that has to be processed. This is similar to how the concept of brand loyalty works: to simplify the decision-making burden for

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the consumer by reducing the number of brands that are considered when choosing a product (Quester *et al*., 2007). The ethical food image of a particular product would, therefore, allow a consumer to apprehend quickly the performance of the product on that characteristic. As Kim and Perdue (2011) point out, as the image of a product becomes more positive, the probability that a consumer will purchase it increases. In this regard, if it can be established that a food product has a strong ethical image, it is more likely that a consumer will purchase it. Thus, an ethical food image can add value to the brand equity of a food product (Olimpia, 2008; Quester *et al*., 2007).

From a theoretical point of view, this paper has extended the concept of product or destination image to ethical food, and adapted frameworks from tourism, food and ethical products to a new application. A model of the drivers of ethical food image has been developed and its underlying structure discussed. This model now needs to be empirically tested in terms of its dimensionality and the validity of the measurement model. This testing will then have implications for the theoretical interrelationships between the proposed drivers and thus how an overall score for ethical food image can be developed. Image is also affected by factors internal to the consumer, such as experience, as well as the external factors made up of the five proposed drivers (Hu and Ritchie, 1993). Further development of the ethical food image measurement model could also benefit from a consideration of relevant internal consumer factors.

From a managerial point of view, evaluating the ethical food image of certain food products has important implications for product development, advertising and promotion. The five proposed drivers of ethical food image each suggest ways in which a product needs to be developed and communicated to consumers, and there also needs to be congruence between each category of driver. Indeed, a product image needs to be coherent and consistent (Olimpia, 2008). The ethical food image measure could also be applied to relevant gastronomic or culinary tourist destinations so as to examine the congruence between destination image and food image characteristics. Food organizations such as Slow Food, or so-called social food farms, could also use the measure to assess the ethical image of their activities and events (Viassone and Grimmer, 2015; Carbone *et al*., 2009).

CONCLUSIONS

This paper has added to the ethical food debate by combining literatures on destination image, food and ethical products to create the proposed measurement model. The assessment of this model is the next step, using a relevant sample of respondents. Once the questionnaire instrument has been evaluated in terms of its item characteristics, reliability and construct validity, the measurement model will allow for the ethical image of a specific food object to be evaluated. This is a significant

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development given the increasing importance placed on ethical products, as discussed earlier, and on ethical food in particular (Sarkar, 2014; van Doorn and Verhoef, 2011). Ethical food image has many potential applications, not only in terms of consumer choice of ethical food products, but also with regard to tourist destination competitiveness. A strong ethical image can only add value to a product or destination and so assist consumers in making product and destination choices.

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ISBN: 978-9963-711-37-6

NEW THOUGHTS ON LEADERSHIP IN TURBULENT TIMES

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ABTRACT

Purpose In a turbulent economic climate, characterised by pressures to improve productivity and reduce costs, leadership and performance management have a more central role in helping to ensure competitive advantage. This paper explores current demands on leaders; and endeavours to explore linkages between management education and agile leadership.

Methodology. This paper uses the concepts of volatility, uncertainty, complexity and ambiguity (VUCA) to investigate the impact on desired attributes of leaders and the extent to which this is underpinned by current management education programmes in Europe. It draws on a range of theoretical frameworks to examine current practices and experiences and considers future trends. Empirical research includes case studies and analysis of management syllabuses.

Findings. Syllabuses do not reflect the attributes that organizations expect leaders to possess and are content driven rather than process focussed. VUCA is not yet mainstream in academic thinking.

Implications There is a disparity between the output of Business Schools and the expectations of Organizations. This may affect productivity.

Value This research opens an international debate that seeks to assess the relevance of current management education to the needs of organizations for agile, high performing leaders.

Keywords: *Leadership, Innovation, Sustainable, Learning, Management Development and Learning.*

INTRODUCTION

The acronym VUCA (Volatility, Uncertainty, Complexity, Ambiguity) has been used to describe the turbulence of the modern world of work. Its implications for managerial strategies have been explored and many organizations have embedded the concept in approaches to Human Resource Management, in particular in managing talent and in human resource development. What is less clear is the extent to which management education has adopted the concepts of VUCA in the design and delivery of programmes for future managers and leaders.

 ISBN: 978-9963-711-37-6

A VUCA world requires organizations to be agile, to be able to do different things in different ways quickly in response to change, implying an ability to learn. Knowledge itself has become transient due to the rapidity of change. Developments in Information Technology have made detailed knowledge much more widely available more quickly than in the past. Although a knowledge base for individual leaders and managers may still be important, it is less critical as behaviours which focus on agility and the personal attributes which underpin those behaviours.

The authors are interested in the extent to which this change of focus has impacted upon management education. Are mainstream programmes such as MBAs content driven? Are there indications that behavioural learning is encouraged alongside cognitive development? Do Professional Bodies reflect the nature of a VUCA world and how far are their standards incorporated in HE programmes of study? Are MBA graduates, for example, capable of making an immediate contribution to their organizations as a result of their studies?

RESEARCH APPROACH

Leading now and in the future

This paper explores the way that leadership can enable people and Organizations to achieve targets and perform effectively. It also establishes links between management theory and practice with regards to both leadership and performance. In particular some aspects of current management thought are worth consideration. In the past decade academics led by business practitioners have started to focus more on Leadership Agility. This is seen as a prerequisite for success in the turbulent 21st century world of expanding global markets and the exponential rise of the digital technology and communication. The emphasis for the agile leader (Horney, Pasmore et al. 2010; Bennett and Lemoine, 2014) is grounded in the world of VUCA. The term VUCA was first coined by the US Army College to explain the dynamic nature of the world. The acronym VUCA stands for Volatility, Uncertainty, Complexity and Ambiguity. Agile leaders are responsive, innovative, and flexible but above all can anticipate change and are able to initiate action in work situations that feature rapid change and /or ambiguity.

A “Nine Box “model for reviewing performance and leadership agility may be seen below:

ISBN: 978-9963-711-37-6

High Performance

High Professional/Master Contributor Consistently produces exceptional results High performer. Knows job extremely well. May not effectively adapt to new situation.	**Agile High Performer/ High Professional** Consistently produces exceptional results. Knows job extremely well. High performer. Demonstrates ability to adapt to new situations.	**Strategic Agility Asset** Outstanding results and performance. Demonstrates agility. Ability to take on major stretch assignments to new areas. Anticipates and acts proactively on changing trends that will impact on the Organization.
Key Performer/Solid Professional Consistently meets expectations. Knows job well. Has not demonstrated ability to adapt to new situations.	**Adaptable Key Performer** Consistently meets expectations. Knows job well and enhances skills as appropriate. Can adapt to new situations as necessary.	**Rising Star** Consistently meets expectations. Knows job well. Demonstrates ability to anticipate change and initiate action.
LowPerformer/Low Agility Not delivering on results as expected. Does not adapt to change well.	**Inconsistent Performer** Delivers results inconsistently. Knows he job and may be a passive learner. May adapt to new situations if necessary.	**Diamond in the Rough** Delivers results erratically. Has demonstrated agility potential but is not living up to it.

Low Performance

Low Agility → **High Agility**

After Horney, Pasmore and O'Shea (2010)

The" Nine Box" review method assesses individuals on performance and leadership agility. All those considered as Strategic Agility Asset, Agile High Performer and Rising Star would all be considered as high contributors and potential leaders that should be given special access to developmental assignments, projects and training.

Research Issues

This paper examines the relationship between leadership, management education and the VUCA model of agile leadership. Its focus is where the three areas overlap.

It explores current models and professional practice and questions the requirements of both Business Schools and professional bodies in meeting the needs of leaders and managers in the workplace.

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RESEARCH METHODS

A review of the history of management education was undertaken with particular emphasis on the UK experience. This was followed by an analysis of documents produced by regulatory, accreditation and professional bodies to identify the skills and behaviours embedded in programmes such as the MBA. These requirements were then compared with the skills and behaviours essential to the VUCA world.

FINDINGS

Management education

The history of management education in the UK is relatively short. In the USA Management has been a distinct discipline since the late nineteenth century, reflected in business school graduate programmes like the MBA. Until the 1960s in the UK, Management was taught as part of mainstream programmes and there were some Bachelor of Commerce degrees. It was also taught in technical colleges as part of professional body syllabuses. It was not until 1965 that the first business schools were established in Britain. This was prompted by the findings of the Robbins Report (1963) and the Franks Report (1963) which recommended the establishment of two business schools in London and Manchester.

Notwithstanding the rapid growth of business schools and their MBA programmes in the 1970s and 1980s the debate about the contribution of management education to the development of effective managers continued. There was a sense of a growing gulf between programmes designed by academics and the requirements of the world of work. One response to this was the production in the late 1980s of three reports about management education (Mangham and Silver, 1986; Constable and McCormick, 1987; Handy, 1987). A result of this was the Management Charter Initiative (MCI), which developed competence-based standards for managers at all levels. The focus was on criterion-based measurable competences rather than more generic competencies; national vocational qualifications in management were developed as part of the initiative. There was very little interest in the university sector and, although take-up by professional bodies and colleges of further education was reasonably high, it was also relatively short-lived.

MCI had made little impact on the perceived disparity between the outputs of business schools and the needs of organizations for effective managers. Some organizations remedied this through their own management development programmes but there was still a residual belief that MBAs in particular should address real managerial needs. Research, reports and commentaries over the last twenty years have emphasised this imbalance (Reed and Anthony, 1992; Casey, 1993; Macleod, 2000;

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Crowe, 2000; Jeffcutt, 2008) the concern was not confined to the UK but also found resonances in Australia in the Karpin Enquiry (1995).

The latest in a long list of reports into the UK's management and leadership was published in 2014 (CMI, 2014). Entitled *Management 2020: Leadership to unlock long-term growth,* the report was a collaboration between the All-party Parliamentary Group on Management and the Chartered Management Institute to "investigate how management and leadership in the UK will need to change by 2020 to deliver sustainable economic growth." (CMI, 2014: p5.) The report begins with the state of UK management and leadership today, reflecting on the UK's poor competitive position and the perception of employees about their managers' ineffectiveness. Notwithstanding (or, perhaps, because of) substantial representation among witnesses and written submissions of academics and academic institutions, there is very little in the recommendations about how business schools might contribute to the desired improvements in management and leadership in 2020.

"Encourage business schools to include a significant period of experience within the workplace in the curriculum, and encourage the use of SME placements to better reflect the employment landscape. Ensure that interpersonal skills, such as communication, having a difficult conversation and coaching are taught and practised during these placements." (CMI, 2014: p52.)

So, although there is some mention of behaviours, these are not spelt out in detail and their development seems to be left to the workplace rather than being embedded in the curriculum. The report is, however, more forthcoming on the "top ten characteristics that managers need": (CMI, 2014: p30.)

1. Clear sense of purpose
2. Strong values and personal integrity
3. Commitment to developing others through coaching and mentoring
4. Champion of diversity
5. Ability to engage and communicate across all leves
6. Self-awareness and taking time to reflect
7. Collaborative, networked and non-hierarchical
8. Agile an innovative, technologically curious and savvy
9. Personal resilience and grit
10. Excellent track record of delivery

Although the report itself did not consider to what extent these characteristics are measurable, how they resonate with other taxonomies and whether business schools are developing them, these are, nonetheless, interesting questions worthy of further exploration.

Accreditation, regulatory and professional bodies

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Many business schools, in order to differentiate themselves on the world stage in an increasingly competitive environment, have sought accreditation from one or more of the international bodies which accredit programmes of study or institutions. The three bodies we will consider are: The Association of MBAS (AMBA); European Foundation for Management Development Quality Improvement System (EQUIS) and; The Association to Advance Collegiate Schools of Business (AACSB).All three bodies, in addition to criteria surrounding the institution, its mission, governance, staff and students, also provide guidelines about the curriculum, including specifics about skills. For example, AMBA, which was founded in the UK but now accredits internationally, contains the following paragraph in its criteria for accreditation (AMBA, 2015: 18): "The programme must also be explicit about the means by which transferable and 'soft' management skills are developed throughout the programme. Such skills include, but are not restricted to: ability to manage change; communication; leadership; teamwork; dealing with ambiguity; negotiation; problem solving; critical thinking; values."

EQUIS is the European Foundation for Management Education Quality Improvement System. It has a section dedicated to skills acquisition (EQUIS, 2015). Applicant schools are asked to "Describe the means by which transferable intellectual skills appropriate to higher education are integrated into the curricula." (p 20) and to "Summarise the key managerial skills (team work, interpersonal skills, presentation skills, project management, leadership skills, etc.) which the School promotes in students and the methods used to achieve them." (p21) In a section on students, EQUIS (2015: 29) makes the following statement: "In sum, business and management education institutions play a key role in developing personal awareness and the appropriate attitudes, values, skills and behaviours to equip students in their professional lives as managers. Schools should be able to demonstrate a concern for the type of managers they are trying to educate, backed by suitable processes for helping students to manage meaningful change, direct their energies and personal skills, and define their own future. As a consequence, the educational experience organised by the School should go much beyond classroom instruction and provide students with structured and monitored opportunities to develop the personal and professional qualities that have been defined as learning outcomes."

AACSB, Founded in the US but accrediting internationally sets out the following general skills (AACSB, 2015: 31 - 32):

"General Skill Areas

- Written and oral communication (able to communicate effectively orally and in writing)
- Ethical understanding and reasoning (able to identify ethical issues and address the issues in a socially responsible manner)
- Analytical thinking (able to analyze and frame problems)

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• Information technology (able to use current technologies in business and management contexts)

• Interpersonal relations and teamwork (able to work effectively with others and in team environments)

• Diverse and multicultural work environments (able to work effectively in diverse environments)

• Reflective thinking (able to understand oneself in the context of society)

• Application of knowledge (able to translate knowledge of business and management into practice)"

For general Master's degree programmes the following learning experiences are also expected

" • Leading in organizational situations

• Managing in a global context

• Thinking creatively

• Making sound decisions and exercising good judgment under uncertainty

• Integrating knowledge across fields "

In the UK the Quality Assurance Agency (QAA) is the body responsible for standards and quality in higher education. It produces subject benchmark statements which "represent general expectations about standards for the award of qualifications at a given level in terms of the attributes and capabilities that those possessing qualifications should have demonstrated." (QAA, 2007: iii)

The latest benchmark statement for Master's degrees in business and management was published in 2007 (QAA, 2007) and there are no current plans for revision. The overall objective of Master's level business and management degrees is described as "to educate individuals as managers and business specialists, and thus to improve the quality of management as a profession." (QAA, 2007: 1)

Within that definition there is some emphasis on skills: "developing skills at a professional or equivalent level"; "the ability to apply knowledge and understanding of business and management to complex issues, both systematically and creatively to improve business and management practice" and; "enhancement of lifelong learning skills and personal development so as to be able to work with self-direction and originality and to contribute to business and society at large." (QAA, 2007: 2)

Within MBA type degrees the main emphasis is on: "leadership through strategic management" with "a strong practical and professional orientation to the curriculum and they may be linked to professional institute qualifications." (QAA, 2007: 3) Specifically: "Graduates will have been able to ground their new knowledge within the base of their professional experience. They will be able to reflect on and learn from that prior experience and thus be able to integrate new knowledge with past experience and apply it to new situations. They will be able to challenge preconceptions and to remove subject and functional boundaries so as to handle complex situations holistically. They should also have particular strengths in analysing, synthesising and solving complex unstructured business problems. In addition to being able to communicate their findings, they should have developed the

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skills to implement agreed solutions effectively and efficiently. They should therefore have strongly developed interpersonal skills and to be able to interact effectively with a range of specialists." (QAA, 2007: 5)

Professional bodies

There are several professional bodies in the UK covering leadership and management. Our focus is on the two chartered bodies, The Chartered Management Institute (CMI) and The Chartered Institute of Personnel and Development (CIPD). For CIPD Chartered membership involves demonstrating underpinning knowledge of Human Resource Management or Human Resource Development at Master's level and demonstrating role-appropriate behaviours through an upgrading process. Not all of the required behaviours are confined to the upgrading process; there are skills and behaviours embedded in the units which form part of the curriculum taught and assessed in HE institutions. For example, the module *Developing Skills for Business Leadership* (CIPD, 2010) contains inter alia the following learning outcomes:

Manage interpersonal relationships at work more effectively; Lead and influence others more effectively; Demonstrate an essential people management skill set, comprising selection, appraisal and disciplinary interviewing, delivering training, making presentations, project management and managing poor performance.

In a similar way there is a separation in CMI between the requirements for Chartered status and the curriculum for postgraduate level awards. The former focus on behaviours and achievements whilst the latter provide underpinning knowledge and understanding. Nonetheless, there are skills and behaviours embedded within these units. For example, the module *Personal leadership development as a strategic manager* (CMI, 2013) contains inter alia the following: Be able to identify skills to achieve strategic ambitions; be able to manage personal leadership development; construct, implement, review and evaluate a personal development plan. There are detailed guidelines within each of the learning outcomes.

Leadership traditions

Leadership theory has traditionally seen the necessary attributes of a leader as being: vision and energy, (Bennis 1999); action, (Adair, 2002); charisma, and the capacity to lead change, (Bass, 2008). More recently sustainable and ethical aspects have been in spotlight (Cameron, 2014).

Most acknowledge the importance of the cultural context, but none present coherent models for turbulent times and few touch on ambiguity. Little attempt has been made to link leadership development and uncertainty through behavioural models emphasising coping mechanisms in time of flux.

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DISCUSSION

Evidence from a succession of reports clearly indicates that UK management education and development fares badly in comparison with other developed countries. Yet, an analysis of the requirements of regulatory, accreditation and professional bodies, many of them with an international emphasis, indicates that UK business schools meet these standards and that, furthermore, those standards include some, at least, of the skills and behaviours which the reports have found lacking. This creates a contradiction which deserves further exploration.

There has been a long tradition in the UK and elsewhere for universities to be reluctant to embrace vocational education. Notwithstanding equally long traditions of preparing students for work in older professions such as medicine or law, that reluctance seems most prevalent in areas of management and business. Reflecting Newman's (1852) seminal writing on the idea of a university, Thorstein Veblen (1918) wrote compellingly about the secularisation of higher education in the USA at a time when business schools had been around for about thirty years. He argued that colleges of commerce emphasized individual gain and were "incompatible with the collective cultural purpose of the University" (p.154) and "a drain on its resources and an impairment of its scholarly animus."(p.155)

Whilst American business schools were first established in the nineteenth century (Wharton dates from 1881), there was a much greater resistance in the UK, perhaps reflecting Newman's ideas and Veblen's sentiments. The distinction between public and private good would later be muddied by the introduction of substantial student fees in the UK, mirroring the long-established position in the USA. It was not until 1965 that England's first business schools were established and later still that the schools at Oxford (1996) and Cambridge (2005) were founded. (There was a Management Studies section in the Department of Engineering at Cambridge as far back as 1954.)

Whilst the USA, Germany and France have been proud of their technical universities and polytechnics, the UK has not. In the 1960s many successful Colleges of Advanced Technology (CATs) were transformed into universities with a concomitant widening of the curriculum. In 1992 the then polytechnics became universities, doubling the provision.

Although business schools have grown in number since 1965, their vocational focus seems by many to have diminished. Mintzberg, for example, asserts:

"And business schools produce enormous quantities of research. Yet they are failing in their fundamental purpose, which is to enhance the quality of leadership in society." (Mintzberg, 2004: 377)

In the UK HE environment academics are increasingly judged by their research output, especially their contribution to the Research Excellence Framework (REF) rather than by the quality of their teaching. There has been considerable disquiet that academic research has had little impact on management practice (Tranfield and Starkey, 1998; Starkey and Madan, 2001: Keleman and Bansal,

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2002: Ford et al., 2005: Brannick and Coghlan, 2006: Worrall et al., 2008; Rowland and Hall, 2010). Notwithstanding more recent assertions by the Association of Business Schools about the relevance of business school research (ABS, 2015), this concern about the perceived relevance of academic research may go some way to explain the contradiction.

A further explanation may be found in a more detailed examination of skills. Although there is mention of skills and even soft skills in the requirements of regulatory, accreditation and professional bodies, the precise nature of those skills is not made explicit.

Skills for a VUCA world

A comment by one of the commissioners for the All-Party Parliamentary Group on Management, which reported in 2014, emphasises the importance of these skills. At the CMI Manchester Lecture in February 2015 Professor Sir Cary Cooper stated that all the witnesses to the Commission cited poor soft skills as the major reason why the UK fall short in the leadership stakes. (Cooper, 2015)

British universities are well-versed in the development and assessment of cognitive skills but less well equipped to deliver behaviours consonant with the demands of a VUCA world. Excellence in the higher levels of the cognitive domain – analysis, synthesis, evaluation – is perhaps a necessary but insufficient condition for effectiveness as a manager or leader in dynamic environments. The experience and career paths of academics teaching in business schools are frequently embedded within these cognitive traditions. There are, to be sure, examples of staff who introduce activities such as action learning, T groups, neuro linguistic programming, transactional analysis, mindfulness or live consultancy projects to their students, but such initiatives are rarely mainstream and their passionate and enthusiastic advocates are often seen as mavericks by their colleagues.

Although, as noted previously, regulatory, accreditation and professional bodies do include skills in their requirements, it seems as though these are interpreted by many universities as cognitive skills much as all the problems encountered by a hammer are seen as nails. Universities have the capability to address cognitive skills but not to deliver with the same degree of effectiveness in the affective and behavioural domains critical to management and leadership in a VUCA world.

As Donald Schön points out:

"In the varied topography of professional practice, there is a high, hard ground where practitioners can make effective use of research-based theory and technique, and there is a swampy lowland where situations are confusing 'messes' incapable of technical solution. The difficulty is that the problems of the high ground, however great their technical interest, are often relatively unimportant to clients or to the larger society, while in the swamp are the problems of the greatest human concern." (Schön, 1983: 42)

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It is not unreasonable to suggest that business schools are on that high, hard ground and rarely venture into the swamp to address concerns such as those presented by a VUCA world. Bennett and Lemoine (2014) provide a guide to identifying, getting ready for and and responding to events in each of the four VUCA categories. For example, they suggest; restructuring and developing specialists to respond to complexity; experimentation to address "unknown unknowns"; building in slack and devoting resources to preparedness to deal with unexpected challenges and; investing in information to counter uncertainty.

Johansen and Voto (2013) identify skills that provide competitive advantage in a VUCA world: empowering leaders to rethink current ways of doing business and seed new innovations; clarity of intent and flexibility in how to achieve that intent; exploring dilemmas to find the best way forward; organising groups of people brought together for a business or social change purpose, making savvy use of available media; using the ecological metaphor of systems theory to reorganise and guide effective teams and: the ability to make common cause with others for mutual benefit through sharing of assets. There is little evidence of these skills in the guidelines of the various overseeing bodies or the curricula of universities delivering programmes in management and leadership.

A long-established method of teaching in business schools is the use of the case study, first developed at Harvard but now universally in use. The skill of writing case studies lies in the ability of the writer to capture succinctly the essence of a situation. This necessarily involves some simplification of complexity and, to some extent, reduction of ambiguity. The freezing in time removes some volatility and perhaps some uncertainty. The case study becomes a sanitised simulacrum of the situation. It encourages the development of cognitive skills of analysis, synthesis and evaluation but may bear little relationship to managerial situations where complexity, uncertainty, ambiguity and volatility are in evidence.

CONCLUSIONS

Although there is some recognition in the curricula of both higher education providers and professional bodies that leaders and managers need to possess skills to enable them to cope with uncertainty and change little seems to be embedded in mainstream management development.

Currently educational establishments are not responding enough to the needs of a fluctuating business landscape. Management education is being disadvantaged by entrenched adherence to outdated processes and behaviours that often focus on stability rather than uncertainty and flux.

This exploratory research finds that the UK experience may very well be typical. However, more international comparisons need to be made.

ISBN: 978-9963-711-37-6

Organizations are operating in a world of rapidly changing scenarios. They are under constant pressure to improve productivity and reduce costs. Effective leadership is a crucial component of helping to ensure competitive advantage by ensuring high performance. Current management thought emphasises a clear need for strategy that recognises important linkages between leadership and performance in flexible and responsive actions that reflect the context of volatile political, economic and technological circumstances

Performance management should ultimately be about performance enhancement. We need to understand the difference between leadership and management. This will enable us to take on either role (or both) to facilitate conditions that ensure people can achieve their best and remain motivated to do so. Herzberg recognised that by treating people the way they are rather than the way we want them to be we have a chance to motivate them. There are many tools that can be used to support efficiency and effectiveness but to achieve lasting success we have to recognize that changing circumstances require a change in skills and attitudes.

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 ISBN: 978-9963-711-37-6

IMPACT OF WORK-PLACE INCIVILITY ON HORIZONTAL SOLIDARITY AND PERCEPTIONS OF JOB-INSECURITY

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ABSTRACT

Drawing on the exchange model and Lazarus' theory of cognitive appraisal we investigated the relationship between perceived incivility and two possible outcomes – horizontal solidarity and perceptions of job-insecurity, while differentiating between two separate sources of perpetrators. Hypothesis one maintained that incivility perpetrated by managers will not impact the exchange relationship with the target's co-workers as they are not part of the exchange. Nevertheless, following the social exchange theory, when co-workers perpetrate the uncivil act, solidarity with co-workers will be damaged. Drawing on theory of cognitive appraisal, hypotheses two suggested that incivility will be assessed as a threat to employees' job-security when a manager perpetrated the uncivil encounter, yet when the uncivil encounter is perpetrated by a peer, incivility will not lead to emotional perception of job insecurity as the target will have more resources to cope with the uncivil encounter.

Data were collected in 2014 in Israel. We distributed an on-line questionnaire and received 648 valid responses. The data were analyzed using structural equational modeling. The model's goodness of fit data indicated a very good fit. Implications and limitations are discussed.

Keyword*: Work-place incivility, horizontal solidarity, job insecurity, social exchange model, theory of cognitive appraisal*

INTRODUCTION

Over the last decades the labor market has extensively changed as processes of globalization impose new rules of competition on employers worldwide. Central manifestations of these developments are the 'precarious class' (Standing, 2011) related also but not only to new forms of occupations due to technological innovations (e.g. call centers), new types of production systems (e.g. lean production) and additional organizational and structural changes such as downsizing, outsourcing, privatization of formerly public services (Landsbergis, et.al. 2014). Furthermore the proportion of employees holding

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union membership declines (Kalleberg, 2009). Due to increasing complexity of work relations, namely changing labor market conditions and changing organization of work, the investigation of behaviors and perceptions such as co-worker solidarity, job insecurity and incivility is extremely important. The purpose of the here presented paper was to investigate two related research questions concerning the impact of incivility perpetrated by either managers or co-workers on perceived job insecurity and horizontal solidarity.

THEORETICAL FRAMEWORK

Cropanzano and Mitchel (2005) reviewed various applications of social exchange theory (SET) and noted that although the norms of reciprocity are originally used for explaining interpersonal relations between two individuals, it can well be applied to social interactions between various groupings of actors including between individuals and organizations (Cropanzano & Mitchel, 2005). This extended approach to interpersonal relationships in organizations was later adopted by scholars using SET framing such as Aryee, Walumbwa, Mondejar and Chu, (2013) investigating the impact of justice perceptions of employees on performance, and Paillé, Grima and Dufour (2012) investigating the impact of support on intentions to leave. Such a wider perspective is missing in the research arena of incivility, which primarily focuses on interactions between individuals (Schilpzand et al., 2015). The basic principles of SET postulate that individuals estimate their exchange with the organization. Once these exchange relationships are perceived as valuable, individuals reciprocate in a manner that is valuable to the organization (Aryee et al., 2013; Paillé et al., 2012). This constitutes the bright side of organizational behavior. This line of thought is well developed in the research of organizational citizenship behavior (Cropanzano & Mitchel, 2005; Paillé et al., 2012). Alternatively, if one of the parties perceives the transaction as negative, on the grounds of the same but now negative norm of reciprocity (Helm et.al. 1972), the other partner to the exchange will react negatively (Cropanzano, & Mitchel, 2005). This alternate line of argumentation refers to the dark side of organizational behavior and researchers found that frequent experiences of coworker incivility is related to increased adverse feelings and decreased work effort (Sakurai & Jex, 2012). These findings demonstrate the darker path of SET, but also indicate that the impact of co-workers' support (or lack of support) goes beyond the boundaries of dyadic interactions.

Incivility was first defined by Andersson and Pearson (1999) as "low-intensity deviant behavior with ambiguous intent to harm the target, in violation of workplace norms for mutual respect" (p. 457). While civility is demonstrated through adequate interpersonal interactions, incivility is represented through inappropriate social encounters (Pearson & Porath, 2005), either active as in the case of public criticism or passive as in the case of silent treatment (Hershcovis, 2011). Incivility is distinct from other

 ISBN: 978-9963-711-37-6

interpersonal mistreatment by two main criteria: Firstly, incivility is low-intensity deviant behavior (Andersson & Pearson, 1999; Pearson & Porath, 2005). The meaning is that compared to high-intensity behaviors such as bullying or aggression, incivility represents a milder form of interpersonal mistreatment (Cortina, Magley, Williams, & Langhout, 2001; Pearson et al., 2000; Pearson, Andersson, & Wegner, 2001). The second criterion which distinguishes incivility from other forms of interpersonal mistreatment is its ambiguous intent to harm, its target (Sliter, Sliter, & Jex, 2012; Trudel, & Reio, 2011). Thus, incivility is subjective in nature and therefore each one of the parties to an uncivil encounter, can interpret reality in a different manner, which eventually leads to differences in attribution of intent. While some targets of incivility perceive it as intended, others might not (Gallus et al., 2014; Sliter et al., 2012). In any case, recent research regards incivility to be a job-stressor (Kern & Grandey, 2009).

Following Lazarus and Folkman's (1984) appraisal theory there are two types of coping responses to work stressors: emotion focused and problem focused. The response depends upon the appraisal of the situation as either harmful threatening or challenging and upon the appraisal of coping resources. Problem solving responses are based on capabilities to manage the stressful situation due to positive evaluation of external and internal coping resources. Emotional responses are based on perceptions of deficiency of these coping resources (Brown, Duck & Jimmieson, 2014; Folkman, 2010; Lazarus & Folkman, 1984).

Possible outcome of work related stress is perceptions of job-insecurity (Brockner & Wiesenfeld, 1993; Jacobson, 1991). While job security is perceived as a motivational factor or an antecedent of job-satisfaction (Rosenblatt & Ruvio, 2000), job-insecurity is considered to be a forecaster of dysfunctional personal feelings such as weakened perceptions of general health (Bernard Oettel, De Cuyper, Schreurs, & De Witte, 2011), as well as a predictor of dysfunctional organizational attitudes and behaviors such as decline in affective commitment (Vander Elst, De Cuyper, & De Witte, 2011; Vander Elst, De Witte, & De Cuyper, 2014), decreased performance and increased withdrawal intentions (Greenhalgh & Rosenblatt ,1984). Job insecurity was defined by some researchers as the ''powerlessness to maintain desired continuity in a threatened job situation'' Greenhalgh and Rosenblatt (1984, p. 438) or as a "discrepancy between the level of security a person experiences and the level she or he might prefer'' Jacobson and Hartley (1991, p 1431). By stressing that job- insecurity refers to the gap between the desired level of security and the perceived level of security in relation to job's characteristics over and above the overall continuity of the job as a whole, Greenhalgh and Rosenblatt (1984), embraced a wider, multi-dimensional approach to job insecurity which is not limit to one dimension of job insecurity centering around the continuity or discontinuity of the job, but can also be a potential

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outcome of any threat sourcing from variety of working conditions (Ruvio and Rosenblatt, 2000), thus inferring that uncivil working conditions can also produce job insecurity perceptions.

Drawing on Lazarus and Folkman appraisal theory (1984), and the multi-dimensional approach to job insecurity it is reasonable to posit that uncivil encounters will be interpret by targets as threats to their job security in those situations in which they feel they do not have resources to cope with these threats. Therefore it is safe to assume that when manager perpetrates the uncivil act, it will be perceived as imposing job insecurity. The manager is in charge of the majority of the socioeconomic resources of his employees. Incivility perpetrated by a manager might therefore be perceived as an indication of future loss of resources. This however is not the case when uncivil acts are perpetrated by peers who are not in charge of the target's actual and potential resources. Thus, incivility from peers will not be perceived as a threat to one's job security.

Hypothesis 1: Incivility will be assessed as a threat to employees' job-security when a manager perpetrated the uncivil encounter, yet when the uncivil encounter is perpetrated by a co-worker, incivility will not lead to emotional perception of job insecurity.

Solidarity refers to a situation in which the well-being of one person or group is positively related to that of others, indicating mutual interdependence (De Beer & Koster, 2009: 12). Solidary behavior is defined as the degree to which employees help colleagues (horizontal) and the manager (vertical) to complete a task, the degree to which employees are trying to recover mistakes during work, the extent to which employees make an apology when they make mistakes and the extent to which the employee has fairly shared tasks and fulfils agreements (Koster and Sanders, 2006). Solidarity implies the contribution of private resources without expecting financial compensation in order to realize collective purposes and therefore Koster and Sanders (2006) maintain that horizontal solidarity concerns behaving agreeably with co-workers even when it is not convenient or formally pronounced. The willingness to help others is largely a feature of the relationship between people (Koster and Sanders, 2006; Sanders, Emans and Koster, 2004) and therefore – applying the principles of SET - an employee may behave in a solidary manner in one relationship and not so in another relationship (Sanders, 2005). The experience of incivility and especially its source in terms of perpetrator, can explain solidarity behavior between co-workers. Drawing upon SET an uncivil encounter between employees and managers should not influence horizontal solidarity between co-workers, since managers are not part of these exchange relationship. But when co-workers perpetrate uncivil behavior we expect a negative impact on horizontal solidarity.

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Hypothesis 2: Incivility perpetrated by managers will not impact horizontal solidarity while co-workers' incivility will decrease horizontal solidarity.

METHOD

Data for the study were gathered in 15 organizations of various types located in Israel by students enrolled at the time of data collection in seminars on organizational behavior in three colleges geographically located in the North, South and center of Israel. The students approached working adults from different industries and occupational status to take part in our study, which is - following Lim & Lee (2011) an acceptable sampling method. The survey was administered via a web link in 2014, accompanied by a cover letter stressing the importance of the research, encouraging them to respond truthfully, and assuring their complete anonymity. The final sample consisted of 684 individuals, after we excluded participants who answered to less than 30% of the survey items. 60% of the sample population was male and 40% female, with an average age of 35 (SD = 10.1) ranging between 19 and 70. 84% were employed on a permanent basis and 16% were temporary employees. The mean years of employment of the survey participants was 6 (SD = 6.4) ranging from 1 to a maximum of 45 years.

In order to ensure construct validity we employed principle component analyses using verimax rotation and reliability tests to all three scales.

The work incivility scale (WIS) developed by Cortina et al. (2001) was used in order to measure incivility perceptions. The scale consists of seven items on a five point Likert scale ranging from 1= "nearly never" to 5= "most of the time". Participants were asked "During the past year have you been in a situation where any of your supervisors or co-workers:" Sample items were "Put you down or was condescending to you?" "Paid little attention to your statement or showed little interest in your opinion?" The final Cronbach's alpha of the sub factor was equal to .870.

In order to measure job insecurity we used the Vander Elst et.al. (2014) scale. The scale consists of four items on a five point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree. Sample items were "Chances are that I will soon lose my job", and "I am sure that I can keep my job". The final Cronbach's alpha of the sub factor was equal to .731.

Based on Koster (2005), we used the following five items to measure solidarity toward co-workers: (1) "I help my co-workers to finish tasks"; (2) "I am willing to help my co-workers when things go wrong unexpectedly"; (3) "I apologize to my co-workers when I have made a mistake"; (4) "I try to divide the pleasant and unpleasant tasks equally between myself and my co-workers"; and (5) "I live up to

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agreements with my co-workers" (Koster, 2005: 127). The Cronbach's alpha of the constructed horizontal solidarity index was .815.

FINDINGS

Table 1 illustrates the descriptive statistics of the research variables.

	M	*SD*	*1*	*2*	*3*	*4*	*5*
1. Horizontal solidarity	4.12	.64	(.815)				
2. Incivility	1.72	.70	-.16**	(.870)			
3. Job insecurity	1.85	.84	-.15**	.26**	(.731)		
4. Gender	1.4	.491	.03	.04	-.09*	.02	
5. Age	35.74	10.13	.06	.04	-.07*	-.12**	.02

Note: N = 684. Gender coded 1 = male, 2 = female. Coefficient alpha for each scale is in parentheses.

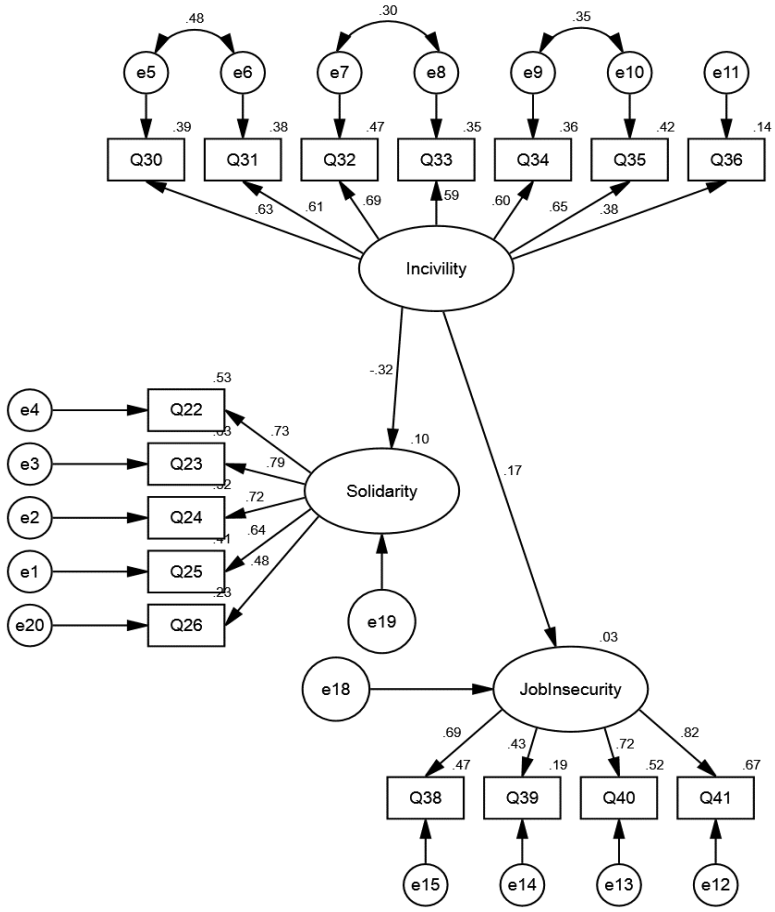
*p≤.05 **p≤.01

Table 1: *Descriptive Statistics and Correlations*

Structural equation modeling (SEM) was employed to test the research hypotheses. Data used for the SEM were analyzed with the maximum likelihood method. Three fit indices were computed in order to evaluate the model fit: $\chi^2(df)$ ($p > .05$), *CFI* (> 0.9), and *RMSEA* (< .08). The measurement model includes the following factors: The work incivility scale (WIS), latent variable with seven observed variables; horizontal solidarity, latent variable with five observed variables; and job insecurity scale (JIS) latent factor composed of four observed variables.

The path model was constructed as follows: paths were specified between incivility horizontal solidarity and job insecurity. In addition sample was divided into two separate groups which were distinct by perpetrator's status. The first group (i.e. group 1) comprised those individuals who were perpetrated by coworkers while the second group (i.e. group 2) constitute individuals who were perpetrated by their direct manager. The goodness of fit of the data to the model yielded very good fit results ($\chi^2 = 438.219_{[df = 198]}$, $p = .000$; *CFI* = .940; *RMSEA* = .043). Specifically, for group 1 the results showed a negative (moderate) significant coefficient between WIS and horizontal solidarity ($\beta = -.32$, $p < .001$), and for group 2 results indicate e a low negative connection between incivility and horizontal solidarity ($\beta = -.17$, $p < .005$) and positive moderate connection between incivility and job insecurity. In total, in group 1 in which co-workers perpetrated the uncivil behavior (figure 1) incivility perceptions explained 10% of the horizontal solidarity's variances, while for group 2 (figure 2) in which managers perpetrated the uncivil behavior incivility perception explained 3% of the variance of horizontal solidarity and 14% of the variance in job insecurity.

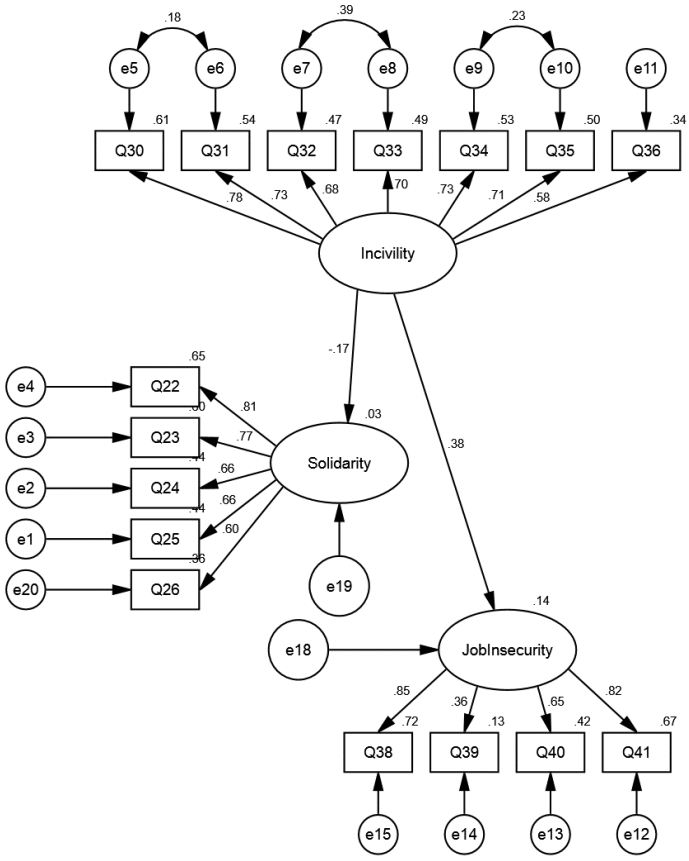
ISBN: 978-9963-711-37-6



Note: *$p < .05$ **$p < .01$ ***$p < .001$

Figure 1. *The structural model, with standardized parameter estimates for group 1(N= 178).*

ISBN: 978-9963-711-37-6



Note: *$p < .05$ **$p < .01$ ***$p < .001$

Figure 2. *The structural model, with standardized parameter estimates for group* 2 (*N*= 475)

DISCUSSION AND CONCLUSIONS

In order to account for increasing complexity of work relations in terms of changing labor market conditions and changing organization of work, the purpose of the here presented paper was to investigate two related research questions concerning the impact of incivility perpetrated by either managers or co-workers on perceived job insecurity and horizontal solidarity.

Specifically we hypnotized that incivility will be assessed as a threat to employees' job-security when a manager perpetrated the uncivil encounter, yet when the uncivil encounter is perpetrated by a co-worker, incivility will not lead to emotional perception of job insecurity. Additionally we expected that incivility perpetrated by managers will not impact horizontal solidarity while co-workers' incivility will decrease horizontal solidarity.

Based on the path models results, both hypotheses were accepted. In additional we found that uncivil behavior perpetrated by managers caused a minor negative impact on horizontal solidarity. It could be

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that the overall impact of uncivil behavior on target persons influences the perception of reciprocity also indirectly, thus reducing – if only to a small degree – cooperative behaviors of organizational members. An additional plausible explanation could be related to the psychological and physical well-being: a number of studies found that exposure to incivility negatively impacts the psychological and physical wellbeing of employees exposed to incivility (Hershcovis, 2011; Miner & Eischeid, 2012; Gallus et al. 2014; Porath & Pearson, 2012).

To the best of our knowledge there are very few – if at all - studies investigating the impact of incivility on job insecurity. Only very few studies differentiate between different sources of incivility and even fewer distinguish between the potential diverse impact of different sources (Schilpzand et.al. 2015; Itzkovich, 2014). Our study not only addresses this lack but also accounts for different impacts of perpetrators positioned as managers versus peers in the organizational hierarchy, thus contributing to the research agenda on incivility and its organizational outcomes.

In addition, to date there is no research assessing the relationship between incivility and organizational solidarity, and that despite of the fact that cooperative behavior of employees is a critical factor in the changing landscape of labor market relations and is assumed to reduce uncivil behaviors in organizations. Accounting for the relationship between these variables concerns an additional contribution of our study.

The main limitation of this study concerns its cross sectional design, which limits the option to infer causality between the variables. Further research should deal with this limitation. Indeed, only Porat and Erez (2007; 2009) used an experimental design dealing with the limits of cross sectionalism. In addition future research should investigate solidarity and incivility while considering them as poles on one continuum of organizational behavior, thereby adding to the theoretical agenda.

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 ISBN: 978-9963-711-37-6

UNEMPLOYMENT AND INFLATION RATES IN THE YEARS OF ECONOMIC TURBULENCES OR DO THE PHILLIPS CURVE RELATIONSHIPS STILL HOLD?

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ABSTRACT

The Phillips curve is a well-known and widely discussed notion. This relationship between the unemployment and inflation rates was quickly transferred from the area of economic theory to the practice of economy, that is, of central banks. However, it has been gradually discovered that this relationship only expresses economic interdependence at a certain moment of time and a certain point in space. New economic phenomena raise doubts about its validity on not only the long-term, but even the short-term scale. From the viewpoint of statistics, each statistically proven relationship is only valid in the given time and space and cannot be mechanically applied under different conditions. This relationship is also statistically dubious regarding the independent and dependent variables. This paper points out certain statistical ambiguities related to applications of the Phillips curve and provides a test of significance for a set of 30 countries in the period from 2003 to 2014 to show that the inflation rate only weakly responds to changes in the unemployment rate; that is, the Phillips curve relationships are not valid.

Keywords*: Phillips curve, unemployment rate, inflation rate, test of significance of changes*

INTRODUCTION

The Phillips curve, expressing the relationship between the rate of unemployment and rate of inflation, has undoubtedly been one of the most disputed postulates of economics. The original notion was formulated by A. W. Phillips (Phillips, 1958) in 1958 as a relationship between wages and the unemployment rate; later it was modified to that between the inflation and unemployment rates. This generalisation of the relationship, first pointed out by I. Fisher (Fisher, 1973) as early as in 1926, gave a strong impulse to later considerations by central banks with respect to estimating the inflation rate on the basis of the unemployment rate.

 ISBN: 978-9963-711-37-6

The pricing Phillips curve has, for many years, been understood as a stable economic formula whose validity was taken for granted by many creators of economic policies and representatives of central banks. The simplicity of shaping the policy by influencing the unemployment via support of demand, thus regulating the price increase, was rather tempting. Relative stability of prices seen after World War II lulled the fears of a high inflation rate; the economic growth was high and the unemployment low. The change of economic conditions in the 1970s (oil crisis, changes in the structure of the labour market, growth of work productivity, development of information technologies, inflation targeting) led to disillusion from inability to make use of the inversion relationship between the inflation and unemployment rates on a long-term basis. In other words, one of the most important economic notions, often taken as a law, ceased to be deemed valid. M. Friedman (Friedman, 1968) and E. Phelps (Phelps, 1967) recapitulated reasons for that fact. It was necessary to accept that unemployment is a result of a number of economic processes and cannot be controlled just by changes in aggregate demand. Behaviour of central banks based on expectations about the inflation rate also played an important role in the departure from the Phillips curve. Such expectations considerably distort the relationship between the unemployment and inflation rates because the expected inflation rate affects behaviour of economic subjects, which substantially determines the actual inflation rate. Nonetheless, M. Friedman and E. Phelps admit that the Phillips curve relationship does hold, but it is accompanied by expectations of growing inflation.

Later, in (Atkeson and Ohanian, 2001) or (Lansing, 2002), the ability of the Phillips curve relationship to predict the inflation even on a short-term basis was disputed. Atkeson and Ohanian showed that it is inaccurate and unsuitable to predict the inflation rate on the basis of the unemployment rate and, when subsequently verified, it may bring good results more or less at random. Quick changes in the economic conditions in recent decades indicate that the relationship, which was observed as a statistical dependence formula in the conditions of the United Kingdom from mid-19th to mid-20th centuries, cannot be applied to the modern and quickly changing economies.

STATISTICAL VIEW OF THE PHILLIPS CURVE

Nonetheless, we should recall that the relationship between the inflation and unemployment rates was derived from a statistical inter-relation between these variables. Phillips took the unemployment rate as the dependent variable (it is interesting to point out that I. Fisher viewed the inflation rate as the dependent variable, cf. Fisher, 1973). However, discussions over this relationship have often interpreted the relationship as reciprocal, and economic arguments for taking the unemployment rate as the dependent variable were given hardly any attention.

 ISBN: 978-9963-711-37-6

The relationship was understood as a trade-off; that is, lower unemployment makes prices go up faster and a rapid price increase is connected to a lower unemployment rate. This view is easy to grasp for an economist, but hard to understand for a statistician. Another difficult point arises in situations when the decreasing Phillips curve intersects with the x axis. The intersection is often interpreted as the natural value of the unemployment rate, i.e., the value at which the inflation rate is zero. If the unemployment rate is lower than this natural value, the inflation rate grows when the unemployment rate goes down. However, if the unemployment rate exceeds that natural value, the inflation rate is negative. In other words, does increasing unemployment above the natural value cause deflation? This situation, implied by the many-times published graphical shape of the Phillips curve, has never been commented on. Neither has it ever been said that the validity of the Phillips "law" was restricted only to a certain range of the unemployment rate (as the dependent variable) or a certain domain of the inflation rate (as the independent variable).

From the statistical viewpoint, we can say that dependence observed in one country for a long time was not only wrongly (from the economic viewpoint) generalised to a different time and a different territory, but, without proving the factual economic connection and mathematical correctness of the said relationship, it has been employed in formulation of economic policies. It should have been more than clear that this approach is bound to fail in due time. Existence of a statistically proven dependence does not imply that this dependence is causal (we often encounter this problem in medicine: despite a proof of a statistical dependence, doctors are often unable to reveal its cause). We need not recall that two variables may also be inter-dependent only apparently, via the influence of a third variable (either known, or well hidden).

A significant statistical aspect of doubts about applying the relationship between the unemployment and inflation rates that used to be valid from mid-19th to mid-20th centuries (or to even regard it as a law) is given by the contents of these indices. Both their definitions and the methods for their determination have substantially been changed several times since Phillips' work was published. Consequently, their values, interpretations and ability to reflect reality have been changed with respect to what was true 100 years ago.

One more fact is worth mentioning. Phillips and other economists formulated their considerations in times when economies of individual countries were not nearly not as inter-connected as today. For example, unemployment was then much less affected by migration of people to get work – this migration is virtually unlimited nowadays. On the other hand, production processes were not as easily moved to get a less expensive labour force (in our times, for example, it is quite common to build new technological units or even factories in countries with a lower cost of labour, etc.). Price evolution in

 ISBN: 978-9963-711-37-6

individual countries is also very tightly inter-connected, not only due to the existence of the Euro. Mechanisms of international trade and international marketing are much more often utilised by large companies which exist in the space of multinational consolidation, tax systems, etc.; all such aspects affect price evolution as well. Hence, Phillips postulates and other rules cannot be related to a sole country or a small group of countries but a methodology must be created to enable us to comprehensively evaluate any (large) number of countries with respect to mutual changes of their values of the unemployment rate and their price levels.

A critical statistical view of the Phillips curve and its utilisation has led us to question whether a common statistical tool would or would not be able to disprove the validity of the trade-off relationship between the unemployment and inflation rates, and evolution of one of the rates does not enable us to predict the evolution of the other. It was clear to us that a critical view of the Phillips curve must consider not only a longer period of time (also covering years of economic growth and those of recession or crisis) but also a number of countries; and our statistical apparatus will have to be able to assess whether the inflation rate does or does not respond to the changes in the unemployment rate in the expected way. The authors have chosen a test of significance of changes, developed by themselves, for the statistical tool needed.

METHODOLOGY OF ANALYSIS

As already mentioned above, the relationship between the unemployment and inflation rates is not easy to assess for many countries. We will use an original statistical test we published in (Hindls and Hronová, 2007). This test can be applied to any number of countries. As the first approximation, we took the unemployment rate (variable UNEM, in %) and inflation rate (variable INFL, in %) data from the Eurostat database for 30 selected European countries in the years from 2003 to 2014 (cf. http://ec.europa.eu/eurostat/data/database).

Hence we assume that we have the UNEM and INFL values in our group of n = 30 countries. The data is not static, we have time series of them, with a length of m =12 (years). Now we suggest a statistical test enabling us to objectively assess significance of mutual total changes in the variables UNEM and INFL in the period of 2003 to 2014. Thus we will be able to formulate a summary conclusion concerning the relationship between the unemployment and inflation rates over many years and many countries.

Let us denote the UNEM percentage value for the ith country by symbol x_i. Similarly, y_i, i = 1, 2, …, n, will denote the INFL percentage values, and n stands for the number of countries. The first year of our analysis will be denoted by "1" (it will be 2003 in our particular instance), the second year by "2" (i.e., 2004 in our case). Later we will analyse the entire period of 2003 to 2014.

 ISBN: 978-9963-711-37-6

In other words:

- symbol x_{1i} stands for the value of UNEM in the ith country, $i = 1, 2, ..., n$, (in our case it is $n = 30$) in the 1st period (year 2003),
- symbol x_{2i} stands for the value of UNEM in the ith country, $i = 1, 2, ..., n$, ($n = 30$) in the 2nd period (year 2004),
- symbol y_{1i} stands for the value of INFL in the ith country, $i = 1, 2, ..., n$, in the 1st period (year 2003),
- symbol y_{2i} stands for the value of INFL in the ith country, $i = 1, 2, ..., n$, in the 2nd period (year 2004).

Each of the n countries is thus evaluated in light of value pairs UNEM (= x) and INFL (= y) in two different periods (here, two different years). Table 1 contains the original data about the annual inflation and unemployment rates for years 2003 and 2004 x_{1i}, x_{2i}, y_{1i}, y_{2i} (in %) taken from the Eurostat database (cf. http://ec.europa.eu/eurostat/data/database); Table 1 also contains calculations.

Furthermore, we will introduce the following notation:

- K_1 is the mean values (the so-called mean spatial localisation) of both observed indices, UNEM and INFL, in the 1st period (here, year 2003), that is, the mean value of all distances of points [x_{1i}; y_{1i} (x, y), from the beginning [0; 0] in the Cartesian coordinates (x, y) – cf. Formulas (2) and (3) below;
- similarly, K_2 is the mean values (the so-called mean spatial localisation) of both observed indices, UNEM and INFL, in the 1st period (here, year 2003), that is, the mean value of all distances of points [x_{2i}; y_{2i}] from the beginning [0; 0] in the Cartesian coordinates (x, y) – cf. again Formulas (2) and (3) below.

The test is formulated as follows:

First Step

Test the zero hypothesis H_0 that both values of the mean spatial localisation in the two-dimensional Cartesian coordinates are mutually equal, i.e.

$$H_0: \quad K_1 = K_2 \tag{1a}$$

against alternatives

$$H_1: \quad K_1 \circledcirc K_2 \text{ (bilateral alternative)}, \tag{1b}$$

ISBN: 978-9963-711-37-6

or

H_1: $K_1 \circledcirc K_2$ (right-hand-sided alternative), (1c)

or

H_1: $K_1 \circledcirc K_2$ (left-hand-sided alternative). (1d)

Second Step

The test criterion is the statistic

$$t = \frac{\dfrac{\sum_{i=1}^{n} k_i}{n}}{\sqrt{\dfrac{\sum_{i=1}^{n}\left[k_i - \dfrac{\sum_{i=1}^{n} k_i}{n}\right]^2}{n(n-1)}}}, \tag{2}$$

where $k_i = \mathrm{sign}\{y_{2i}^2 + x_{2i}^2 - y_{1i}^2 - x_{1i}^2\}\sqrt{(x_{2i} - x_{1i})^2 + (y_{2i} - y_{1i})^2}$, (3)

$\dfrac{\sum_{i=1}^{n} k_i}{n}$ is a point estimate of the statistic $K_2 - K_1$. (4)

The test utilised here, cf. Formulas (2), (3), and (4) is a test for equality of mean values for two dependent samples. The statistic given in Formula (2) has, under hypothesis H_0, Student's *t*-distribution $t[n-1]$; see (Cyhelský *et al*., 1999) for more details.

Operator sign{...} determines the sign of the "total spatial" change ("⊚") in the level of two-index evaluation in the second (later) period (year 2004 here) as compared with the first period (year 2003). Hence the sign operator here expresses whether the *i*th spatial localisation values (i.e., the value for the *i*th country) in the 2nd period (year 2004) was closer to („–“) or further from („+“) the origin [0; 0] in comparison with the 1st period (year 2003). For example, if the *i*th spatial localisation is further from the origin [0; 0], the "+" sign says that the *total* (for both UNEM and INFL together) position in the *i*th country moved further from the origin [0; 0]. Of course, the "– " sign corresponds to the opposite situation of getting closer to the origin [0; 0].

Third Step

The critical area *W* of our test is defined by the following inequalities:

ISBN: 978-9963-711-37-6

$$W = \left\{ \begin{array}{l} |t| \geq t_{1-\alpha/2}[n-1] \\ t \leq t_{\alpha}[n-1] \\ t \geq t_{1-\alpha}[n-1] \end{array} \right\}, \qquad (5)$$

where $t..[n–1]$ are the quantiles of Student's t-distribution, and α is the level of significance.

Fourth Step

On the basis of the Third Step's result we can, on the chosen level α of significance, formulate our conclusion about the statistical significance of the change in values UNEM and INFL as a total of all n = 30 countries under consideration.

Country	x_{1i}	x_{2i}	y_{1i}	y_{2i}	x_{1i}^2	x_{2i}^2	y_{1i}^2	y_{2i}^2	h_i	V_i	k_i	$(k_i - k_{average})^2$
Belgium	8.2	8.4	1.5	1.9	67.24	70.56	2.25	3.61	0.44721	4.68	0.4472136	0.3819710
Bulgaria	13.7	12.1	2.3	6.1	187.69	146.41	5.29	37.21	4.12311	-9.36	-4.1231056	15.620527
Czech Republic	7.8	8.3	-0.1	2.6	60.84	68.89	0.01	6.76	2.74591	14.8	2.7459060	8.5073165
Denmark	5.4	5.5	2.0	0.9	29.16	30.25	4.00	0.81	1.10454	-2.10	-1.1045361	0.8718175
Germany	9.7	10.4	1.0	1.8	94.09	108.16	1.00	3.24	1.06301	16.31	1.0630146	1.5223586
Estonia	10.3	10.1	1.4	3.0	106.09	102.01	1.96	9.00	1.61245	2.96	1.6124516	3.1800731
Ireland	4.6	4.5	4.0	2.3	21.16	20.25	16.00	5.29	1.70294	-11.62	-1.7029386	2.3473740
Greece	9.7	10.6	3.4	3.0	94.09	112.36	11.56	9.00	0.98489	15.71	0.9848858	1.3356660
Spain	11.5	11.0	3.1	3.1	132.25	121.00	9.61	9.61	0.50000	-11.25	-0.5000000	0.1083566
France	8.6	8.9	2.2	2.3	73.96	79.21	4.84	5.29	0.31623	5.70	0.3162278	0.2372198
Croatia	14.2	13.9	2.4	2.1	201.64	193.21	5.76	4.41	0.42426	-9.78	-0.4242641	0.0642317
Italy	8.4	8.0	2.8	2.3	70.56	64.00	7.84	5.29	0.64031	-9.11	-0.6403124	0.2204190
Cyprus	4.1	4.6	4.0	1.9	16.81	21.16	16.00	3.61	2.15870	-8.04	-2.1587033	3.9516626
Latvia	11.6	11.7	2.9	6.2	134.56	136.89	8.41	38.44	3.30151	32.36	3.3015148	12.057140
Lithuania	12.4	10.9	-1.1	1.2	153.76	118.81	1.21	1.44	2.74591	-34.72	-2.7459060	6.6310455
Luxembourg	3.8	5.0	2.5	3.2	14.44	25.00	6.25	10.24	1.38924	14.55	1.3892444	2.4338147
Hungary	5.8	6.1	4.7	6.8	33.64	37.21	22.09	46.24	2.12132	27.72	2.1213203	5.2539275
Malta	7.7	7.2	1.9	2.7	59.29	51.84	3.61	7.29	0.94340	-3.77	-0.9433981	0.5968701
Netherlands	4.2	5.1	2.2	1.4	17.64	26.01	4.84	1.96	1.20416	5.49	1.2041595	1.8905806
Austria	4.3	4.9	1.3	2.0	18.49	24.01	1.69	4.00	0.92195	7.83	0.9219544	1.1941656
Poland	19.8	19.1	0.7	3.6	392.04	364.81	0.49	12.96	2.98329	-14.76	-2.9832868	7.9099446
Portugal	7.4	7.8	3.3	2.5	54.76	60.84	10.89	6.25	0.89443	1.44	0.8944272	1.1347610
Romania	7.7	8.0	15.3	11.9	59.29	64.00	234.09	141.61	3.41321	-87.77	-3.4132096	10.513062
Slovenia	6.7	6.3	5.7	3.7	44.89	39.69	32.49	13.69	2.03961	-24.00	-2.0396078	3.4923514
Slovakia	17.7	18.4	8.4	7.5	313.29	338.56	70.56	56.25	1.14018	10.96	1.1401754	1.7187206
Finland	9.0	8.8	1.3	0.1	81.00	77.44	1.69	0.01	1.21655	-5.24	-1.2165525	1.0935473
Sweden	6.6	7.4	2.3	1.0	43.56	54.76	5.29	1.00	1.52643	6.91	1.5264337	2.8806853
United Kingdom	5.0	4.7	1.4	1.3	25.00	22.09	1.96	1.69	0.31623	-3.18	-0.3162278	0.0211421
Iceland	3.3	3.1	1.4	2.3	10.89	9.61	1.96	5.29	0.92195	2.05	0.9219544	1.1941656
Norway	4.2	4.3	2.0	0.6	17.64	18.49	4.00	0.36	1.40357	-2.79	-1.4035669	1.5196540
Total	253.4	255.1	86.2	91.3	2629.76	2607.53	497.64	451.85	46.30650	-68.02	-5.1247321	99.8845707

Table 1. *Calculation table – comparison between years 2003 and 2004*

Comment: we have introduced auxiliary notations for the sake of simplicity:

ISBN: 978-9963-711-37-6

$h_i = \sqrt{(x_{2i} - x_{1i})^2 + (y_{2i} - y_{1i})^2}$, and $V_i = y_{2i}^2 + x_{2i}^2 - y_{1i}^2 - x_{1i}^2$.

RESULTS OF ANALYSIS

Our analysis (cf. Table 2) is an illustration of comparing years 2003 and 2004. In the actual testing of the above-mentioned zero hypothesis (1a) against bilateral alternative (1b) the chosen level of significance is $\alpha = 0.05 = 5$ %. With the aid of the described procedure and making use of the data and calculation Table 1 we get, for the test statistic t:

$$t = \frac{\frac{-5{,}1247}{30}}{\sqrt{\frac{99{,}8846}{30\,.\,29}}} \doteq -0{,}5042\,.$$

For the bilateral alternative H_1 given as (1b), the corresponding quantile of Student's $t$distribution is $t_{0.95}[29] = 1.699$. According to (5) we get $|-0.5042| = +0.5042 < 1.699$. We therefore do not reject the hypothesis H_0 given in (1) saying that the mean spatial localisations are mutually equal, i.e., the difference between the UNEM and INFL values between years 2003 and 2004 is statistically insignificant for the chosen 30 countries.

The value of the test criterion is negative, $t = -0.5042$. It means (as noted above in the Second Step) that the mean value over all 30 points $[x_{2i}; y_{2i}]$ in 2004 is closer to the origin [0; 0] than in 2003 (in which it is the mean value for all points $[x_{1i}; y_{1i}]$). Regarding the economic development, years 2003 and 2004 were economically successful. The values of UNEM and INFL did not undergo a significant mutual change in those years; they did not move against each other, which should have happened if the Phillips postulate held.

Let us now apply the test of significance of change generally, i.e., to all data concerning UNEM and INFL in the selected 30 countries in the entire period 2003–2014. In that period, positive development prevailed in the years from 2003 to 2007, while the world financial crisis occurred in years 2008 and 2009, with the subsequent global economic recession. Years 2010 and 2011 can be viewed as a period of partial economic recovery, but the economies slowed down and the recession re-occurred in 2012 and 2013. These fundamental facts should be visibly reflected in the outcome of our test.

If our test is applied to the entire time series, that is, for all pairs from the years 2003 to 2014, we get Table 2. This Table shows all values of the test criterion t. It is symmetric with respect to its main diagonal (hence only a part of the Table is shown). The entries above the main diagonal (bold-framed)

ISBN: 978-9963-711-37-6

show the test criterion values in consecutive years, that is, 2004 to 2003 (for which we explained above the illustration calculation of the value of t = ◎0.5042); other periods are analogous, i.e., 2005 to 2004, 2006 to 2005, 2007 to 2006, ... 2014 to 2013, as well as all pairwise combinations of years from 2003 to 2014 – cf. Table 2.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
2003		-0.5042	-1.6145	-3.3396	-4.0299	-0.5538	0.0769	0.9939	1.0486	1.8391	1.4315	1.0780
2004			-3.1960	-4.2686	-4.6243	-0.9644	-0.1058	1.3128	1.3601	1.5806	1.2169	0.3109
2005				-3.6259	-4.4094	0.1066	0.4390	1.9604	2.2456	2.2736	2.1860	0.9170
2006					-1.9210	1.2597	1.6953	2.8373	3.6583	3.5734	3.7430	2.5006
2007						3.7667	2.9261	4.9049	5.9766	5.3796	4.4551	2.6355
2008							1.4107	2.6755	1.4507	1.5046	1.0212	0.4595
2009								3.3042	2.2987	2.1518	1.6131	0.4492
2010									-0.2925	0.7848	0.6110	0.0478
2011										1.8039	0.8156	-0.7100
2012											0.0633	-1.5519
2013												-5.7846
2014												

Table 2. *Test values for the significance of the ratio change*

The values of the test criterion t (Table 2) are also shown in a chart in Figure 1. We can see in the chart that the values of t go down to negative values for the years after 2003, when the economies grew (accompanying the recovery). And the other way around, the values of t get above zero for the times in which the world economy cut back to recession (2008 to 2010, cf. the bold-framed entries in Table 2) A hint of prosperity in 2011 was sufficient to bring the test values back below zero. With return of economic difficulties to European economies in the years 2012 and 2013 values of t grow again. Year 2014 saw a fragile economic growth in Europe and the test value t gets below zero, as compared with 2013).

How can we interpret these observations from the viewpoint of the Phillips curve? Having a look at all values of UNEM and INFL, we can calculate that the variability of INFL values is more than three times lower than that of UNEM. The changes in the values of t shown in Table 2 are mainly caused by changes in UNEM; the influence of INFL is lower. Hence the prevailing negative values of t (that is, parallel approach to the origin) in the years of economic prosperity before 2008 indicate that the opposite tendencies in UNEM and INFL are not provable. Neither do the positive values of t in the years 2012 and 2013 prove such opposite tendencies in UNEM and INFL. A fragile recovery in 2014 puts the t statistic's value back to negative in comparison with 2013 (cf. Fig. 1).

ISBN: 978-9963-711-37-6

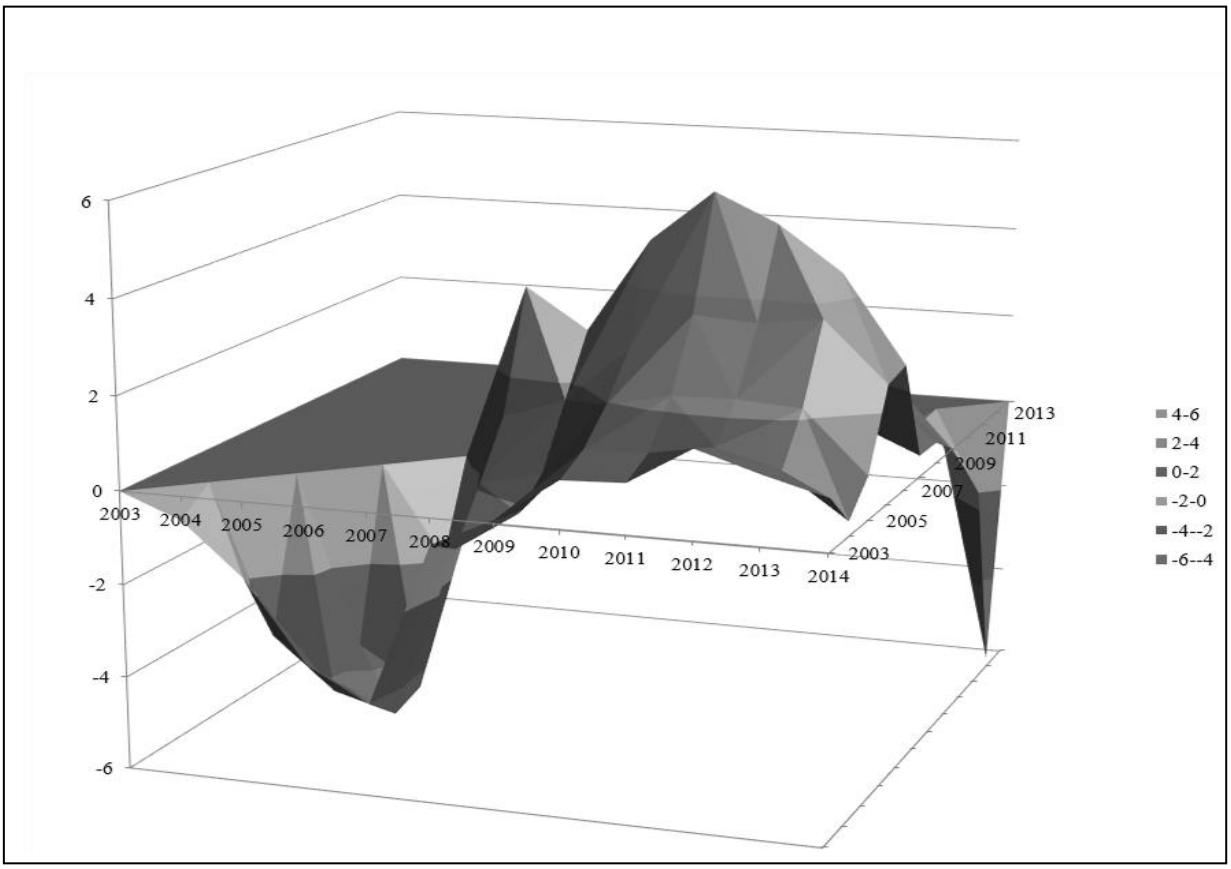

Figure 1. *Test criterion values for all year pairs from 2003–2010*

A look at Table 2 provides some more interesting information: for example, the value of the test criterion comparing the UNEM and INFL values in 2009 with those of 2003 is t = 0.0769, i.e., nearly zero. The description of our test implies an interpretation: in 2009, when the economies were hit by a crisis, the mutual ratio of the UNEM and INFL indices in the total of the 30 considered countries was virtually identical with that of 2003. In 2009, in the time of a world-wide economic recession, the shape of the Phillips curve got back to that valid in 2003, in which year a certain economic recovery was beginning. In other words, the 2009 crisis put the ratio between UNEM and INFL by five to six years back. On the basis of the Table, a similar consideration is valid for the years 2010 and 2014 (here t = 0.0478, nearly zero again). The described relationships imply that the dependence of the inflation rate changes on the unemployment rate is insignificant. The evolution of the unemployment rate hence does not allow us to reliably predict evolution of price levels.

CONCLUSIONS

The Phillips curve, describing a relationship between the unemployment and inflation rates, has become subject to many disputes among economists. We can see that postulates several decades old fail to be valid under current economic conditions, or they will have to be modified and updated. This paper is one of the examples in which, using an original statistical method, we have been able to cast

 ISBN: 978-9963-711-37-6

doubts on the causal relationship between the unemployment and inflation rates in turbulent economic evolution (unusually quick alterations in economic growth and recession periods) on a set of 30 developed countries. This only emphasises the necessity to thoroughly discuss the relationships given by the Phillips curve. Let this be understood as an appeal: if the Phillips curve is applied in the area of economic policies, it should be done cautiously.

ACKNOWLEDGEMENTS

This article was written thanks to support from the Institutional Support to Long-Term Conceptual Development of Research Organisation, the Faculty of Informatics and Statistics of the University of Economics, Prague.

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 ISBN: 978-9963-711-37-6

MANAGING SOCIAL MEDIA ADOPTION - AN EXPLORATORY INTERNATIONAL CASE STUDY OF HOTEL ORGANIZATIONS

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ABSTRACT

The usage of social media is increasing rapidly in organizations. Technology has long been considered to be one of the most influential elements affecting the rules of competition. Therefore both technology management and strategy has become an important task for many business organizations. Seen from an organizational perspective, social media can not only be used to create interaction between members of the organization, employees, and customers but also to create a shared organizational intelligence. Hotel organizations is the focus of this study. The objective of the study is to provide insights to the managerial and organizational perspective of the adoption of social media in hotel organizations, exploring how the strategy of adopting and managing social media is performed within the hotel organizations. The results show that the hotels of the case study are in the beginning of their path of forming a strategy for social media adoption that also works in practice, not just in theory.

Keywords: *social media management, social media adoption, hotel organizations, knowledge management*

INTRODUCTION

The usage of social media is increasing rapidly in organizations (Kaplan and Haenlein, 2010, Weinberg et al 2013). Technology has long been considered to be one of the most influential elements affecting the rules of competition. Therefore both technology management and strategy has become an important task for many business organizations (Lefevbre, 1997). Since the usage of social media by consumers are increasing rapidly, organizations are also expected to be present in social media, generating and publish content, and not the least, interact with customers (Hanna et al 2011). Hotel organizations is not an exception. The hotel industry is a highly competitive industry with non-brand loyal customers who are price sensitive. (Sigala and Christou 2002, Sigala et al Leung et al 2010, 2012). Due to the development of Information Communication Technology (ICT) and social media, the hotel industry experience not only an increasing price transparency and globalization but also an increased demand on expectations of being present in social media channels (Sigala et al 2012, Munar 2012).

 ISBN: 978-9963-711-37-6

Seen from an organizational perspective, social media can not only be used to create interaction between members of the organization, employees, and customers but also to create a shared organizational intelligence (Bradley and McDonald 2011). Nevertheless, the challenge many organizations are facing is that even though they are aware of the need to be present and active in social media channels, they lack the knowledge and understanding of how to do so strategically and how to measure the results of their activities (Hanna et al 2011). Chui et al (2012) also argue that social media has changed many internal and external organizational processes, such as how organizations market themselves, what and how they sell but also service and management. Berthon et al. (2012) argue that social media has had three effects on the organizations: a change from desktop to the internet, a shift of power, from the organization to the customer and finally, the value production that now is focused and produced by customers. Social media therefore need to be managed just like any other technological adoption. Montalvo (2011, p. 91) defines social media management as a collaborative process using web 2.0 platforms and tools to accomplish requested organizational objectives.

The phenomena of social media is still in its early stages, and answers to how and why organizations should adopt and use social media and how the culture and management need to be transformed is not yet obvious (Weinberg et al 2013). Researchers also argue that to adopt media successfully, one must change the organization structure (Li and Bernoff 2009, Wren and Bedeian 2009). Kaplan and Haenlein (2010 p. 65) argue that organizations must know the elementary idea of social media and describes this as "It's all about participation, sharing, and collaboration, rather than straightforward advertising and selling".

Hotel organizations is the focus of this study. The objective of the study is to provide insights to the managerial and organizational perspective of the adoption of social media in hotel organizations, exploring how the strategy of adopting and managing social media is performed within the hotel organizations. Earlier studies shows that compared to other industries, hotel organisations are more restricted towards using social media in their marketing (Sigala et al 2012, Leung et al 2013). Although, being an industry that is sensitive to trends, has an exceptionally high competition and very flexible clients, marketing through social media has become an important part of hotels marketing strategy, which in turn effects the hotel organizational structure, strategy and management (Buhalis 2008, Nga and Basat 2011, Sigala et al 2012). The hotel industry has been using technology as a strategic tool since the 1950's, implementing digital booking systems, websites and nevertheless, wireless wi-fi in the hotel rooms (Werthner and Klein 1999). Buhalis and Law (2008) point out that the technological development and tourism industry has been going hand in hand. All these activities have been important in the hotel's competitiveness and survival (O'Connor, 1999, Siguaw et al., 2000,

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Nyheim et al, 2004). Research shows that the hotel industry hopes that the adoption of new technological tools and software will reduce costs, increase productivity, and enhance competitiveness and improve the service to consumers (DiPietro and Wang, 2010, Singh and Munjal 2012).

EARLIER RESEARCH

Research on technology adoption in the hospitality industry has drawn a great amount of attention from researchers. Wang and Qualls (2007) however, argue that the knowledge of the area is fragmented and that we only have a limited understanding of how the technology adoption behavior in hotel organizations looks like. Wang and Qualls (2007) therefore calls for a need to "develop a greater theoretically informed framework that integrates the critical factors relevant to the hospitality industry" (Wang and Qualls 2007 p.561), arguing that many hotel organization has several weaknesses (e.g IT structure and limited technological expertise) that aggravates the adoption of new technologies. Other researchers also argue that both the research field of e-tourism and adoption of social media in hotel organizations is in its infancy and therefore rather thin (Buhalis and Law, 2008, Sigala et al, 2012, Lynn, Lipp, Akgün, and Cortez, Gohary 2011, Munar 2012, Leung et al 2013). Leung et al (2010) argue that even though social media is a growing phenomenon in the tourism and hospitality industry, there are little research on social media usage from the supplier's perspective.

The knowledge of how the technology is used and managed in the hotel organizations remains unknown to researchers (Lee and Law 2011, Leung et al 2013). Lynn, Lipp, Akgün, and Cortez, Gohary 2011, Munar 2012, and Sigala et al 2012 call for more research in e-marketing and hotel organization and believe at a greater understanding of both the problems and opportunities that exist with e-marketing, and a greater understanding of how leadership affect strategic change as hotels and tourism organizations undergo in the adoption of social media. Reino et al (2014) point out that many of the studies of the hotel industry that focus on ICT and technology adoption are outdated and that they mainly are quantitative and do not offer a profound understanding of the issue. Most studies also follow a positivist method, such as Hashim et al 2006, Wang and Qualls (2007) Fuchs, Witting, & Höpken (2009), and Leung and Law (2012).

PURPOSE AND RESEARCH QUESTIONS

The focus of this study is the usage of social media within the context of the hotel organization and the aim is to create an understanding of the organizational and managerial strategy of the adoption of social media in hotel organization. In order to fulfill this aim the article seek to answer following research questions:

RQ1: How is the the strategy of social media adoption in hotel organizations managed and

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performed?

RQ2: How can the managerial process of social media adoption be described?

METHODOLOGY

Since the objectives of the study are to create a greater understanding of the organizational and managerial strategy of the adoption of social media in hotel organization, a qualitative, explorative approach has been chosen. Case studies can be appropriate in studies that intend to answer questions like "why" and "how" and are descriptive in nature (Yin, 1998). It can also contribute with exposure of crucial patterns and behaviors (Smith & Albaum, 2005). Qualitative research method can help to create insights and identify key variables in the research questions (Malhotra & Dash, 2009). In total, 22 semi-structured interviews at 14 different hotels (belonging to the same hotel chain and brand) in 7 European countries (Denmark, Finland, France, Italy, Netherlands, Norway, and Sweden) has been carried out with marketing managers, sales managers and hotel managers (people responsible for social media activities)in the hotels. The interviews took place at the different hotels August – December 2014. Each interview lasted about an hour and were recorded and then transcribed (Bryman & Bell 2008). The themes for the interviews were focused on the usage of social media marketing in the hotel organization e.g. when and how the hotels started to use social media, what channels they use and how the social media strategy is developed. Follow-up questions were also asked, to follow up personal interpretations and knowledge from the different managers being interviewed. A qualitative analysis has been used.

CASE STUDY

The study is a part of a PhD- thesis and focus on hotel organizations within an international hotel chain, in this study called “International hotels”. Altogether, 14 hotels, within the same hotel chain and brand, is the focus of this study. The different hotels are located in 7 European countries. The usage of social media is quite new at the hotels. The hotels were not allowed to use social media until 2013. The hotel chain provides the hotel with some marketing material, guidelines and education but beyond that, the hotels are responsible for what to publish in social media. The choice of hotel chain and brand is based on the fact that the hotel organizations are in the beginning of the process of using, learning and adoption social media marketing and e-relationship marketing. The fact that the hotel chain is a large, international hotel co-operation also makes it relevant to study since there are many, both managerial and organizational levels to take into consideration.

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THEORETICAL FRAMEWORK

WEBB 2.0 AND SOCIAL MEDIA

The development of Information Technology (IT), Webb 2.0 and Information Communication Technology (ICT) has brought many new technologies and software, such as social media, which is largely used by companies. Web 2.0, consists of a platform comprised of its users that determines the content. The creators of social media is therefore the users themselves. This to be related to Web 1.0, where the internet was rather a storage area for information and venue for one-way communication where users had no opportunity for interaction. (O'Reilly 2001, Erkkola 2008). Web 2.0 reflects a blend of diverse types of ICT software tools, such as blogs, networks and Wikipedia's, usually referred to as social media (Xiang and Gretzel, 2010).

ICT AND SOCIAL MEDIA IN HOTEL MANAGEMENT

According to Buhalis and Law (2008), hotel managers have been fascinated with the gains that the ICT can contribute with in their industry. Most hotels (both independent and chain) are using websites to promote their hotel services. Successfully implementation of ICT in the hotel organization demands long term planning, training and knowledge through the entire hotel organization and top management commitment and knowledge (Buhalis 1998). Fuchs et al (2009) say that the usage of ICT should not just be looked upon as cost effective and as something that guarantee profitability. Instead, implementing ICT in the hotel organizations also include risks and costs. Yan et al (2006) discuss that it is crucial not to get a gap between the economic costs of using ICT and the actual value ICT actually contributes with. According to Vuori (2011) there is a fear of the unknown that can impact the organizational readiness to adopt social media and that even though many organizations may implement social media, there's still a lack of knowledge on how to use the new digital communication channels and tools. Denzizci Guillets study (2011) noted some companies lacked understanding and commitment of the usage of social media and explains this with the insecurity in what return on investment the implementation brings. Levy (2009), Culnan (2010) and Vuori (2011) argue that many companies don't have a clear understanding of what business value and benefits the usage of social media can contribute with and points out that the value of using social media does not come from the usage of the technology but depends on how the technologies are used. The development of social media and the increased usage of the digital communication channels has therefore changed how organizations function.

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Both Litvin et al. (2008) and Salkhordeh (2009) argue that the usage of social media in organizations can be a valuable source of strategic information, especially the user generated content such as reviews and feedback.

STRATEGIC MANAGEMENT AND KNOWLEDGE MANAGEMENT

The increasing competition on the global hospitality market is a great task for strategic management (Rigby 2001). One of the main objectives for business managers is to create performance that is superior to competitors and a crucial part of achieving this is strategic formulation (Chathoth and Olsen, 2007). The development of competitive strategies is crucial in a high-competitive industry like the hotel industry. Enz (2008) and Olsen et al (2008), say that it is the hotel's combination of resources such as branding, IT, human resources etcetera, that creates a competitive advantage, rather than one single resource. Porter (1986) defines a competitive strategy as actions that gains the organizations competitive advantages in relation to its competitors.

Tourism and hospitality are both a highly knowledge-based industry but also information-intense industry, due to the innovation of ICT and social media (Nezakati et al 2014). Rigby (2001) argues that understanding the relationship between technology and globalization and the affect it has on a hotels ability to compete and create advantage is the core of strategic management today. Knowledge management (KM) has been, and is, a key to the implementation of social media, but also organizations ability of surviving in highly competitive environments (Ford and Mason 2013). Nevertheless, KM, is not a new phenomenon in the hotel industry, it has long been used as a competitive tool (Cooper, 2006, Shaw & Williams, 2009). Nezakati et al (2014) argue that researchers in the field of information system are interested in both the explicit knowledge and tacit knowledge. While the explicit knowledge is visible and easy to communicate, the tacit knowledge is hidden and therefore also difficult to spread. In management research, the concept of "knowledge management" has come to be described as one of the keys to the success of organizations and the term is also used in studies of the use of IT in organizations. Levinson's (2009) describes the "knowledge management" as a strategic process in which the organization tries to generate value from their intellectual assets. Sigala (2003) points out that information should not be mistaken for knowledge. She argues that knowledge is created first after the information is analysed and used in strategic activities. Both Sigala (2003) Aguila - Obra (2006) explain unsuccessful attempts to adapt new technology with lack of knowledge of the organization's leaders. The use of social media in business requires responsible employees who also are aware of what values and what message is relevant and desirable to spread. The personal accountability is of great importance for the organization, especially to ensure a good service but also increase the possibility of creating a relationship with the customer. The individual

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employee's knowledge and personal qualities are highly relevant to the organization's ability to achieve its goals (Lindmark & Önnevik 2012). To avoid marginal results, hotel management need to implement social media information and UGC-content into the hotel's strategic decision-making process (Sigala 2003).

FINDINGS

STRATEGY AND ADOPTION

Hotel chain

Since all 14 hotels in the study are a part of the same hotel chain, they all started, or was expected, to start to use social media at the same time. The hotel-chain implemented a social media manager that create social media guidelines, marketing materials but also educate marketers at the hotels and also e-commerce manager across the world do help educate the hotels. The social media manager says that the hospitality is depending on a human approach in values, and to work with guest satisfaction. He also emphasizes the importance of not just looking at numbers but so see the person who want to experience the hotel. When it comes to the benefits of working with social media he says:

> "It's the quality, it's really important of course, the content has to be of good quality. The content is the most important and we need a lot. We need to engage in a special way with our community."

He predicts that in the near future, 50 percent of the hotel communication will be held in social media, to be compared to today when its 20-80 but that it also depends on what geographical region you are in. The biggest difference in social media marketing and traditional marketing is the possibility of communication, not just one way, and the consumer's ability to share, like and comment. He also views he guests and social media followers as co-producers of the hotel brand and that user generated contend like travel bloggers can and should be used and shared as hotel marketing material in social media.

The e-commerce manager thinks that social media is all about talking to customers. She says that people who work at the hotels are not marketers and it's about getting the right message to the right person at the right time and that's something normal, but not yet for the hotels because they are focusing on their operational business to that's the main lesson she tries to teach the hotels. She thinks that the hotels should be a part of the guest's decision path and be aware of that hotel quests not very

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often start out with deciding what hotel to stay at but know what destination they want to visit and look for hotels in the area.

> "There is coordination and training for the hotels because the people that are working at the hotels are not specialists in e-commerce so we try to train them in basic knowledge about the field but also knowledge about the company strategy. So I try to work with them, I set up meetings and help them to understand things that might be interesting for our customers. We see a lot of pictures of the hotel managers that are standing like this [poses like she is in front of the camera] and that is not interesting for the customers." (E-commerce manager)

Individual hotels

The managers at the individual hotel often look at social media as a marketing tool, rather than a strategic instrument. They are all aware of the demand from the head office to use social media in the hotel organization but have different ways of handling that demand. Only one of the hotels has a person who is especially responsible for the social media adoption. At the rest of the hotels, the social media activity is added to the marketing or sales manager's duties. As a result of this, the mangers describe that social media is sometimes omitted due to lack of time. Many of the managers describes a frustration when it comes to marketing material produced by the hotel chain. The material is described as made for traditional marketing in printed media, and they feel that the material (that they are requested to post in their social media channels) "destroy" the content e.g. on their Facebook-pages and are not very fond of publishing it.

> "one thing I really don't like is when they [hotel chain] send out post that we have to copy and paste it and post it and then every single hotel has that and its really…its really annoying! I don't like that at all! It's not personal at all, they should just like suggest like ok this is the thing with the brand, maybe you should make a post of it but have it be something about you and your hotel rather than just the whole chain" (Sales manager 10)

Some of the sale marketers describes the aim of using social media is to get as many likes as possible so that so many as possible can see what the hotel is doing and who they are. The managers express that the kind of marketing, when the customers are spreading information about the hotel, is the best kind of marketing the hotel can get and that is what will create top of mind. One of the marketing manager describes the main advantages of using social media marketing is that the hotel can measure ranking and how many people that follow and like their posts.

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RETURN ON INVESTMENT

Hotel chain

The e-commerce manager explains the hotels hesitation about using social media with the fact that hotels tend to be focused on the hotel business and giving the customer a good experience and are therefore not focused on marketing. She is aware of the importance of measuring results in the hotel industry but says that social media can't be measured like an ordinary campaign because it's different. Instead, the key is to find what the customers are interested in and not to be afraid to talk to the customers.

> "The storytelling is important, the idea is to have the customer to engage, hotels often ask why they have to engage in social media because it takes time and sometime it cost money and it doesn't bring back money, the ROI for social media is pretty low. But for us the great advantage in engaging in social media is that we can interact with our customers, we can talk to them and create an awareness and probably they want to keep the relationship. (…) We know that for us there are no ROI in this, but it's for our customer and a way for us to be with them throughout their whole journey." (E-commerce manager)

Individual hotels

All of the managers at the hotels describe the problems of not being able of measuring the return on investment and what they really gain, or sell, by using social media. They describe the hotel industry as an industry that rely on measurements and numbers. This causes a conflict based on that the management described as "upstairs", demanding quantitative and measureable data and results on social media activities. The managers at the individual hotels experience that they cannot deliver that.

> "everything should be measured…we need to know return on investment on everything we do. You always ask what's the return on investment, that's the most important thing. And from Facebook, it's quite hard to measure. Do the guests book after seen our Facebook page or? We don't know. " (sales manager 11)

MANAGING KNOWLEDGE

Hotel chain

The hotel chain provides guidelines and education to the individual hotels. One of the e-commerce manager's tasks is to train managers at the individual hotels. She says that the employees working at the hotels are not specialists at social media and that she therefore need to provide them with basic knowledge about the technology but also knowledge about the company strategy. She also emphasize

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the importance of helping managers to understand what material that might be interesting for the hotel customers. She suggest that the hotels should have an insider view, to tell the guests about the hotel, their story and about people's life at the hotel. The storytelling is important such as customer's online journey, from the decision to travel, to the choice of hotel. She says that the presence in social media is about following the customer on her or his journey and proposing the hotel at the right moment. She describes the biggest mistake the marketers can do in social media as:

> "To be standardized. In the future social media will be all about having a fresh content all the time, the storytelling, and giving the right message to the right person at the right moment. So not use the same text in all social media channels but to express different channel, use different words and address it to a specific target" (E-commerce manager)

Individual hotels

Although the hotel chain offers training from the social media manager and e-commerce manager, there are few manager at the hotels that actually utilize that opportunity. At many of the hotels it is the employees that are interested in using social media in their private lives that are a part of the "social media team", e.g. by taking pictures that are published. Some of the hotels look outside of the hotel chain for knowledge, hiring PR-firms that both educate the hotel staff and help to produce marketing material meant to be used in social media. The term "learning by doing" is often used to describe how the hotels have adopted social media. All of the hotels express the need for quality control before any pictures or posts are uploaded in social media channels. When it comes to taking part of the material posted by customers (UGC), the hotels are divided into two groups, the ones that actively scan social media, trying to embrace trends, customer satisfaction and interact with customer. This group of hotels often put a lot of time and effort in social media activities. The other group, expresses that they are not interested in the interaction with customers, and that social media is used foremost to give information to customers. (being a part of the customer journey?)

> "well , we 're not using social media just because we think it 's fun , I thought of the old IBM advertisement , "why should we be on the internet ?" I don't know but we are there... We're on Facebook..but do we make any money by being there? No, but it's a window, and it's really difficult to measure." (Sales manager 6)

Customer reviews and UGC are looked upon as an extension of customer reviews that has always been a part of the hotel industry. The big difference described by the managers is that social media makes it transparent, putting a lot of pressure to answer the review, and answer fast. Many of the managers express that they have lost control over both pricing and the ranking system of hotels.

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DISCUSSION

THE STRATEGY OF ADOPTING SOCIAL MEDIA

The strategy of adopting social media in the hotels must be looked upon from two perspectives, the hotel chains and the individual hotels. The hotel chain has a clear strategy and focus on that the individual hotels should adopt social media and are doing so by creating guidelines, marketing material and offering education. Although, there seems to be a gap, or conflict, in how the hotel chain interprets the intention of using social media compared to the individual hotels. The conflict reveals itself in two ways, first, how the individual hotels describe the advantages of using social media. They often look at it as a marketing tool rather than a strategic instrument but foremost, social media is looked upon something that is time consuming. Second, the individual hotels do not always see the advantages of actively searching for interaction with customers, something that is highly valued from the hotel chain. This type of interaction is also described as a strategic tool by researchers like Litvin et al. (2008) and Salkhordeh (2009).

MANAGEMENT

The managerial process is also divided into two categories, the hotel chain management communication towards the individual hotels, and the management at the individual hotels. The hotel chain is very clear about that the hotels should adopt social media but according to the given answers from respondents of the present study, there seems to be a lack of understanding and knowledge of why the hotels should spend time and money on something that cannot be measured. The insecurity and lack of ROI is apparently causing the hotels some problems (Yan et al, 2006). The interviews reveal a discrepancy on the hotel managers' knowledge on technology and social media. Many of the managers build their decision-making about how to use social media on personal interpretation of social media rather than on actual fact (Levy, 2009, Culnan, 2010 and Vuori, 2011). One could also argue that form this perspective, the managers at the individual hotels are important organizational cultural bearers, that by how they act and talk about social media indicates how it is or should be valued in the organization (Schein 2010). Lefebvre, Mason, and Lefebvre (1997) argue that management plays a central role in the process of adopting and learning new technology, and can affects the whole organizations attitude towards the technology. Several of the managers at the individual hotels do not identify social media as a strategic tool and therefore do not discuss it in those terms. Many of the managers do not express that they can identify the benefits of social media, it seems like some of them are quite critical against the idea that the hotel chain has embrace social media to such a big extent, after not allowing the hotels to use it for such a long time.

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KNOWLEDGE

When it comes to knowledge, it is clear that the hotels do not fully embrace the opportunity of learning how to use social media from the hotel chain. The hotel organization therefore does not fully succeed in transferring knowledge from the social media manager and the e-commerce manager throughout the individual hotels. There is also a contradiction in the marketing material sent out from the hotel chain and the material that the e-commerce managers suggest that the individual hotels should use, describing that it should not be standardized, but adjusted to different social media channels. Something that the hotel chain itself according to the hotel manager's does not succeed with, sending out marketing material that is suitable for traditional, one way-communication, rather that two-way communication in social media. Levinson's (2009) describes the "knowledge management" as a strategic process in which the organization tries to generate value from their intellectual assets, but it seems like both the organizational structure, and the organizational culture sometimes creates borders to succeeding fully with this. One explanation could be that the structure of social media does not fully match the structure of organization and their need for quality control and management. The respondents in the individual hotels talk about "learning by doing", something that compared to Nezakati et al's (2014) discussion about tacit knowledge, that is hidden, and therefore difficult to spread to other employees.

CONCLUSION

The empirical material indicates that the hotels are in the beginning of their path of forming a strategy for social media adoption that also works in practice, not just in theory. There are big differences in how social media are performed in the individual hotels but also when it comes to the interpretation of how and why social media should be used, described by the hotel chain managers and the managers at the individual hotels. A lot of different elements affect how the hotel organizations understand and use social media. The discussion above is deliberately just scratching the surface and is a first attempt to point out what elements that need to be looked deeper into in my following PhD-thesis. What one could argue is that the nature of hotel organizations can be described as a contradiction to the nature of social media where thing happen fast, in the moment, by people interested in social media. According to the empirical findings, the hotels and their managers are still struggling to find a way to communicate what social media is and why it is used and there are still some contradictions that needs to be solved. When it comes to brand marketing, the hotel chain decides in detail what the hotels should post in social media, whereas the hotels are producing their own marketing material to promote their individual hotel. Future studies could focus on how to create strategies for communicating knowledge and understanding of social media, but also on the changes

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in power, transparency and the difference of using social media as a private person, translating it into an organizational usage. Finally, research on how to make qualitative measurement on the value created and returned to the organization would be useful.

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 ISBN: 978-9963-711-37-6

DETERMINANTS OF DESTINATION COMPETITIVENESS AND SUSTAINABILITY: A FACTOR AND CLUSTER ANALYSIS

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ABSTRACT

Objectives: the research aims to verify if and how the widespread cultural heritage in Taranto, city of "Magna Grecia", may help to achieve social and economic positive externalities, so substantial benefits for inner stakeholders to the destination, due to the culture, aptitude to relation, cognitive abilities, knowledge, traditions ingrained in a specific cultural area.

Methodology: the statistical methodology we used aimed first at making a summary, by means of factor analysis, of an amount of information which was in the questionnaire items. The extracted factors were later used as key variables in a cluster analysis, in order to divide the subjects into different groups, where each one of them represents a different perception profile about the examined phenomenon. The clusters were later crossed with the information concerning the residence area in order to verify the hypothesis of a different perception of the phenomenon between the different areas.

Findings: the research tried to define the role of intangible assets in the development of the Ionian cultural tourist destination, as it is perceived by its residents.

Research limits: limitations are due to the restricted data used in this phase of the research, which takes into account only the views of inner stakeholders, lacking the perspective of external stakeholders, such as tourists.

Practical implications: this paper offers policy suggestions to public decision makers and to private subjects for the integrated management of local resources.

Originality of the study: the research tries to define an organic, aware and shared design of territory development which, by leveraging on social capital, can promote and drive the development itself.

Keywords: *destination management, cultural heritage, destination competitiveness, intangible assets, sustainable tourism, quality of life, cluster analysis, factor analysis*

 ISBN: 978-9963-711-37-6

INTRODUCTION

What we want to show with our research is an analysis of the widespread cultural heritage of the city of Taranto, the systemic set of widespread cultural heritage in the city and in the surrounding area, and to see it as a possible cultural tourist destination.

If we read all the works dealing with Destination Management, it can be said that a competitive destination can be obtained thanks to the use of a specific system of tangible assets, for instance an attractive tangible cultural heritage and what we usually consider intangible, that is a set of organizational and management skills and abilities (Aaker, 1989; Brondoni et al., 2003) permitting both first the design and then the allocation of an integrated offer that can understand and meet the different exigencies of its own potential reference market. On this account we can state that the destination competitiveness is the interaction result of different factors that have to be managed together. This infers that a competitive destination can be gained through the activation of a tangible and intangible assets system developed in a resource-based view (Grant, 1991, 2005) and with reference to the numerous theoretical works that helped to codify the role of the enterprise assets as an analysis unit in the creation dynamics of the competitive advantage.

In order to have a good theoretical framework, we analysed national and international management literature that proposed different models which identify and analyse the destination competitiveness drivers and the role that can be played by a destination's intangible assets when they support its competitive processes (Crouch, 2011; Ritchie and Crouch, 2000, 2005; Ritchie et al., 2001; Kozak and Rimmington, 1999; Enright and Newton, 2004; Dwyer et al., 2004; Franch and Martini, 2013; Iazzi et al., 2012; Mazanec et al., 2007). If we read the macro categories of Ritchie and Crouch's model (2000) from a tangible/intangible assets viewpoint, we could deduce that a conspicuous and particularly remarkable part of the destination competitiveness determinants can be regarded as intangible assets. We must also remember that according to the above mentioned Ritchie and Crouch's model the sustainability of a destination is a requirement to obtain the competitiveness of that destination. On this basis it firmly acknowledges the intrinsic tie between the destination competitiveness and sustainability. Therefore, scholars state that the most competitive destination is the one that improves the quality of life of its residents to the largest extent.

For our research we decided to analyse, as far as attractiveness and competitiveness are concerned, the contribution of a cultural tourist destination's intangible assets, considering the inner stakeholders' perspective and above all the residents' one. Basically, we want to verify if and how the widespread cultural heritage of the city of Taranto may help to achieve social and economic positive externalities, and consequently substantial benefits for stakeholders involved in the local community as the residents, public institutions, enterprises, due to the culture, aptitude to relation, cognitive abilities,

 ISBN: 978-9963-711-37-6

knowledge, traditions, and to the customs ingrained in a specific cultural area. The above mentioned reasons lead us to wonder whether residents benefit from the culture of the area, the specific competences, and from the cultural tourist destination's relational abilities through which the quality of life needs to be improved (Martini, 2010, p. 60), and to check which specific competences and relational abilities they have shown to have. As far as the development of the Ionian cultural tourist destination is concerned, we tried to define the role of intangible assets as it is perceived by its residents – taking into account that, at the present time, the city of Taranto still hasn't obtained the "destination" status, except for the slender inner regional flow of tourists, even though, touristically speaking, it owns a high potential to develop. To obtain this kind of information we administered an ad hoc questionnaire, thus getting a sample survey. It is remarkable the need of a survey addressed to the resident community, because, as they have a wider view of the environmental context – both for their acquired knowledge and for their own relational abilities (as shown in the questionnaire) – they can play the role of promoters of a territory development (Golinelli, 2002, p.178). Furthermore our purpose is to highlight how cultural tourism can be an opportunity for the city and its sustainable development, thus becoming a proposal which is somewhat shared by the resident community and that should be put forward to policy makers by a logic of "participative strategic planning" (Napolitano, 2000, p.283; Baggio et al., 2010; Bramwell and Lane, 2011).

METHODOLOGY

To get all the data we needed we carried out a desk analysis about the theoretical contributions to the study of the development strategies of the local interest cultural heritage in view of the sustainable development (Montella 2012; Golinelli, 2008) and to the studies about Destination Management (Ritchie and Crouch, 2005; Pechlaner and Weiermair, 2000; Franch, 2010; Pencarelli, 2009) and about Resource-based theory (Barney, 1991; Grant, 1991, 2005; Lipparini and Grant, 2007; Pellicelli, 2005). We analysed the national and international works about the destination competitiveness and the role that intangible assets can have in supporting its competitive processes. We also shared the qualification proposal of a tourist destination's intangible assets that were observed in the culture of the territory, in the specific competences, in the relational abilities and in the destination brand equity (Iazzi et al., 2012). By means of a quality-quantity methodology, an on-the-spot analysis was carried out through a questionnaire. The five following sections belong to the tool used for the research: the first one deals with the social-demographic characteristics of the interviewed residents sample (*section A*); the other sections, composed of 33 items, investigate the interviewees' opinions on the territory culture (*section B*), the specific competences (*section C*), the relational abilities (*section D*) and the cultural tourist destination brand (*section E*). As for the questions where the interviewees' assessment was required,

 ISBN: 978-9963-711-37-6

we used a five-point Likert-type scale, from 1 = nothing at all to 5 = very much. We directly interviewed and administered the questionnaire to a sample of 30 residents in each of the 10 neighbourhoods composing the city of Taranto (Borgo; Città vecchia; Italia Montegranaro; Lido Azzurro; Paolo VI; Salinella; Solito Corvisea; Tamburi; Tre Carrare Battisti; San Vito Lama Talsano). Consequently, the interviewees were 300 residents out of a population of about 200.000 inhabitants. The 10 neighbourhoods were later grouped into 4 areas, considering how close the residents of the neighbourhoods were to the different elements characterizing the city, which identifies the area 1, as the oldest and richest in cultural heritage: area 1 (Città vecchia, Borgo); area 2 (Italia Montegranaro, Tre Carrare Battisti, San Vito Lama Talsano); area 3 (Salinella, Solito Corvisea); area 4 (Tamburi, Lido Azzurro, Paolo VI).

The first purpose of the statistical methodology we used was to make a summary, by means of factor analysis, of the huge amount of information which was in the items administered to the interviewees (Bartholomew et al., 2008). The extracted factors were later used as key variables in a hierarchical cluster analysis (Punj and Stewart, 1983), in order to divide the subjects into different groups, where each one of them represents a different perception profile about the examined phenomenon. The clusters were later crossed with the information concerning the residence area in order to verify the hypothesis of a different perception of the phenomenon between the different areas of the city.

STATISTICAL RESULTS BY MEANS OF A FACTOR AND CLUSTER ANALYSIS

By using the Principal Components Analysis (PCA) as factor extraction method, we carried out a Factor Analysis (FA) to summarize the information taken from 33 items of the questionnaire (Bartholomew et al., 2008). We realized that 5 of the analyzed items are not very correlated with the overall system of relations as they have very low communalities and for this reason they have been removed from the analysis. However a Kaiser-Meyer-Olkin (KMO) index equal to 0.915 confirms the usefulness of an FA.

To summarize most of the information taken from the 28 selected items the PCA has suggested using 5 components. The components we used have an at least unitary explained variance (this variance is calculated by means of the eigenvalue of the single component) and on the whole the result has been that 5 components explain almost the 76% of the cumulative variance. In Figure 1 we can see how every component explains decreasing portions of the cumulative variance and therefore the first five of them have been considered as good enough to explain the different aspects of the analyzed complex phenomenon.

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Component	Explained variance	Explained variance (%)	Cumulative explained variance (%)	Component	Explained variance	Explained variance (%)	Cumulative explained variance (%)
1	12.63	45.11	45.11	**15**	0.26	0.93	93.45
2	4.32	15.43	60.54	**16**	0.25	0.91	94.37
3	1.61	5.74	66.28	**17**	0.21	0.76	95.13
4	1.51	5.4	71.68	**18**	0.20	0.71	95.83
5	1.2	4.28	75.96	**19**	0.18	0.63	96.46
6	0.92	3.28	79.24	**20**	0.16	0.57	97.03
7	0.73	2.61	81.86	**21**	0.16	0.56	97.59
8	0.58	2.07	83.92	**22**	0.14	0.51	98.10
9	0.51	1.83	85.75	**23**	0.13	0.47	98.57
10	0.47	1.69	87.45	**24**	0.12	0.42	98.99
11	0.41	1.47	88.91	**25**	0.10	0.35	99.34
12	0.40	1.44	90.36	**26**	0.09	0.32	99.66
13	0.33	1.17	91.53	**27**	0.06	0.22	99.88
14	0.28	1	92.52	**28**	0.03	0.12	100

Table 1: *Explained variance by the first five components extracted*

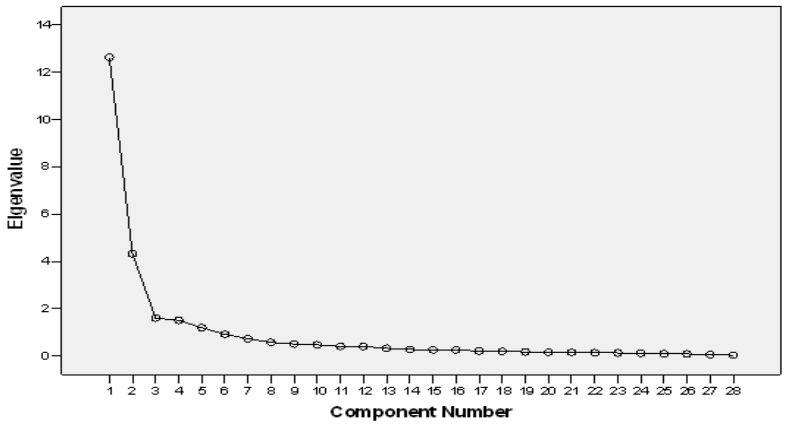

Figure 1*: Scree plot of eigenvalues*

By fixing the parameter K at 2.7, we used a PROMAX oblique rotation aimed at identifying and naming the different factors to use as perception indicators of the phenomenon (Hendrickson and White, 1964). Thanks to this rotation every factor is very correlated with some items, the ones which identify it, and not very correlated with the others. For this reason, every factor is like a summary of the items it is correlated with. In Table 2 we can see the components matrix that indicates the correlation between each item and the 5 factors considered after carrying out the rotation. The communality shows the variance proportion of each item reproduced by the five factors.

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item	Factor1	Factor2	Factor3	Factor4	Factor5	commu nality	item	Factor1	Factor2	Factor3	Factor4	Factor5	commu nality
B.5.	**0.89**	0.08	0.06	-0.14	-0.01	0.82	**D.1.**	-0.52	**0.64**	0.17	-0.18	-0.20	0.77
B.5.	**0.68**	0.01	-0.11	-0.05	-0.12	0.62	**B.3.**	-0.09	0.04	**0.81**	0.07	0.05	0.83
B.5.	**0.77**	0.14	0.00	0.20	-0.48	0.83	**B.3.**	0.10	0.05	**0.97**	-0.01	0.08	0.94
B.5.	**0.72**	0.03	0.16	0.09	-0.43	0.67	**B.3.**	0.04	0.17	**0.76**	0.12	0.04	0.81
B.5.	**0.80**	0.04	-0.01	-0.18	-0.06	0.77	**B.6.**	0.07	0.01	**0.92**	0.06	0.07	0.90
B.5.	**0.81**	0.14	-0.09	-0.21	0.13	0.80	**B.3.**	-0.19	0.18	0.11	**0.67**	-0.02	0.75
B.5.	**0.80**	0.03	0.12	-0.22	-0.03	0.70	**B.3.**	0.01	0.47	-0.25	**0.64**	0.04	0.67
B.2	**-0.63**	0.29	-0.14	0.13	0.19	0.60	**B.6.**	-0.21	0.03	0.23	**0.64**	0.04	0.79
D.2	**-0.74**	0.40	0.11	-0.18	-0.14	0.75	**B.6.**	**-**	-0.11	0.29	**0.49**	-0.01	0.83
B.1	0.30	**0.65**	0.01	0.26	0.33	0.85	**B.6.**	-0.14	-0.04	0.14	**0.76**	-0.10	0.68
B.3.	0.14	**0.62**	-0.03	0.24	0.17	0.61	**B.7**	-0.10	0.31	0.24	**0.44**	0.12	0.75
C.3	0.06	**0.79**	0.08	0.08	0.16	0.84	**B.3.**	-0.29	0.02	0.20	-0.10	**0.75**	0.82
D.1.	-0.02	**0.80**	0.05	0.02	-0.01	0.69	**B.3.**	-0.06	0.26	-0.02	0.09	**0.71**	0.75
D.1.	-0.07	**0.75**	0.12	-0.03	-0.06	0.63	**B.6.**	-0.25	-0.01	0.26	0.06	**0.62**	0.79
* The item B.6.2 is almost equally correlated with factors 1 and 5, but it has been included in the first one because it is more similar to the other items correlated with it													

Table 2**:** *Components matrix after PROMAX rotation (in bold the best correlation for each item)*

The examined items carry a remarkable weight, so the five factors underline the basic dimensions thanks to which we can classify the interviewees' assessments. Each factor is an indicator of a single dimension of the considered complex phenomenon. We can summarize the identified five factors as follows.

Factor 1, called "*importance of the territory culture and relational abilities*", is correlated with 9 items and it generally proves how important are, in the interviewees' opinion, the cultural aspects and the relational abilities of the territory for the city growth.
Factor 2, called *"perception of the territory culture, of the relational abilities and of the competences"*, is correlated with 6 of the items and demonstrates how the territory culture, relational abilities and the competences in local human resources are actually perceived by residents.
Factor 3, called "*perception of the environmental protection*", is correlated with 4 items and shows what the resident interviewees think about the presence of care with environmental matters.
Factor 4, called "*perception of the cultural heritage*", is correlated with 6 items and shows the way in which the interviewees consider the residents' sensibility regarding the city cultural and artistic heritage.
***Factor* 5**, called "*perception of the territory economy*", is correlated with 3 items and it generally demonstrates the residents' perception about the care found on the territory regarding the economic aspects of the city as a tourist destination.

Table 3: five factor analysis

As far as every single factor and interviewee is concerned, we have calculated a factorial score that provides the measure of a dimension of the considered complex phenomenon. Each factorial score is distributed as a standardized normal. Positive values demonstrate the interviewee's positive assessment about the dimension associated with the factor, and vice versa as regards the negative values. Values close to zero can be considered average.

On the basis of the five extracted values a cluster analysis has been done in order to divide the interviewees into clusters of similar individuals as far as the perception of the phenomenon is concerned, thus identifying different ways of perception of the city of Taranto. To identify the clusters we have used a hierarchical algorithm, based on Ward's agglomerative method, and on the squared

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Euclidean distance as dissimilarity measure between the interviewees (Bartholomew et al., 2008). The algorithm led to the identification of three clusters that can be fundamentally considered as representative of three different resident profiles based on the perception of the different examined aspects of the territory intangible assets. In table 4 there are both the number of units of each cluster and the mean of factors for each of the five considered factors. The negative values of the cluster mean can be interpreted as a low opinion about the corresponding dimension, while vice versa the positive values show a high opinion of that dimension for the interviewees.

The first cluster (*Profile 1*) is composed of 113 individuals who, on average, attach little importance to the aspects linked to Factor 1, low perception of the aspects summarized by Factor 2, and mean values for the other three factors. The second cluster (*Profile 2*) is composed of 72 individuals who attach great importance to the factors summarized in Factor 1 but perceive in a negative way all the expressive aspects of the phenomenon. We can say that to these individuals the examined aspects are important, but that they are little satisfied with the present situation. The third cluster (*Profile 3*) is composed of 115 individuals who attach an almost average importance to the aspects examined in Factor 1, but perceive in a very positive way all the others expressive dimensions of the examined phenomenon.

In table 5 the information concerning the residence area has been crossed with the membership of the three profiles identified as far as the perception of the phenomenon is concerned. The association has been remarkable in the Chi-Squared test ($p<0.001$), as it has shown an influence of the geographical factor. Actually, the area 1 is clearly characterized by individuals of the profile 3 (68.3%), i.e. by residents who perceive the phenomenon better but with a good percentage also by individual of the profile 2 (21.7%). Areas 2 and 3 can be considered as mixed ones, without any specific trend, and are characterized by individuals with heterogeneous opinions. On the other hand, area 4 is characterized by many individuals of profile 1 (46.7%), those who are less attentive to the matters concerning the city according to the examined distinctive aspects, and anyway by a good percentage of individuals belonging to profile 2 (37.8%) who perceive in a bad way the examined aspects even if they consider them as important ones.

Cluster (Profile)		**1**	**2**	**3**
n		113	72	115
Mean	**Factor 1**	-0.6490	1.0796	-0.0382
	Factor 2	-0.6917	-0.5856	1.0463
	Factor 3	0.1784	-1.1259	0.5296
	Factor 4	0.0904	-1.0941	0.5962
	Factor 5	-0.0067	-0.9286	0.5879

Table 4: *Number of units and mean of factor for the clusters (%)*

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		Profile 1	2	3
Area	**area 1**	10.0%	21.7%	68.3%
	area 2	43.3%	10.0%	46.7%
	area 3	43.3%	26.7%	30.0%
	area 4	46.7%	37.8%	15.5%
Total		37.7%	24.0%	38.3%

Table 5: *Cross between area and cluster membership*

On this account, all the features correlated with the territory culture and the examined relational abilities, with distinctive differences between areas, show a higher mean value in area 1, thus meaning that in it the residents have a better perception of Taranto as a cultural tourist destination, thanks to the presence of a predominant territory culture in the residents of the two oldest neighbourhoods of the city and also because they are very keen on collaboration. Moreover, as they have the cultural heritage close to them, they show a strong sense of belonging. For this reason, the perception of the residents in Città vecchia and Borgo is remarkably different from the perception of the residents in Paolo VI or Tamburi, the notorious neighbourhoods of the industrial outskirts, where what prevails is not the sight of the cultural heritage but the presence of the Ilva iron and steel industry and the environmental pollution it causes.

CONCLUSIONS

The "tourist destination" product is a complex offering system characterized by the presence, in a specific territory, of tourist resources and services. For this reason, we think it is absolutely necessary to activate managerial routes aimed at systematizing and exploiting the existing resources, thus creating uniqueness and distinctiveness, therefore differentiation, compared to the competing destinations. All that mainly aims at getting a competitive advantage in a sector characterized by more and more increasing complexity levels, because of the changes occurred in the ways and forms of the tourist consumption. Moreover, notice that tourist destinations have two competitiveness levels: the former concerns the competitive confrontation between the existing destinations on a global scale; the latter develops itself inside the specific destination and concerns above all the enterprises working in it (Pencarelli et al., 2013; Franch, 2002; Buhalis and Cooper, 1998).

According to what happens in the enterprise competitiveness and according to the resource-based view, the growth and development of a tourist destination is now remarkably caused by the tangible and intangible assets that characterize it, as well as by the local actors' abilities to exploit them and to

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improve development paths to follow even through the activation of relational mechanisms able to improve the quality and the offer differentiation within a systemic logic. In this case the territory is seen as a social institution having the same characteristics as an enterprise, thus interpreting the territory organization according to the "viable systems approach" theory (Golinelli, 2002; Barile, 2011).

In our study, we thought it was useful analyzing the role of the intangible assets in the development of the Ionian cultural tourist destination, as it is perceived by the resident community. Therefore, we need to study the intangible asset concept in depth, with reference to destinations. Such assets differentiate the territory because they are distinctive elements, thus allowing the creation of a competitive advantage that is lasting and defensible. That happens because of the difficulty to exactly identify and repeat the path which allowed their origin. As a matter of fact, from the temporal and economic point of view, the *soft* components of a territory are not only difficult to create but, because of their specificity, they are also seldom used in contexts different from the one in which they were created. Consequently, they are difficult to be imitated and reproduced by the competing territories (Itami and Roehl, 1987; Vicari, 1991; Rullani, 1999). If we take into account the enterprise culture concept, the first intangible asset we deal with is the "territory culture". When we talk about the territory culture of the cultural tourist destination, we mean the traditions and knowledge heritage characterizing the history and culture in a specific area and influencing the behaviours and actions of its residents, local institutions, schools, universities and enterprises, that is the local actors who are committed to a destination. As the questionnaire shows, the presence of such an asset can be identified by observing the resident community's sensibility degree towards the knowledge of the cultural and identity values of the local historical-artistic heritage. We can identify another asset in the "specific competences" of the destination because they correspond to the local community stakeholders' abilities (inner stakeholders) – and therefore the territory human resources' ones – to develop and use the specific resources, which are intrinsic to the destination, in a sustainable way, thus preserving their integrity in order to improve above all the quality of life, protect the cultural heritage for the future generations, preserve and exploit landscape and environment, and achieve a lasting competitive advantage. What we call "relational abilities" of the cultural tourist destination are the specific attitudes enabling the activation and governance of relational mechanism between the single actors of the destinations, but also with actors living outside the reference territory. As for the local area, all that requires a collaborative logic between the actors involved in the offer and stresses the rather remarkable role of the public institution as it influences the coordination of the local actors. The need of offer coordination in the destination is in direct ratio to the variety of demand. We can measure such an asset, as shown by the questionnaire items, by examining the presence of tourist-

 ISBN: 978-9963-711-37-6

cultural routes, which have different actors involved, aimed at getting a shared growth of the territory use – through actions whose purpose is to create an integrated offer – and at meeting tourists' personal requirements which drive their choices. There is the general agreement that the activation of relationships permits an increase of every actor's competences – such as shareholders, stakeholders, residents, clients or government bodies – through the creation and diffusion of the knowledge concerning the territory processes, services and products with a dynamic view of the scene and of the competitive challenges. The most important requirement to get all that is contributing to the growth of the context social capital, as stated by Costabile and Lanza (2000), where the above-mentioned capital corresponds to the cluster of relationships that arises between the different individuals and is able to increase the conditions of the same membership context. We can find many works about the multidimensional aspect of the territory structure in which territory is qualified as a system of tangible and intangible assets and of numerous forces (individuals, organizations) that interact with one another. We can therefore state that the territory is not only a cluster of infrastructures, services and natural resources, but it is above all the cluster of abilities, relationships and knowledge which depict a relational space unique and not easy to imitate (Costabile and Lanza, pp.65-66).

In our study public decision makers and private subjects of the city can find policy suggestions concerning the planning and development of a management model adequate for the systemic perspective and applied in a cultural tourist destination context like Taranto. By using its culture and its knowledge deeply ingrained in the local territory together with its relational abilities, Taranto should try to increase, from a systemic point of view, the intangible assets of its peripheral neighbourhoods, where they do not seem so developed with the final purpose of getting a balanced and sustainable development of the city.

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 ISBN: 978-9963-711-37-6

MUSEUM ENGAGES COMMUNITY: SOME EVIDENCE FROM ITALY

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ABSTRACT

In the XXI century museums are assuming new roles and developing new ways of working to demonstrate their social purpose and impact. The relationship between museums and communities is the cornerstone of the topic: becoming cultural mediators, museums allow communities to be engaged in the process of representing the past, understanding the present and promoting the future of the cultural heritage.

This paper aims to understand the contemporary thought and practice about this change, exploring how the relationship between museums and their communities is taking place in the Italian context and what are the potential implications on operational and governance structure and performance.

To this purpose, it analyzes a selection of literature and shows the results of a two-step survey on a sample of Italian municipal museums.

The community engagement is conceived as a process through which museums may cooperate with and for citizens or groups of people who share places or interests, to face specific issues in order to pursue important benefits both for communities and institutions.

As for the results, the use of specific approaches and tools for different degrees of community participation is tangible. The research identifies three archetypes: community as customers of services; community as providers of knowledge; community as entrepreneurs.

Even though in most cases the results show that Italian museums engage communities with new communication tools, they open new scenarios about the relationship between the museum governance and its performance.

Keywords: *Museum, community engagement, public governance*

 ISBN: 978-9963-711-37-6

INTRODUCTION

The current relation between museums and communities derives from a wider evaluation process of culture as strategic asset of democratic awareness for people and society. Nowadays, cultural and political institutions need to prepare the ground for people education improving their capacity to access cultural life in a freer and more responsible way (Dewey 1992; Matarasso 2004).

Since the Fifties, new models of policy to develop people's access to museums were inspired by the concept of democratization of culture aiming to guarantee a wider and equal cultural access. Its translation in real actions helped to break down social and cultural barriers.

During the Seventies, the new concept of cultural democracy was conceived in terms of wider participation and cultural creation, using a bottom–up approach. In other words, it had the aim of creating cultural inclusion.

In the definition of new missions and politics of cultural institutions, cultural policies had important consequences. In particular, the post-museum acquired a new social role to educate «individuals with strong personal identities, strong self-esteem, confidence, and the ability to evaluate and make judgements about their own best interests» (Hooper - Greenhill 2007, 200).

As a consequence, in the XXI century museums have new roles and they develop new ways of working to demonstrate their social purpose and impact, becoming institutions dedicated to *lifelong learning* approach (Hein 1998) at individual, community and societal levels (Sandell 2003, 191).

Museums as cultural mediators engage the community in the process of representing the past, understanding the present and promoting the future of the cultural heritage. Their role is not only to create cultural tools but also to involve community as a co-protagonist of the museum life (Donato, Visser Travagli 2010).

This paper aims to understand the contemporary thought and practice in addressing this change, by exploring how the relationship between museums and their communities is taking place in the Italian context and what are the potential main implications on operational and governance structure and performance.

MUSEUM ENGAGES COMMUNITY

Considering the international debate on this issue, it is possible to identify different approaches and perspectives to define the concepts of community and heritage, and the links of mutual influence between cultural heritage and community, and also the role of the museum(Waterton and Watson,

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2011; Crooke, 2007). On the one hand, the issue is complex in its theoretical definition, on the other it is a soft target for government policies that in the global context are exploiting museum institutions and their programs to achieve various policy goals (social inclusion, cultural diversity and multiculturalism, civic engagement and social capital, etc.), and to add further justifications for public intervention in this area (Gray, 2008).

The paper does not deal with epistemological and political issues, it conceives community engagement as a strategy to improve museum performance. More specifically, community engagement is assumed as the process through which museums may cooperate with and for citizens or groups of people sharing, for instance, places or interests, to face specific issues in order to pursue important benefits for communities and themselves (Bowen at al., 2010).

It could embrace a variety of approaches and practices whereby museums involve communities in considering and expressing their opinions about their needs (Crooke 2007; Waterton and Watson, 2011). Museums could encourage people to have a voice in setting cultural offer, sharing decisions on specific projects or policies.

Simon's research (2010) has proposed the following four participatory models considering people involvement in museum projects and activities:

a. *Contributory projects* solicit visitors to provide «limited and specified objects, actions, or ideas to an institutionally controlled process»,

b. *Collaborative projects* invite visitors «to serve as active partners in the creation of institutional projects that are originated and ultimately controlled by the institution»,

c. *Co-creative projects* involve «community members work together with institutional staff members from the beginning to define the project's goals»,

d. *Hosted projects* «in which the institution turns over a portion of its facilities and/or resources to present programs developed and implemented by public groups or casual visitors».

These models are not linked to each other in a progressive relation and there is no hierarchy. Each museum can choose its own participatory model.

Moreover, different participatory tools can be used according to the degree of community participation the museums would like to achieve.

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IAP2- International Association for Public Participation (2007) identifies the following spectrum of five levels of participation and related tools:

- *Information*, to provide public with information to assist them in understanding problems and potential solutions (example techniques: fact sheets; web sites, etc.),

- *Consultation*, to obtain feedback from the public about a problem, potential alternatives and/or decisions (example techniques: public comments, focus groups, surveys, etc.),

- *Involvement*, to work directly with the public (example techniques: workshops, deliberative polling) to ensure that the public concerns and needs are correctly understood and considered,

- *Collaboration*, to partner with the public in each aspect of the decision-making process (example techniques: citizen advisory committees, participatory decision-making),

- *Empowerment*, «to place final decision-making in the hands of the public» (example techniques: citizen juries, ballots, delegated decisions).

This could generate a variety of outputs (outreach programs, social laboratories, training activities, qualitative surveys, etc.) and heterogeneous results (creativity, new ideas, sense of belonging, social inclusion, etc.) able to impact on the community (self-determination, *empowerment*, social networks, etc.),the governance and the management processes.

Participatory models combined with the participation degree lead to archetypes which denote the role the museum recognizes to its community in the process of planning and spreading museum offer.

THE ITALIAN CONTEXT: METHODOLOGY

To explore this relationship in the Italian context and to understand the main implications on the governance and performance of local public museums, in 2013 we carried out a two-step survey on a sample of Italian municipal museums.

The sample includes 262 museums out of 1909 municipal museums listed by the Italian Government – MIBACT and the criterion for selecting the museums was the existence of a website.

In the first step, we tried to understand if these museums were engaging their communities. Starting from Simon (2010) and IAP2 (2007) studies, we examined the website of the selected museums to gather relevant information about the presence of: a museum mission compatible with an inclusive policy; deliberative arenas for citizens or their organizations; participatory projects; services for

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different audiences; tools to detect audience preferences; cultural mediators and facilitators; physical areas where visitors can build their own cultural projects; services and web areas of interaction.

In the second step, we focused on six case studies out of the selected 262 museums, with the aim to define the archetype of community engagement, combining the adopted participatory model (Simon 2010) with the degree of participation (IAP2 2007) verified in each museum.

These museums are:

1. MART (Museo di Arte Moderna e Contemporanea di Trento e Rovereto) is located in Rovereto and in Trento, two municipalities with 39.271 and 115.368 inhabitants in Trentino Alto Adige. Its collection is composed of 15.000 art works including important nucleus of twentieth century avant-gardes. The Museum has also a specialized library and an archive,

2. Museo Civico "Amedeo Lia" is in La Spezia, a municipality with 92.474 inhabitants in Liguria. Its collection includes 1200 heterogeneous works from classical period up to the eighteen century,

3. Museo Civico Archeologico Etnologico is located in Modena, a municipality with 179.087 inhabitants in Emilia Romagna. The collection is exhibited according to a geographical criterion (Peru, New Guinea, South America, Africa and Asia areas),

4. Museo Civico Casa Cavassa is in Saluzzo, a municipality of 16.934 inhabitants in Piemonte. Its collection is composed of archaeological evidences and antiques belonged to Silvio Pellico and of antique furniture,

5. Museo Comunale archeologico del Finale is located in Finale Ligure, a municipality with 11.706 inhabitants in Liguria. Its collection is composed of archaeological evidences representing about 350.000 years of history of Finale territory,

6. Fondazione PInAC – Pinacoteca Aldo Cibaldi is located in Rezzato, a municipality with 13.378 inhabitants in Lombardia. The collection is composed of children's drawings. It is a dynamic, international museum that collects, classifies and analyses the creative forms of expression of children from different countries.

We interviewed the directors in order to: confirm the existence of community engagement practices observed in the preliminary survey; individuate their participatory model; assess the community participation degree; gather information about impacts and results of engaging practices both for museums and communities.

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To this end we developed a qualitative questionnaire composed of 22 questions, as stated in Table 1.

Table 1 – Survey questions

Multiple choice questions:
Does the mission of the museum envisage explicit objectives in terms of cultural inclusion?
Does the museum plan any activity of community inclusion?
Why does the museum involve the community in its cultural offer?
How is the community involved in the cultural offer of the museum? Please, answer using the IAP2 Spectrum.
Who is involved in the cultural offer of the museum?
The museum involves the community in its activities. What kind of commitment does the museum take on towards it? Please, answer using the IAP2 Spectrum.
The museum involves the community in its activities. What kind of commitment does the museum propose to the participating community? Please, answer using the IAP2 Spectrum.
How does the relationship between the museum and the participating community take place? Please, answer using the IAP2 Spectrum
What tools does the museum use to provide the community with information about ongoing cultural offers?
How does the museum carry out activities concerning community analysis to plan its cultural offer?
Is in the museum staff any professional who works in cultural mediation?
Do community expectations and preferences influence the decisions of the museum?
Does the museum have well-equipped areas for projects proposed by the community?
How does the community take part to the decisions of the museum?
How does the museum monitor the projects that involve the community?
Does the museum provide the community with information about the outcome achieved? (e.g. Social Budget)
What goals does the museum want to achieve with regards to the segment of the community that is not currently taking part to the cultural offer of the museum?
What are the problems/obstacles that it is possible to face with projects involving the community?
Open questions:
What are the objectives of inclusion the museum pursue?
What aspects in the activities of community involvement in the museum can still be improved?
Likert scale questions:
What outcomes has the museum achieved through activities of community involvement?
What impact the activities of community involvement have produced?

RESULTS

The first phase of this research composed of the analysis of 262 museum websites gave the following results: the museums mainly achieved the community engagement for the outdoor museum communication. In particular, these institutions modified their images adopting social and online tools enhancing interaction with their communities (email, social networks, newsletter, and so on).

Moreover, 19% of the museums that declared inclusive assumptions in their mission, did not published any practice of community inclusion in their websites.

The second phase of this research aimed to deeper investigate six case studies. The interpretation of interview results proved that the participatory models are distinct, but at the same time many

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institutions «move fluidly from one model to another, using different approaches for different projects and community relationships» (Simon 2010, 187-188). All the examined museums adopt community engagement practices choosing each time the best participatory model to gain specific objectives.

In few main sentences we summarized their engagement experiences and projects:

1. MART (Museo di Arte Moderna e Contemporanea di Trento e Rovereto). This museum declares objectives of social inclusion in its mission, evaluating "all the community, by promoting resources of creativity and initiative, in stimulating the interest of visitors and seeking their participation, sharing, interpreting and safeguarding an extraordinary collection", "to create opportunities for all to learn", "a museum that is full of vitality and has large-scale projects, a museum that represents the energy of places and people" and that gives " voice to different opinions and perspectives". Moreover, MART declares to involve visitors to improve its cultural program including their skills and energies. It modifies, if necessary, its proposals to satisfy visitors expectations. This institution is oriented towards a collaborative participatory model, in fact it "sets the project concept and the staff members work closely with participants to make it happens". But it is possible to perceive the fluidity of this model, investigating some of its projects, such as MART up!, during which the museum goes out its building to co-create, during creative workshops, with locals, and it invites them to become protagonists of the museum life.

Moreover, the community participates to the museum decisions thanks to a representative with voting right,

2. Museo Civico "Amedeo Lia". This institution does not declare any position for social inclusion in its mission, even though it adopts an inclusive policy. It is experimenting the contributory model with an educational approach in which "the act of contributing provides visitors with skills or experiences". Its projects involve specific targets, such as students and schools, to which the institution proposes cultural itineraries inviting them to suggest their preferences and their advice to improve the experience. According to the museum director, this participatory model has given modest positive results in the participation of volunteer visitors to the cultural activities and in the motivation of visitors' cultural initiatives. Moreover, this institution thinks that this kind of policy is more expensive than the traditional one,

3. Museo Civico Archeologico Etnologico. Even though this institution has a generic mission concerning cultural projects, it can be considered an example of fluidity in the participatory model adoption. This museum cooperates with other museums of Modena and it is adopting a contributory model. During the last years, this museum has experimented an educational inclusive policy promoting

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intercultural projects. Moreover, in 2012 during the "Philosophy Festival", it encouraged a collaborative project applying the co-development category, according to which "staff members work together with participants to produce new exhibitions and programs". In particular, the community becomes part of a work of art through their stories, memories and personal objects,

4. Museo Civico Casa Cavassa. The mission of this institution envisages an inclusive program developed through a contributory model: "the museum employs communicative methodologies and techniques adequate to different targets requirements" and "it organizes events and cultural activities in order to achieve different target of visitors". Thanks to this policy, Cavassa museum has declared a significant increase of visitors and specific social categories participation to its cultural activities. The museum experiments collaborative projects applying consultative and co-development categories. The former is evident in "Le Nuvole a casa di Francesco" and in "1museo+5sensi=infinite esperienze", projects that have been written with the cooperation of specialists and territorial associations; the latter, in the project "Incotriamoci al museo" during which new communication tools have been realized by students of a High school thanks to the museum coordination,

5. Museo Comunale archeologico del Finale. This museum has inclusive objectives in its mission, it intends to "fell cultural barriers for the fruition of the museum collection". Even though the museum declares to involve its visitors asking them to co-project cultural activities, it does not give them the possibility to participate to the museum decisions. This institution proposes several cultural activities such as cultural itineraries, educational laboratories, cultural plays and trekking excursions to discover the territory. Moreover, it participates to a European project, titled "Accessit" improving the accessibility of its exhibition. The Finale museum adopts a contributory model to plan its cultural activities, to satisfy its visitors and to attract new visitors to the museum activities,

6. Fondazione PInAC – Pinacoteca Aldo Cibaldi. This institution has a generic mission that applies through cultural projects, even though it adopts a contributory model with two specific approaches. The first one is the necessary contribution «in which the success of the project relies on visitors active participation» (Simon 2010, 207); the second one is the educational contribution that provides visitors with new skills and experiences. The museum target is composed of children. They participate with their drawings to enrich the collection and cooperate during workshops with artists to the creation of new works of art. This institution experiments different forms of inclusiveness; the "Metissakana. Il meticciato come territorio dell'arte e dell'incontro tra le diverse culture" project, for example, has the objective to attract new targets of visitors, in particular immigrants, promoting a different cultural offer of its territory with a long-range planning.

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DISCUSSION AND CONCLUSION

All the examined museums set and plan inclusive objectives for their visitors every year (5 museums out of 6), in order to share knowledge and cultural contents (6/6), to increase their visitors number (5/6), to promote cultural diversity (5/6),active citizenship and social cohesion (6/6).

All these museums include their community in the cultural offer. Moreover, they involve specific targets, such as researchers, tourists, schools and disabled people in project activities.

MART of Trento and Rovereto declares to plan activities aimed to the inclusion of minority groups, the museum of Saluzzo to involve families, the museum of La Spezia to work with religious community too; the museum of Finale to involve mental disabled people.

Moreover, it is interesting to underline "how" these museums promote visitors inclusion in cultural activities: 4 museums out of 6 give only adequate information to their visitors; two museums, MART and PiNac, consult visitors to obtain feedbacks for their cultural proposals, they involve them in the creation process aiming to know visitors' needs and expectations.

The museums (4/6) that engage visitors with sufficient cultural information, also:

- collect visitors opinions through questionnaires and analyze their comments on museum social media,
- do not permit visitors participation to the museum decisions, even though, sometimes, visitors opinions can influence museum actions,
- establish a collaborative relationship with specific targets so that they can feel part of museum plans and they are able to enjoy the cultural offer,
- declare that the community engagement policy determines visitors increase (of specific targets as well). Moreover, they observe a more intensive participation to the cultural activities by marginalized social categories.

In all these cases, museums gain better performances including visitors and specific targets thanks to communicative activities on their territories and without transferring any decisional power.

MART of Rovereto and PiNac of Finale Ligure follow different ways of community engagement.

The former establishes a deeper relationship with its community, planning decisional processes. In particular, its engagement activities follow a deliberative model because:

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- it consults visitors through deliberative workshop and it modifies its policy to answer visitors demands;
- it involves a visitors' representative with voting right in its decisional body;
- it adopts tools of accountability (annual report).

It is interesting to observe the important results gained by MART engagement activities such as the acquisition of new collections and the increase of museum financial resources. In its territory, the museum observes some impacts, such as: more intensive cultural initiatives by the community, the creation of new social networks, the spreading of new ideas, services and models to face social problems.

The latter tries to involve its visitors in co-creating processes of cultural plans but they have to respect museum rules and they do not have any deliberative power. The results are the increase in public satisfaction and a better sustainability of cultural projects.

In the end, these outcomes point out an interesting change in 5 out of 6 museums: all of them have employed specialists in cultural mediation to achieve their inclusive objectives.

As for the international debate on the issue, our survey's results achieve the following conclusions: community engagement cannot be considered as a homogeneous practice; we can identify three archetypes of strategy; community engagement produces benefits also for the organization.

According to the adopted participatory model and the degree of participation, communities can have different roles in this process. They can be: (a) customers of an offer for which they express directly or indirectly preferences (no decision-making transfer); (b) providers that co-produce museum offer (operational decision-making transfer); (c) entrepreneurs that co-create museum offer assuming the risk of failure (governance sharing).

The related managerial implications are clearly different. In the first case (a) changes would affect the contents of the museum activities re-directing resources for: museum communication and education services; analysis, information and consultation of the audience; cultural mediation and hospitality services for different audiences.

In the second case (b) a new relationship between museum and community arises. It can follow the rules of the volunteering, as open access, or employment contract or service supply. In this hypothesis the main impact would concern the operational structure of the museum, having to provide

ISBN: 978-9963-711-37-6

professionals, tools and suitable places for the coordination of the co-production processes and the feedback management.

In the third case (c), changes include governance processes. Community would share the decision-making process with the museum, creating a participatory governance that can assume different models, from a deliberative unit for the representatives of the community to community organization as community-based museums (Unesco, 2010).

Ultimately, the relationship between museums and communities can take place through various models and with different intensity. Although they relate to different managerial implications and solutions, they all have the same starting point: sharing cultural authority with their community.

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 ISBN: 978-9963-711-37-6

THE EXPERIMENTAL LAB: A TOOL FOR ENTREPRENEURIAL UNIVERSITY

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ABSTRACT

The overall goal of this work is to provide a contribution to the studies that aim to boost the entrepreneurial activity of universities, exploring whether the experimental lab could be an effective tool to support aspiring entrepreneurs in turning their ideas into real start-ups. The experimental lab is a network of entrepreneurial individuals from universities, research labs, financial markets and industry who become part of an innovative ecosystem in order to sustain entrepreneurship. Starting from the assumption that university has to leave the "ivory tower" in which it has been isolated from reality and that, instead, it has to assume an active role in favouring entrepreneurship, this research has adopted a concrete approach, investigating the structure of experimental labs as tools supporting universities in their entrepreneurial vocation.

Basing on literature review and on a focus group, we designed a virtual platform for an experimental lab, to be concretely tested in its functioning by a simulation (role play).

Keywords: *Experimental lab; entrepreneurial university; entrepreneurship*

INTRODUCTION

In an environment where uncertainty is the main feature, entrepreneurship represents an important research field as it is connected to the chance of detecting new opportunities, sustaining social and economic development. It should also be considered that, due to the economic crisis, the importance of entrepreneurship has also increased, as the possibility to become entrepreneurs has been seen as an alternative to the lack of employment.

Modern knowledge-based economies urge universities to embrace the third mission, i.e., to promote economic and social development, and regard themselves as critical factors in the development process (Etzkowitz, 2004; Etzkowitz and Leydesdorff, 2000). As highlighted by Etzkowitz and Leydersdorff (2000), the future role for the entrepreneurial university is based on alignment of the academic mission based on teaching and research with structure and functions based on real economic development. This leads to the notion of entrepreneurial university.

 ISBN: 978-9963-711-37-6

The university system can effectively promote entrepreneurship. Indeed, it can play a central role, sustaining the development of new ideas from would-be entrepreneurs (Rothaermel *et al.*, 2007). In the attempt to contribute to the activity of universities favouring entrepreneurship, and led by the belief that potentially implementable results have to be achieved, this research sheds light on the adoption, by entrepreneurial universities, of a new tool, the *experimental lab*, in order to provide aspiring entrepreneurs with fertile soil and a strong network to progress from an idea to a real start-up. The experimental lab is a network of individuals "federated" from universities, research labs, financial markets and business partners, who become part of *an innovative ecosystem* by means of a virtual platform, rather than relying only on their capabilities (Andersson *et al.*, 2010; Curley and Formica, 2012a).

Basing on literature review and on a focus group, we concretely designed a virtual platform for an experimental lab, to be subsequently tested in its functioning by a simulation (role play). The research project was carried out in four steps: 1-literature review; 2-first projecting of the platform design; 3-focus group; 4-revision and ultimate version of the experimental lab platform.

Thus this work provides a contribution to the studies that aim to boost the entrepreneurial activity of universities, exploring the characteristics of experimental labs as a tool to support aspiring entrepreneurs in turning their ideas into real start-ups and suggesting a specific structure for their everyday dynamics.

The paper is organized as follows.

Section 2 presents a literature review on the stream of research coping with entrepreneurial university. In Section 3 we focus on the experimental lab as a concrete instrument for entrepreneurial universities and discuss the characteristics of designed virtual platform. Conclusions follow in Section 4.

ENTREPRENEURIAL UNIVERSITY

In the last 30 years, the literature on university entrepreneurship has been rapidly expanding both in the United States and Europe (Rothaermel *et al.*, 2007). Even if the entrepreneurial university literature is relatively recent, it has been growing fast due to its importance for economic and social progress.

University has been part of two important revolutions that have changed and enriched its mission: from teaching to research, and from research to entrepreneurial vocation. University's "third mission" is to promote economic and social development (Etzkowitz and Leydesdorff, 2000; Etzkowitz, 2004). Modern knowledge-based economies urge universities to embrace the third mission and regard themselves as critical factors in the development process: entrepreneurship begins in Academia.

 ISBN: 978-9963-711-37-6

The entrepreneurial university has the ability to generate a focused strategic direction (Clark, 1998), both in formulating academic goals and in transforming the knowledge produced within its boundaries into economic and social useful means (Etzkowitz and Leydesdorff, 2000).

The entrepreneurial university literature has been growing fast due to the importance of the matter for economic and social progress. In such a rich literature it is possible to recognize four main research streams (Rothamel *et al.*, 2007):

- entrepreneurial university;
- productivity of TTOs (technology transfer offices);
- new firm creation;
- environmental context.

The entrepreneurial university research stream has the general purpose of revealing which organizational designs, tools and other means (location, status, culture, experiences, incentive system, etc.) can favour or inhibit the commercialization of university inventions and in general their entrepreneurial vocation. The general question this stream seeks to answer is (Henrekson and Rosenberg, 2001; Di Gregorio and Shane, 2003; Etzkowitz, 2003; Friedman and Silberman, 2003; Siegel *et al.*, 2003): How can universities become more successful in their entrepreneurial activities? Findings suggest that, in order to embrace its third mission, university governance does not need to become expert in commercialization, sacrificing its academic mission. The university should adopt an "umbrella strategy" (Mintzberg and Waters, 1985), i.e. a general series of guidelines of behaviour inside which entrepreneurship and innovation are fostered without altering its original aims. As Etzkowitz and Leydersdorff (2000) highlighted, the future role for the entrepreneurial university is based on alignment of the academic mission based on teaching and research with structure and functions based on real economic development.

The second stream analyses the productivity of technology transfer offices, which is considered a key driver and determinant for the universities' entrepreneurial activities. The technology transfer office (TTO) plays an active role when university faculty members, students or staff recognize or discover a new technology or invention that has commercialization potential. Once the new technology or invention is disclosed to the TTO, it is responsible for patenting (Friedman and Silberman, 2003). Several factors have been identified as relevant to productivity, i.e. structure and staffing, the different mechanisms of technology transfer, the transfer office system, faculty, university system, degree and type of relation between TTO and the university. It has been demonstrated that universities can determine the performance of the TTO by acting on relationships, resources, incentives, and commercialization strategy (Feldman *et al.*, 2002; Markman *et al.*, 2005). The university usually tries to encourage and support knowledge disclosure by licensing contracts and incentives for faculty to

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disclose inventions (Jensen *et al.*, 2003; Siegel *et al.*, 2003). In an overall vision, the TTO can be seen as a gateway for university inventions favouring the relationship between "university innovators" and the outside environment.

The third stream investigates the process of new firm creation. Various ways have been developed to classify newly created firms (Carayannis *et al.*, 1998; Nicolaou and Birley, 2003). As argued by Rothaermel *et al.* (2007), beyond the attempt to classify the various new ventures, the overall aim of this stream has been on the one hand to identify all the types of factors that can impede the formation and growth of spin-offs (informational gap, lack of competencies, unsupportive university culture, etc.) or can favour the process (university involvement, management of intellectual property, resources, networking activities, etc.) (Chiesa and Piccaluga, 2000; Steffensen *et al.*, 2000; Di Gregorio and Shane, 2003; Rothaermel *et al.*, 2007), and on the other to investigate the role of the founder's social network that can have an implication on the type of spin-off and especially to what extent human resources and technology are relocated into the new venture (Shane and Stuart, 2002; Grandi and Grimaldi, 2003). Another theme widely investigated is the impact of the university system, meant as general policy and incubation models, theme that has contrasting findings. Where some studies demonstrated that a high involvement of the university is positively correlated to new venture creation and performance (Di Gregorio and Shane, 2003; Rothaermel and Thursby, 2005), others highlighted dependence and low profile performance due to a strict tie with university (Johansson *et al.*, 2005).

The fourth and last research stream is the one looking at the environmental context, including networks of innovation, which scholars firmly believe to be an essential feature for universities to become entrepreneurial. In particular, the literature identifies various factors that can influence the entrepreneurial process: amongst others *innovation networks, incubators* and *geographic location*. As to innovation networks, their positive impact on the entrepreneurial activity of the university is evident (e.g. firm productivity, R&D capability) (Adams *et al.*, 2001; Murray, 2004). Incubators are innovative systems designed to assist entrepreneurs, particularly technical entrepreneurs, in developing new firms by providing a variety of services and support to start-up and emerging companies (Smilor, 1987). Finally, as regards the geographic location, some studies have particularly analysed the proximity of start-ups to universities that can be both a prerequisite or a consequence of the entrepreneurial effort (Van Dierdnock *et al.*, 1990).

Thus, if it is from knowledge flows, network, concrete tools/services and collaboration that entrepreneurial innovation can emerge, universities have to exploit their knowledge base and collaboration opportunities to encourage and support entrepreneurial initiatives and ideas.

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So the University Ecosystem (UE), as conceptualized by Curley and Formica (2012b), is a "community of personnel" (professors, researchers, students, external professionals) that interact with each other and with the external environment to generate entrepreneurial innovation. Sharing and collaboration, in such an ecosystem, are structured in a variety of forms: common research projects and papers, people to people and patent exchanges, cross-licensing agreements, shared copyrights, etc. This new way to co-create value is related to the open "innovation 2.0" which, as defined by the EU Open Innovation and Strategy Policy Group (OISPG, 2012), considers collaboration and networking as a way to maximize the innovation base of organizations, the knowledge and creative capital at their disposal. Innovation 2.0 is based on sharing in order to innovate, through the exploitation of ideas and knowledge flows (Curley and Formica, 2012b). Thus, the UE identity is shaped like a "starfish": decentralized, with non-hierarchically ordered social norms, without walls to protect ideas, and built on openness and connectivity, in contrast to a "spider-like" identity (tipical of closed innovation systems), centralized, built on social norms, rules and power relations (Brafman and Beckstrom, 2006). In the light of this open way to innovate, new tools are essential to allow new ideas sharing and the afterward-entrepreneurial activities: we believe that the experimental lab might be one of these tools.

THE EXPERIMENTAL LAB

Literature review

This study focuses on the adoption by universities of an experimental lab, a tool that might help university support aspiring entrepreneurs to turn ideas into start-ups.

Thus, experimental labs could allow universities to embrace their third mission, i.e., to promote economic and social development, and regard themselves as critical factors in the development process (Etzkowitz, 2004; Etzkowitz and Leydesdorff, 2000).

Aspiring entrepreneurs, before entering the market, can exploit the experimental lab to "test" their ideas and reduce the risk associated with the uncertain entry in the market of a new innovative idea. The lab works by evaluating the full spectrum of ideas, monitoring and reviewing their basic assumptions and forecasting the performance-gain underlying these assumptions. In the experimental lab community high expectation entrepreneurs explain their business ideas to receive feedback in a peer-to-peer exchange, to make the idea ready for launch in the marketplace (Curley and Formica, 2010). The experimental lab creates a dynamic environment that links, in a new and unexpected way, aspiring entrepreneurs, academics, researchers, experts and practitioners. The daily work of a laboratory is building upon each other's ideas; it is sharing to improve. Each member achieves a result thanks to other members' suggestion.

 ISBN: 978-9963-711-37-6

The experimental lab offers the possibility to perform an iterative process of analysis, in an evolutionary way between mentoring and coaching. In contrast to incubators, "try" rather than analyse is a culture encouraged by labs; experience is a way, for entrepreneurs, to find their own path thanks to the network. For this reason "diversity" is the essential feature in team composition: members must have different backgrounds to contribute to the transition from an idea to a start-up.

Given participants' diversity, the experimental lab literature has hypothesized different possibilities to structure the team, even though it has not yet reached a final solution. One of the general solutions is that participants can be divided into two major groups: problem seekers and problem solvers (Curley and Formica, 2008; 2010). Problem seekers have to identify the problems that the idea might have in the real market. Solvers find possible solutions for these problems. The two groups are interchangeable: at each iterative step, seekers become solvers and vice versa. But this general distinction says nothing about how to concretely compose the best team to process the different ideas. Taking a step forward it is possible to identify three potential options to compose a team and to organize the work in the experimental lab (Curley and Formica, 2013; Matricano and Pietrobon, 2010). One possibility is that each member involved makes a critical analysis of his/her own capabilities and competences to evaluate the compatibility with the idea. This way the possibility of having a good team that works on the idea is entrusted to the self-analysis that each member should carry out, not only on their own capabilities, but also on the fitness between the idea and their personal background. The risk of this option is that without an external observer the objectivity of the match idea-workers might be compromised.

Another possibility is that some senior managers or directors of the lab act as decision makers, choosing the most suitable participants, already inside the network or outside of it. In this perspective, the decision makers will mediate amongst the lab members, the would-be entrepreneur and experts not yet enrolled (Curley and Formica, 2013; Matricano and Pietrobon, 2010). While this option puts another actor in the evaluation process, it limits the possibilities for the participants to choose the ideas most intriguing to them and, as a consequence, their motivation to participate.

The third option is the "venture sitter" (Matricano and Pietrobon, 2010). This figure would not be a manager of the lab but an active participant who may constitute the missing link between the lab's network of experts and the start-up idea. The venture sitter should examine the characteristics of the idea and experts' capabilities to choose the best combination between project and members who will arrange the team. His/Her role is not only to choose the team members most suitable for the idea in question, but also and mainly to support aspiring entrepreneurs during the whole process of idea development.

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The experimental lab is based on the job of virtual teams that analyse, process and test the business ideas into a shared virtual space. In this vein it is evocable the concept of ba (Nonaka and Konno, 1998) as a shared space (physical, virtual or purely mental) in which not only relationships but also knowledge comes from common experiences, whether direct or indirect. The ba is a platform to promote and share individual and collective knowledge (Nonaka *et al.*, 2000). From this perspective the experimental lab platform might represent a ba, meant as a virtual space to produce knowledge in a peer-to-peer relationship, exploiting the web 2.0 as a facilitator and stimulus to the creation of unstructured community environments, influential on sharing and exchange (Migliaccio *et al.*, 2011).

From a cognitive perspective, experimental labs can represent a lever for knowledge creation and exploitation (Iscaro and Castaldi, 2014). Indeed, idea exploitation and development and new venture creation through experimental labs lie in the characteristic of "multiplicability" peculiar to knowledge, meaning that knowledge assets – as opposed to the spatio-temporal locality of traditional tangible assets – can be shared with others and retained at the same time, do not deteriorate but, on the contrary, appreciate with use, and can be employed an infinite number of times without running out (Boisot, 1998; Davenport and Prusak, 1998; Grant, 1996; Rullani, 2004).

Indeed, the daily work of an experimental lab builds upon members' knowledge and the goal is sharing to improve. Thus the experimental lab enhances the multiplicability of knowledge assets. It makes knowledge sharable within the network, preventing it being relegated to a simple personal ability. This calls for externalization through the adoption of mechanisms fostering the conversion of the tacit knowledge of people involved in experimental labs into more explicit cognitive assets, thus making individual knowledge easier to spread within the network.

Designing a virtual platform

Although the literature on the experimental lab has pointed out different solutions to organize the daily work, it has not yet reached a final solution and there were still open issues that it was necessary to resolve in order to design a virtual platform in which to actually realize the functioning of an experimental lab: concrete creation and organization of teams per cognitive area; value appropriation and regulation of relations; virtual network fragility.

In order to dispel doubts and controversies before completing the final version of the platform structure, we had to organize a focus group with experts who, with their knowledge and capabilities, helped us identify the possible concrete solutions. The focus group provided several useful indications for the design of the platform.

The platform was built as a traditional website to be managed by the university. We designed the platform considering actors, rules and resources (Klabbers, 2003).

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The lab was built on three actors/roles: aspiring entrepreneur, venture sitter, human resources. Anyone can be an *aspiring entrepreneur* with a good idea but this is doomed to be forgotten without the necessary support: thanks to the experimental lab aspiring entrepreneurs become part of an innovative ecosystem rather than relying only on their own resources. With a supposed background in entrepreneurship and/or management, the *venture sitter* is a role somewhere between a mentor and a coach. The venture sitter helps the aspiring entrepreneur choose the most suitable human resources and define timing and goals, also providing him/her with indications to advance and assess the outputs from the human resources. In the experimental lab, thanks to *human resources*, the aspiring entrepreneurs can access competences, skills and experience not possessed, in order to explore, analyse and define their ideas.

Rules and resources that make the daily exchange of knowledge and experience possible in the designed platform are:

- *mechanisms of externalization and sharing* (messaging, forums, videoconferences, meetings) through which all members of the lab can easily share their own intellectual capital;
- a *non-disclosure agreement* with the aspiring entrepreneur. This rule guarantees the non-disclosure of aspiring entrepreneurs' ideas by all members of the experimental lab;
- the rule of *"work-for-equity"* to remunerate participants. As all agents involved assume the risk of enterprise, they do not overload the financial situation of the rising firm and follow the principle of "the success of one is the success of all": all together bet on the idea;
- the *Stage&Gate model* as a process for the development of business ideas.

In the everyday work of the experimental lab, the starting point is an aspiring entrepreneur who *"entrusts"* his/her idea to the community of the lab. Ideally, the platform administrator (university) through an internal team of experts in entrepreneurship and innovation, analyses all the ideas submitted in order to select the most valid, those that actually will be "processed" in the lab. This step is followed by a match between aspiring entrepreneurs and venture sitters made by the platform administrator (also following aspiring entrepreneurs and venture sitters' preferences).

After these preliminary steps the real work begins. Together, aspiring entrepreneur and venture sitter identify the different cognitive areas required (e.g., marketing, legal, information technology, chemistry, graphics, digital, etc.) and the human resources for each one. Once human resources have agreed to participate in the project, they access the model *idea in progress*, based on the Stage&Gate model (Cooper, 1994; Cooper *et al.*, 2002). The stages are where the work is done; the gates are checkpoints that guarantee a satisfactory quality. The platform is based on five stages: scoping, building a business case, development, testing and validation, market launch. Between the stages there are gates, checkpoints for quality control. The gates deal with three problems of quality: quality

 ISBN: 978-9963-711-37-6

of execution, business rationality and quality of the action plan. They are confrontation moments with the general aim of assessing the real attractiveness and feasibility of the project based on a *go/no go* decision logic.

CONCLUSIONS

Nowadays, the broad interest in the entrepreneurial phenomenon is due to the awareness that entrepreneurship is an essential lever to cope with a complex economic scenario (Hitt and Reed, 2000). The environment in which companies have to compete today is characterized by increased risk, scarce ability to forecast and vulnerable boundaries. In a new landscape, where uncertainty is the main feature, entrepreneurship represents an important research field that offers the chance to detect new opportunities.

Studies about entrepreneurship have pointed out that there are several conditions, not only related to the individuals but also to their environment, that can play a significant role in determining not only the decision to enter the market, but also the likelihood of succeeding. In particular, this research points out that aspiring entrepreneurs, who only have an idea and an entrepreneurial inclination, can succeed thanks to the support of the experimental lab in a process that sees university as playing a decisive role through the adoption of mechanisms and tools able to favour entrepreneurial innovation.

This study tries to fit in a literature gap, analysing how to concretely build an experimental lab as a new means to support entrepreneurship exploiting networks, collaboration base and relational capital of the university. We provided suggestions for three still undressed issues: 1) team creation for which we propose a structure of the virtual platform based on three roles, the job organization in cognitive areas and the selection process among aspiring entrepreneur, venture sitter and human resources, 2) value appropriation and regulation of relationships for which we suggest the *work for equity* principle and the non-disclosure agreement and 3) the job process and virtual network fragility that we suggest to conduce/overcome by an everyday job routine based on the Stage&Gate model (Cooper,1994).

We suggest that experimental labs, when properly designed, could allow universities to embrace their third mission, thus leading to the notion of entrepreneurial university (Etzkowitz, 2003; Di Gregorio and Shane, 2003; Friedman and Silberman, 2003; Henrekson and Rosenberg, 2001; Rothamel *et al.*, 2007; Siegel *et al.*, 2003). As highlighted by Etzkowitz and Leydersdorff (2000), the future role for the entrepreneurial university is based on alignment of the academic mission based on teaching and research with structure and functions based on real economic development.

The overall goal of this work was to provide a contribution to the studies that aim to boost the effectiveness and usefulness of universities in favouring entrepreneurship.

ISBN: 978-9963-711-37-6

The belief that nothing can promote growth like a university system able to reconcile teaching, research and entrepreneurial vocation was the leitmotif for this project. Starting from the assumption that university has to leave the "ivory tower" in which it has been isolated from reality and that, instead, it has to assume an active role in favouring entrepreneurship, this research has adopted a concrete approach, investigating the structure of experimental labs as tools supporting universities in their entrepreneurial vocation. In this vein, in the next step of our research project, designed platform will be tested through a simulation by role play in order to assess its effectiveness in helping aspiring entrepreneurs to analyse, process and develop their business ideas, thus leading to the creation of real start-up firms.

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 ISBN: 978-9963-711-37-6

CORPORATE ICT STANDARDISATION MANAGEMENT - LESSONS FROM THE LITERATURE AND FROM CASE STUDIES

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ABSTRACT

The paper discusses how companies could use the management of their ICT standardisation activities to improve their competitiveness and possibly also their innovativeness. It presents findings from a literature review and three case studies. Based on these findings, a number of general managerial implications are derived, as are a number of concrete recommendations for action.

Keywords: *Standardisation, Standardisation management, ICT, Literature review, Case studies*

INTRODUCTION, BACKGROUND AND MOTIVATION

Some Introductory Remarks

Even if we disregard social, moral and religious rules for the moment, standards – in a very general sense – have been with us for quite some time: About 5,000 years ago the first alphabets emerged, enabling completely new forms of communication and information storage. Some 2,500 years later, the first national, coin-based currency, invented by the Lydians, established the basis for easier inter-regional trading. The industrial revolution in the 18th century and the advent of the railroad in the 19th century resulted in the need for technical standards, which was once more reinforced when mass production generated a demand for interchangeable parts. In parallel, the invention of the electric telegraph in 1837 triggered the development of standards in the field of electrical communication technology. In 1865, the International Telegraph Union – to become the International Telecommunication Union (ITU) in 1932 – was founded by twenty states. The other major international standards setting body, the International Organization for Standardization (ISO), was established in 1947.

These days, numerous SDOs (Standards Developing Organisations[1]) issue what is commonly referred to as 'de-jure' standards – although none of their standards has any regulatory power per se. Likewise,

[1] I.e., for instance, ISO and ITU at the global level, ETSI (European Telecommunications Standards Institute) at regional level and ANSI (American National Standards Institute) at the national level

 ISBN: 978-9963-711-37-6

a plethora of private industry fora and consortia[1] produce so-called 'de-facto' standards. As a result, there exists an almost impenetrable maze of what is generally called 'standards'. Moreover, one may distinguish between different types of standards: there are voluntary, regulatory, de jure, de facto, pro-active, reactive, public, industry, and proprietary standards; this list is by no means exhaustive. As Andrew Tanenbaum put it: *"The nice thing about standards is that there are so many to choose from."* [Tanenbaum, 1988, p. 254].

Every Information and Communication Technology (ICT) system, from the most complex corporate infrastructure of some globally operating company down to the humble PC on the desk back home incorporates scores of standards. There are standards for operating systems, programming languages, user interfaces, communication protocols, hard disk drives, cables and connectors, etc. In fact, in the field of ICT international standards are the one major mechanism to ensure interoperability between different systems. Accordingly, standards that suit a company's needs, for example by incorporating its Intellectual Property, by anticipating its implementation activities or by helping create a new interesting market represent a considerable competitive advantage. Thus, participation in standards setting and influencing the process to one's own benefit has become a major strategic tool, utilised especially by the large players. But standards also have other characteristics that make them interesting for many companies (not necessarily only for the big ones). For example, they are a valuable means of technology transfer, which makes them relevant also for academia, research institutions and corporate R&D departments (see e.g. [Blind, 2006]). Moreover, the process of standardisation is not that dissimilar to pre-competitive joint research. That is, standardisation also provides a legal platform for co-operation with competitors and (potential) customers.

Standardisation and Innovation

Close links between standardisation and innovation may generally be identified. The times when statements along the lines of 'standardisation hampers innovation' where believed to adequately describe this link are (mostly) gone by now. However, the unqualified 'standards foster innovation' does not fully reflect reality either. Swann & Lambert [2010] observe that standards do both – enable and constrain innovation – but that the enabling aspect is much more important. Specifically, they note that "… *standardization does constrain activities but in doing so creates an infrastructure to help trade and subsequent innovation. Standardization is not just about limiting variety by defining norms for given*

[1] The more prominent, long-standing ones include, for example, the WWW consortium (W3C), the Organization for the Advancement of Structured Information Standards (OASIS) and the Open Group.

ISBN: 978-9963-711-37-6

technologies in given markets. Standardization helps to achieve credibility, focus and critical mass in markets for new technologies" (p. 370).

That is, especially in the field of ICT many standards describe a commonly agreed platform upon which innovations can be based and marketed. Accordingly, standards may be, and indeed are, used as strategic tools. For example, a new standard can extend a market, or even help open up a whole new one (just think what GSM[1] did for mobile communication). On the other hand, backing and subsequently being locked into a 'wrong' technology (i.e. one that does not get standardised) may well ruin at least a smaller company.

What's more, "*Standards are not only technical questions. They determine the technology that will implement the Information Society, and consequently the way in which industry, users, consumers and administrations will benefit from it*" [CEC, 1996]. That is, those that develop ICT standards today at the same time shape much of the ICT environment we all will use in the future. And if they do their job properly, i.e. if they develop systems that meet the needs of all stakeholders (including e.g. individuals, communities, businesses, and governments) society at large stands to benefit. On top of that, from a different perspective and in line with a number of other studies, DIN [2004] finds that "*standardization contributes to GDP growth at the rate of about one percentage point per annum*",

Today, active participation in relevant Standards Setting Organisations[2] (SSOs) has become a sine-qua-non for many companies, in order to remain competitive (see e.g. [DeNardis, 2011]).

Managing Standardisation

The observations above might lead to the assumption that companies take standardisation very serious and that it may even be considered as being as important as innovation. In other words, one might be tempted to assume that the ability to be successful in standards setting is about as important as the ability to innovate. One could also be led to assume that sophisticated management mechanisms are in place (at least in large companies) to help make sure that a company's interests are adequately represented in the international standardisation arena. Yet, at least anecdotal evidence – and the lack of (academic) literature on the topic – suggest that this is not necessarily the case.

In fact, some companies indeed seem to have a well-defined standardisation strategy. Yet, apparently quite a few others seem to have adopted more of a laissez-faire approach. Some have a central standardisation department, for others it is more of an un-coordinated and distributed activity. While

[1] The GSM standard (Global System for Mobile Communications) was developed by ETSI. It describes protocols for second generation (2G) digital cellular networks. It had a market share of about 80%.
[2] This term is used to denote both formal SDOs and private standards consortia.

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some manage, monitor and track the standardisation activities of their staff, others do not have a clue of who is doing what in their name in which standards bodies. To make things worse, earlier research (see e.g. [Jakobs et al, 2001], [Jakobs, 2011]) suggests that those active in standards working groups do net necessarily always represent their employers' interests. The vast majority of companies, however, especially SMEs, hardly participate at all in standards setting (see e.g. [Gerst & Jakobs, 2007]). As a result, many of them miss out excellent opportunities to capitalise on their innovations.

In the ICT sector standardisation standards that may eventually compete in the market for dominance may emerge from different SSOs. In-depth knowledge about the respective origins of these standards (i.e. the SSOs that developed them) is crucial for an educated guess about the likely winner. This knowledge also need to cover the characteristics of the individual SSOs. They differ in various respects, perhaps most importantly in terms of their Intellectual Property Rights (IPR) regimes. Accordingly, the selection of the SSO that would be best suited for a particular standardisation activity is a fairly complex exercise. This paper sets out to simplify this task a bit.

The remainder of the paper is organised as follows. A brief summary of the findings from a literature study comes first. Insights gathered form the case studies are subsequently discussed in the light of these findings. Finally, concrete recommendations and more general managerial implications are identified.

INSIGHTS FROM THE LITERATURE REVIEW

As mentioned above, the literature on standardisation management is thin on the ground. Accordingly, insights from other fields need to be consulted here as well. In this paper, these include primarily general standardisation research, stakeholder research, strategic management and social capital theory. Fig. 1 shows the high-level framework based upon which the literature review has been structured.

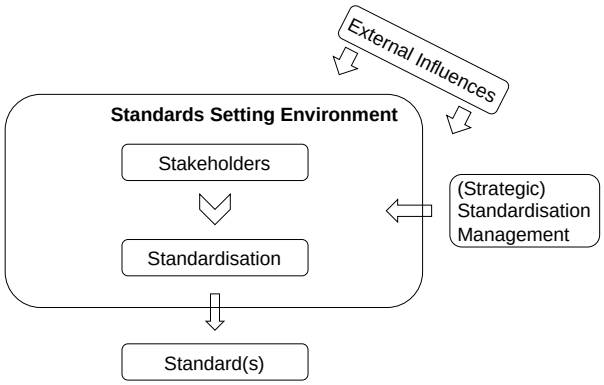

Figure 1: A Very simple view of what influences a standard

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External Influences

External factors can hardly be influenced from inside the standards setting environment. Yet, they may have significant ramifications on it. This holds particularly for changes in policies or for new regulations that come into force. A recent European regulation [EU, 2012], for instance, stipulates that under certain conditions consortium standards may be considered as equivalent to European Standards in public procurement. This represents a U-turn from the European Commission's previously held position that pretty much ignored the existence of consortium standards [EC, 1998].

Technical progress is another such external factor that may heavily impact standards setting. For example, nanotechnology received increased scientific, political and commercial attention in the early 2000s – ISO TC 229, 'Nanotechnologies' was established in 2005 (see e.g. [Bennett et al., 2009]). And it is hardly coincidence that ETSI was founded in the same year (1988) the Groupe Speciale Mobile completed the first set of detailed GSM specifications (in 1989, the group was transferred to an ETSI technical committee).

Society at large also influences any technical development including standardisation through prevailing societal norms and changes thereof. In Victorian times, for example, the enthusiasm for science led to a huge number of inventions and innovations. More recently, increased environmental awareness helped trigger the development of the ISO 14000 family of standards. The impact of societal norms typically takes some time to be actually felt, but once it has materialised it may be quite strong and long lasting.

Stakeholders

Looking inside the standardisation environment stakeholder identification and classification – especially which stakeholder categories exist in which fields of standardisation – are not particularly advanced in standardisation. Some very generic definitions from ISO or ANSI exist ('business', 'government', 'consumers' and 'other' stakeholders; [ISO, 2010]), but they are too generic and the respective members much too heterogeneous to be of any practical use. For the ICT sector, five high-level categories of stakeholders may be identified [Jakobs, 2013]:

- society at large (which also covers e.g. consumers),
- governments,
- institutions (e.g. companies, umbrella organisations, universities, R&D institutes),
- the Standards Setting Organisations,

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- the individual standards setters.

The former two are external to the standards setting environment (see also Fig. 1 above).

'Institutions' are the most important and powerful stakeholders in ICT standards setting. More specifically, large manufacturers and service providers are typically most influential; SMEs and research entities are far less represented. These players have different means to influence the standards setting process, direct participation being the most popular and effective one. Here, influence may be exerted at different levels – in WGs for the more technical aspects and in an SSO's policy making body or on a leadership position for the more strategic issues.

The SSOs also play an important role. An SSO offers a platform for standardisation activities. Typically, its policies and by-laws specify the IPR policy, the distribution of power between different classes of members (if any), the decision making process, the level and scope of co-operation with other SSOs, etc. The characteristics of this platform will to a considerable extent shape the scope and the outcome of its work and, particularly, its membership base.

Finally, and frequently forgotten, there are the individuals. After all, they perform the actual technical/strategic work that will shape the final standard. Accordingly, they influence standards development not only through technical contributions, but also through non-technical skills like diplomacy, alliance formation or good rhetoric. According to Umapathy et al. [2007]: "*The human dimension of standards setting is an important component of the consensus-based process …*".

That is, experienced employees with a large network of peers across different companies and groups, i.e. those who have accumulated social capital, represent a considerable asset to any company (see e.g. [Bourdieu & Wacquant, 1992]). Dokko & Rosenkopf [2010] argue that knowledge brought in by a new employee may help increase the employer's influence also in standards setting. Along similar lines, Isaak [2006] observed that "*repeated collaborative problem solving over an extended period of time building respect, trust and reinforcing common values*" led to a development of social capital by the WG members. This, he claims, was a crucial factor in the standardisation of the Posix operating system.

It is, however, not always clear up-front whether or not WG members will act in the best interest of their respective employer. Not least because of this uncertainty the selection of representatives with suitable expertise and experience and their briefing is a managerial issue whose importance should not be under-estimated (see e.g. [Isaak, 2007], [Jakobs, 2011b]).

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Standardisation

Standardisation is not a homogeneous process, carried out under one single set of guidelines, policies and by-laws.

Especially in the ICT sector standardisation managers are faced with a highly complex web of SSOs. This is primarily due to the enormous proliferation of industry standards consortia and fora during the 1990s and 2000s. The links between these individual SSOs are not always easy to identify and understand. Some SSOs compete in very similar fields, some co-operate, some don't have any relations at all and just exist in parallel. For a more detailed discussion of the web of SSOs see e.g. [Jakobs, 2013].

Not only the web of SSOs is complex. The individual organisations may differ considerably in terms of, for instance, relevance, credibility, voting procedures, membership and membership levels, types of output documents, level of consensus required and IPR regime. Updegrove [2006] discusses these characteristics and their potential ramifications; Updegrove [2003a, 2003b] provide real-world examples how large companies address these issues.

(Strategic) Standardisation Management

'Strategic Standardisation Management' (SSM) is "*A management discipline and methodology that investigates all aspects of standardization across a business and/or industry, then defines, recommends, and implements appropriate strategies and policies to leverage standardization so that a firm can gain competitive advantage and avoid disadvantage*" [Betancourt & Walsh, 1995]. In the 1990s, ANSI ran the 'Center for Strategic Standardization Management' to assist companies that aimed at adopting this approach.

Along similar lines, Bousquet [2003] notes that "*The 'standardization in the enterprise' function, like quality must clearly take place at a management level and the experts who will participate in the standardization work will he the hue spokesmen for their firm's strategies*",

Basically, SSM argues that standards may have a considerable impact on a company's business. Therefore, active participation in their development should be seen as a strategic tool that needs to be carefully managed and to be aligned with the company's overall business strategy in the relevant sector (see e.g. [Forselius, 1998]. Accordingly, a dedicated central entity needs to be charged with the management of standards and standardisation. Specifically, standardisation must not be considered just a technical issue, neither should it be associated only with the engineering domain. For example, process standards like the ISO 9000 series affect all departments.

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Ultimately, the literature study led to the identifications of (several of) the most important factors that may have an impact on the development of an ICT standard and its subsequent adoption and diffusion. These factors, and their respective relevance for a firm need to be taken into account by any corporate standardisation management function. These factors are depicted in Figure 2, along with the links between them .

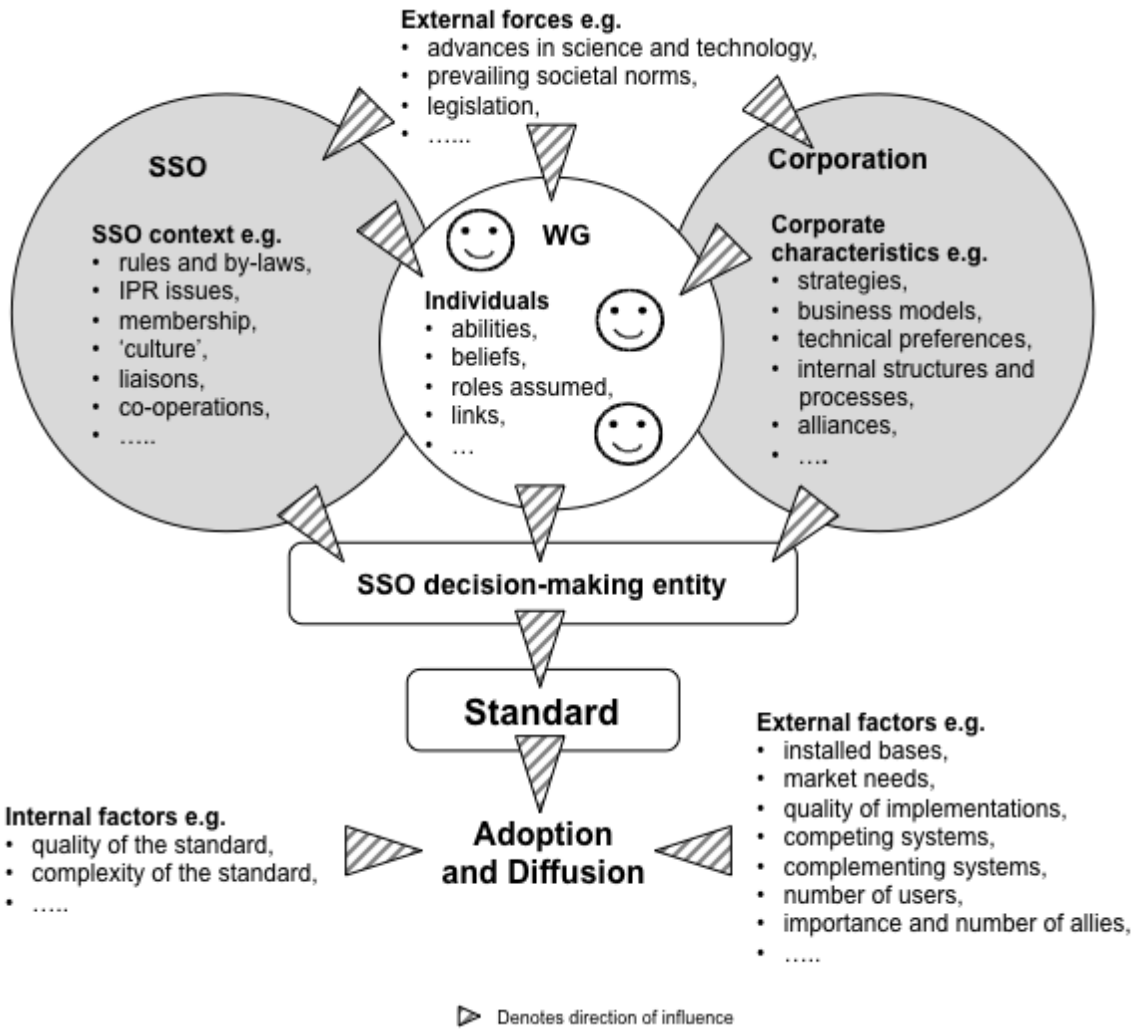

Figure 2: Some Factors That Influence Standards Development

THE CASE STUDIES

The cases cover three companies of different sizes, fields of activity and geographical origin that are active in a number of SSOs. Specifically, the cases look at

- a small European SME active within ISO in the field of compilers and operating systems (OSComp),

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- a European manufacturer of chip for wireless communication systems, active in IEEE and the Bluetooth SIG (CDD).
- a large Chinese telecommunication equipment manufacturer with activities in ITU-T, 3GPP and IETF (CTM).

Despite the apparent differences a number of aspects could be identified that had been of relevance in at least two cases. Together with the findings from the literature review these common characteristics led to the identification of some general managerial implications and a number of specific recommendations.

DISCUSSION

In the following, some findings from the case studies will be discussed in the context of insights from the literature. The discussion will focus on those aspects that appear prominently in at least two cases and thus suggest the need for some further analysis.

Two important and related boundary conditions that are common to all standards that feature in the case studies should be pointed out up-front, as they will help explain some observations. For one, no patent statement and licensing declaration form have been registered so far with ETSI (for 3GPP), ISO or ITU for any of the standards. IPR is not normally an issue for the Bluetooth SIG, where every member agrees to license for free any patent rights they have that apply to an Adopted Bluetooth Specification (Reasonable And Non-Discriminatory Zero royalty; RANDZ) to anyone who proves that they are interoperable via standard Qualification tests. The situation with IEEE is again slightly different; the standard in question there (802.11) has lots of associated IP. However, as the activity under study focussed on maintenance work, IP issues have not occurred so far.

The second relevant point is that all standards operate in fairly mature areas. Accordingly, the modifications and additions that are developed (almost) exclusively serve to adapt and (incrementally) extend the functionalities of the existing protocols to the ongoing changes in the environment within which they are supposed to function[1].

- On the Importance of Invested Efforts and Enthusiasm. Two cases highlight the importance of the efforts both a company and its representative are prepared to invest not just into a specific standardisation activity, but into standardisation in general. To be successful, continuous participation, ideally by the same people, is essential. The theory of social capital highlights the

[1] The ITU-T H.248 Recommendation, for example, was first published in 2000; the first version oft the ISO 9899 standard fort he C programming language dates back to 1990.

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importance of such networks in standards setting (see e.g. [Grundström & Wilkinson, 2004]). Specifically, such networks are crucial when it comes to informal discussions, deal-striking and compromise-finding before a vote or a crucial meeting. Along the same lines, Dokko & Rosenkopf [2010] note that long-serving and well-connected individuals are much better positioned to successfully conduct political actions. As a consequence, any newcomer will only have very limited influence on the process without such a network. Two companies also stress the need to 'care' about standardisation and the emerging standard. However, if this is combined with a certain altruism and/or strong own technical views WG members may ignore their respective employer's direct commercial interests (if any, that is) and, ultimately, even work against them.

- On the Ambivalent Role of the Chairman. The literature frequently observes that those with a leading formal role in standardisation are highly important for the success of the process [Spring et al. 1995], [Updegrove 2007]. Holding such a role may also be of relevance for companies – chairing a Technical Committee, for example, may well help influence the process at the strategic level [Isaak, 2006]. However, the insights from the case studies paint a slightly different picture. The chairperson is supposed to act in a neutral and impartial role. This implies that s/he must not adopt or favour any national or company positions. Any employee who assumes the role of a chairperson will not be available to support his/her employer's interests (at least not openly). Whether or not the opportunity to steer (or delay or speed-up) the process outweighs this loss will probably need to be considered on a case by case basis.

- Standardisation as a Marketing Tool. Leadership in standardisation is well noticed by other companies active in the same sector. Thus, such leadership may well be used by companies to send positive signals ('innovative', 'industry leader', 'technically advanced', see e.g. [Cargill & Bolin, 2007]). CTM are more than keen to forge good relations with peers in standards setting. Such new relations are indeed viewed as a major success of the company's activities within the ITU. Quite similarly, the desire to be seen as knowledgeable and influential in the standards world by their customers is one of the main motivations behind OSComp's active involvement in the process. Both companies belong to the 'disadvantaged' stakeholders in ICT standardisation. CTM 'suffers' from its Chinese origin and SMEs are frequently disadvantaged due to their insufficient resources. For such companies the importance of the marketing aspect may be assumed to be much higher than for well-established multi-nationals from e.g. Europe or the US.

- On the Different Definitions of 'Success'. In the literature success in standards setting is typically discussed in relation to standards wars (e.g. [Stango, 2004]) or the level of adoption of a newly standardised technology (e.g, [Pelkmans, 2001]). Neither of these situation applies in the cases

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where the respective definitions of success are rather mundane. Both OSComp and CDD consider 'customer satisfaction' as their main success criterion. The purely 'technical' success, i.e. a final standard that meets their needs is not considered an end in itself but a means to the end of having satisfied customers. CTM, in contrast, is somewhat unclear in this respect. On the one hand, they apply purely quantitative criteria like e.g. the number of contribution submitted to SSOs and the success rate of those contributions or the number of leadership positions. On the other hand, one individual activity discussed in the case study was said to be successful based on highly strategic reasons (good support from other vendors and some regulators). In any case, both measures leave out one crucial factor – the customer. Having prevented or significantly delayed the emergence of a standard may also be seen as a success. OSComp and CDD have done so, albeit following different approaches. However, both agree that this can only be done so often.

- On Success Factors. The literature on success factors in the field of standardisation is rather thin on the ground. V.d. Kaa et al. [2011] look at those relevant in standards wars, Wurster [2012] focuses on the success of a standardisation activity form an SSO's point of view and de Vries et al. [2006] look at best practice in company internal standardisation. Unfortunately, to the author's best knowledge literature on success factors in standards setting from a corporate point of view is non-existing. The success factors identified by the case companies are as varied as are their definitions of 'success'. For OSComp, technical competency was the core success factor. In their very technically oriented WG only technically superior proposals will prevail. For CDD, success is measured in terms of the degree to which they could offer their customers what they wanted, in a timely way. Accordingly, success factor number one is to have the necessary manpower to have a prototype ready upon completion of the standard. CTM's somewhat ambiguous measures of success are reflected in the identified success factors. Good technical arguments are certainly helpful for the more quantitatively oriented success factors (like having a proposal accepted). In one case effective communication between CTM delegates well may have been a decisive factor. And finally, a positive attitude is certainly useful for a company that wants to be seen as 'positive'. However, there does not seem to be a clear match between the these success factors and the criteria for success. This is in contrast to the other two cases, where the match is pretty good.

GENERAL MANAGERIAL IMPLICATIONS

A number of more general managerial implications of the ongoing developments in ICT standards setting may be identified. It is highly likely that these implications will be very real throughout the remainder of this decade (and beyond).

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First and foremost, it is safe to say that the importance of standards and, accordingly, that of standardisation will increase. This holds for both the policy and the corporate level. Accordingly, the importance of corporate standardisation management will also increase. From a managerial perspective, important tasks include:

- Close observance of relevant converging technologies and of emerging fields of standardisation.
- Identification of any relevant standardisation activities to either join or launch.
- Establishment of close links between R&D and standardisation and identification of potential standardisation opportunities as outcome of R&D.

It is essential that these activities support, and are aligned with, the overall business strategy for the sector in question.

The increased relevance of ICT consortium standards in Europe and the rise of new major players such as China in international standards setting will imply the need for:

- More standardisation staff. To be able to contribute to (and/or observe) the increased number of (potentially) relevant standardisation activities.
- Better trained standardisation staff. Asian countries (most notably China and Korea) have long recognised the importance of education about standardisation. Many/most standards setters from these countries are now well-trained and educated. To maintain a level playing field similar educational and training levels need to be attained for Europeans as well.
- Multi-disciplinary teams. Typically, (ICT) standards are developed by working groups comprising mostly engineers and computer scientists. For converging technologies, such 'mono-disciplinarity' will be inadequate. Accordingly, in many such cases a company will need to send multi-disciplinary teams of standards-settters to WG meetings in order to be able to adequately address the technical challenges.

CONCRETE RECOMMENDATIONS

A number of recommendations can be derived from the above.

- Take Standardisation Serious. This implies a high level of strategic thinking, a clear vision what to achieve and the provision of adequate funding.

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- Have Clear Goals for Your Involvement. Ask yourself: "What do I want to achieve through this activity?" "What would 'success' mean?"
- Do Not Oppose Too Frequently. Trying to prevent the emergence of an unwanted standard should not be done too often as it may well turn out to be counterproductive
- Think Carefully About the Pros and Cons of Formal Leadership Positions. A formal leadership role gives you some leeway in shaping, accelerating or delaying a standard. On the other hand, such roles commit to neutrality.
- Consider 'Cultural' Aspects. SSOs differ in terms of culture. Likewise, corporate cultures differ. Try and match the two.
- Think About the People. A delegate's desirable capabilities and characteristics depend on the type of technology to be standardised. In highly specialised technical fields technical expertise will be more important than presentation skills. At a more strategic level the latter will become more important, along with diplomatic skills. Moreover, make sure that your representatives know which position to adopt.
- Remember That Standardisation is More Than Just Setting a Standard. Standardisation does not begin with the formation of a Working Group – requirements elicitation, research and perhaps some development work precede it, implementation, integration and perhaps marketing follow.

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 ISBN: 978-9963-711-37-6

SPILLOVER EFFECTS OF RESEARCH AND DEVELOPMENT ACTIVITY ON ECONOMIC PERFORMANCE OF THE GROUP 20 COUNTRIES

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ABSTRACT

The study aims to examine the spillover effect of research and development (R&D) activity on economic performance of a country for the Group 20 countries. This study explores the directions and magnitudes of the strategic relationship between R&D activity and economic performance of the countries. The sample is restricted to the period of time in which annual data are available and comparable from 1988 to 2011 of nineteen countries in the Group 20. The time series data were collected and retrieved from the World Development Indicator database published by the World Bank. Fisher-type panel cointegration test and several types of panel data analytic models, fixed-effects and random-effects models were employed. Although there found some differences in its magnitudes, the results of this study indicate that R&D activity must be viewed as a major strategic determinant for improving economic performance of the countries and thus create and maintain competitive advantages for the countries. It is also noteworthy that information technology is positively associated with economic performance of the countries.

Keywords: *R&D activity; economic performance; information technology; human capitals; economic growth; exports; competitive advantage*

INTRODUCTION

It is generally understood that national competitiveness is a nation's ability to increase the wealth and welfare of its residents and the ability to gain profit from its companies' technologies and products in world markets, through the use of its human, technological and natural resources. In today's competitive business environment, it is widely believed that the strategic use of research and development (R&D) activity for national competitiveness and better economic performance is at the center of our economy's sustainable growth. However, the use of R&D activity should be tailored to country contexts since it is influenced by different business and economic environments.

A considerable amount of literature has sought to explain the strategic effect of R&D activity on economic performance of a country (Aw, Roberts and Tor, 2007; Lee and Habte-Giorgis, 2004; Lejarraga and Martinez-Ros, 2008; Loch and Tapper, 2002; Tomiura, 2007). Although there is a large amount of

 ISBN: 978-9963-711-37-6

research on the strategic links between R&D activity and economic performance of a country, the spillover effect of R&D activity on economic performance is still inconclusive. It is difficult to measure the spillover effect of R&D activity on economic performance in global perspectives, because increased uncertainty and time lag in realizing profits from R&D activity make it difficult to measure the rate of return of R&D activity (Varila and Sievanen, 2005). Despite the difficulty of measuring the spillover effect of R&D activity, countries that promote R&D activity will have higher growth rates compared to those who do not.

Encouraged by policy makers and followed with a large number of foreign direct investment supports, the use of R&D activity is becoming a long-term strategy for countries at large. In fact, the spillover effect of R&D activity on economic performance of a country may vary depending on a given economic environment. Therefore, the traditional link between R&D activity and economic performance may be different across countries. In this regard, this study attempts to explore a new perspective of R&D activity economic performance of a country using the Group 20 countries. This study empirically examines the directions and magnitudes of the relationships between R&D activity and economic performance of the Group 20 countries.

R&D ACTIVITY AND ITS EFFECT ON ECONOMIC PERFORMANCE

María (2010) found that technological capabilities of a country have positive effects on national competitiveness and economic performance of the nation. Wang, Chien and Kao (2007) reported that the level of national competitiveness affects the level of R&D activity. R&D activity positively affects national competitiveness for countries with higher level of national competitiveness. In contract, R&D activity has negatively influenced developing and less-developed countries whose national competitiveness is relatively low. Cooper and Kleinschmidt (2007) supported that a successful economy must have a high quality new product development system, adequate resources and enough R&D activity (Tsai, Chou and Kuo, 2008; Tsai and Wang, 2005).

Cameron, Proudman and Redding (2005) found that R&D activity has a lag period before commercialization while technology transfers can have a more rapid effect on productivity growth. Nobelius (2004) reported that while R&D activity results in high uncertainty and unclear rates of return, companies that succeed in commercializing new technology have higher market shares and competitive edges. Branstetter and Chen (2006) showed that both internal R&D activity and purchasing of foreign technology have a positive influence on local economy growth.

Much research suggests that firms that invest a large portion of their revenues in R&D activity tend to experience more growth and higher levels of profitability than those who invest lesser amount in R&D activity (Artz *et al.*, 2010; Di Vito, Laurin and Bozec, 2010; Gentry and Shen, 2013; Guner, Lee and

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Habte-Giorgis, 2007; Levitas and McFadyen, 2009; Yeh *et al*., 2010). Zhao and Zou (2002) found that firm growth rates were positively correlated with R&D activity. Mudambi and Swift (2013) found that significant changes in R&D activity are positively related to firm performance. Ceccagnoli (2009) found that the strength of patent protection and the ownership of technological and intellectual assets significantly increase the returns from R&D activity. Such evidence suggests a positive relationship between R&D activity and export performance of a country. It is showed that R&D activity enables firms to maintain international competitive leadership through product development, operational efficiency and cost reduction (Zhao and Zou, 2002). As a result, R&D activity plays an important role of building core competency and exploring growth opportunities. According to Hill and Jones (2009), a company can maximize the value added products and/or services to customers and provide a competitive advantage in the world market, by selecting proper R&D activity.

However, not all the scholars found the positive effect of R&D activity on economic performance. Bertrand and Mol (2013) reported that the use of affiliate R&D sourcing would not produce a positive impact on product innovation. Bas (2012) proposed human resource competencies will take the lead in strategic management processes and thus companies' core competencies will be created. In addition, market and technological uncertainty (Oriani and Sobrero, 2008), great access to external knowledge (Macher and Boerner, 2012), and dynamic capabilities (Helfat, 2012) may influence the valuation of R&D activity. Hence, based on the issues and discussions above, we propose the following hypotheses:

Hypothesis 1: R&D activity, human resources and information technology are positively related to economic performance of a country in the long-run, ceteris paribus.

Hypothesis 2: R&D activity, human resources and information technology are positively related to economic performance of a country in the short-run, ceteris paribus.

DATA AND METHODS

This section describes the data and outlines the method used in the development or selection of indicators and the normalization of data.

Data

The sample is restricted to the period of time in which annual data are available and comparable from 1988 to 2011 (24 observations for each country). Nineteen countries in the Group 20 in which data are available over this period are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, UK and USA. The time series data below were collected and retrieved from the World Development Indicator database

 ISBN: 978-9963-711-37-6

published by the World Bank. In order to evaluate economic performance of the countries, economic growth and exports were used as proxies for the dependent variables.

Economic growth. Percentage change in gross domestic product (GDP) in current US dollars is used to measure economic growth. GDP is the sum of gross value added by all resident producers in the economy, plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.

Exports. EXP represents exports of goods and services as percentage (%) of GDP. Exports of goods and services represent the value of all goods and other market services provided to the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude compensation of employees, investment income and transfer payments.

R&D activity. R&D represents the number of patent applications by residents. Patent applications are worldwide patent applications filed through the Patent Cooperation Treaty procedure or with a national patent office for exclusive rights for an invention--a product or process that provides a new way of doing something or offers a new technical solution to a problem. A patent provides protection for the invention to the owner of the patent for a limited period, generally 20 years.

Human capitals. HCAP represent a composite index of three core indicators of education and human capital as % of total enrollment. They are education, school enrollment - secondary education (% gross) and - tertiary education (% gross). Education: Education is one of the most powerful instruments for reducing poverty and inequality and lays a foundation for sustained economic growth. Data on education are compiled by the United Nations Educational, Scientific, and Cultural Organization Institute for Statistics from official responses to surveys and from reports provided by education authorities in each country. School enrollment - secondary education (% gross): Gross enrollment ratio is the ratio of total enrollment, regardless of age, to the population of the age group that officially corresponds to the level of education shown. Secondary education completes the provision of basic education that began at the primary level, and aims at laying the foundations for lifelong learning and human development, by offering more subject- or skill-oriented instruction using more specialized teachers. School enrollment - tertiary education (% gross): Tertiary education, whether or not to an advanced research qualification, normally requires, as a minimum condition of admission, the successful completion of education at the secondary level.

Information technology. ICT represents a composite index of four core indicators of information and telecommunication technology as per 100 people. They include telephone lines, fixed broadband

ISBN: 978-9963-711-37-6

Internet subscribers, Internet users and mobile cellular subscriptions. Telephone lines: Telephone lines (per 100 people) are fixed telephone lines that connect a subscriber's terminal equipment to the public switched telephone network and that have a port on a telephone exchange. Integrated services digital network channels and fixed wireless subscribers are included. Fixed broadband Internet subscribers: Fixed broadband Internet subscribers (per 100 people) are the number of broadband subscribers with a digital subscriber line, cable modem, or other high-speed technology. Internet users: Internet users (per 100 people) are people with access to the worldwide network. Mobile cellular subscriptions: Mobile cellular subscriptions (per 100 people) are subscriptions to a public mobile telephone service using cellular technology, which provide access to the public switched telephone network. Post-paid and prepaid subscriptions are included.

The normalization of the data is necessary to transform the values to the similar unit of measurement since some indicators are in percentages while R&D activity in a natural number, the set of positive integers, of patent registration. Therefore, all series were transformed into a natural log that mitigates possible distortions of dynamic properties of the series. Log transformation is a preferred method since each resulting coefficient in the regression equation represents elasticity which is the ratio of the incremental change of the logarithm of a function with respect to an incremental change of the logarithm of the argument.

Panel Unit Root Test

The literature suggests that panel-based unit root tests have a higher power than unit root tests based on individual time series (Breitung, 2000; Im, Pesaran and Shin, 2003; Levin, Lin and Chu, 2002; Maddala and Wu, 1999). Im *et al.* (2003) and Fisher-type tests using the augmented Dickey-Fuller and the Phillips-Perron tests (Maddala and Wu, 1999) allow for the persistence parameters to vary freely across cross-sections. The panel unit root tests the null hypothesis that a series has a unit root (i.e. it is non-stationary).

Table 1 reports the numeric values of panel unit root tests. All test equations, including individual intercepts as regressors, were tested by the method of least squares. The test equation of the Breitung unit root includes individual fixed effects and individual linear trends as regressors. The probabilities for the Fisher-type tests were computed using an asymptotic Chi-square distribution. The numeric values in Table 1 show that the null hypothesis of a unit root cannot be rejected at level. This means each time series is non-stationary in the panel. However, when the panel unit root tests are applied to the first differences of the series, the null hypothesis for each of the series can be rejected at the 1 percent significance level. All series with the first difference are stationary. All variables are integrated of first order, known as I(1). The numeric values of panel unit root tests of ICT were not

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reported in the table due to space problems. Small differences of numeric values aside, however, the results of the panel unit root test are qualitatively similar.

Variables	GDP		R&D		EXP		HCAP	
Method	Level	1st difference	Level	1st difference	Level	1st difference	Level	1st difference
Levin, Lin and Chu	-2.556**	-8.698***	-1.968**	-16.144***	-2.188**	-9.016***	-2.313**	-4.046***
Breitung	4.927	-3.155***	1.675	-3.341***	1.463	-2.881***	1.463	-6.001***
Im, Pesaran and Shin	-1.552	-9.622***	-0.656	-11.989***	-1.284	-11.472***	-0.397	-7.397***
Fisher-ADF	58.186**	172.395***	52.561**	163.050***	48.324	207.493***	53.679**	129.691***
Fisher-PP	71.155**	233.360***	49.067**	230.894***	43.266	320.464***	40.840	258.055***
Probability values for rejection of the null hypothesis are employed at the 0.05 level (***, p-value < 0.01 and **, p-value < 0.05).								

Table 1. *Results of Panel Unit Root Tests*

RESULTS

Panel Cointegration Tests

Engle and Granger (1987) have pointed out that a linear combination of two or more non-stationary series may be stationary. If a stationary linear combination exists, the non-stationary time series are said to be cointegrated. The stationary linear combination is called the cointegrating equation and may be interpreted as a long-run equilibrium relationship among the variables. Maddala and Wu (1999) propose that Fisher-type panel cointegration test using the Johansen (1991) test method is more efficient than using the Engle-Granger test method because the maximum likelihood procedure has significantly large and finite sample properties.

The Johansen (1991) cointegration test models each variable, which are assumed to be jointly endogenous, as a function of all the lagged endogenous variables in the system. The Johansen procedure uses two ratio tests: a trace test and a maximum eigenvalue test. Both can be used to determine the number of cointegrating vectors present, although they do not always indicate the same number of cointegrating vectors. The trace test is a joint test, the null hypothesis is that the number of cointegrating vectors is less than or equal to r, against a general alternative hypothesis that there are more than r. The maximum eigenvalue test conducts separate tests on each eigenvalue. The null hypothesis is that there are r cointegrating vectors present against the alternative that there are (r + 1) present. While doing Fisher-type panel cointegration tests using the Johansen test method, if there arises a different result between trace statistic and maximum eigenvalue statistic, the result of maximum eigenvalue test is preferred in this study due to the benefit of separate tests on each eigenvalue.

 ISBN: 978-9963-711-37-6

The test equations of the Johansen (1991) test method were tested using the method of panel least squares. For the Fisher-type Johansen cointegration test, the assumptions of cointegration tests allow for individual effects but no individual linear trends in vector autoregression. Probabilities for Fisher statistics are computed using an asymptotic Chi-square distribution. The null hypothesis of no cointegration is rejected for all of the model specifications using both the Trace test statistic and the maximum eigenvalue test statistic at the 0.05 and 0.01 significance level.

The results in Table 2 indicate the variables are cointegrated. The presence of cointegrating equations of these variables implies the presence of a long-run equilibrium relationship between the variables. In testing hypothesis 1 that R&D activity, human resources and information technology are positively related to economic performance of the country in the long-run, Table 2 indicates that the model is significant at the 0.01 level. This confirms that R&D activity, human resources and information technology are positively related to economic performance of the country in the long-run.

Regression model	F(GDP/R&D, HCAP, ICT)	
Number of cointegration	Trace test statistic	Max-eigenvalue test statistic
None	189.3***	169.3***
At most 1	120.9***	103.2***
At most 2	94.98**	66.3**
At most 3	5.6	5.6
Note: Probability values for rejection of the null hypothesis of no cointegration are employed at the 0.05 level (***, p-value < 0.01 and **, p-value < 0.05).		

Table 2. *Results of Fisher-type Johansen Panel Cointegration Test*

Results of Panel Regression Models

There are several types of panel data analytic models, including constant coefficient models, fixed-effects models and random-effects models. Generally, the Hausman test is used to determine which of the two methods (random-effects versus fixed-effects) should be employed. It basically tests whether the unique errors are correlated with the regressors: the null hypothesis is they are not. Probabilities are computed using the Chi-square distribution. If the procedure of the statistical test shows that the null hypothesis is not rejected, the random-effects method is chosen. The panel least squares test method is used in estimation. The result of the Hausman test indicates that the fixed-effects model is more robust for the case of using GDP (Chi-square statistic = 18.880, p-value < 0.01) as the dependent variable and the random effects model is consistent for the case of using exports (Chi-square statistic = 1.502, p-value > 0.05) as the dependent variable.

The fixed-effects model that is robust from serial correlation and heterogeneity is utilized using the white period standard errors and covariance model with no degree of freedom correction. All regression equations were tested by the estimation method of two-stage least squares with assuming

 ISBN: 978-9963-711-37-6

white cross-section standard errors. Probabilities are computed using asymptotic t-statistics, which are used to interpret the statistical significance of the parameters. On the other hand, the heteroskedastic model is tested by the estimated generalized least squares method. Random-effects were tested by the Swamy and Arora estimator of component variances.

Table 3 indicates the results for the economic growth and the exports growth models with regressor coefficients representing short-run elasticities. In testing hypothesis 2 that R&D activity, human resources and information technology are positively related to economic performance of the countries in the short-run, Table 3 shows that R&D activity, human resources and information technology have positive impacts on economic growth, and are significant at the 0.01 level. Table 3 also shows that R&D activity and information technology have positive impacts on exports growth, and are significant at the 0.01 level. This suggests that R&D activity and information technology have positive impacts on both economic growth and exports growth of the countries.

Regression model	F(GDP/R&D, HCAP, ICT)	F(EXP/ R&D, HCAP, ICT)
Panel estimation model	Fixed effects model	Random effects model
	Coefficient (Std. error)	Coefficient (Std. error)
R&D	0.204(0.023)***	0.096(0.019)***
HCAP	0.406(0.135)***	0.013(0.103)
ICT	0.364(0.033)***	0.220(0.026)***
Constant	25.210	8.991
Adjusted R-squared	0.970	0.534
F-statistic	486.788	86.932
Probability values for rejection of the null hypothesis of zero (0) coefficient are employed at the 0.05 level (***, p-value < 0.01 and **, p-value < 0.05).		

Table 3. *Results of Panel Regression Tests*

DISCUSSION AND CONCLUSION

This study examined the spillover effect of R&D activity on economic performance of the Group 20 countries. This study explored the directions and magnitudes of the strategic relationship between R&D activity and economic performance of the countries. Although there found some differences in its magnitudes, the results of this study indicate that R&D activity must be viewed as a major strategic determinant for improving economic performance of the countries and thus create and maintain competitive advantages for the countries. It is also noteworthy that information technology is positively associated with economic performance.

The findings of this study suggest that well developed R&D strategy will have higher returns not only on economic growth but also on exports growth, and thus provides greater ability to maintain economic sustainability and competitive edge in the global market. It is also important to learn that for rapidly developing economies such as Brazil, China, India, Indonesia, Mexico, Russia and Turkey where technology acquisition increases the rate of growth by reducing the lag time involved in internal

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R&D activity. While a lack of R&D activity does preclude growth, a commitment to R&D activity will generally produce higher rates of return that can be used to stimulate further growth. The degree of R&D activity will depend on industry sectors across countries. In conclusion, top management and policy makers must create the right policy to promote these growth opportunities.

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 ISBN: 978-9963-711-37-6

SEGMENTATION BASED ON EVALUATION OF A CLUBBING DESTINATION: AYIA NAPA

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ABSTRACT

This study explored how 358 British tourists' evaluated Ayia Napa, Cyprus' as a destination. Data was collected using an aided self-administrated questionnaire and personal interviews. Analysis included descriptive statistics (frequencies, percentages and means), reliability, factor, and K-means cluster analysis. The evaluation ratings by British tourists regarding the 23 destination image variables were exploratory factor analyzed for data reduction, producing 4 factors and accounting for 73.4% of total variance. Segmentation based on the four factors and overall satisfaction, intention to revisit and recommendation to others, produced 3 segments with N=148 and N=162 and N=48 tourists respectively and with Final Cluster Centers ranging from 2.52 to 4.72. Anova revealed that the three segments were distinctly different for each factor/ variable. This research contributes to the theoretical and practical improvement of Ayia Napa, by investigating tourists' evaluation of clubbing destination attributes, overall satisfaction, intention to revisit and intention to recommend. The results of the analysis reveal variations in the level of visitors' evaluation and satisfaction. These results can be used as basis to help improve customer satisfaction, and help ensure that Ayia Napa maintains its image in the future.

Keywords: *Evaluation, clubbing destination, destination image, Cyprus, marketing*

INTRODUCTION

Worldwide the tourism industry is considered as one of the most important economic forces, generating profits, work possibilities and business expansion (WTTC, 2015). These are extremely important for a country's economy as well as for citizens' welfare in the case where the country is undergoing an economic crisis (Jucana and Jucana, 2013) such as Cyprus. Countries undergoing an economic crisis are interested in developing a positive image for their destinations in order to increase the benefits of tourism. A destination's image, as perceived by the actual and potential tourists, plays

 ISBN: 978-9963-711-37-6

an important role in determining its competitiveness as a tourist destination. According to Hunt (1975) a destination's image influences a tourist's decision-making process when he/she considers alternatives destinations. Moreover, the intensified competition among different destination areas, increases marketers concern for repeat visitation by previous travelers. Thus, it is very important from a marketing perspective that the tourist authorities in a destination area identify how visitors evaluate their experience in this area (Arbogast and Maumbe, 2014).

There is abundant research regarding different aspects of tourism in Cyprus (e.g. Farmaki, 2012; Farmaki and Papatheodorou, 2015; Koutra and Karyopouli, 2013; Louca, 2011; Sharpley, 2001; Ziakas and Boukas, 2013). Additionally, there is a considerable research on British tourists and their evaluation of, and satisfaction with, a tourist destination - not all of these refer to Cyprus (e.g. Audreu *et al.,* 2000; Calafat *et al.,* 2013; Clerides *et al.,* 2009; Ekinci *et al.,* 2003; Kamenidou *et al.,* 2009, 2013; Kozak, 2002).

Taking into account the importance of the tourism sector for Cyprus, as well as for the British tourist market, the purpose of this study is to investigate British tourists' evaluation of Ayia Napa, Cyprus as a clubbing destination. Continuously, an objective is to segment tourists based on their evaluation of the destination image.

This study contributes to the literature on clubbing destinations in the following way. First, previous studies on clubbing destinations, mostly focused on Ibiza and substance use or the risk behavior of tourists (e.g. Bellis *et al.,* 2000, 2004; Briggs and Turner, 2012; Kelly *et al.,* 2014; Lora-Tamayo *et al.,* 2004). Although, Agia Napa is considered as a very important clubbing destination in the Mediterranean area, studies are limited (Sönmez *et al.,* 2013). Furthermore, there are limited studies on the segment of clubbing destinations. Secondly, there is a scarcity of empirical research on Ayia Napa as a destination (Saveriades, 2000; Sönmez *et al.,* 2013) and none of them focused on the evaluation of the Ayia Napa destination as a clubbing destination based on tourists' perspectives. Thirdly, it is crucial for the area to identify whether or not its visitors are satisfied with their visit to the destination. Satisfaction is considered an evaluation of actual performance and expectations. Tourist satisfaction is created by the comparison of pre-travel expectations and post-travel experiences (Moutinho, 1987). Moreover, the findings can help practitioners and local tourist authorities in their effort to design appropriate positioning strategies for the various segments (Priporas *et al.,* 2014).

TOURISM IN CYPRUS– AYIA NAPA

According to eurofound.europa.eu (2012) Cyprus' service sector dominates the market economy, accounting for nearly four-fifths of GDP. Moreover, trade, IT and tourism-related activities accounted for 27.4% of the GDP in 2011 (Cyprus Statistical Service, 2012). Cyprus's assets are its climate, physical

 ISBN: 978-9963-711-37-6

environment, and archaeological and cultural heritage. In addition, it is usually considered as an inexpensive destination which has had a positive influence on tourism development in the country. International tourism is one of the most dynamic sectors of the Cyprus economy. Specifically, tourism has a very important role in supporting Cyprus's economy. For the years 2013, 2012, 2011 it generated 2.082,4, 1.927,7, and 1.749,3 € million respectively. The annual report of the Cyprus Tourism Organization (CTO, 2013, 2012), shows that tourist arrivals in 2012 increased by 3% compared to 2011. Specifically, 2,464,903 tourists visited Cyprus in 2012 compared with 2,392,223 tourists in 2011. During the same period, the global financial crisis, the aggravation of the financial conditions of Cyprus, as well as the increasingly competitive environment in tourism, did not directly affect Cyprus tourism. On the other hand, for the year 2013, the total tourist arrivals was 2.405.390, bringing a -2.4% compared to 2012. British tourists are the largest tourist market for Cyprus. According to the Statistical Service of the Republic of Cyprus (2014), for the years 2011, 2012, and 2013, the British tourists that visited Cyprus were 1,020,709; 959,459; and 891,233 respectively. Five key tourist districts exist in Cyprus: Paphos, Limassol, Larnaca, Nicosia and Famagusta. Ayia Napa is in Famagusta, at the south east coast of Cyprus, and is a reputable party town and prime site for nightlife (KPMG, 2015). Regarding Ayia Napa and according to the Cyprus Statistic Service, for 2012, Ayia Napa was the second destination in Cyprus with about 18% of total tourist visits, after Pafos and Polis Chrysochous which had 37%. Moreover, The Independent newspaper (2011) in an article regarding Europe's best beach getaways, wrote that Ayia Napa, Cyprus was the number one destination in Europe "based on the most highly rated beach destinations by millions of international travelers in TripAdvisor reviews".

DESTINATION EVALUATION

The evaluation of a destination is a complex process (Weaver *et al.*, 2007) and may be affected by experiences that occurred before a tourist arrives, which are beyond the control of tourism suppliers (Tribe and Snaith, 1998). Evaluation of a destination by tourists is very important since it shows subjectively how tourists actually perceive the specific destination relative to their expectations (Bigne *et al.*, 2001; Chon, 1990; Echtner and Ritchie, 1991). Moreover it relates to tourist satisfaction, since satisfaction is considered an evaluation of actual performance and expectations. Tourist satisfaction results from comparing pre-travel expectations and post-travel experiences (Pizam *et al.*, 1978). Baker and Crompton (2000) assert that "satisfaction is purely experiential. It is a psychological state that can only be derived from interaction with the destination". On the other hand, Klaus (1985, p. 21) states that satisfaction is "the customer's subjective evaluation of a consumption experience" which is based on consumer perceptions and the actual characteristics of the product.

 ISBN: 978-9963-711-37-6

If the outcome of the evaluation is favourable, then travel satisfaction is established (McDowall, 2010; Hill, 1996), which will influence the future travel decisions of individuals (Mathieson and Wall 1982). Moreover, the evaluation of a destination and its attributes has a crucial influence on repeat visitation intentions, recommendations (e.g. Chen and Chen, 2010; Yoon and Uysal, 2005; Matzler *et al.,* 2007) and loyalty (Hui *et al.,* 2007; Oppermann, 2000). Thus, the evaluation of tourist destinations has received considerable research attention (Weaver *et al.,* 2007).

CLUBBING DESTINATIONS

Goulding and Shankar (2011) point out that clubbing emerged in the mid of 1980's as pleasure/hedonic tourism in Ibiza. Hutson (2000) refers to rave parties taking place in Ibiza and that "raves now penetrated to the center of British youth culture", thus becoming one of the supreme cultural phenomena. Today, this special form of tourism attracts millions of young tourists from all over the world to major clubbing and nightlife destinations (e.g. Andriotis, 2010; Kamenidou *et al.,* 2013; Tutenges, 2012). These destinations defined by Sönmez *et al.,* (2013) as "purposefully packaged and aggressively marketed by transnational tour operators [TO] to that segment of youth travelers seeking hedonistic playgrounds that offer unrestrained drinking and round-the-clock partying with others of their own age, a host of activities that permit behaviors unconstrained by social norms at home, and music and dancing to offer a release from customs of the civilized social spaces of daily life" (p. 40).

Although Tutunges (2012) asserts that clubbing and nightlife tourism take place in many locations all over the world, the locations in the Mediterranean basin are considered the most popular. In particular, these areas are located in Spain (Ibiza, Mallorca), Greece (Crete, Corfu, Kos, Rhodes, Zakynthos) and Cyprus (AyiaNapa), while emerging destinations are considered in Bulgaria (Sunny Beach), Slovenia (Izola), Turkey (Alanya, Bodrum, Gümbet, Marmaris), and Egypt (Sharm el Sheikh) (Sönmez *et al.,* 2013).

Previous studies on clubbing destinations (e.g. Andriotis, 2010; Bellis, 2009; Monterrubio *et al.,* 2015; Sönmez *et al.,* 2013) indicated that this kind of tourism involves excessive drinking, drug use, risky sex behaviors and that the consequences are sometimes injuries, accidents, vandalism, fights, assaults, and even deaths.

METHODOLOGY

A self- administered questionnaire was utilized for data collection. The questionnaire used was a modified version of Kamenidou *et al.,* (2013) regarding clubbing destination image. Since the questionnaire of Kamenidou *et al.,* (2013) was for Kavos, Corfu, qualitative follow up research was

 ISBN: 978-9963-711-37-6

undertaken in London from November- December 2013. In depth interviews were employed with 23 British citizens in London, whose age ranged from 18 to 35. All participants had to have visited Ayia Napa as tourists, in order to validate the destination image components of the questionnaire used in the Kavos study, before using it in the field research for Ayia Napa. This resulted in adding 5 more items to the questionnaire regarding the destination image scale. Thus, a total of 23 clubbing destination image components were used in the final questionnaire. It is divided into 3 sections: the first section refers to visitation behaviour, the second regards Ayia Napas' evaluation of the destination image components, and the third refers to the British tourists' socio-economic and demographic characteristics. The scale used for evaluating the clubbing destination image components was adapted from Yoon and Uysal's work (2005). The 5-point evaluation scale was: 1=much worse than I expected, 2 = worse than I expected; 3= neither better/ nor worse than I expected; 4= better than I expected and 5=much better than I expected. British tourists were asked to evaluate each clubbing destination component: Please evaluate each of these items that reflect the clubbing destination image of Ayia Napa, compared to what you expected when visiting Ayia Napa.

The final research took place in London from January to March 2014. The study was aimed at was British citizens who had visited the area of Ayia Napa, Cyprus. Data selection was realized using a convenience and snowball sampling method. In order to participate in the research some criteria were used: the participant had to be a permanent resident of Great Britain and aged up to 35 years old; s/he visited Ayia Napa in the last three years (2011, 2012, and 2013) and had to have stayed at least 3 nights. In total, 358 valid questionnaires were gathered, a satisfactory sample size for the purposes of the research as well as the main statistical analysis utilized (Hair *et al.,* 2010). Data analysis included descriptive, reliability, factor, and K-means cluster analysis.

FINDINGS

Tourists' profile and visitation to Ayia Napa

As to gender, 43.3% of the sample was male and 56.7% were female. Regarding age, 29.6% were up to 20 years old; 30.2% fell in the age range of 21-25; 22.6% were 26-30; and 17.6% were 31-35 years old. Also, 50.8% of the sample was single; 39.1% were married or living together with their partner and 10.1% were divorced or separated. Concerning occupation 37.9% were students; 36.4% were private employees; 14.3% were public employees and 11.4% were businessmen. The participants fell into three categories of education: secondary education (43.8%); college /university degree (51.7%) and 4.5% held a postgraduate degree. Lastly, referring to individual net monthly income, 30.8% up to 1000.00£; 51.2% had from 1000.01-2000.00£ and 18% had a monthly individual income >2000.01£.

 ISBN: 978-9963-711-37-6

Visitation to Ayia Napa

From the sample, 63.7 % had already revisited Ayia Napa and 36.3 % had not been to Ayia Napa before. Of those who had been to Ayia Napa before, 86.0% had been 5 times and 14.0% had been more than 6 times. The main sources of information regarding Ayia Napa were: friends (68.2%), relatives (68.2%), tour operators and their brochures, and the internet (47.1%). In contrast, the Cyprus Tourism Organisation (CTO) does not appear to be a significant source of information about Ayia Napa for tourists, since only 8.5% of the participants had been informed by the CTO.

Tourist evaluation from Ayia Napa's destination image- Factor analysis

Since the questionnaire used in this research included 5 more variables than the one used for Kavos, exploratory factor analysis was employed to all items, in order to investigate the factors that this questionnaire derived and to use these factors as new variables for segmentation analysis. Thus, the 23 image components of Ayia Napa were factor analyzed with Principle Component Analysis (PCA) with varimax rotation for variable reduction (Table 1). Items with factor loadings <0.50 were detained. For the factor analysis, the indicators Kaiser-Meyer-Olkin measure of sampling (KMO), Bartlett Test of Sphericity (BTS) and Significance (p) are presented, which are indicators of competence implementation of the Principal Component Analysis model (Hair *et al.*, 2010). Four factors derived (K.M.O.= 0.905; B.T.S=8184,048; df=253; p= 0.00) accounting for 74.3% of the Total Variance (T.V.), with total reliability of the scale, a=0.9157. The factor's name, the T.V. explained, its Mean Factor Score (MFS), the Cronbach a of each factor, as well as the communality (COM) and the Mean Score (MS) of each item is also presented.

Factors	Destination components	Factor loading	COM	MS
Factor 1: Wild destination 25.6% of T.V*. MFS=4.15 (0.67) Cronbach a=0.942	Liberate alcohol consumption/ bar crawls	0.879	0.896	4.17
	Sexually wild place/ Liberation of ethics/ free relations	0.859	0.858	4.12
	Finding thrills and excitement	0.800	0.810	4.10
	Good - exciting nightlife	0.794	0.829	4.14
	Having fun, being entertained, doing exciting things	0.723	0.607	3.80
	Beach parties	0.658	0.553	4.29
	Festivities and events	0.656	0.593	4.37
	Adventurous place	0.646	0.703	4.23
Factor 2:	Coupons for bars etc	0.833	0.833	4.03

ISBN: 978-9963-711-37-6

Value for money 20.1% of T.V. MFS=3.94 (0.70) Cronbach a=0.924	Value for money	0.808	0.810	3.96
	Good prices	0.801	0.819	4.03
	Destination package price	0.787	0.777	4.15
	Special deals	0.724	0.692	3.80
	Personal Safety	0.700	0.610	3.67
Factor 3: Infrastructure 15.1% of T.V. MFS=3.77 (0.68) Cronbach a=0.929	Quality of Infrastructure	0.809	0.882	3.75
	Standard Hygiene and Cleanliness	0.804	0.852	3.66
	Quality of accommodation	0.801	0.821	3.73
	Quality of food	0.699	0.735	3.95
Factor 4: Sea and Sun destination 13.5% of T.V. MFS=3.82(0.72) Cronbach a=0.856	Sandy beaches	0.784	0.789	3.83
	Nice and clean beaches	0.718	0.596	3.64
	Unpolluted/Unspoiled Environment	0.591	0.668	3.82
	Water sport facilities	0.614	0.661	3.94
	Good climate/ pleasure weather	0.579	0.679	3.87

Table 1: Evaluation factors of Ayia Napa destination

Factor 1 was named "Wild destination", because its items were associated with aspects of living wild without boundaries, and with factor loadings ranging from 0.646-0.879. Factor 2 was labelled "Money for value and personal safety", because it encompassed the five items referring to "money and prices" and one item regarding the personal safety of visitors; and with factor loadings ranging from 0.700-0.833. Factor 3 was named "Infrastructure" since it included items associated with the general concept of infrastructure (e.g. accommodation, hygiene, food, etc) and with factor loadings ranging from 0.699-0.809. Lastly, Factor 4 was named "Sea and Sun destination" since it included items associated with the general concept of a classic sea and sun destination and with factor loadings ranging from 0.579-0.784.

Cluster analysis

Segmentation of the tourist sample via cluster analysis was employed based on the four- factor dimension of destination image evaluation of Ayia Napa. In the segmentation analysis 3 additional variables were added: overall satisfaction; intention to revisit, and intention to recommend. Regarding overall satisfaction results revealed that tourists were satisfied (MS=4.14), with a probability to revisit (MS=4.38) and to recommend (MS=4.37). The analysis resulted in a three cluster solution. Multivariate statistics indicated statistical significances difference between the three clusters, where all factors contributed to differentiate the tourist clusters. Each segment's Final Cluster Centers (FCC), the sample size, and ANOVA statistics test results are presented in Table 2.

 ISBN: 978-9963-711-37-6

Evaluation Factors Satisfaction, Revisit, Recommendation	1st cluster, n=148	2nd cluster, n=162	3rd cluster, n=48	ANOVA Statistics	
				F	Sig.
Factor 1: Wild destination	3.63	4.62	4.21	152.970	0.000
Factor 2: Money for value and personal safety	3.42	4.44	3.84	149.568	0.000
Factor 3: Infrastructure	3.26	4.17	3.97	120.720	0.000
Factor 4: Sea and Sun destination	3.30	4.38	3.54	185.919	0.000
Overall satisfaction	4.38	4.72	3.25	137.486	0.000
Probability to revisit	4.15	4.62	2.52	199.260	0.000
Probability to recommend	4.30	4.72	3.42	122.200	0.000

Table 2. Cluster analysis based on tourist's evaluation of Ayia Napa as a clubbing destination and overall satisfaction, intention to revisit and to recommend

The three segments obtained via K-means cluster analysis were:

Cluster I: The well informed, who are satisfied and will probably revisit and recommend the location. The first cluster represents 41.3% of the sample. This segment has its FCC for the evaluation factors from 3.26-3.63. This segment is either well informed or very rational in terms of their expectations and outcomes. In the first situation, it is well informed about what it was going to find in Ayia Napa, and thus no surprises arose. If this is the case, this segment had probably visited Ayia Napa previously and knew what to expect, given that they had firsthand experience. In the second situation, it is a very rational segment, in the sense that they found what they had probably heard or read they were going to find in Ayia Napa. And thus, the outcome of their clubbing experience was roughly as they expected, not worse, but neither better, meaning their expectations were not "far away" from the visitation outcome. This cluster is satisfied, and has a high probability of revisiting and recommending Ayia Napa as a clubbing destination.

Cluster II: The Enthusiastic. The second cluster represents 42.3% of the total sample. This is the segment that evaluated all factors at least better than expected (FCC=4.17-4.62). Moreover, the first factor "Wild destination", has the highest rating - tending to be much better than expected. This segment is also overall very satisfied, and has a high probability of revisiting and recommending Ayia Napa as a clubbing destination.

Cluster III: *The Conservatives (positively evaluate, neutrally satisfied, probably will not revisit but probably recommend).* The third cluster represents 13.4% of the total sample size. This segment has FCC for the evaluation variables tending to be better than expected (FCC: >3.51-4.21). Even though the tourists in this segment found Ayia Napa better than expected as a clubbing destination, they are

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overall neither satisfied nor dissatisfied. They have the lowest satisfaction level compared to all three segments, and it is unlikely they will repeat their visit (FCC= 2.52). Also, their probability of recommending Ayia Napa as a clubbing destination is quite low (FCC= 3.42). This could be due to two things: they are the older of the total sample, are potentially more conservative, and may not wish to share or discuss the private experiences they had there (what happens in Ayia Napa stays in Ayia Napa). Alternatively, there may be other factors that contributed to their dissatisfaction that were not studied in this research.

DISCUSSION-CONCLUSION

This main scope of this study was to investigate how British tourists' evaluate Ayia Napa, Cyprus as a clubbing destination. This was realized via primary research which took place in London, UK and had as a sample British citizens who had visited Ayia Napa Cyprus during the last three years, i.e. the years 2011-2013 and with an age ranging from 18-35. Results revealed that the item with the highest evaluation score was "Festivities and Events" (MS=4.37), where the sample considered it 'much better than expected'. On the other hand, the lowest Mean Score was for the item "Nice and clean beaches" (MS=3.64), where the sample evaluated it as 'expected' with a tendency towards 'better than expected'. This can be considered as logical, since there is extensive advertising about the 14 blue flags that the beaches of Ayia Napa hold, which contributes to them being considered among the best in the Mediterranean.

An objective was to segment tourists based on their destination image evaluation, overall satisfaction, and probability to revisit and to recommend. In order to reduce the evaluation variables for segmentation analysis, factor analysis with varimax rotation was employed, resulting to a 4- factor solution. Namely: Wild destination, Money for value, Infrastructure, and Sea and Sun destination. These factors are closely related to the factors that derived from Kamenidou et al. (2013) study, varying in items per factor in the 2-4 factors.

Segmentation resulted in a three cluster solution. A closer though look at the clusters derived, shows that a small segment, even though they evaluated Ayia Napa quite high as a clubbing destination, was not satisfied, and do not intend to revisit or recommend this destination. Based on these findings the local authorities should design suitable strategies for each segment and particular for the one that seems to be less satisfied with the experience. At a theoretical level, this study extends the body of knowledge about clubbing destinations by measuring and evaluating factors other than risk, drugs, and alcohol, as the wide body of literature for clubbing destination does.

Limitations-recommendations for future research

ISBN: 978-9963-711-37-6

The findings of this study are valuable to the Cypriot government, the tourism agencies, and the local authorities of Ayia Napa. Ayia Napa has changed from being a small rural fisherman town (Spanou, 2007) to being a cosmopolitan clubbing destination.

Even though there was an attempt to minimize limitations when designing this research, some still exist and need to be mentioned. These limitations are the ones guiding the specific needs of, and for, future research. First of all, the outcomes of this study may not have represented all tourist nationalities visiting Ayia Napa, since it is focused only on British tourists. Furthermore, the study was not conducted in Cyprus but in the UK and was limited to London, due to economic and time restraints. This results in particularisation of the findings to British tourists who visit Ayia Napa. This also means that participants were not responding based on their immediate experience of the clubbing destination

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 ISBN: 978-9963-711-37-6

THE CRITICAL ROLE OF PRODUCTION TECHNOLOGIES FOR WOOD AND FURNITURE KNOWLEDGE-INTENSIVE FIRMS

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ABSTRACT

The paper explores the exact role and significance of production technologies in the creation of competitive advantage, the survival and the innovative performance of low-tech but knowledge-intensive new ventures focusing on cases of the Wood and Furniture (W&F) Industry. The choice of production technologies constitutes a significant strategic decision at the venturing stage as well as at stages of reconfiguration. On the other hand, production technologies have been claimed to be quite significant in low-tech innovations. For that purpose, an exploratory case-study research design was selected engaging three information-rich W&F cases. Research findings indicate that Greek wood and furniture new ventures prefer to invest in production technology innovation in order to secure a position within mature and saturated markets. Technologies are developed as accumulation of various pieces of knowledge sources out of the strict sectoral limits, selected to fulfill conditions and limitations of the initial business idea and combined in novel ways ending up even with machinery innovation. The entrepreneurs interact with a wide range of stakeholders all along the value chain, of both low- and high-tech industries and at global level. However, machine manufacturers and raw material providers are the most important links. In all three cases, the introductory innovation and competitive advantage are based on production technologies' novelties which enable the firms to capture high-value markets for growth. The results strengthen our assumption on the role of production technologies for LT-KIE more generally. Production technologies affect the firms' strategies and support dynamic processes of sustaining the competitive advantages. The study verifies the emerging aspects on the innovation ability and the significant role of knowledge bases in low-tech industries as well as the interdependence between product and process innovation in mature industries. It also seems to contradict the common belief that low-tech companies are just "buyers of embodied technologies"; entrepreneurs appear to co-operate for the development of novel machinery, equipment or even novel processes.

 ISBN: 978-9963-711-37-6

Keywords: *production technologies, Wood and Furniture industry, knowledge-intensive firms, innovation, low-tech, new venture*

INTODUCTION

The paper argues that production technologies' choice or development plays an important role in low-tech but knowledge-intensive venturing. Production technologies and more generally, the management of new technologies are lately receiving increasing attention in strategic management research either as important factor of innovative efforts and firm performance or as core elements of technological capabilities .

On the other hand, literature on low-tech but knowledge-intensive entreprneurship (LT-KIE) has so far highlighted the necessity of knowledge-based innovation for the beginning of viable low-tech but knowledge-intensive ventures. Furthermore, it has also been discussed that all types of low-tech innovations include - to a greater or lesser extent - novelties in production technology which can be incremental or radical (Hirsch-Kreinsen and Schwinge, 2011).

However, theoretical and empirical work providing evidence on the exact role and significance of production technologies in the survival and innovative performance of LT-KI ventures is still at a rather embryonic stage. The paper takes up the challenge to examine the impact of decisions and their implementation regarding production technologies on a new LT-KI ventures course using a multiple case study research design. In doing so, it adds to the scarce existing theoretical efforts and, most interestingly, provides useful empirical evidence on how LT-KI firms (and more precisely W&F new firms) use production technologies to effectively develop competitive advantages and differentiate in a changing environment.

Our findings suggest that W&F KI firms turn to innovative technologies and machinery in order to incorporate novelty and develop technological capabilities to achieve differentiation. Production technologies are results of co-development covering technologies and knowledge from a significantly varied range. Especially during establishment, the output of innovation constitutes the initial competitive advantage. However, knowledge plays a pivotal role; planning and installing the suitable production technology entails a great amount of trans-sectoral knowledge combination. Further investments in technology enhance the firm's innovativeness and performance, by sustaining new firms' competitive advantage.

The paper begins with a theoretical discussion of production technologies and low-tech, knowledge-intensive entrepreneurship, giving emphasis on how these two research strands can be related and complements each other focusing in Wood and Furniture industry. In the third section it presents the

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research design and introduces the experimental setting. It then documents the empirical results and ends with discussion of the major findings and the concluding remarks.

THEORETICAL BACKGROUND

2.1. Production technologies and low-tech knowledge-intensive entrepreneurship

In 1972, Rosenberg defined technology as "those tools, devices, and knowledge that mediate between inputs and outputs (process technology) and/or create new products or services (product technology)". Almost forty years later, Dosi and Grazzi (2010) claim that technology "entails procedures regarding how to achieve the ends concerned, particular bits of knowledge, artifacts and specific physical inputs necessary to yield the desired outcomes". Technology was related to pieces of knowledge associated with technologies, and processes and derived from an extremely varied range which had to be combined in creative ways to introduce novelties, becoming more than knowing about "such things as tools and machines" (Bell, 1973).

Consequently, technological knowledge and technology were interwoven with innovation; Arnold and Thuriaux (1997) claim that economists tend to describe innovation as "a new combination of the factors of production" according to the Schumpeterian perspective. This can involve using results of scientific or technological research, but it can also involve much more mundane things such as laying out the machines on the factory floor in a better order or copying ideas from a producer in a distant market in order to create a local advantage.

Production technologies and more generally, the management of new technologies are lately receiving increasing attention in strategic management research either as important factor of innovative efforts and firm performance or as core elements of technological capabilities (Greve, 2009; Lall, 1992). Many scholars have argued on the positive impact of the development of technology on firms' performance (Meliciani, 2000) as well as the usual high costs related to it (Vranakis and Chatzoglou, 2012). Therefore, the choice of production technologies constitutes a significant strategic decision at the venturing stage as well as at stages of reconfiguration. The implementation of such investments is critical for a company for its future success and survival (Vranakis and Chatzoglou, 2012). Technology evolves in certain path dependent ways while technological progress "builds on what went before" (Teece, 1996, p.195), indicating that it usually has significant organization-specific dimensions.

Low-tech industries have been traditionally thought to be well-established with technological norms, methods and leitmotifs to exist for many generations. Scholars argue on rather standard processes and products at an advanced stage, lacking the prevailing technological contingency of high-technology undertakings. Low-tech industries are generally confronted as "borrowers" of technology which may come from other sectors such as machinery, ICT and raw material producers (Hirsch-Kreinsen and

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Schwinge, 2011). Besides the skepticism of low-tech dynamism and innovation potential, there is a growing stream of literature which posits that cases of conscious application of knowledge in innovation efforts are to be found within low-tech sectors too (Hirsch-Kreinsen and Schwinge, 2011; Karagouni et al., 2012). In such cases, advanced production technologies enable "the firm to capture lucrative and more value added markets for growth" (Evers, 2011).

Furthermore, according to Smith (2000) "knowledge cannot be incorporated into production except via investment, and the function of investment is often to implement new knowledge in production technology". Much of the knowledge intensity enters then as embodied knowledge incorporated into machinery, equipment, methods, techniques and production processes or as intermediate inputs such as components and materials. Activities such as design, customization, the installation and preparation of equipment and trial production are knowledge-generating activities.

Thus, the nature of knowledge upon which technological activities draw is multifarious regarding types of knowledge bases and skills and the ways they are used and applied in order to transform a concept into products and processes (Granstrand, 2000). In LT-KIE cases, "Embodied flows involve knowledge incorporated in to machinery and equipment" (Hirch-Kreinsen and Schwinge, 2011). The basis of them and of trans-sectoral sources of knowledge is the fact that more research-intensive industries (such as the advanced materials sector or the ICT) develop products that are used within other industries: that is machines and equipment or components and materials. However, the technology provider and passive user relationship seems to constitute a major characteristic of the transfer from the old-type conventional low-tech industry to the new *non-passive type* of low-tech firms. In literature there are a number of papers narrating the dominance of a few powerful, scientifically sophisticated equipment makers who ultimately controlled the advances and innovation in whole industrial sectors such as textiles and dairy industry (e.g. Lundvall, 1988).

Although most traditional sectors are still supplier-dominated (Hirsch-Kreinsen and Schwinge, 2011), this phenomenon is gradually changing through the adaptation of open innovation models and the development of common research projects. The new model of co-operation imposes certain changes in all industries included. Actually, knowledge and technological solutions tend to permeate through *sectoral boundaries with* special links and interaction with machine manufacturers, technology, raw material and complementary asset suppliers. Such co-operations become crucial particularly if technical equipment is custom designed, or if at least certain components and functions are adapted to the particular user needs. Many times LT-KIE actors decide even to produce their own complex machinery in-house in order to protect proprietary process technologies that constitute a significant part of the firm's competitive advantage. However, it seems that production technologies constitute the media through which high-tech industries develop co-operations with low-tech ones with mutual

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benefits such as the exchange of knowledge, common R&D and even the mutual progress of firms and sectors within a dynamic- interactive supplier-customer framework.

Production technologies and manufacturing capabilities appear further to play a significant role further in the commercialization of the innovative output; agents have to develop the necessary manufacturing systems to develop complex designs. Manufacturing capabilities, therefore, can determine the initial survival and success of a new venture or the success of consequent innovations (Pisano & Wheelwright, 1995).

2.2 Wood and Furniture Sector

Wood and furniture industry is one of the most representative traditional low-tech industries worldwide with a significant share of employment and value-added for the global manufacturing industry and economy.

The wood product manufacturing industries or woodworking industries include the production of sawn wood, wood-based panels, joinery and carpentry materials, containers packaging and other wooden articles. The furniture industry is part of the down-steam value chain activities of this sector including other material as well. It is essentially an assembling industry, which employs various raw materials ranging from wood and wood-based panels to metals, plastics, textile, leather and glass. There are many different types of furniture with very different uses.

Woodworking companies are considered highly innovative and knowledge-intensive (Smith, 2008); they build high-quality innovation systems regarding mainly production technologies which result in both novel products and processes. Sectoral research and technological development knowledge centers, global machinery manufacturers, suppliers, the chemical industry, and Universities develop synergies with firms of the sub-sector. Innovations turn around engineered wood products, wooden composites, novel fittings and other wooden products or issues such as productivity increase and quality improvement.

Furniture companies are less innovative regarding technical innovation. Knowledge evolves mainly around aesthetic, design and fashion related issues and focuses on creativity and strong image building. Yet, process and product innovation is evident in the undertaking of lengthy processes of restructuring and modernization, development of sustainable production methods and novel business models (e.g. modular design). Major factors of competitiveness for the sector consist of research and innovation along the whole value chain and mainly material and fittings, skills and quality, design and added value, knowledge and know-how, together with better access to third country markets.

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METHODOLOGY

A multiple exploratory case study research design was selected (Yin, 2003) in order to explore the ways production technologies affect the new venture creation and survival with the individual low-tech company as the unit of analysis. In fact, three information-rich W&F cases were chosen which fulfilled the KIE definition (Malerba and McKelvey, 2010) satisfying the following criteria:

- Knowledge-Intensive venture creation among 1998–2007
- Evidence of being assigned to the most innovative companies in the market or product field through knowledge-seeking activities.

The studies covered the life of the firms since establishment up to 2013 which coincides with the middle of the most severe economic crisis in Greece. All three are small enterprises covering different W&F sub-sectors. They further share a common characteristic: all three abandoned the conventional family business and started their own *knowledge-intensive* company in the same sub-sector as the family business. On the other side, they were chosen to represent venturing under different environmental conditions (such as technological, market-related and economical). WF3 was actually established at times of prosperity at sectoral and national level, while WF1 was born just on the threshold of the severe socioeconomic crisis.

The data gathering took place in face-to-face, in-depth interviews with entrepreneurs and key personnel using a semi-structured questionnaire. Additional sources of information were also used to complement the interview data such as plant visits, company reports, awards and company websites. Table 1 describes the three cases explored in this study.

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Table 1: Description of case data

	WF1	WF2	WF3
Foundation year	2007	2003	1998
Employees in 2013	10	11	30
duct family	Veneer stitching, marquetry inlays	Wood processing, glue-laminated products	Kitchen and wardrobe
Sub-sector	Wooden products, services	Sawn wood	Furniture
Main functional parameter affected	quality	Quality - productivity	Functionality
% of sales in national/international markets	90% /10%	100%/0%	100%/0%
Main areas of innovation impacting production technologies	Process / supplier	Product / R&D	Machine and material supplier
Patents	no	yes	yes– exploited by the machine maker
Other Stakeholders involved	yes	yes	yes
Average annual sales growth rate since establishment and up to 2012	33,8%	22%	17,3%

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4. FINDINGS

WF1-case

WF1's entrepreneur left the family business due to the existence of many descendants. Veneer production was a business he knew very well; however, he did not want to become a direct competitor of his family. His deep knowledge and experience of the relevant processes drove him to "create" a niche market by questioning the raw surface of veneers under the common acceptance that it is a natural deficiency, since veneers are natural products. The targeted *veneer surfacing uniformity* generated multiple problems because there was no relevant technological approach by then. The entrepreneur transcended sectoral and national limits, in order to co-create the necessary production technologies collecting knowledge and co-creating value with machine, equipment and material producers in Germany, Austria, Italy and Spain. He actually collaborated with the technical departments of the manufacturers in order to achieve the desired machine and equipment characteristics, and a high degree of flexibility. He also collaborated with raw material producers to co-produce raw material of specific features and level of quality in order to suit the novel technology.

Since then, WF1 engages open innovation continuing and deepening the co-operations developed at the founding process and mainly the suppliers in Italy and Spain. There is also a constant co-operation with a non-direct competitor in Germany on eco-friendly process novelties in order to serve different market niches. In all efforts there is a substantial amount of knowledge flows through long-lasting relationships, interactive learning and knowledge management, making West Europe a wide "knowledge neighborhood". The unique, flexible and high-level technologies allowed for the development of exporting capabilities in 2009. In 2010 and 2011, the company starts offering turnkey solutions being engaged in big architecture projects in Greece and abroad. In 2013 it can still fight crisis co-operating with high-value furniture producers.

Production technologies constitute the basis for innovative techniques, innovations on quality surface, creative NPD combined to eco-friendliness and flexibility in design and batch sizes. WF1 refused the rather easy well-worn, traditional low-cost path, which is too familiar in low-tech industries; it built on novel production technologies and created a new niche market in the Greek market as its initial competitive advantage. The constant differentiation against European similar products by adding quality and innovation characteristics, the expansion of novelties and areas of applications and the potential for flexible batches sustain the competitive advantage and keep WF1 among the pioneers at least at European level. The firm presents a satisfactory sales rate although within the crisis. There are still no direct competitors in Greece.

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WF2-case

A fire at the family wood-processing plant drove the three brothers to seek innovation and flexibility in their effort to create a survivable business. Their efforts to establish the new business were multifaceted and spread in many areas such as production processes, quality, NPD, design, energy and ecology. The initial competitive advantage was the introduction of innovative cutting-edge sawing technology that enabled more flexibility and quality while it advanced efficiency and added capabilities for innovative products and penetration in niche high-value markets. The entrepreneurs added their own novelties in some parts of the equipment in collaboration with the manufacturers. On the basis of the new production processes they sought differentiation and applied innovative ideas which alone would not be accomplishable.

They invested in combinations of innovative products and technologies targeting ecology and design aspects. However, they needed new knowledge; in 2005-2006 they entered a Knowledge-cluster research project to work on three-part glue-laminated wood products with trapezoidal particles; this constitutes a radical innovation at least at European level. Experimentation and control tests are run in the National Technical Department of Wood and Furniture technology laboratories. In parallel, they develop a novel idea on limited production of special decorative parts of recycling wood material. In 2007 they focus again on production technologies to increase productivity and the ability for in-house innovation on technical parameters and specifically saw geometrical characteristics. The research was once again supported by the relevant National Technological Department. In the same vein, they devote 2008 in excelling quality while since 2009 research focuses on production parameterization, traceability, certification and "green" energy. According to the entrepreneurs, novel products are the result of the ability to combine creatively design, cutting-edge technology and the know-how of producing a large variety of glue-laminated products.

The case highlights the focal role of knowledge and innovation at the extremely traditional timber sub-sector. But for knowledge and innovation, the plant would be "a conventional sawn-mill condemned to death" (experts' opinion, heard in "Building with wood" seminar, 2010, Thessaloniki, Greece).

WF2 created a strong initial competitive advantage regarding mostly technical innovation and exploiting the growing trend towards quality and ecology as well as the turn to innovative but ecologic composite materials. In all efforts to innovate, new products and ideas are clearly interwoven with novel production technologies. WF2 has applied for patents to secure specific technologies. It presents a satisfactory sales rate, is highly innovative and extends its market with differentiated products. However, it focuses only in the national market.

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WF3-case

WF3 was founded by an entrepreneur with a PhD who rejected the safety of following well-established long-used patterns. He actually advised his father to "burn his own plant", although it was one of the best kitchen-furniture companies in the region of Macedonia at that time.

Searching for strong initial advantages in the kitchen industry, the entrepreneur builds a concept on modular design which he names "box concept". However, the implementation requires novel technology that can provide parameterization. He co-operates closely with machine manufacturers in Germany and they co-develop a multi-task CNC machine to fit the novel production process. The CNC machine will be then patented by the machine manufacturer (with the entrepeneur's permission) and wins an innovation prize in a world machine exhibition. The initial target of multi-machinery is further developed in a well-organized and linked production system and novel requirements appear one after the other (e.g. material handling systems, relevant CIM program, adoption of design to industrial design) constantly improving the initial idea. The entrepreneur was further the first to use the CNC model and man-made raw material in Greece.

WF3 transceded the common sectoral technology producers and manufacturers, engaged benchmarking and focused on the relevant emerging problems when trying to advance from novel idea to physical creation. The entrepreneur deliberately shaped a new ecosystem in kitchen construction for small companies *based on automatization, parametric design and flexibility.* WF3 went on investing in novelties in production technologies. Indicatively, in 2001 it introduced CIM (i.e. Computer-Integrated-Manufacturing) in the Greek W&F industry. The following years it developed many fixtures and installations to solve specific problems of box-concept, introduced corian and artificial plywood in Greece, and new processes to apply novel design. In 2009, a new technology dyeing plant was built with many novelties to suit the existing automated processes.

WF3 was founded within an era that markets favored such investments; a ready-to-consume market and a high income economy, relative alluring subsidies and the flourishing industry of CNC machinery. The entrepreneur managed to keep staying a pioneer for more than a decade presenting fast growth sales and high level of innovativeness. The severe crisis of the last years (2009-2014) led to a downturn. However, the company manages to survive in a sector with more than 70% decrease in productivity.

All three cases have established long-lasting relations with their machine and raw material suppliers for New Product Development (NPD), production and process advancing purposes; research focuses mainly on experimenting with innovative material elsewhere produced, and alternative processes following mainly the try-and-error method. WF2 has further entered research clusters exploring all

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potential for NPD regarding mainly processes and production technologies such as waste, by-products and energy production. There seems to be an embedded culture of constant learning and experimenting, while know-how is achieved by technology transfer and development. In all cases wood processing technology, wood behavior science, chemistry, mechanical engineering, material engineering, ICT and automation technology are engaged while certain other high-tech fields are involved in each case.

5. DISCUSSION - CONCLUSIONS

The paper discusses the role of production technologies in low-tech industries and more precisely in the wood and furniture industry. It examines the importance of selection and/or development of production technologies during venturing, as well as their relationship to competitive advantage and innovation performance within the frame of knowledge-intensiveness.

Case analysis confirmed the fact that knowledge is mainly incorporated into production via investment (Smith, 2008). The transformation of the innovative business concepts into marketable products presupposes the choice and set up of the suitable production technologies and the function of investment is precisely to implement *new knowledge in production technologies.* The commitment to physical creation is thus a significant transition point in venture creation. All three cases besides the use of standard equipment and technology, develop production technology novelties in order to create respective products. The important role that production technologies appear to play indicate that new low-tech ventures use knowledge from multiple and often trans-sectoral fields to intensively create and deploy many forms of production-relevant knowledge in order to develop the innovative production technologies, build their initial competitive advantage and enter mature and saturated markets in alternative ways.

A quite interesting issue is the fact that novel production technologies as venture enablers seem to act mainly as a vehicle to create niche and sub-niche markets. The new, knowledge-intensive W&F firms turned to innovative technologies and machinery in order to incorporate novelty and develop technological capabilities for high-level differentiation. Especially during establishment, the output of technological innovation constitutes the initial competitive advantage which has to be quite strong in order to enable entrance in mature and saturated markets.

Further investments in technology enhance the firm's innovativeness and performance. Advanced production technologies enable the capture of lucrative and more value-added markets avoiding obsolesce. Novelties in production technologies support the development of NPD processes, enable creative solutions to specific problems and give birth to new products/ services. According to the three

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cases, all types of novelties seem to entail almost always a certain level of innovation regarding production technologies which may eventually range from production lines to engineering and operating procedures.

On the other hand, the case findings demonstrate the existence of reciprocal relationships between product and process innovation indicating that technological contexts *do moderate* the physical implementation of LT-KI initial business idea, whether it is product or process-focused. More specifically, the cases make evident that novel product development leads to process development and *vice-versa*. This is in line with relevant literature (e.g. Heidenreich 2009).

Accepted the fact that the requisite knowledge and skills are distributed across many agents, production technologies are developed by tapping together appropriate technology made of components of a vast range of origins. Thus, the nature of knowledge upon which technological activities draw appears to be multifarious regarding types of knowledge bases and skills and the ways they are used and applied in order to transform a concept into products and processes. Besides focusing on a few technological core competencies, all cases sustain competencies in multiple technology fields (in accordance with Granstrand, 2000). This is also in line with literature; more and more traditional firms now acquire a substantial part of their technologies from external sources (Lichtenthaler & Ernst, 2007). A significant feature of the observed innovations was the engagement of many stakeholders all along the value chain in the form of open innovation. Suppliers were of utmost relevance in this context, since low-tech firms rely heavily on raw material, machine and equipment technological advances. However, their role during venturing does not appear to be that important; they rather support than guide the initial novelty. Furthermore, innovation seems not to rest only on adaptation but on discovery and learning as well.

Actually, production technologies appeared to be results of co-development covering technologies and knowledge from a significantly varied range. Thus, the cases indicate that low-tech companies may be something *more than just "borrowers" and passive adopters of* technology. Yet, they verify the fact that entrepreneurial or managerial teams locate and organize the individual and often miscellaneous pieces of product and/or process technology they need in order to innovate. This regards mainly technologies internally developed or co-developed in cooperation with other stakeholders including potential patents obtained either by the new venture or by any other stakeholder. It should be mentioned here that machine manufactureres and suppliers of innovative raw materials are in their majority foreign companies which highlights a particular problem of national weakness.

Therefore, it appears that in LT-KI ventures and more specifically in W&F ones, competitve advantages are built on a mixture of existing production technologies with new innovative ones which may be borrowed by, and composed of many knowledge areas in the first stages of the

 ISBN: 978-9963-711-37-6

entrepreneurial process. Production technologies then seem to be further significant in the co-formation of the strategic directions for the new LT-KI venture with quite obvious impact on the marketable products and services as well as the formation of organizational procedures and even the formation of the new venture's culture.

The study is, to our knowledge, among the first to explore the role of production technologies in venturing and innovation within low-tech industries, especially under the notion of knowledge-intensiveness. It is the first to explore the relationship between production technologies and W&F venture creation and their role in sustaining a competitive advantage. It verifies the emerging aspects on the innovation ability and the significant role of knowledge bases in low-tech industries as well as the interdependence between product and process innovation in mature industries.

In spite the study's limitations regarding the case-study research design and the focus on W&F knowledge-intensive ventures, some managerial implications can be reasonably drawn. Entrepreneurs and managers should put emphasis on developing innovation regarding technological aspects and more precisely production technologies in order to sustain strong competitive advantages. Taking into account the fact that the sector of wood and furniture was hit rather hard by the crisis with losses of more than 30% for the wood sector and more than 60% for the furniture sector investments on production technologies' innovation seem to provide a solution to crisis periods, especially for SMEs.

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 ISBN: 978-9963-711-37-6

IS THERE A BALANCE BETWEEN DEMAND –DRIVEN AND POLICY - DIRECTED QUALITY CERTIFICATION?

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ABSTRACT

The study combines the value cocreation approach with a profit function and discrete choice model to examine whether there is a balance between demand factors and policy factors accelerating certification decisions such that a divergence between the supply and demand of certified foods is avoided. Assuming that multiple stakeholders such as farm business owners, customers and public authorities are involved in value cocreation, the empirical investigation of an ordered logit model is based on the timing each producer implements quality management system (QMS). A first conclusion of the study is that the theoretical framework fits well and it can be used in a variety of cases when the balance between the demand and public policy factors affecting the business' decisions is examined. It is found that the factors accelerating the QMS implementation are consumers' demand for certified products and buyers' recommendations, the existence of local quality problems, the provision of information/technical support and the quality control exerted by authorities and penalisation. It is concluded that policy factors outperform demand factors, but because the most crucial factor is the control exertion and penalisation it is not expected an unbalanced development of the certified subsector if public policy measures avoid disturbing the conduct of the certified food market, e.g. by irrational subsidies. The results confirm also the validity of public policy as a means of effectively expanding certifications at the early stages and the role of private standards in shifting from public to private food sector governance.

Keywords: *value cocreation; quality decisions; accelerate certification; food market; quality policy*

ISBN: 978-9963-711-37-6

INTRODUCTION

The implementation of Quality Management Systems (QMS) enables suppliers of agricultural and food products (farmers, manufacturers, wholesalers, retailers) to create customer value by enhancing quality and thus, market forces can generate incentives for voluntary provision of higher quality food products. Because the suppliers may not respond, public authorities impose the proper regulatory system for quality enhancement and consumer protection or they develop an adequate subsidy regime or technical support to encourage the food producers/marketers to implement QMS (Tselempis *et al*., 2015; Durham *et al*., 2011; Kuminoff and Wossink, 2010; Klintman and Bostrom, 2004; Lohra and Salomonsson, 2000).

Research results indicate that many food producers, especially small farms, are less likely to implement QMS (Handschuch *et al*., 2013; Segerson, 1999). Thus, financial support or subsidies are needed, which may become less likely to be politically acceptable in certain countries in the world market or may lead in an unbalanced development in the certified subsector (Argyropoulos *et al*., 2013; Hattam *et al*., 2012; Läpple and Van Rensburg, 2011, Lohra and Salomonsson, 2000). Because the policy-directed food supply is a valid means through which food quality can be effectively regulated and some undesirable effects can result (Uematsu and Mishra, 2012; Martinez *et al*., 2007), the following the question arises: Can the demand- and policy-related conditions prevailing in agriculture and food production lead to an expansion of certification efforts avoiding an unbalanced development of the quality certifications?

Previous studies adopt agricultural modelling, utility function, average treatment effect approach, cost/benefit analysis and profit function to examine the farmers' certification decisions connected with the factors impacting them (Tselempis *et al*., 2015; Soltani *et al*., 2014; Veldstra *et al*., 2014; Handschuch *et al*., 2013; Kersting and Wollni, 2012; Uematsu and Mishra, 2012; Masakure *et al*., 2011; Muriithi *et al*., 2011; Asfaw *et al*., 2010a & b; Khaledi *et al*., 2010; Kuminoff and Wossink, 2010). Some others concentrate on the duration analysis to study the certification decisions (Hattam *et al*., 2012; Läpple and Van Rensburg, 2011; Kallas *et al*., 2010; Läpple, 2010). These studies do not examine the balance between the impact of demand-related and policy-related factors. The main goal of the present study is to combine the value cocreation approach with a form of profit function and the discrete choice model—to examine whether there is a balance between demand factors and policy factors accelerating certification decisions, such that a divergence between the supply and demand of certified foods is avoided.

The remainder of the paper is structured as follows. Second section presents the theoretical framework, followed by the hypotheses formation in third section. Forth section presents the specialisation of the model and data collection, and fifth section presents the model estimation, results

 ISBN: 978-9963-711-37-6

and discussion. The conclusions, implications and propositions for future research are offered in last section.

THEORETICAL FRAMEWORK

Value cocreation

In value creation view, value is created in the firm and then exchanged with the customer, whereas in value cocreation, value is cocreated by multiple stakeholders such as the suppliers, customers' communities and society at all (Yi and Gong, 2013; Sheth and Uslay, 2007; Anderson *et al.*, 2004; Prahalad and Ramaswamy, 2004). Regarding the certification, we assume three stakeholders who are involved in value cocreation: owners of the farm businesses deciding certification and offering certified products, customers' community and public authorities who aim the society's needs and interests to be met.

The farm business owners (farmers) offer certified products by investing in certification-related activities to create value in alignment with customers' needs and the public authorities' decisions which reflect the society's interests for higher quality of life and agricultural competitiveness. For successful value cocreation customers provide resources such as personal information, interpersonal relationships, suggestions and recommendations to others or toleration to situations when the products/services provided fail to meet their expectations. Public authorities create value by providing farm business owners with information and technical support or subsidies by financing quality-related programmes, by conducting controls and penalizations, etc.

Financial value

Because the cocreation of value enables financial value to be created for the business owner (Haksever *et al.*, 2004), we assume a farm business owner (farmer) who decides to implement an optional QMS, as this allows him/her to create value for customers and society. Thus, financial value is created, which can be measured by accounting-based ratio measures, sales, cost, price, revenues, or profits. Figure 1 illustrates the theoretical framework we build, focusing on the farm business' certification decision, which is affected by customer's related (demand) factors and public-policy factors. The farm business, in an attempt to increase the value it creates and, subsequently, to increase financial value, accelerates certification. That is it provides customers and society with more total value at time t, by offering certified quality for longer time, and thus can maximise its total profits. More specific it offers its food product at a quantity of q=$\bar{q}$ (assume unchanged at time t) and at quality of Q, which depends on t, obtaining a price p, which also depends on Q; the financial value created can be represented by the profit, defined as follows:

$\pi(t)=pq-\mathrm{C}(q,\mathrm{Q})$ so that p=$P(\mathrm{Q})$ and Q=$Q(t)$. (1)

 ISBN: 978-9963-711-37-6

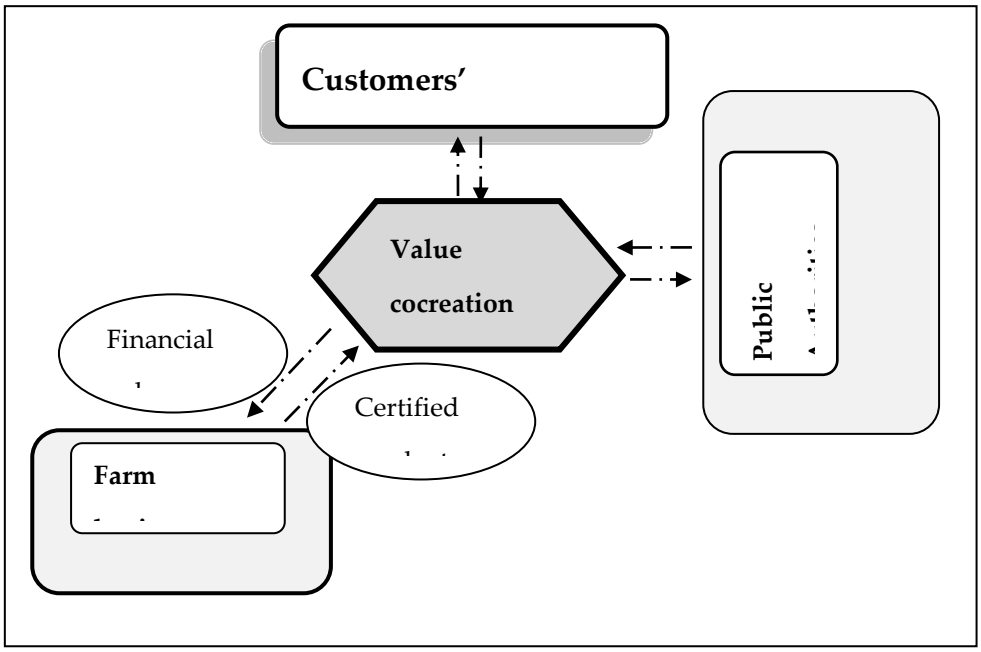

Figure 1. *Value-creation by farm businesses, customers and society*

That is, the profit of the farm business at time t depends on quantity produced at time t and the price, which depends on quality (Q) supplied at time t, and the cost (C), which depends on the quantity (q) produced at time t and the quality (Q) supplied at the same time. The first order derivative of equation (1) is:

$$\frac{d\pi(t)}{dt}=\frac{dP[Q(t)]}{dQ}\frac{dQ(t)}{dt}q-\frac{dC}{dQ}\frac{dQ(t)}{dt}$$

which takes the form (2):

$$\frac{d\pi(t)}{dt}=[\frac{dP[Q(t)]}{dQ}q-\frac{dC}{dQ}]\frac{dQ(t)}{dt} \quad . (2)$$

Because the longer the time the farm business is certified, the greater the quantity of the certified product supplied in the market ($\frac{dQ(t)}{dt}\geq 0$), and $\frac{dP[Q(t)]}{dQ}q\geq 0$, while the $\frac{dC}{dQ}\leq 0$ due to economies of experience in quality management and economies of size in quality certification (Ragasa *et al*., 2011), we expect that $\frac{d\pi(t)}{dt}\geq 0$. Thus, it is expected that when the time at which the farm business is staying certified increases, its profit increases and the farmer attempts to implement QMS at an early stage. Equation (2) helps us to connect the value that the farm business creates both with the financial value created and the farmer's decision to implement QMS at time t. Because it would be more precise if we use the net present value of profit instead of π(t), we give more definition in the method section.

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RESEARCH HYPOTHESES

The impact of public authorities' value creation on farmers' certification decisions can outperform the impact of customers' value creation. In such a case, the state-induced implementation of QMS dominates the demand-related incentives and the farmer's decision to be certified at an early stage can be affected mostly by the public-policy factors and an unbalanced development of the certification can occur. Thus, the first hypothesis is formulated.

H1: There is not an imbalance between the demand and policy factors that accelerate certification, such that public policy factors outperform demand factors in a way that can lead to a divergence between the supply and demand for certified food.

The policy-directed food supply is acknowledged as a valid means through which food quality can be effectively regulated (Martinez *et al*., 2007) and the third-party certification reflects a broader shift from public to private governance in the food sector (Hatanaka *et al*. 2005; Henson *et al*., 2005). The development of public QMS standards or schemes being available for farmers is a policy measure by which public authorities cocreate value at the starting stage of the evolution of certifications, while the private standards are developed in a later stage. Thus, it is useful to associate the type of the standard with the farmer's certification decision, leading to the formulation of a second hypothesis:

H2: The probability that the farmers decide to implement QMS at an early stage depends on the type of the quality certification scheme they adopt.

If the hypothesis is not accepted, it is not ascertained the validity of public policy as a means of effectively expanding certifications at the early stages and the role of private standards in shifting from public to private food sector governance. Thus, public authorities, certifiers and marketers should revise their certification related policies.

As Karipidis and Tselempis (2014) reported there exist several quality certification schemes that are suitable for certifications at farm business level, such as the national standards (AGRO 2.2 in Greece), the 'Organic Certification', the 'GlobalGAP', 'Quality and Safety' and 'Tesco Nature's Choice'. The organic certification differs substantially from the other certification schemes in its requirements, organisational structure, implementation and auditing, which are connected with differences in certification costs, customers' requirements and preferences and farm business revenues. It makes useful to capture for a different impact of organic certification on farmers' decisions, and thus a third hypothesis is formulated.

H3: The organic certification scheme accelerates the certification in a different way than other quality certification schemes.

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If the hypothesis is not accepted, it is ascertained that there is not a different impact of organic certification implying that there is not a necessity for public authorities, marketers and certifiers to differentiate their certification related policies.

METHOD

The value cocreation framework presented previously enables us to analyse the value a farm business creates in conjunction with the value created by customers and public authorities. More specific, the farm business creates value and, subsequently, increases financial value by investing in quality certification in order to offer certified products to customers and society. Farm owner accelerates certification in an attempt to increase the financial value, by offering certified quality for longer time, and thus it maximises the total profits.

The discrete choice model

The discrete choice model can be used to examine how decisions are influenced by the conditions under which they are realised. There has been an extensive use of it to locate the factors affecting farmers' choices, regarding the adoption of innovations, new methods, new technologies and quality standards (Tselempis *et al*. 2015; Herzfeld *et al*. 2011; Wheeler, 2008; Wynn *et al*. 2001) or the maintenance of certification (Karipidis and Tselempis, 2014). The focus of this study is the acceleration of certification decision, which reflects the time (t) the farm business offers certified products. It can be represented by a qualitative variable measured via an ordinal, five, less or more -point, scale.

In the discrete choice models, the dependent variable (y) is a rough categorisation of a continuous but unobserved variable y* (timing). If y* could be directly observed, then standard regression methods would be used, such as assuming that y* is a linear function of some independent variables. The acceleration of QMS decision model can take the form:

$$y_i = a_i \chi_i + u_{ij} \quad (3)$$

y_i is used as a proxy for y_i^*. According to this model, the farmer chooses alternative *i* (time to implement QMS). The explanatory variables reflect the factors connected with customers' value cocreation (demand side) and public authorities' value cocreation (policy measures). The u values are unknown parameters to be estimated with the unknown coefficients of the variables.

The present study uses a three-point scale to measure the timing: in the case the farm business implements QMS at an early stage it is staying under the certification for the maximum time and t takes the maximum value (t =3), while in case it implements QMS at a later stage it is staying under the certification for the minimum time (t =1). The relationship between the three categories of y_i and the values of y* is presented in table 1, in correspondence with the net present value of profit instead of $\pi(t)$, as it is stated above. T r represents the interest rate.

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Estimated time	Net present value of the profit
$y_i = 1$ if $y_i^* \leq 1$	$\pi(t) = \pi_1$
$y_i = 2$ if $1 < y_i^* \leq 2$	$\pi(t) = \pi_2 + (1+r)\pi_1$
$y_i = 3$ if $2 < y_i^*$	$\pi(t) = \pi_3 + (1+r)\pi_2 + (1+r)^2\pi_1$

Table 1. *Connecting the timing of certification with the net present value of the profit*

Specialisation of the model

Based on the study of Tselempis *et al*. (2015), we introduce eleven demand-related (market) and five public policy factors in order to empirically investigate the proposed framework and test the first hypothesis. We add also two variables helping us to test the second and third hypotheses. The model (3) can take a probit or logit form, so that we can analyse the farmer's acceleration to implement QMS with the demand and policy factors. It becomes

$$y_i = a_k^D X_k^D + a_j^p X_j^p + b_1 Z_1 + b_2 Z_2 + u_{ik} \quad (4)$$

where X_k^D represents the demand–related factors (k=1, …, 11), and X_j^p represents the public-policy factors (j=1, …, 5) that may affect the farmer's decision.

We introduce the dummy variable (Z_1), which represents the type of standard the farmer adopts in the model to examine the second research hypothesis; because 0 represents the public quality scheme and 1 represents the private scheme, it is expected that Z_1 impacts y_i negatively. In an attempt to capture the differences in implementation decisions regarding organic certification and test the third hypothesis, an additional dummy variable (Z_2) is introduced, taking the value 2 in the case where the quality certification scheme is organic and 1 for every quality certification scheme different from the organic scheme.

Data collection

A survey, which was developed using the findings of previous studies, and a small-scale pre-test with some in-depth interviews were conducted in the winter of the 2011. All the necessary modifications were made to take into account the comments and suggestions received, which primarily concerned difficulty in answering the questionnaire (including its size), the clarity of the questions, and their order. The questions were answered in reviews conducted with the heads of the certified farm businesses dispersed all over the region of Central Macedonia—North Greece—in the spring and summer of 2012. These farm businesses were randomly selected from a database held by the regional services of the Ministry of Agricultural Development and Food. After discarding a number of problematic questionnaires, we were able to use a total of 231 in our analysis.

EMPIRICAL INVESTIGATION, RESULTS AND DISCUSSION

Model estimation

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Estimations regarding the decision model (ordered logit) are conducted using the Eviews programme; we use the Huber/White option to compute robust (quasi-maximum likelihood) estimators, in the sense that consistent estimates of parameters are produced, even if the distribution is incorrectly specified. The results regarding the impact of the demand-related and policy factors are presented in Table 2, including coefficient estimates, Z-statistics and p-values. It is determined that the null hypothesis is rejected and that all of the independent variables affect the variability of the dependent variable because the log likelihood value of 115.9587 is highly significant (prob. 0.000). The average score of the time respondents implement QMS is 2.42 (>2), meaning that the most of the farmers of the study implement QMS at an early stage rather, taking into consideration the timing of certification. Because the model estimation is based on aggregated data, including the adoption of five quality certification schemes, with differences among them, we do not expect the interpretation capacity of the model to be high. Though there are no previous studies similar to the present, the interpretative ability (Pseudo R-squared 0.274416) can be considered adequate comparing it with the interpretative ability of analogous studies that estimate adoption models in the case of one or two certain certification schemes (Handschuch *et al*., 2013; Wheeler, 2008).

Results and discussion

As seen in Table 2, six of the 18 independent variables substantially participate in the formation of the dependent variable's variability, at a significance level of 0.05. Therefore, one may deduce that six of the factors examined affect the farmer's decision to implement QMS at an early stage or accelerate farmer's certification decision. Three of the factors pertain to the demand and affect the farmer's decision positively. More specifically, the demand of certification by buyers, which will eventually lead to an increase in revenue, renders it more probable that the farmer will implement QMS at an early stage. The same applies when the farmers are advised to be certified by the buyers and when there are local quality-related problems, in which the farmer tries to differentiate her/his products from local products and make them more attractive to potential customers.

Group	Factors / independent variables	Coeffic.	Z-stat.	Probab.
DEMAND – factors	1. Customers are interested in certified products	0.385379	1.409865	0.1586
	2. Buyers demand implementation of QMS	0.513653	2.690321	0.0071*
	3. Buyers demand minimum quality requirements	-0.099513	-0.368350	0.7126
	4. Expectations of easier selling	0.327047	0.757536	0.4487
	5. Requirement of the cooperative	-0.387998	-0.683476	0.4943
	6. Expectations of average price increase	0.226610	1.086385	0.2773
	7. Price uncertainty	0.268313	0.778999	0.4360
	8. Advice – buyers' recommendations	0.371723	2.421393	0.0155*
	9. Advice – suppliers' recommendations	-0.202118	-0.817085	0.4139
	10. Local quality defects or problems	1.185842	3.372288	0.0007*
	11. Impelling – Penalisation and control exerted on *behalf of the buyers*	0.343851	0.791612	0.4286

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POLICY – measures	1. Participation in an agricultural development programme	0.277864	0.587318	0.5570
	2. Participation in a good practice implementation programme	-0.297948	-0.459707	0.6457
	3. Expectation of subsidising QMS implementation	0.314295	0.817159	0.4138
	4. Absence of provision of appropriate information / technical support	-0.736947	-2.220721	0.0264*
	5. Penalisation and control exerted by the authorities	1.465187	2.337578	0.0194*
	1. Type of the standard (Public or Private)	-1.351704	-2.118041	0.0342*
	2. Not organic or organic standard	1.094579	1.243432	0.2137
LR stat: 115.9587, Prob. (LR stat): 0.000000, LR index (Pseudo R-2): 0.274416				

Table 2. *Estimation results of the model including the factors of outer environment*

Regarding the two policy factors accelerating certification decisions, one of them is found to affect the decision negatively, while the other affects it positively. Specifically, failure to supply the appropriate information and technical support for farmers negatively affects the QMS implementation at an early stage. This could be attributed to the farmer's inability to assess the benefits of QMS implementation and to the fact that information provision lowers the certification-related costs. On the other hand, the exertion of control and penalisation causes farmers to accelerate the implementation of QMS.

The findings of the study concerning the demand for certified products and the control exerted by the authorities ascertain and complement analogous results of previous studies, such as Asfaw *et al*. (2010b) and Masakure *et al*. (2011), providing evidence of the role of lower transaction costs in the certified product market and regulatory enforcement within the certification decisions in food supply chains. The findings concerning the role of information and the provision of technical assistance to farmers in their certification-related actions confirm and extend the results of Muriithi *et al*. (2011), Kersting and Wollni (2012) and Dimara *et al*. (2004). The findings regarding the local quality problems partially confirm and complement the results of Uematsu and Mishra (2012) concerning the impact of farmers' participation in a state branding programme and the impact of the "regional factor" on farmers' adoption decisions.

A further exploration of the impact of the three demand and the two policy factors becomes possible by estimating the "elasticities" ($e_i = a_i \bar{y} / \bar{X}$). These allow us to rank the factors accelerating the implementation of QAS because reflect the percentage of increase or decrease (%) in the mean probability that farmers accelerate certification if the mean value of a factor increases 1%.

The elasticities presented in table 3, indicate that the public-policy factors outperform the demand factors and this could lead the ***H1*** hypothesis not to be accepted. It is observed that the elasticity in the

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case of "control exertion by public authorities and penalisation" (>8.2), indicating that this factor accelerates the certification in a degree that outperforms the degree of acceleration caused by all the other factors together. Because this factor reflects the pushing of farm businesses to respond to the mandatory quality requirements contributing to the consumers' safety and the enhancement of quality of life, it is not expected a divergence between supply and demand. Thus, the ***H1*** is accepted.

	Factor	Elacticities	Sum
Demand	Buyers demand for implementation of QMS	0,4361	
	Advice – buyers' recommendations	0,3487	
	Local quality defects or problems	2,5395	3,3243
Policy	Absence(-)/Presence(+) of appropriate information / technical support	0,6171	
	Penalisation and control exerted by the authorities	8,2456	8,8627

Table 3. *Order of market & policy factors*

Regarding the choice of a public or private type of quality certification scheme the results indicate that public standards are mostly chosen by farmers implementing QMS at an early stage, while private standards are mostly adopted by farmers implementing QMS at a later stage. More specific, the choice of a public certification scheme is connected with the probability that the farmers implement QMS at an early stage and the choice of private certification scheme is connected with the probability that the farmers implement QMS at a late stage. Thus, the ***H2*** hypothesis is supported. This result confirms and extends the report of Hatanaka *et al*. (2005) concerning the role of the third-party certifications to shift from public to private governance through time in food supply and the conclusion of Martinez *et al*. (2007) for the effectiveness of the public regulation in food supply.

Regarding the ***H3*** hypothesis, that the organic certification scheme accelerates the certification in a different way than other schemes, the results do not give support. It implies that there is not a necessity for public authorities, marketers and certifiers to differentiate their certification related policies if their main goal is the acceleration of quality certifications.

CONCLUSIONS AND IMPLICATIONS

Conclusions

The study combines the value cocreation approach with a profit function and a discrete choice model to examine whether there is a balance between policy factors and market factors accelerating certification decisions. It proposes a theoretical framework which assumes that three stakeholders are involved in value cocreation: owners of the farm businesses, customers' community and public authorities. A first conclusion of the study is that the model fits well in the case where demand and policy factors accelerating the implementation of QMS are examined comparatively, implying that it should be used in a variety of cases of product markets.

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The demand factor having the strongest impact on the acceleration of certification is the existence of local quality problems in which the farmer tries to differentiate her/his products from local ones and the policy factor with the strongest positive impact is the control exertion by public authorities and penalisation. The results indicate that the public policy factors outperform demand factors, but because the control exertion and penalisation reflects the response of the food supply to the mandatory quality requirements, a divergence between supply and demand is not expected, such as it would be expected in the case of the provision of subsides.

Regarding the type of quality certification scheme the farmers choose in conjunction with the acceleration of certification, the study concludes that: (i) the choice of public standard at an early stage implies that policy-directed certification is a valid means to expand the certifications effectively at an early stage of the evolution of certification, (ii) the choice of private standard observed at a late stage implies that the efforts of market players replace policy-directed certification at a later stage, and (iii) though the organic certification differs substantially from the other certification schemes, there are no findings indicating that the organic certification scheme accelerates the certification in a different way than other certification schemes.

Implications for practitioners and for future research

As some certification-related policy measures can lead to a divergence between supply and demand of certified foods, the public authorities should be cautious not to greatly weaken the market incentives for farmers. More specifically, the authorities should maintain or intensify quality controls or increase the punishments for violations of the quality rules, but they be very cautious in setting subsidies for farmers. They should encourage or facilitate farm businesses to accelerate QMS implementation by planning and/or supporting the proper provision of information and consultancy for farmers, informing the marketers and consumers by promotion campaigns, supporting local/regional quality-related programmes combined with local or regional branding schemes.

Marketers/buyers of agricultural and food products should strengthen the certification-related market incentives for farmers. More specifically, they should encourage farmers to implement QMS by revealing a preference for certified products, rewarding them with higher prices, properly advising and informing farmers who are their suppliers, by financing information campaigns for consumers or by providing financial support and credit. There are special challenges for marketing cooperatives or groups of farmers which can attain size economies minimising the certification costs and maximising the benefits for their members and thus, make the certification more attractive for farmers. Farmers and their unions will increase the efficiency of quality certification if they choose it as a response to the demand, which will help farm businesses to avoid penalisation but they need to be wary of subsidies that may ultimately prove harmful.

 ISBN: 978-9963-711-37-6

An important limitation of the present paper is that the model estimation is based on somewhat aggregated data in the sense that five quality certification schemes are included in data collection, thus, it explores farmers' decisions to implement QMS independently of the quality standard they adopted. Though our findings do not indicate a clear impact, future research could address this issue by considering the impact of market and policy factors for each case of individual standards, separately, in order to gather more analytical information which can be lost by the aggregation.

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 ISBN: 978-9963-711-37-6

A STUDY ON CONSUMER PERSPECTIVE FOR ADOPTION AND DIFFUSION OF INNOVATIONS IN FAIRNESS CREAMS FOR MALES IN INDIA

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ABSTRACT

Till the last decade it was unthinkable that skin care would be a category where consumers would like to spend the most. India has a strong economic performance and youthful demographic structure, ensuring a great future for cosmetic Industry. All that marketers and retailers need to do to be successful, is bring out innovation and price the products efficiently and intelligently. New product innovation is defined as the degree to which an individual adopts innovations relatively earlier than other members in his or her social system. Diffusion refers to the process in which an innovation is communicated through certain channels over time among the members of a social system (Rogers, 1995). Celebrities became more vocal about their grooming habits, sharing self-grooming details on television and other advertising media have led to spurge in the sale of fairness creams. It is not surprising that some of the leading cosmetic manufacturers have been introducing skin care lines specifically tailored to males.

This present study attempts to build possible associations based on the previous researches between socio demographics, perceived innovation characteristics, consumer innovativeness and new product adoption behavior owing to the product innovations in skin care range with special reference to fairness creams for males.

Keywords: *New product adoption, diffusion of innovation, perceived innovation characteristics, consumer innovativeness and consumer behavior, demographics, discriminant analysis.*

INTRODUCTION

"As much as the white man thinks himself superior to the black, the black man desires to be white….For the black man there is only one destiny and that is white" Fritz Fanon.

 ISBN: 978-9963-711-37-6

The concepts of adoption and diffusion of innovation have received considerable attention and have been widely researched over the years (Midgley 1977, Midgley and Dowling 1978; Ostlund 1974; Rogers 1962; Rogers and Shoemaker 1971; Robertson 1971; Ryan and Gross 1943). According to Rogers (1983, p. 5), the diffusion of an innovation is the process by which that innovation ''is communicated through certain channels over time among the members of a social system.'' The individual processes of adoption and diffusion can be integrated as component parts of the larger process of social change. Zaltmann and Lin (1971) have developed a summary paradigm of the social process that provides an interesting perspective on this relationship. The basic components are the innovation itself, that is, some "new" product, method, or idea; an individual who decides to adopt the innovation, thus exhibiting innovative behavior; and the diffusion of the innovation through a social system, as more individuals make an adoption decision.

Skin care in India registers current value growth of 25% to reach INR 75.3 billion in 2013. It has been perceived that Indians are pro for fair skin. Thereby the quest for fair skin and need for efficient products led to numerous product innovations in male grooming section. As it turned out, men added significantly to usage of fairness product. The size of Indian skincare market which includes creams, moisturizers and cleanser is expected to see a value CAGR of 9% at constant 2013 prices to reach INR108.2 B by 2018. As per Euromonitor Report, 2014 the fairness cream market in India is estimated at an enormous INR 8.84 B of the total skin care market expected to be INR 75.4 B by 2018. Of lately the men's grooming market has grown markedly with brands launching not only shaving gels and foams, but also fairness creams, moisturizers, face washes and other grooming products targeted particularly at males, with fairness creams being the front runner. Since the past few years Indian males have became more and more aware of his looks, not just in the corporate world but also in the society. A lot depended on how he presented himself. (Euromonitor Report, 2014)

PURPOSE OF THE STUDY

Rogers and Shoemaker (1971) define innovativeness as "the degree to which an individual is relatively earlier in adopting an innovation than other members of his system," Diffusion refers to the process in which an innovation is communicated through certain channels over time among the members of a social system (Rogers, 1995) . New product innovation is defined as the degree to which an individual adopts innovations relatively earlier than other members in his or her social system.

The Indian cosmetic industry is still diminutive, when compared to the International markets, it points that there is immense potential for growth. The males are now more conscious of their appearance in the current Indian landscape. The motivation to have fairer skin can be seen as evident amongst Indian males and may be attributed to changing preferences in customer attitudes and lifestyles.

 ISBN: 978-9963-711-37-6

Thus, Indian manufacturers and marketers need to strongly captivate on this prospective segment of customers.

This present research aims to have deeper insights on consumer innovativeness and diffusion of innovation regarding fairness creams among Indian male consumers. The objectives of this research are:

a) To identify factors influencing in augmented new product adoption behavior among male consumers.
b) To assess the effectiveness of the proposed relationship between various dimensions viz socio demographics, perceived innovation characteristics and consumer innovativeness which contribute to diffusion and adoption of innovation products.
c) A study to expand the body of knowledge in the area of diffusion and adoption of innovation.

LITERATURE REVIEW

A plethora of research exists in the marketing literature revolving around diffusion and adoption of innovation. (Midgley 1977; Midgley and Dowling 1978; Ostlund 1974; Rogers 1962; Rogers and Shoemaker 1971; Robertson 1971). However, scant studies exist in the literature on diffusion and adoption of innovation regarding the fairness creams segment in India. The study done by Rogers (1971) is primarily attributed as the underlying key to all other future studies done in this body of literature.

New product innovation is defined as the degree to which an individual adopts innovations relatively earlier than other members in his or her social system (Rogers and Showmaker, 1971). Diffusion refers to the process in which an innovation is communicated through certain channels over time among the members of a social system (Rogers, 1995).

SOCIO DEMOGRAPHICS

In keeping with the focus on innovativeness established in the adoption research cited above the following demographic hypotheses are proposed:

H_1: Adopters and non adopters of fairness creams discriminate on the basis of selected demographic measures. As compared to non adopters, adopters are younger (H_{1a}), have higher incomes (H_{1b}), and have a higher occupational status (H_{1c}).

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PERCEIVED INNOVATION CHARACTERISTICS

The perceived characteristics of innovation are the critical attributes which explains the rate of innovation adoption. Rogers and Shoemaker (1971) constructed five innovation characteristics comprising of relative advantage, compatibility, complexity, trialability, and observability. Sultan F., Farley, J., and Lehmann D. (1990). Easingwood C.J, Mahajan V.(1983). The concept of innovativeness may be considered at several levels. Traditionally, it has been defined as "the degree to which an individual is relatively earlier in adopting an innovation than other members of his system" (Rogers and Shoemaker 1971). This is an operational and behaviorally observable measure of the hypothetical trait, innate innovativeness. Additionally, discussion has focused on the attributes of innovations and the measurement of adopters' perceptions of these attributes (Ostlund 1974; Rogers and Shoemaker 1971). The attributes most commonly considered include:

- relative advantage, or the degree to which the itinovation is perceived as being superior to the idea or product it replaces:
- perceived risk, the expected probability of economic or social loss resulting from innovation:
- complexity, the extent to which the innovation appears difficult to use and understand:
- compatibility, the degree to which the innovation is seen as consistent with the innovator's existing values, past experiences, and needs;
- trial ability, the extent to which one can experiment on a limited basis with the innovation:
- Observability, the degree to which the results of innovation are visible to others.

The Rogers and Shoemaker (1971) work indicates that individual perceptions of these attributes affect the rate of adoption of an innovation, or the relative speed with which an innovation diffuses through a social system (typically expressed as the length of time elapsing before some percentage of the system has adopted the innovation). Ostlund (1974) extended this research to predict innovativeness (adoption versus non - adoption) by individuals on the basis of their perceptions of the innovation attributes. The relationships between attribute perceptions and innovative behavior were generally positive, with the exception of perceived risk and complexity. That is, adopters of an innovation rated it higher in relative advantage, compatibility, trial ability, and observability and lower in perceived risk and complexity.

RELATIVE ADVANTAGE

Relative advantage is defined as “the degree to which an innovation is perceived as being better than the idea it supersedes”. The degree of relative advantage is often expressed as economic profitability, social prestige, or other benefits. The nature of the innovation determines what specific type of relative

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advantage (such as economic, social, and the like) is important to adopters, although the characteristics of the potential adopters also affect which sub dimensions of relative advantage are most important. Relative advantage has been found to be one of the best predictors and is positively related to an innovation's rate of adoption.

COMPATIBILITY

Compatibility is defined as "the degree to which an innovation is perceived as consistent with the existing values, past experiences, and needs of potential adopters." It is studied that an innovation is more likely to be adopted when it is compatible with individuals' life's situation. . It will be likely to be adopted not only if it is compatible with deeply held cultural values but also if it is compatible with previous ideas. Compatibility of an innovation with preceding ideas can either speed up or retard its rate of adoption for the individual. The degree to which innovation meets customer needs is another dimension of the compatibility of an innovation. Marketers should seek to determine the needs of their customers, and subsequently recommend innovations that fulfill these needs. When felt needs is met, a faster rate of adoption usually occurs (Rogers, 1995). The rate of adoption of a new idea is affected by the old, idea that it supersedes. Obviously, however, if a new idea were completely congruent with existing practice, there would be no innovation, at least in the minds of the potential adopters. In other words, the more compatible an innovation is, the less change in behavior it represents.

COMPLEXITY

Complexity is defined as "the degree to which an innovation is perceived as relatively difficult to understand and use". Any new idea may be classified on the

Complexity - simplicity continuum. Some innovations are clear in their meaning to potential adopters whereas others are not. New ideas that are easy to understand will be adopted more rapidly than innovations that require the adopters to develop new knowledge, skills, and understanding. Products that are perceived to be easier to use and less complex have a higher likelihood of being accepted and used by potential users. The complexity of an innovation, as perceived by members of a social system, is negatively related to its rate of adoption.

TRIAL ABILITY

Trial ability is conceptualized as "the degree to which an innovation may be experimented with on a limited basis". New ideas that can be tried on the installment plan are generally adopted more rapidly

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than innovations that are not divisible (Rogers, 1995). It becomes an important feature for an innovation because it provides a means for perspective adopters to reduce the uncertainty they feel toward an unfamiliar product. The personal trying-out of an innovation is a way to give meaning to an innovation, to find out how it works under one's own conditions. This trial is a means to dispel uncertainty about the new idea. Rogers argues that potential adopters who have an opportunity to experiment with an innovation before committing to its usage will feel more comfortable with the innovation and are more likely to adopt it.

OBSERVABILITY

Observability is described as "the degree to which the results of an innovation are visible to others". (Rogers, 1995). The results of some ideas are easily observed and communicated to others, whereas some innovations are difficult to observe or to describe to others. It is important to establish observability in a niche market like men's fairness creams. The observation for benefits of fairness creams is relatively easy for the consumers.

As noted, there are visible benefits of fairness creams for males. These include brightening of skin, clearing of dead cells and lightening of pigmentation. Therefore growing awareness and understanding of the advantages of fairness creams for males can positively influence their desire and interest in enhancing their personality in society.

VOLUNTARINESS

Voluntariness has been described as "the degree to which an innovation is perceived as being voluntary, or of free will," it captures whether individuals have freedom to make personal adoption or rejection decisions (Moore, 1991). Moore (1991) emphasizes the importance of this variable in an organizational context because when the organization mandates or discourages the use of an innovation, the choice to use is taken away from potential adopters. Rogers also wrote of the influence of this concept when he discussed types of innovation decisions as being optional, collective, or authority (Rogers, 1995). Rogers (1995) has stressed that potential adopters can perceive varying levels of choice in the adoption of an innovation.

IMAGE

The image construct was previously considered as part of *relative advantage* by Rogers (1995). However, Moore (1995) revealed that in some instances it was a motivating factor on its own and defined it as capturing the perception that using an innovation will contribute to enhancing an

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individual's image or status in the social system (Agarwal, 2000; Moore et.al, 1995).As studied by Rogers (1995) the image variable has shown to be strong predictor of new product adoption. Image captures the perception that using an innovation will contribute to enhancing the social status of a potential adopter.

Previous researches have successfully established correlations regarding adoption and certain attributes of innovation (Ostlund, 1974; Rogers and Shoemaker, 1971). These findings have been used to formulate hypothesized directions concerning fairness creams among males. Specifically,

H_2: Adopters and non adopters differ on the basis of their perceptions of fairness creams among males. As compared to non adopters, adopters rate such products as greater in relative advantage (H_{2a}), higher in compatibility (H_{2b}), higher in complexity (H_{2c}), greater trial ability (H_{2d}), more highly observable by others (H_{2e}), ability to use voluntarily (H_{2f}) and perception of enhanced image in society (H_{2g}).

CONSUMER INNOVATIVENESS

ADOPTIVE INNOVATIVENESS

VICARIOUS INNOVATIVENESS

USE INNOVATIVENESS

Prior researches have effectively demonstrated positive relationship among the various dimensions of consumer innovativeness and adoption behavior. These findings have been instrumental in formulating hypothesis concerning the present study. Explicitly,

H_3: Significant differences exist among adopter and non adopters on the basis of their adoption of fairness creams by males. As compared to non adopters, adopters of fairness cream exhibit advanced adoptive innovativeness (H_{3a}), augmented vicariousness (H_{3b}) and increased use innovativeness (H_{3c}).

ISBN: 978-9963-711-37-6

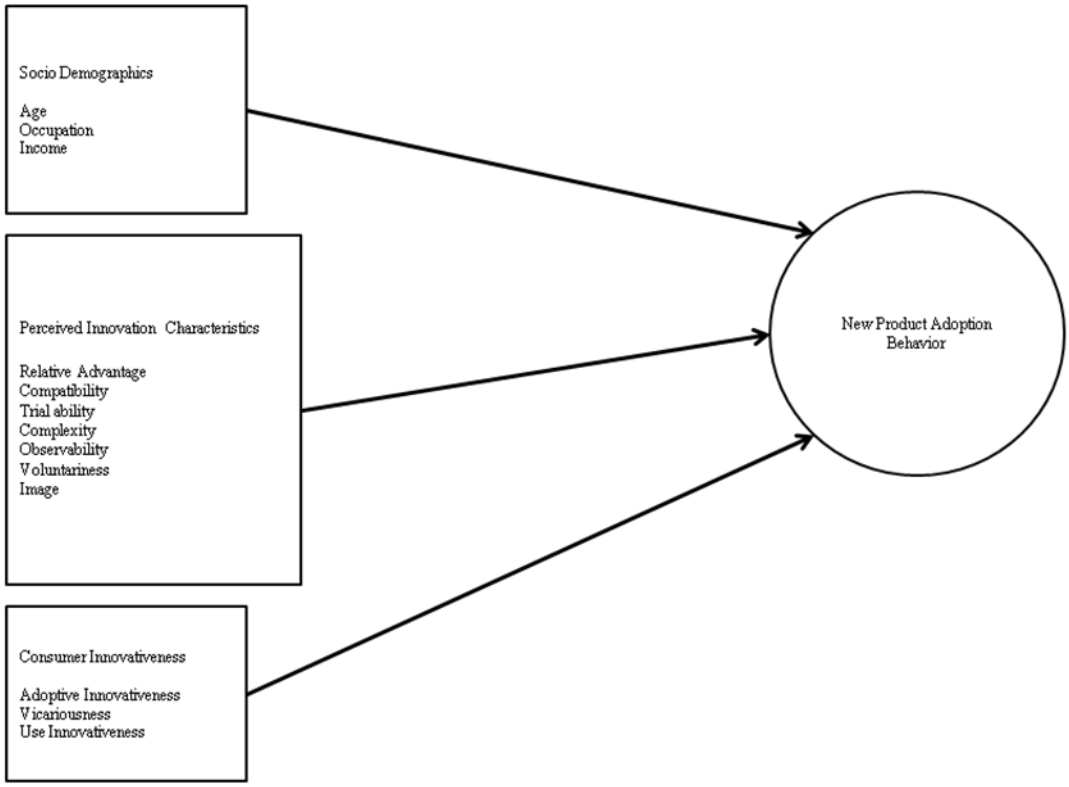

Figure 1: PROPOSED RELATIONSHIP BETWEEN THE VARIABLES

RESEARCH METHODOLOGY

The usage of fairness creams is still not a very common behavior among Indian males. Hence, the data were collected through survey of 198 individuals in one geographic region. For the purposes of this study, the population was all residents of Mumbai, India. Two subsets of the population were defined – firstly, adopters of fairness cream; and secondly, non adopters of fairness creams.

The study comprised of preparing a questionnaire which has various parameters to identify factors that led to adoption and diffusion of innovation in fairness creams for men. The survey was done over male customers featuring a variety of demographic and socialization characteristics across the city of Mumbai, India. The study is exploratory in nature with a convenience sample of 104. A total of 156 questionnaires were distributed. After scanning the responses and deletion of several responses giving incomplete responses on one or more of the variables 104 complete and usable responses remained (representing a response rate of 67%).

The data was subsequently analyzed and both univariate and multi variate analysis were performed to find the discriminating factors between users and non users. Further, a hypothetical measurement

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model was developed by applying discriminant analysis to assess the fit of the data to the three variables.

RESULTS AND ANALYSIS

A comparison was made of the adopters with the general population the hypothesis (H1) which was framed on selected demographic measures was deliberated as demonstrated in Table 1. The hypotheses were tested with discriminant analysis. The theoretical framework suggests and also proven through canonical coefficients that the three dimensions of socio demographics, perceived innovation characteristics and consumer innovativeness have significant influence on adoption of innovation among male consumers.

	Category			
Item	Adopters (N= 42)		Non Adopters (N= 62)	
Demograhic characteristics	Mean	Std. Deviation	Mean	Std. Deviation
Age	1.762	1.008	2.790	1.282
Income	2.167	1.342	2.661	1.366
Education	3.024	1.000	3.145	1.069
Occupation	3.952	1.168	3.935	1.213
Dimensions of Innovation				
Relative advantage	4.310	0.468	2.097	0.718
Compatibility	3.429	1.063	3.435	0.861
Complexity	1.786	1.001	1.790	0.977
Trialability	3.929	1.295	4.097	1.637
Observability	3.571	1.016	2.161	1.134
Voluntariness	3.548	0.942	2.226	0.688
Image	2.333	1.004	2.065	0.939
Dimensions of Consumer Innovativeness				
Adoptive innovativeness	2.810	1.234	3.194	0.846
Vicariousness	4.452	0.504	4.403	1.234
Use innovativeness	2.238	1.144	2.694	0.781

Table 1: DEMOGRAPHIC AND RATINGS OF ATTRIBUTES

As depicted in Table 2, the observed canonical discriminant coefficients for age is -0.110, for income is -0.190 while for occupation it is 0.094. This suggests that the hypothesis is accepted for the factor of occupation and rejected for age and income. Therefore, it is concluded that the discriminant model results in adoption of innovation with dimensions of occupation in fairness creams for males. Hence the hypotheses $H1_{a1}$ and $H1_{b1}$ are rejected while the hypothesis $H1_{c1}$ is accepted.

As is evident from Table 2, the observed canonical discriminant coefficients for relative advantage (0.496), compatibility (0.108), complexity (-0.337), trial ability (-0.174), observe ability (0.214),

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voluntariness (0.542) and image (-0.089). The scores above 0.1 reveals that null hypothesis is rejected for relative advantage, compatibility, observe ability and voluntariness factors and accepted for complexity, trial ability and image. Therefore, it is concluded that the discriminant model results in adoption of innovation with dimensions of relative advantage, compatibility, observe ability and voluntariness for fairness creams for males. Hence the hypotheses $H2_{c1}$, $H2_{d1}$, and $H2_{g1}$ are rejected while the hypotheses $H2_{a1}$, $H2_{b1}$, $H2_{e1}$ and $H2_{f1}$ are accepted.

Item	Standardized Canonical Discriminant Function Coefficients
Demographic characteristics	Function 1
Age	-0.130
Income	-0.258
Education	-0.007
Occupation	0.112
Dimensions of Innovation	
Relative advantage	0.942
Compatibility	0.103
Complexity	-0.333
Trialability	-0.261
Observability	0.233
Voluntariness	0.433
Image	-0.086
Dimensions of Consumer Innovativeness	
Adoptiveinnovativeness	-0.025
Vicariousness	0.070
Useinnovativeness	-0.357

Table 2 : RELATIVE IMPORTANCE OF VARIABLES IN DEMOGRAPHICS AND VARIOUS DIMENSIONS OF ATTRIBUTES

As observed from Table 2, the observed canonical discriminant coefficients for adoptive innovativeness is (-0.026), for use innovativeness is (-0.378) while for vicariousness it is (0.070) which is positive value reveals that the hypothesis is accepted for vicariousness factor and rejected for adoptive innovativeness and use innovativeness. Therefore, it is concluded that the discriminant model results in adoption of innovation with dimensions of vicariousness in fairness creams for males. Hence, the hypotheses $H3_{a1}$and $H3_{c1}$ are rejected while the hypothesis $H3_{b1}$is accepted.

The data was subjected to further analysis wherein the significance of the discriminant function was performed using Wilks' Lambda as illustrated in Table 3. The low value of Wilks' Lambda $\lambda = 0.154$ is indicative of lack of variance explained which suggests the goodness of fit for the proposed model.

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Test of Function(s)	Wilks' Lambda	Chi-square	df	Significance
1	0.154	177.708	14	0.000

Table 3: TESTING OF THE SIGNIFICANCE OF DISCRIMINANT FUNCTION BY WILKS' LAMBDA

As indicated in Table 4 the high value of canonical correlation, with only one function, provides an index of overall model fit in terms of proportion of variance explained. In our study, a canonical correlation of 0.920 indicates that 84.64% of the variance in the dependent variable (adoption behavior) has been explained or accounted for by this model.

Function	Eigenvalue	% of Variance	Cumulative %	Canonical Correlation
1	5.492	100	100	0.920

Table 4: EIGENVALUES

The Table 2 provides conclusive evidence regarding the importance of each predictor. Relative advantage was found to be strongest predictor of the model. Also, voluntariness, observe ability and occupation strongly suggested the allocation to the user and non user groups. Here it is observed that the standardized coefficient for relative advantage is greater in magnitude (0.942) than the other coefficients. Thus, relative advantage will have the greatest impact than the other three dimensions the discriminant score.

Discussion

In the present study, three critical elements viz socio demographics, perceived innovation characteristics and consumer innovativeness were seen to influence the new product adoption criteria. In socio demographics occupation seems to positively influence the adoption of fairness creams. (Labay and Kinnear, 1981; Dickerson and Gentry, 1983). For perceived innovation characteristics, the voluntariness and relative advantage increases the intention to adopt new product innovation (Ostlund, 1975; Midgley and Dowling, 1993). Lastly in consumer innovativeness the factor of vicariousness play a significant role in new product adoption behavior (Agarwal, and Prasad, 1997). However the above findings are limited to fairness cream category hence future studies in other product categories should be dealt separately and with utmost caution as all the other dimensions may play a decisive role.

The intent of this study was to add to the body of knowledge regarding fairness cream adoption in male skin care category. An important dimension that has been highlighted is that the present study is about factors associated with adoption of fairness creams and its impact on the intention to purchase. Important linkages among socio demographics, perceived innovation characteristics and consumer

 ISBN: 978-9963-711-37-6

innovativeness have been investigated in this study in great detail. Adding to the various dimensions according to Roger's model for diffusion and adoption of innovation various other factors have also been looked at for the first time in such a study like the effect of occupation on adoption which makes it likely for a male customer to decide on fairness creams in India.

The present research offers both new and significant insights and emphasizes the need for ongoing research to substantiate the findings and enhance the understanding between the concepts of the adoption of innovations.

IMPLICATIONS AND FUTURE RESEARCH DIRECTION

The present study has all the limitations found in a cross sectional study. However, the strength of the study lies in the fact that it went beyond the studies earlier conducted in this area and have looked at other dimensions which are significant in the Indian context. The authors have also not looked at the effects (if any) that may occur owing to demographic variables pan India. The authors opine that this may lead to certain significant consequences which may add a novel perspective to this area of research. Going forward, however, we see two important research agendas. Firstly, research should help us know the outcome of diverse cultures that may have sufficiently increase or decrease the consumer adoption of a product of this nature in an fast developing nation like India. Secondly, the study could be undertaken in diverse cultures and the results could be looked at as an imperative aspect towards adoption of new products across various other categories. .

CONCLUSION

The diffusion and adoption of innovation integrates various elements in terms of intervening constructs, which influences unplanned purchase decisions. These unique challenges faced by the marketer in order to increase the likelihood of adopting the innovation were considered in this paper. Thereby the significant adoption factors with consumer perspective were identified with respect to socio demographics, perceived innovation characteristics and consumer innovativeness which particularly influenced the customers' decision to purchase fairness creams in Mumbai, India.

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 ISBN: 978-9963-711-37-6

A STUDY ON CONSUMER PERSPECTIVE FOR ADOPTION AND DIFFUSION OF INNOVATIONS IN FAIRNESS CREAMS FOR MALES IN INDIA

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ABSTRACT

Till the last decade it was unthinkable that skin care would be a category where consumers would like to spend the most. India has a strong economic performance and youthful demographic structure, ensuring a great future for cosmetic Industry. All that marketers and retailers need to do to be successful, is bring out innovation and price the products efficiently and intelligently. New product innovation is defined as the degree to which an individual adopts innovations relatively earlier than other members in his or her social system. Diffusion refers to the process in which an innovation is communicated through certain channels over time among the members of a social system (Rogers, 1995). Celebrities became more vocal about their grooming habits, sharing self-grooming details on television and other advertising media have led to spurge in the sale of fairness creams. It is not surprising that some of the leading cosmetic manufacturers have been introducing skin care lines specifically tailored to males.

This present study attempts to build possible associations based on the previous researches between socio demographics, perceived innovation characteristics, consumer innovativeness and new product adoption behavior owing to the product innovations in skin care range with special reference to fairness creams for males.

Keywords: *New product adoption, diffusion of innovation, perceived innovation characteristics, consumer innovativeness and consumer behavior, demographics, discriminant analysis.*

INTRODUCTION

"As much as the white man thinks himself superior to the black, the black man desires to be white….For the black man there is only one destiny and that is white" Fritz Fanon.

 ISBN: 978-9963-711-37-6

The concepts of adoption and diffusion of innovation have received considerable attention and have been widely researched over the years (Midgley 1977, Midgley and Dowling 1978; Ostlund 1974; Rogers 1962; Rogers and Shoemaker 1971; Robertson 1971; Ryan and Gross 1943). According to Rogers (1983, p. 5), the diffusion of an innovation is the process by which that innovation ''is communicated through certain channels over time among the members of a social system.'' The individual processes of adoption and diffusion can be integrated as component parts of the larger process of social change. Zaltmann and Lin (1971) have developed a summary paradigm of the social process that provides an interesting perspective on this relationship. The basic components are the innovation itself, that is, some "new" product, method, or idea; an individual who decides to adopt the innovation, thus exhibiting innovative behavior; and the diffusion of the innovation through a social system, as more individuals make an adoption decision.

Skin care in India registers current value growth of 25% to reach INR 75.3 billion in 2013. It has been perceived that Indians are pro for fair skin. Thereby the quest for fair skin and need for efficient products led to numerous product innovations in male grooming section. As it turned out, men added significantly to usage of fairness product. The size of Indian skincare market which includes creams, moisturizers and cleanser is expected to see a value CAGR of 9% at constant 2013 prices to reach INR108.2 B by 2018. As per Euromonitor Report, 2014 the fairness cream market in India is estimated at an enormous INR 8.84 B of the total skin care market expected to be INR 75.4 B by 2018. Of lately the men's grooming market has grown markedly with brands launching not only shaving gels and foams, but also fairness creams, moisturizers, face washes and other grooming products targeted particularly at males, with fairness creams being the front runner. Since the past few years Indian males have became more and more aware of his looks, not just in the corporate world but also in the society. A lot depended on how he presented himself. (Euromonitor Report, 2014)

PURPOSE OF THE STUDY

Rogers and Shoemaker (1971) define innovativeness as "the degree to which an individual is relatively earlier in adopting an innovation than other members of his system," Diffusion refers to the process in which an innovation is communicated through certain channels over time among the members of a social system (Rogers, 1995) . New product innovation is defined as the degree to which an individual adopts innovations relatively earlier than other members in his or her social system.

The Indian cosmetic industry is still diminutive, when compared to the International markets, it points that there is immense potential for growth. The males are now more conscious of their appearance in the current Indian landscape. The motivation to have fairer skin can be seen as evident amongst Indian males and may be attributed to changing preferences in customer attitudes and lifestyles.

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Thus, Indian manufacturers and marketers need to strongly captivate on this prospective segment of customers.

This present research aims to have deeper insights on consumer innovativeness and diffusion of innovation regarding fairness creams among Indian male consumers. The objectives of this research are:

d) To identify factors influencing in augmented new product adoption behavior among male consumers.
e) To assess the effectiveness of the proposed relationship between various dimensions viz socio demographics, perceived innovation characteristics and consumer innovativeness which contribute to diffusion and adoption of innovation products.
f) A study to expand the body of knowledge in the area of diffusion and adoption of innovation.

LITERATURE REVIEW

A plethora of research exists in the marketing literature revolving around diffusion and adoption of innovation. (Midgley 1977; Midgley and Dowling 1978; Ostlund 1974; Rogers 1962; Rogers and Shoemaker 1971; Robertson 1971). However, scant studies exist in the literature on diffusion and adoption of innovation regarding the fairness creams segment in India. The study done by Rogers (1971) is primarily attributed as the underlying key to all other future studies done in this body of literature.

New product innovation is defined as the degree to which an individual adopts innovations relatively earlier than other members in his or her social system (Rogers and Showmaker, 1971). Diffusion refers to the process in which an innovation is communicated through certain channels over time among the members of a social system (Rogers, 1995).

SOCIO DEMOGRAPHICS

In keeping with the focus on innovativeness established in the adoption research cited above the following demographic hypotheses are proposed:

H_1: Adopters and non adopters of fairness creams discriminate on the basis of selected demographic measures. As compared to non adopters, adopters are younger (H_{1a}), have higher incomes (H_{1b}), and have a higher occupational status (H_{1c}).

PERCEIVED INNOVATION CHARACTERISTICS

ISBN: 978-9963-711-37-6

The perceived characteristics of innovation are the critical attributes which explains the rate of innovation adoption. Rogers and Shoemaker (1971) constructed five innovation characteristics comprising of relative advantage, compatibility, complexity, trialability, and observability. Sultan F., Farley, J., and Lehmann D. (1990). Easingwood C.J, Mahajan V.(1983). The concept of innovativeness may be considered at several levels. Traditionally, it has been defined as "the degree to which an individual is relatively earlier in adopting an innovation than other members of his system" (Rogers and Shoemaker 1971). This is an operational and behaviorally observable measure of the hypothetical trait, innate innovativeness. Additionally, discussion has focused on the attributes of innovations and the measurement of adopters' perceptions of these attributes (Ostlund 1974; Rogers and Shoemaker 1971). The attributes most commonly considered include:

- relative advantage, or the degree to which the itinovation is perceived as being superior to the idea or product it replaces:
- perceived risk, the expected probability of economic or social loss resulting from innovation:
- complexity, the extent to which the innovation appears difficult to use and understand:
- compatibility, the degree to which the innovation is seen as consistent with the innovator's existing values, past experiences, and needs;
- trial ability, the extent to which one can experiment on a limited basis with the innovation:
- Observability, the degree to which the results of innovation are visible to others.

The Rogers and Shoemaker (1971) work indicates that individual perceptions of these attributes affect the rate of adoption of an innovation, or the relative speed with which an innovation diffuses through a social system (typically expressed as the length of time elapsing before some percentage of the system has adopted the innovation). Ostlund (1974) extended this research to predict innovativeness (adoption versus non - adoption) by individuals on the basis of their perceptions of the innovation attributes. The relationships between attribute perceptions and innovative behavior were generally positive, with the exception of perceived risk and complexity. That is, adopters of an innovation rated it higher in relative advantage, compatibility, trial ability, and observability and lower in perceived risk and complexity.

RELATIVE ADVANTAGE

Relative advantage is defined as “the degree to which an innovation is perceived as being better than the idea it supersedes”. The degree of relative advantage is often expressed as economic profitability, social prestige, or other benefits. The nature of the innovation determines what specific type of relative advantage (such as economic, social, and the like) is important to adopters, although the

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characteristics of the potential adopters also affect which sub dimensions of relative advantage are most important. Relative advantage has been found to be one of the best predictors and is positively related to an innovation's rate of adoption.

COMPATIBILITY

Compatibility is defined as "the degree to which an innovation is perceived as consistent with the existing values, past experiences, and needs of potential adopters." It is studied that an innovation is more likely to be adopted when it is compatible with individuals' life's situation. . It will be likely to be adopted not only if it is compatible with deeply held cultural values but also if it is compatible with previous ideas. Compatibility of an innovation with preceding ideas can either speed up or retard its rate of adoption for the individual. The degree to which innovation meets customer needs is another dimension of the compatibility of an innovation. Marketers should seek to determine the needs of their customers, and subsequently recommend innovations that fulfill these needs. When felt needs is met, a faster rate of adoption usually occurs (Rogers, 1995). The rate of adoption of a new idea is affected by the old, idea that it supersedes. Obviously, however, if a new idea were completely congruent with existing practice, there would be no innovation, at least in the minds of the potential adopters. In other words, the more compatible an innovation is, the less change in behavior it represents.

COMPLEXITY

Complexity is defined as "the degree to which an innovation is perceived as relatively difficult to understand and use". Any new idea may be classified on the

Complexity - simplicity continuum. Some innovations are clear in their meaning to potential adopters whereas others are not. New ideas that are easy to understand will be adopted more rapidly than innovations that require the adopters to develop new knowledge, skills, and understanding. Products that are perceived to be easier to use and less complex have a higher likelihood of being accepted and used by potential users. The complexity of an innovation, as perceived by members of a social system, is negatively related to its rate of adoption.

TRIAL ABILITY

Trial ability is conceptualized as "the degree to which an innovation may be experimented with on a limited basis". New ideas that can be tried on the installment plan are generally adopted more rapidly than innovations that are not divisible (Rogers, 1995). It becomes an important feature for an

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innovation because it provides a means for perspective adopters to reduce the uncertainty they feel toward an unfamiliar product. The personal trying-out of an innovation is a way to give meaning to an innovation, to find out how it works under one's own conditions. This trial is a means to dispel uncertainty about the new idea. Rogers argues that potential adopters who have an opportunity to experiment with an innovation before committing to its usage will feel more comfortable with the innovation and are more likely to adopt it.

OBSERVABILITY

Observability is described as "the degree to which the results of an innovation are visible to others". (Rogers, 1995). The results of some ideas are easily observed and communicated to others, whereas some innovations are difficult to observe or to describe to others. It is important to establish observability in a niche market like men's fairness creams. The observation for benefits of fairness creams is relatively easy for the consumers.

As noted, there are visible benefits of fairness creams for males. These include brightening of skin, clearing of dead cells and lightening of pigmentation. Therefore growing awareness and understanding of the advantages of fairness creams for males can positively influence their desire and interest in enhancing their personality in society.

VOLUNTARINESS

Voluntariness has been described as "the degree to which an innovation is perceived as being voluntary, or of free will," it captures whether individuals have freedom to make personal adoption or rejection decisions (Moore, 1991). Moore (1991) emphasizes the importance of this variable in an organizational context because when the organization mandates or discourages the use of an innovation, the choice to use is taken away from potential adopters. Rogers also wrote of the influence of this concept when he discussed types of innovation decisions as being optional, collective, or authority (Rogers, 1995). Rogers (1995) has stressed that potential adopters can perceive varying levels of choice in the adoption of an innovation.

IMAGE

The image construct was previously considered as part of *relative advantage* by Rogers (1995). However, Moore (1995) revealed that in some instances it was a motivating factor on its own and defined it as capturing the perception that using an innovation will contribute to enhancing an individual's image or status in the social system (Agarwal, 2000; Moore et.al, 1995).As studied by

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Rogers (1995) the image variable has shown to be strong predictor of new product adoption. Image captures the perception that using an innovation will contribute to enhancing the social status of a potential adopter.

Previous researches have successfully established correlations regarding adoption and certain attributes of innovation (Ostlund, 1974; Rogers and Shoemaker, 1971). These findings have been used to formulate hypothesized directions concerning fairness creams among males. Specifically,

H_2: Adopters and non adopters differ on the basis of their perceptions of fairness creams among males. As compared to non adopters, adopters rate such products as greater in relative advantage (H_{2a}), higher in compatibility (H_{2b}), higher in complexity (H_{2c}), greater trial ability (H_{2d}), more highly observable by others (H_{2e}), ability to use voluntarily (H_{2f}) and perception of enhanced image in society (H_{2g}).

CONSUMER INNOVATIVENESS

ADOPTIVE INNOVATIVENESS

VICARIOUS INNOVATIVENESS

USE INNOVATIVENESS

Prior researches have effectively demonstrated positive relationship among the various dimensions of consumer innovativeness and adoption behavior. These findings have been instrumental in formulating hypothesis concerning the present study. Explicitly,

H_3: Significant differences exist among adopter and non adopters on the basis of their adoption of fairness creams by males. As compared to non adopters, adopters of fairness cream exhibit advanced adoptive innovativeness (H_{3a}), augmented vicariousness (H_{3b}) and increased use innovativeness (H_{3c}).

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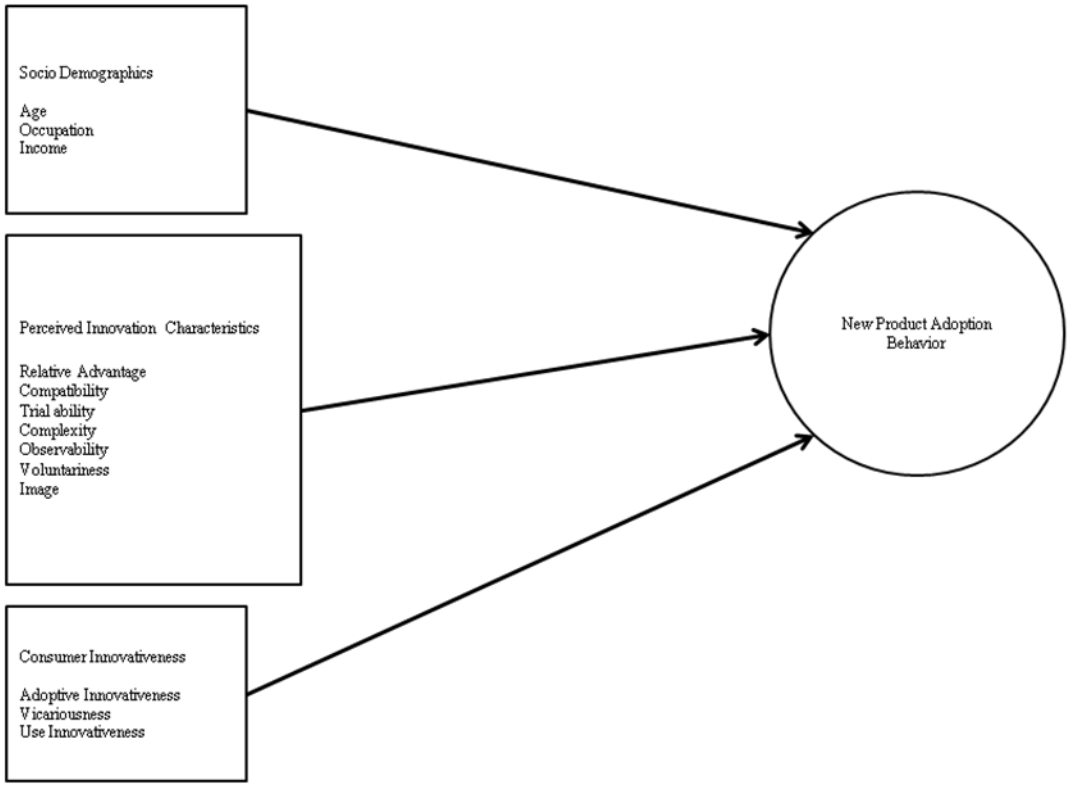

Figure 1: PROPOSED RELATIONSHIP BETWEEN THE VARIABLES

RESEARCH METHODOLOGY

The usage of fairness creams is still not a very common behavior among Indian males. Hence, the data were collected through survey of 198 individuals in one geographic region. For the purposes of this study, the population was all residents of Mumbai, India. Two subsets of the population were defined – firstly, adopters of fairness cream; and secondly, non adopters of fairness creams.

The study comprised of preparing a questionnaire which has various parameters to identify factors that led to adoption and diffusion of innovation in fairness creams for men. The survey was done over male customers featuring a variety of demographic and socialization characteristics across the city of Mumbai, India. The study is exploratory in nature with a convenience sample of 104. A total of 156 questionnaires were distributed. After scanning the responses and deletion of several responses giving incomplete responses on one or more of the variables 104 complete and usable responses remained (representing a response rate of 67%).

The data was subsequently analyzed and both univariate and multi variate analysis were performed to find the discriminating factors between users and non users. Further, a hypothetical measurement

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model was developed by applying discriminant analysis to assess the fit of the data to the three variables.

RESULTS AND ANALYSIS

A comparison was made of the adopters with the general population the hypothesis (H1) which was framed on selected demographic measures was deliberated as demonstrated in Table 1. The hypotheses were tested with discriminant analysis. The theoretical framework suggests and also proven through canonical coefficients that the three dimensions of socio demographics, perceived innovation characteristics and consumer innovativeness have significant influence on adoption of innovation among male consumers.

	Category			
Item	Adopters (N= 42)		Non Adopters (N= 62)	
Demograhic characteristics	Mean	Std. Deviation	Mean	Std. Deviation
Age	1.762	1.008	2.790	1.282
Income	2.167	1.342	2.661	1.366
Education	3.024	1.000	3.145	1.069
Occupation	3.952	1.168	3.935	1.213
Dimensions of Innovation				
Relative advantage	4.310	0.468	2.097	0.718
Compatibility	3.429	1.063	3.435	0.861
Complexity	1.786	1.001	1.790	0.977
Trialability	3.929	1.295	4.097	1.637
Observability	3.571	1.016	2.161	1.134
Voluntariness	3.548	0.942	2.226	0.688
Image	2.333	1.004	2.065	0.939
Dimensions of Consumer Innovativeness				
Adoptive innovativeness	2.810	1.234	3.194	0.846
Vicariousness	4.452	0.504	4.403	1.234
Use innovativeness	2.238	1.144	2.694	0.781

Table 1: DEMOGRAPHIC AND RATINGS OF ATTRIBUTES

As depicted in Table 2, the observed canonical discriminant coefficients for age is -0.110, for income is -0.190 while for occupation it is 0.094. This suggests that the hypothesis is accepted for the factor of occupation and rejected for age and income. Therefore, it is concluded that the discriminant model results in adoption of innovation with dimensions of occupation in fairness creams for males. Hence the hypotheses $H1_{a1}$ and $H1_{b1}$ are rejected while the hypothesis $H1_{c1}$ is accepted.

As is evident from Table 2, the observed canonical discriminant coefficients for relative advantage (0.496), compatibility (0.108), complexity (-0.337), trial ability (-0.174), observe ability (0.214),

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voluntariness (0.542) and image (-0.089). The scores above 0.1 reveals that null hypothesis is rejected for relative advantage, compatibility, observe ability and voluntariness factors and accepted for complexity, trial ability and image. Therefore, it is concluded that the discriminant model results in adoption of innovation with dimensions of relative advantage, compatibility, observe ability and voluntariness for fairness creams for males. Hence the hypotheses $H2_{c1}$, $H2_{d1}$, and $H2_{g1}$ are rejected while the hypotheses $H2_{a1}$, $H2_{b1}$, $H2_{e1}$ and $H2_{f1}$ are accepted.

Item	Standardized Canonical Discriminant Function Coefficients
Demographic characteristics	Function 1
Age	-0.130
Income	-0.258
Education	-0.007
Occupation	0.112
Dimensions of Innovation	
Relative advantage	0.942
Compatibility	0.103
Complexity	-0.333
Trialability	-0.261
Observability	0.233
Voluntariness	0.433
Image	-0.086
Dimensions of Consumer Innovativeness	
Adoptiveinnovativeness	-0.025
Vicariousness	0.070
Useinnovativeness	-0.357

Table 2 : RELATIVE IMPORTANCE OF VARIABLES IN DEMOGRAPHICS AND VARIOUS DIMENSIONS OF ATTRIBUTES

As observed from Table 2, the observed canonical discriminant coefficients for adoptive innovativeness is (-0.026), for use innovativeness is (-0.378) while for vicariousness it is (0.070) which is positive value reveals that the hypothesis is accepted for vicariousness factor and rejected for adoptive innovativeness and use innovativeness. Therefore, it is concluded that the discriminant model results in adoption of innovation with dimensions of vicariousness in fairness creams for males. Hence, the hypotheses $H3_{a1}$and $H3_{c1}$ are rejected while the hypothesis $H3_{b1}$is accepted.

The data was subjected to further analysis wherein the significance of the discriminant function was performed using Wilks' Lambda as illustrated in Table 3. The low value of Wilks' Lambda $\lambda = 0.154$ is indicative of lack of variance explained which suggests the goodness of fit for the proposed model.

Test of Function(s)	Wilks' Lambda	Chi-square	df	Significance
1	0.154	177.708	14	0.000

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Table 3: TESTING OF THE SIGNIFICANCE OF DISCRIMINANT FUNCTION BY WILKS' LAMBDA

As indicated in Table 4 the high value of canonical correlation, with only one function, provides an index of overall model fit in terms of proportion of variance explained. In our study, a canonical correlation of 0.920 indicates that 84.64% of the variance in the dependent variable (adoption behavior) has been explained or accounted for by this model.

Function	Eigenvalue	% of Variance	Cumulative %	Canonical Correlation
1	5.492	100	100	0.920

Table 4: EIGENVALUES

The Table 2 provides conclusive evidence regarding the importance of each predictor. Relative advantage was found to be strongest predictor of the model. Also, voluntariness, observe ability and occupation strongly suggested the allocation to the user and non user groups. Here it is observed that the standardized coefficient for relative advantage is greater in magnitude (0.942) than the other coefficients. Thus, relative advantage will have the greatest impact than the other three dimensions the discriminant score.

Discussion

In the present study, three critical elements viz socio demographics, perceived innovation characteristics and consumer innovativeness were seen to influence the new product adoption criteria. In socio demographics occupation seems to positively influence the adoption of fairness creams. (Labay and Kinnear, 1981; Dickerson and Gentry, 1983). For perceived innovation characteristics, the voluntariness and relative advantage increases the intention to adopt new product innovation (Ostlund, 1975; Midgley and Dowling, 1993). Lastly in consumer innovativeness the factor of vicariousness play a significant role in new product adoption behavior (Agarwal, and Prasad, 1997). However the above findings are limited to fairness cream category hence future studies in other product categories should be dealt separately and with utmost caution as all the other dimensions may play a decisive role.

The intent of this study was to add to the body of knowledge regarding fairness cream adoption in male skin care category. An important dimension that has been highlighted is that the present study is about factors associated with adoption of fairness creams and its impact on the intention to purchase. Important linkages among socio demographics, perceived innovation characteristics and consumer innovativeness have been investigated in this study in great detail. Adding to the various dimensions according to Roger's model for diffusion and adoption of innovation various other factors have also

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The present research offers both new and significant insights and emphasizes the need for ongoing research to substantiate the findings and enhance the understanding between the concepts of the adoption of innovations.

IMPLICATIONS AND FUTURE RESEARCH DIRECTION

The present study has all the limitations found in a cross sectional study. However, the strength of the study lies in the fact that it went beyond the studies earlier conducted in this area and have looked at other dimensions which are significant in the Indian context. The authors have also not looked at the effects (if any) that may occur owing to demographic variables pan India. The authors opine that this may lead to certain significant consequences which may add a novel perspective to this area of research. Going forward, however, we see two important research agendas. Firstly, research should help us know the outcome of diverse cultures that may have sufficiently increase or decrease the consumer adoption of a product of this nature in an fast developing nation like India. Secondly, the study could be undertaken in diverse cultures and the results could be looked at as an imperative aspect towards adoption of new products across various other categories. .

CONCLUSION

The diffusion and adoption of innovation integrates various elements in terms of intervening constructs, which influences unplanned purchase decisions. These unique challenges faced by the marketer in order to increase the likelihood of adopting the innovation were considered in this paper. Thereby the significant adoption factors with consumer perspective were identified with respect to socio demographics, perceived innovation characteristics and consumer innovativeness which particularly influenced the customers' decision to purchase fairness creams in Mumbai, India.

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THE INTERACTION BETWEEN FISCAL POLICY AND ECONOMIC GROWTH: CASE OF OECD COUNTRIES

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ABSTRACT

For the sustainable development of any company it is crucial to recognize macroeconomic performance and its changes. Without doubt, the economic development affects the gains and decision making of them. Cognition of the interaction between fiscal policy and economic growth can help companies to react more appropriately and faster, especially during current sovereign debt crisis. The aim of this paper is to describe the interaction between taxation,

 ISBN: 978-9963-711-37-6

government expenditures, and economic growth and to find out how long these interactions persist in the economy of OECD members. To meet these goals a panel VAR model estimated by GMM is used to construct an impulse-response function. The analysis is performed for 34 OECD countries in the period between 2000 and 2012. The results show that it lasts approximately five years till the GDP growth rate returns to its initial level after a temporary fiscal shock. The impact of taxation is always in the opposite direction to the effect of government expenditures. Permanent changes of fiscal variables lead to a permanent change of the steady growth rate. Taxation is harmful to growth, while expenditures appear to be productive. There is a hint of regressive tax burden among OECD countries when the persistent increase of the economic growth is taken into account. For the company's adaptability it appears to be the most important thing to distinguish between temporary and persistent changes.

Keywords: *Fiscal Policy, Economic Growth, Panel VAR, Impulse-response Function*

INTRODUCTION

There are no doubts that every company is affected by the macroeconomic performance. If we consider an appropriate economic growth as an indicator of healthy economic development one must know its determinants. Nobody can argue that fiscal policy is one of them. Especially in this time of sovereign debt crisis when future fiscal measures are insecure, companies which properly understand the interaction between fiscal policy and economic growth can gain relatively strong competitive advantage. These companies should react on fiscal policy changes better and earlier and they should be better in creating expectation about the future fiscal measures according to actual economic performance. Many economists claim that there is no more significant factor for the sustainable development than knowledge. Only knowledge can create economic environment that is able to adapt quickly, grow faster and be more sustainable.

If the public debt and its distortion effect are not taken into account, the main fiscal variables influencing the economy are government expenditures and government revenues. Both these categories effect not only the economic growth, but mainly the individuals' decision making process (see below). Thus the aim of the paper is to discover how long the influence of tax and expenditures changes persists in the economy of developed countries gathered in the OECD. To achieve the goal, a panel VAR model is used to construct impulse-response functions. To measure the level of taxation, two alternative indicators are used. Those are the standard tax quota and the World Tax Index (WTI).

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THE INFLUENCE OF FISCAL POLICY ON ECONOMIC GROWTH

If we want to investigate the interaction between fiscal changes and economy performance, at first it is necessary to explain how fiscal policy can influence the economic growth in general. The easiest way to deal with this subject is to divide fiscal policy into two non-independent groups, namely government expenditures and taxation. There is a generally accepted consensus among economists, that taxation has a significant effect on firms' and individuals' activity which leads to its economic growth effect. This effect is rather considered to be negative. From the theoretical point of view, government expenditures have two antagonistic effects. Productive expenditure (for example investment in infrastructure, health, education or R&D) should promote growth rates, while non-productive ones (social benefits, government consumption) should be harmful to growth. Final impact of total expenditures depends on proportion of these two groups, efficiency of public sector and theirs initial level. For more details, see e.g. Drobiszová and Machová (2015).

Neoclassical model by Solow (1956) and Swan (1956) presumes that sooner or later, the economy reaches a steady state in which GDP per capita growth is only affected by exogenous factors such as technological progress and population growth rate. According to the conclusions of the model, economies that are already in the steady state are faced with a situation whereby the fiscal policy is unable to influence the per capita growth rate. Consequently, such a policy affects the growth only temporarily - in the period between steady states. For more details, see e.g. Barro and Sala-i-Martin (2004).

Nevertheless, in latter endogenous growth models presented e.g. by Lucas (1988) or Romer (1986), a different mechanism is used, according to which the fiscal policy may affect the growth of per capita output not only between steady states but also in the steady state. Therefore, the mechanism has a tier as well as a growth effect. Empirical results based on the models are ambiguous and not all the economists agree with the model conclusions. For example, while Aschauer (1989) suggests that, in a steady state, taxation can have a demonstrable impact on long-term growth, e.g. Kneller *et al*. (1999), on the other hand, believe that taxation has no significant effect on steady state growth. Likewise, the differences are gained by results of empirical works dealing with expenditure side of the fiscal policy. While Kneller *et al*. (1999) or Izák (2011) claim that productive spending truly has positive growth effect, some recent papers imply some doubts. Let's consider public investment as the most productive sort of expenditures. Afonso and Jalles (2014) suggest that the public investment appeared to weaken growth in long-term. It is also important to emphasize that the conclusions are based on the analyses performed only for developed democratic countries. In case of different conditions, as explained by

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Gindin (2013), Morilhat (2013), Ridenti (2013), Vargas (2013), Polasek and Sellner (2013), Andreani and Herrera (2013), or Couland (2012), the results may be completely different.

In general, we can say that authors of the models that are presented below use two different approaches. The first one can be called a Social Planner Approach. The social planner is a decision-maker who sees the economy from above as a whole and his aim is to achieve the best result for the whole economy - he seeks for maximization of social welfare function. This approach is followed e.g. by Milesi-Ferretti and Roubini (1998), Mendoza, Milesi-Ferretti and Asea (1997), or later by Denaux (2007). On the other hand, the second approach is possible to be used that can be called an Economic Agents Approach. The difference is that using such an approach, different behaviour of different groups of agents is considered - firms seek for maximization of profit, households seek for maximization of utility, etc. This approach is followed e.g. by Barro (1990), Barro and Sala-i-Martin (2004), Kotlán and Machová (2014a), or Machová and Kotlán (2013a, 2014b).

The problem is that none of these approaches shows particular effects of different types of taxes that are applied in developed economies, i.e. taxes on wages, profits, consumption and property, in the model. Thus Kotlán and Machová (2014b) modify the model as follows:

$$\gamma = \frac{\dot{\hat{k}}}{\hat{k}} = (1-\tau_w)\left[\frac{f(\hat{k})}{\hat{k}} - f'(\hat{k})\right] + (1-\tau_a)\left[f'(\hat{k})(1-\tau_\pi) - \delta\right] - (1+\tau_c)\frac{\hat{c}}{\hat{k}} + \frac{\hat{tr}}{\hat{k}} - x - \frac{\dot{l}}{l}, \qquad (1)$$

where γ is the growth rate of the economy, K is physical capital, L is labor (l is per capita labor) δ is the depreciation rate, TR are transfers, x is the technology growth rate, τ_π, τ_w, τ_c, τ_a are tax rates of taxes on profits, wages, consumption and property, respectively. $\hat{L} = Le^{xt}$ is applied, and then $\hat{k} = (K/\hat{L})$, $\hat{c} = (C/\hat{L})$ and $t\hat{r} = (TR/\hat{L})$. For more, see Kotlán and Machová (2014b). The model therefore shows that, according to economic theory, the resulting effect of taxation on growth through all types of taxes, i.e. taxes on profits, taxes on wages, property taxes and consumption taxes, should be negative, which makes the hypothesis for the empirical part of the paper.

Nevertheless, in the analyses below, also government spending is included as suggested e.g. by Kneller *et al*. (1999), or Bleaney *et al*. (2001), because taxes are in general used to finance it. If a substantial part of the expenditure is used to finance government investments (productive government expenditure), than both government expenditure and taxes may in certain circumstances affect the growth positively, especially in the situation of prevailing part of indirect taxes in the tax mix of an economy.

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METHODOLOGY AND DATA

The analysis is performed for 34 OECD countries in the period 2000-2012. From a methodological point of view, a panel data VAR model is used. Endogenous variables include real GDP per capita (*GDPCAP*), government expenditure to GDP ratio (*EXPGDP*) and a variable for taxation approximation (see below). Exogenous variables are real investment to GDP ratio (*INVGDP*) and human capital (*HUM*) approximated by an indicator according to Feenstra, Inklaar and Timmer (2013), based on the years of schooling and investment into education.

The VAR model consists of three equations using real GDP per capita, government expenditure to GDP ratio, and taxation as dependent variables. All the other variables are always independent. All the variables are used in the logarithmic form for better interpretation and comparison of results, as their values are at different scales.

The nature of VAR models clearly suggests that a dynamic panel was used and that a generalized method of moments (GMM) was used for estimation, specifically the Arellano-Bond estimator (see Arellano a Bond, 1991). The below VAR model includes a lag of one period, as is usual in such types of studies (see e.g. Acosta-Ormaechea and Yoo, 2012, and Arnold *et al*., 2011).

The tax approximation was gradually implemented in two ways. First, using the standard tax quota (*TQ*), that is the share of tax revenues in nominal GDP. With regard to the shortcomings brought about by the tax quota (see, e.g. Kotlán and Machová, 2012a), the analysis uses the World Tax Index (*WTI*) as an alternative to the tax quota. This tax burden indicator combines hard data on taxes available from internationally recognized sources such as the OECD and World Bank databases, with data expressing Qualified Expert Opinion (QEO) that are used as the weight for the hard one. The QEO was gained from a large-scale questionnaire survey conducted in three waves during 2010-2012 among tax specialists from all OECD countries.

Unlike TQ, the WTI seeks to produce an evaluation incorporating the maximum number of aspects associated with e.g. tax progression, administrative difficulty of tax collection from the perspective of payers, the range of tax exemptions, options concerning the tax deductibility of expenses, etc. For more on the WTI construction and its values, see Kotlán and Machová (2012b), and Machová and Kotlán (2013b).

Most of the data used, especially the level of GDP, government expenditure, and taxation (the tax quota) was drawn from the OECD iLibrary Statistics and OECD Factbook Statistics. The hard data that was used to construct the WTI and its sub-indices was obtained from the OECD Tax Database and OECD Tax Statistics, additionally also from the World Bank's Doing Business project database.

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In terms of methodology, stationarity tests using the panel unit root according to Levin, Lin and Chu (2002), Im, Pesaran and Shin (2003) or Maddala and Wu (1999) were performed first. All the variables were found to be stationary, thus we use the first differences (D) of logarithmic forms of the variables. Using a robust estimator in calculating the covariance matrices ensured that the results of standard deviations of parameters and hypothesis tests were correct with regard to a possible occurrence of autocorrelation and heteroscedasticity. This method is called the "White Period" and it is enabled by the econometric software used. The estimates employed the model with fixed effects, which is, according to Wooldridge (2009), more suitable in the case of macroeconomic data as well as in a situation where the cross-sectional units are countries.

RESULTS OF PANEL VAR MODEL

With regard to the aim of the paper, we only present the results of the first equation of the model, where economic growth is dependent variable, and taxation, government spending and classical growth variables are independent. Following table (1) shows the results of the equation in two variants; at first using the TQ as taxation proxy and the second one using the WTI. In the analysis, 34 instruments were used. The validity of the instruments was tested using the standard Sargan test at the 5% significance level (as indicated by J-statistic in the table (1)). All the estimation results presented in the tables below were thus confirmed as correct.

Concerning the standard growth variables, it is shown that the effect of physical capital accumulation (*INVGDP*) is positive in both models. In case of human capital accumulation (*HUM*), the positive effect was not proved with regard to the statistical significance of the variable.

Dependent variable	D(LOG(GDP))			
Taxation Proxy	TQ		WTI	
No. of observations	340		340	
No. of instrument	34		34	
J-statistics	31,877		30,584	
	Coefficient	t-statistics	Coefficient	t-statistics
D(LOG(GDP(-1)))	0,052	3,380***	0,075	7,142***
D(LOG(INVGDP))	0,431	60,073***	0,400	61,619***
D(LOG(HUM))	-0,022	-0,101	0,009	0,058
D(LOG(EXPGDP(-1)))	0,190	22,572***	0,111	13,895***
D(LOG(TQ(-1)/WTI(-1)))	-0,177	-16,586***	-0,098	-10,542***

Table 4. *Results of pnel VAR model using economic growth rates as a dependent variable*

Above all, the results of the analysis confirm the hypothesis about the negative impact of taxation on the economic growth, irrespective of the taxation proxy that is used in the analysis. On the other hand, the effect of government expenditure is positive, which indicates that most of the expenditure is spent

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on government investment and not consumption. However, despite this fact, the influence of the taxation as a whole is still confirmed to be negative. This could indicate that in the countries surveyed, there is excessive tax burden in the form of taxes, which do not purport to finance productive expenditure, but only unduly burden the economy. This harms economic growth and leads to the reduction of the positive effects of productive government spending.

IMPULSE-RESPONSE FUNCTIONS

The essential part of the analysis based on the VAR models is the construction of the impulse-response functions, which also make the most important part of the paper. They are based on the estimated regression coefficients of all the three equations of the model. The functions are, first, the functions of the "impulse" type that simulate the effects of single (temporary) changes (shocks) in independent variables on dependent variable, and the functions of the "step" type that simulate permanent changes in independent variables.

In following figures (1-4), the impacts on taxation are simulated in the first column, impacts on government expenditure in the second column, and impacts on growth in the third column. Analogically, the impacts of changes in taxation are simulated in the first row, in expenditure in the second row, and in growth in the third row.

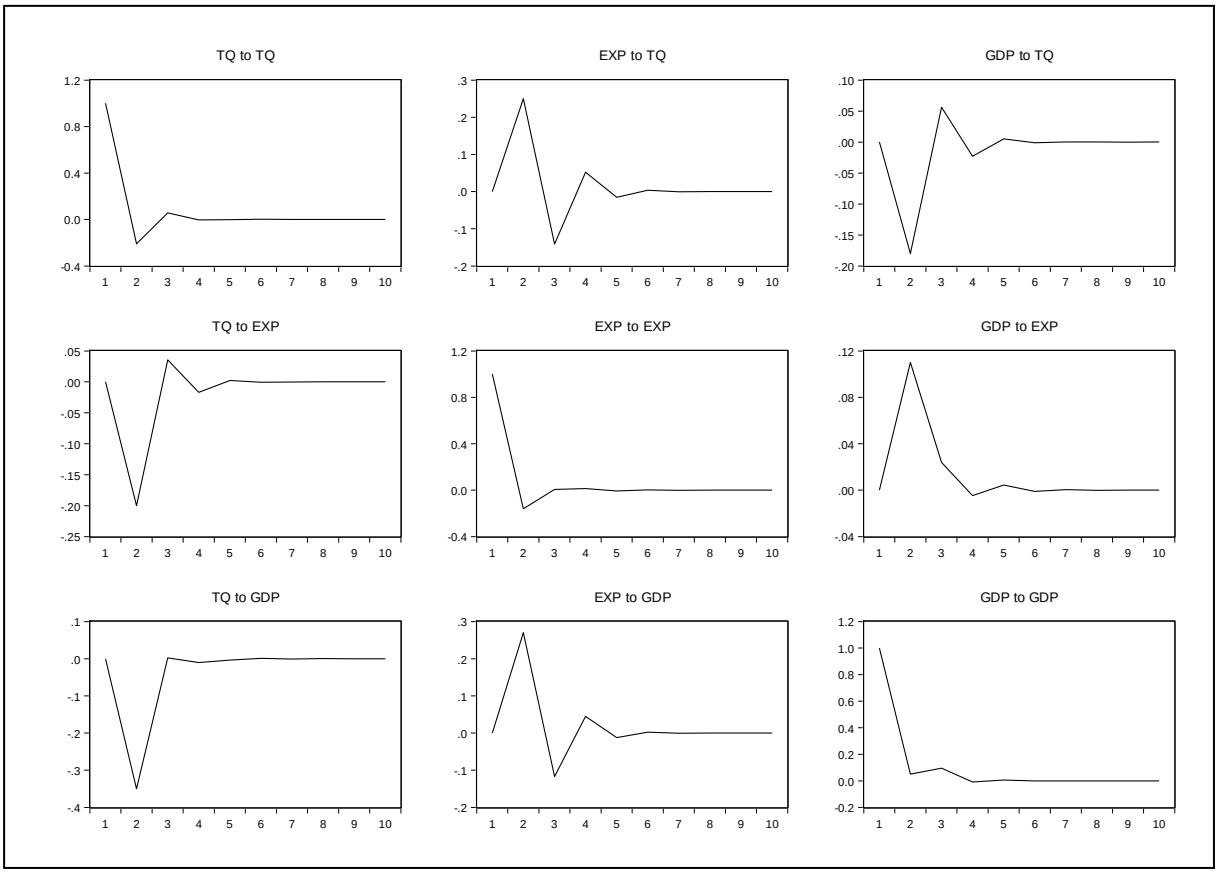

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Figure 2. *Impluse function for the TQ (Source: own calculations)*

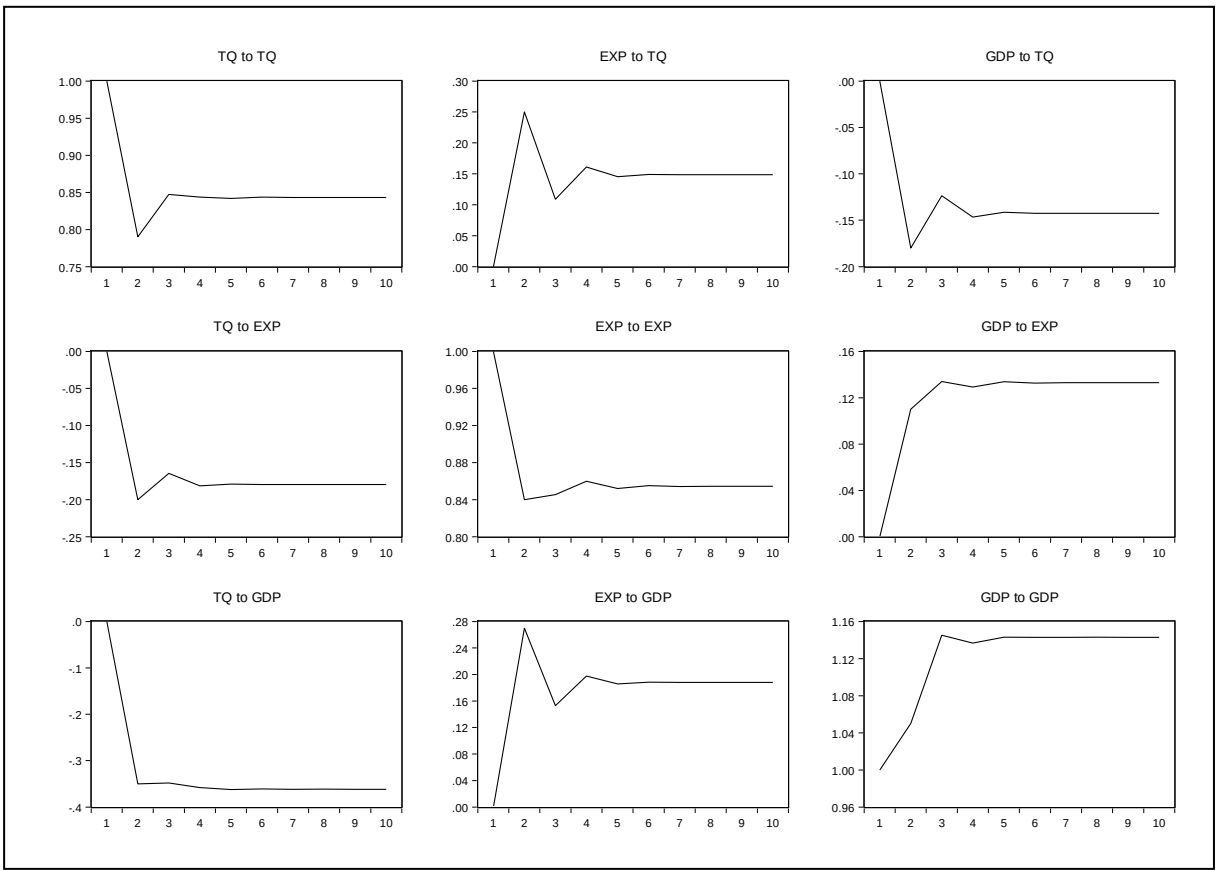
Figures (1) and (2) are related to the models including the tax quota as the taxation proxy. The graph in the right top corner of the figure (*GDP* to *TQ*) shows how the economic growth reacts on the changes in the growth rate of taxation. When a temporary change of taxation, which is removed in the next period, is made, there is also a temporary decline in the economic growth rate, but over time it stabilizes at its original level.

The reaction of growth rate of government expenditure (*EXP* to *TQ*) is similar. In the second period there is an increase in response to the increase in the tax rate, then there is a significant decline and a gradual return to the initial level.

In the second row, the graphs that show the response of individual variables on a temporary change in the growth rate of government spending are shown. The first graph (*TQ* to *EXP*) shows how changes in government spending affect the tax quota. Its growth rate is declining at first, but then there is a reversion to the original level. The quota similarly responds to changes in GDP growth (*TQ* to *GDP*) as well.

GDP and government spending react similarly to each other. In the second period they increase sharply, which is gradually smoothed (*EXP* to *GDP*, and *GDP* to *EXP*).

It can be concluded that the responses to temporary changes in fiscal variables (in case the approximation of taxes through tax quota) and economic growth are relatively strong in the second period after the occurrence of a shock, but the values gradually return back to their initial levels, which



takes approximately five years.

Figure 3. *Step function for the TQ (Source: own calculations)*

In contrast, in the case of permanent changes in taxation, i.e. a permanent increase in the growth rate of the level of taxation, the rate of economic growth is stabilized at a new level which persists in the economy even after ten years (*GDP* to *TQ*), even though a permanent increase in the growth rate of government expenditure occurs in the economy, as shown in the graph (*EXP* to *TQ*).

Growth rate of tax quota is stabilized at a new, significantly lower level in case of a permanent change (increase) of the rate of growth of government spending (*TQ* to *EXP*), but also of the rate of economic growth (*TQ* to *GDP*).

In contrast, the relationship between economic growth rate and the growth rate of government expenditure (*EXP* to *GDP*, *GDP* to *EXP*) is positive. Also in this case, the positive effects persist in the economy even after ten years.

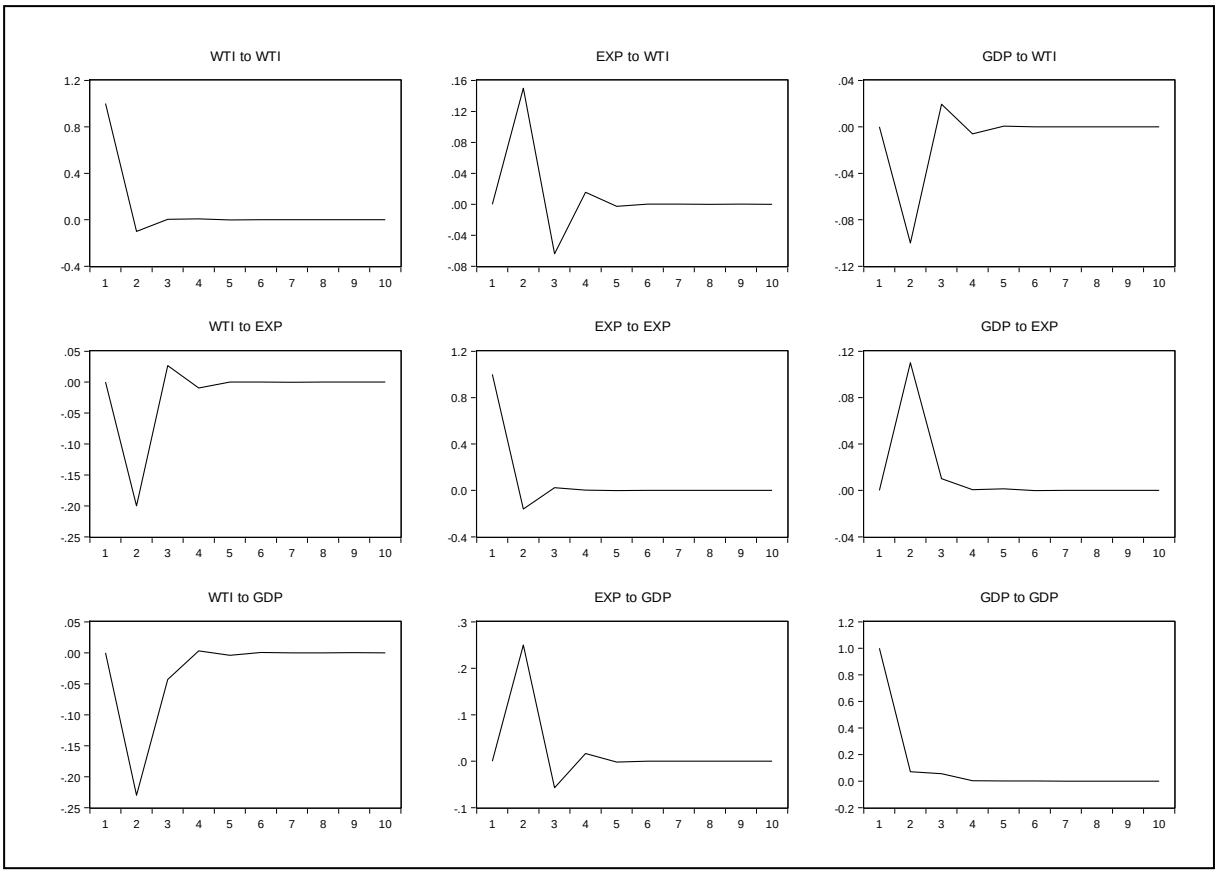


Figure 4. *Impluse function for the WTI (Source: own calculations)*

Figures (3) and (4) show the impulse-response functions resulting from the model where the WTI was used as a taxation proxy. Even in this case, growth rates of GDP and fiscal variables react quite sharply

 ISBN: 978-9963-711-37-6

to each other in the second period, but then the situation relatively quickly returns to baseline values, and the initial level is reached at the latest after five years.

Taxation causes a positive shock in GDP and government spending growth rate, which is shown in graphs (*GDP* to *WTI*, *EXP* to *WTI*). Negative shocks are caused in the area of taxation in case of temporary change (increase) of the rate of growth of both government expenditure and GDP (*WTI* to *EXP*, *WTI* to *GDP*). Growth rates of GDP and expenditure react positively on each other (*EXP* to *GDP*, *GDP* to *EXP*).

Also in case of the model including the WTI, permanent changes in the growth of the variables cause significant changes in the growth rate of other variables which persist in the economy even after ten years. There have been no significant differences between models using the tax quota and the WTI as a proxy for measures of tax burden.

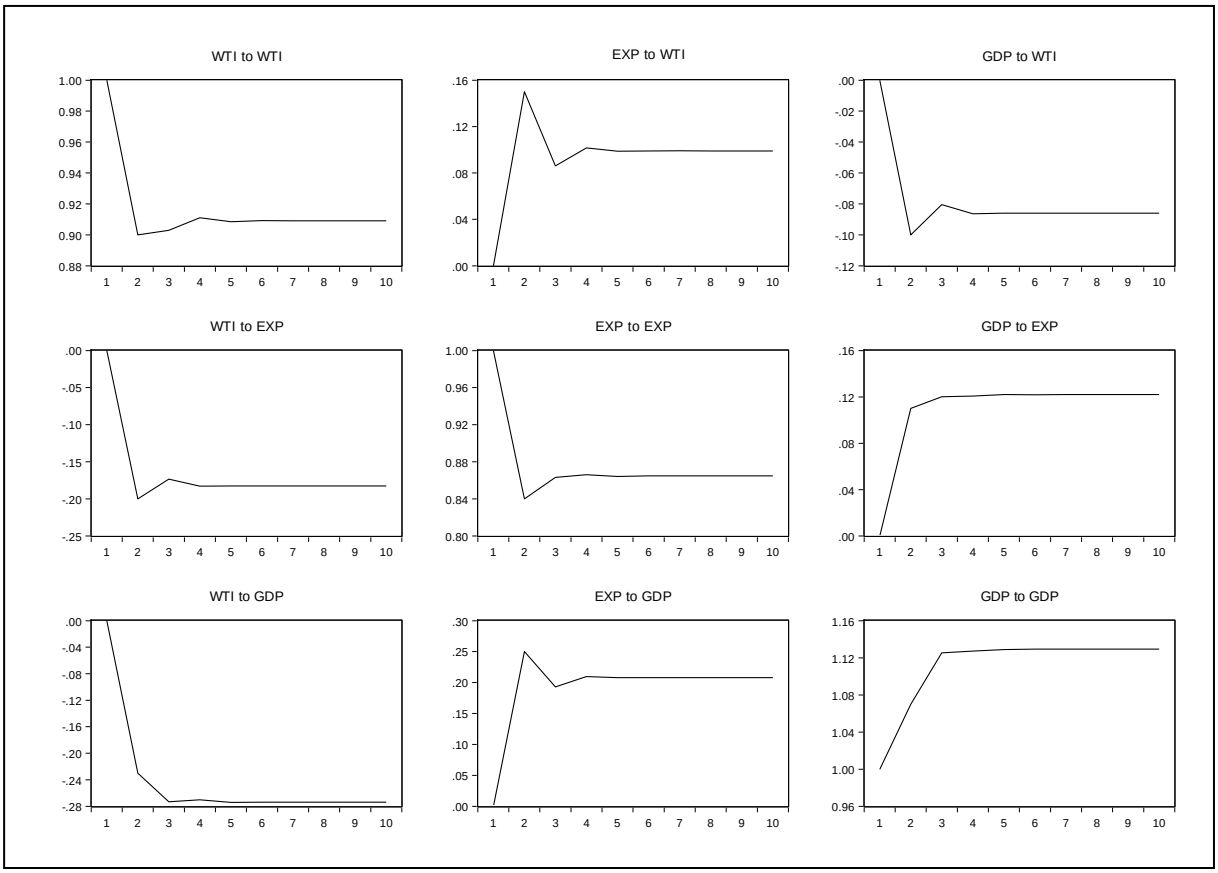


Figure 5. *Step function for the WTI (Source: own calculations)*

CONCLUSION

It is not necessary to explain how fiscal policy via taxes and expenditure can affect company and its gains. If we sum up all individual effects we get the influence of fiscal policy on economic performance.

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We can claim that the corporate incomes depend on many factors and the macroeconomic environment is one of them. We can consider the appropriate economic growth to be the main indicator of healthy economy. Undoubtedly, during this dynamic time of sovereign debt crisis, the sustainable fiscal policy and restored economic growth are crucial moments for the next development. Several fiscal measures are expected which should lead to decrease in public debt to GDP ratio. These measures may seem to be unpopular and possible populistic parties can gain voters easily. All these facts can lead to increase in volatility of government expenditure and revenues.

Hence, the understanding of the interaction between fiscal variables and economic growth can be useful. It may create competitive advantage among companies and competition is the most important determinant of the economic and social development because it is based on Darwinism.

Thus the aim of this paper is to find-out how long taxation and expenditure changes (temporary and persistent) persist in the economy of developed countries and what is the interaction between fiscal variables themselves and the economic growth like. To achieve the goal, a panel VAR model estimated by GMM was used to construct impulse-response functions. To measure the level of taxation we used two alternative indicators - the standard tax quota (TQ) and the World Tax Index (WTI). Total government expenditures were expressed as a share of GDP. The sample consists of 34 OECD countries in the period 2000-2012.

Particular result suggests that persistence of the temporary fiscal changes influence lasts almost for five years while the economic growth stabilizes on its initial level. The direction of the response of the economic growth on increase in taxation or expenditure is opposite. There were found no significant differences among results of analyzes using the tax quota and the WTI. The persistent increase in government spending leads to increase of the economic growth rate in long-term. The direction of the impact of persistent taxation increase is opposite, again. According to the theory, bigger portion of expenditures might consist of productive ones.

It's interesting that persistent increase in government spending leads to decrease in taxation expressed by both, the TQ and the WTI. The fact can be explained as follows: (i) particular fraction of added expenditures is tax duty free; (ii) the method of creating the WTI consists of combination of soft and hard data which allows for better understanding. When we focus on soft data, tax subjects can subjectively evaluate unchanged gross tax burden as decreasing, if governments provide some higher benefits from higher expenditures without raising taxation; (iii) as Pelagidis and Desli (2004) claim, that increase in expenditures leads to an impact on private capital similar to leverage.

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Another interesting result is found in the influence of permanent changes in the GDP growth rates on taxation. Previous works of Kotlán and Machová (2012a, 2013b, 2014a) suggest that the tax quota is an inefficient indicator of tax burden. They explain this by the existence of the Luffer' curve. It implies that trend of development of the TQ should be positively correlated with the GDP growth rates or at least there should be smaller negative effect of increase in the GDP growth on the TQ than on the WTI. Our findings are not consistent with this hypothesis. More interesting it is that results point out some kind of taxation regressivity among developed countries. The higher persistent growth rates of the GDP, the more they lead to decrease in tax burden in developed countries. This is additional evidence of positive impact of the economic growth on companies' gains.

Our empirical analysis creates valuable tool for companies and individuals to understand the interaction between economic growth and fiscal policy (perhaps, two the most essential factors of global economy nowadays). As we already mentioned in the introduction, knowledge in general contributes to sustainable development the most. From our point of view, any knowledge based company should find our result to be useful for creating expectations about future fiscal measures and their possible impact on the growth. After all these facts, the crucial thing is to distinguish between temporary and persistent changes.

This paper was financially supported within the VŠB - Technical University SGS grant project No. SP2015/110 "The Influence of Fiscal Deficit on Economic Growth and the Possibilities of its Decreasing in the Czech Republic".

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 ISBN: 978-9963-711-37-6

THE IMPACT OF TOURISM ON LOCAL COMMUNITY

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ABSTRACT

Tourism is usually linked to its economic and environmental impact, but not less valuable is its impact on socio-cultural elements. The social dimension of tourism is seen through tourists' staying, movements and interaction with other tourists, as well as with residents of a certain tourist area. The extent and direction of the impact of tourism on residents significantly depend on the level of tourism development in a destination, on inclusion of residents in tourism offer as well as on momentary impact of tourism in the destination.

The aim of this paper is to determine the mutual influence of tourism and local community in a tourist destination. The paper will present the results of a research of the attitude of residents conducted in Zadar County as a tourist destination during 2013. An accidental sample of the residents included 889 examinees belonging to various age groups. The research analyzed the residents' perception of the impact of tourism on Zadar County and their satisfaction with the level of tourism development and tourism offer. The research also determined in which activities the residents are involved in tourism as well as the ways for their future involvement. Moreover, the research identified the direct benefits from tourism for the destination, but also the externals conditioned by them. The conclusion proposes possible directions in reduction of the negative impact of tourism on local community and reinforcement of the positive interaction between tourists and residents.

Keywords: *tourism, stakeholders, local community, impact of tourism*

LITERATURE REVIEW

Tourism dynamics, in line with growing tourist requirements, requires a more quality management and sustainable development of a tourist destination. Tourist destinations are a product of various stakeholders' actions, the main stakeholder groups active in a tourist destination being authorities (state and local authorities), economic sector, local community and tourists (Byrd, Bosley and Dronberger, 2009), with specific interest groups in addition (church, educational and cultural institutions etc.) as well as civil sector (associations, foundations and other organizations). Based on

 ISBN: 978-9963-711-37-6

resources available, stakeholders create an additional value, primarily for tourists but also for themselves. This is what causes a clash of interests, therefore a reconciliation of different stakeholders' interests becomes a key question in destination management (Waligo, Clarke and Hawkins, 2013). Supported by all stakeholders, destination management should responsibly conduct a policy of tourist destination development aiming to produce a quality product, a recognizable image and sustainable development, creating competitiveness and paying attention primarily to socio-economic well-being of residents.

According to present researches, management based on stakeholder concept is very complex and demanding. The concept of management depends on mutual communication, cooperation and understanding among stakeholders, the lack of a functional communication channel being an additional problem (McKercher, 2003; McDonald, 2009; Waligo, Clarke and Hawkins, 2013). Some of the occurring problems are also distrust towards authorities, insufficient support by authorities, involvement of politics, red tape, too big influence of key stakeholders, insufficient involvement of certain stakeholders, insufficient level of awareness of the need for involvement in tourist activities, lack of guidance, incorrectly set priorities, goals and strategies (Hall, 2011; Waligo, Clarke and Hawkins, 2014).

Interactions between tourists and tourist destinations results in changes in these areas and in improvement of tourist attitudes towards the areas they visit. Interaction between tourists and locals is even more obvious, irrespective of the level of locals' inclusion in tourist offer. This contact results in changes in socio-cultural elements of both sides, the changes being positive and negative. Due to the fact that the destination of tourist offer and the destination of tourist demand cannot be separated, and the fact that tourists visit the destination in which they consume a tourism product, tourism has not only economic but also socio-cultural and ecological impacts (Cooper et al., 2008). A number of researches show the differences in perception of examinees/stakeholders of impact of tourism on local community. A research including four stakeholders – government officials, entrepreneurs, residents and tourists showed government officials, among all examinees, have the most positive perception of impact of tourism. Residents indicated a higher level of agreement than government officials on three negative impact items (tourism produces long-term negative effects on the environment, tourism development increases crime, and tourism development increases property taxes). Residents in comparison to the entrepreneurs indicated a higher level of agreement with the statement that tourism development increases crime. Tourists indicated a higher level of agreement than residents in regards to the statement that increased tourism improves the local economy (Byrd, Bosley and Dronberger, 2009). In addition, Sharply found that residents' perceptions of tourism are likely to be influenced by

 ISBN: 978-9963-711-37-6

their pre-existing attitudes or beliefs about particular tourist types and by the nature of social interaction that results from tourists' preconceptions of residents themselves (Sharpley, 2014).

Researches have shown that some of external factors having impact on the perception of local community/hosts of tourism are: economic dependence on tourism, that is whether an individual is involved in any tourism-related activity or owns a tourist facility, the distance of the place of permanent residence to the place of an intense tourist activity, the level of contact with tourists, the use of tourist facilities and tourists – residents ratio. Value variables include community attachment as well as residents' social, political and ecological values. Additional factors influencing residents' perception include demographic structure of residents and features of a tourist destination (Deery, Jago and Fredline, 2012).

A type and level of intensity of impacts of tourism depend on the level of tourist development of an area where tourist activities take place. Therefore, the impact differs with regard to areas which had already reached a high level of tourist development and tourist-developing areas as well as the areas which just examine and plan their tourist development. Diedrich and García-Buades found that local perceptions of benefits increase up to the critical range after which they start to decline (Diedrich and García-Buades, 2009). This is proved by a number of researches which showed how residents' perceptions on the impact of tourism significantly depend on the level of development of a tourist destination. Thus, residents of places with a lower level of tourist development have positive attitudes, which start to decline with the increase of the level of tourist development (Deery, Jago and Fredline, 2012).

RESEARCH METHODOLOGY

The aim of this paper is to examine the way residents of a tourist destination perceive the impact of tourism on the destination and to identify their desire for inclusion in the destination's tourist offer. Zadar County was chosen as a tourist destination because of a permanent growth of tourists' arrivals and overnights in the county with a total of 1 286 811 arrivals and 9 209 069 overnights in 2012 (ZADRA and University of Zadar, 2014).

Tourist density measured by a ratio of overnights and area of Zadar County amounts to 2 525.80 tourist overnights/m^2, while tourist intensity measured by a ratio of overnights and population of the county amounts to 54.17. A strong seasonality of tourist arrivals with 94% overnights and 86% income from international tourism realized from April to September increases tourist saturation of the area (ZADRA and University of Zadar, 2014). In last decade Zadar made its attraction basis stronger and created new attractions – the Sea Organ (2005) and Greeting to the Sun (2008), which are not only

 ISBN: 978-9963-711-37-6

attractive but they lead to changes in the city's architecture and look as well as they enrich the part of the city which had not been that interesting to tourists and residents.

The survey was conducted by the use of a structured questionnaire consisting of 14 questions, including 4 open questions and additional 18 questions used to define demographic characteristics of examinees and their involvement in tourist activities. The survey was conducted with a constant presence of examiners from April to June 2013 and with a representative accidental sample, consisting of 889 residents of the county, taking part in the survey. The results obtained were processed by the use of methods of descriptive statistics supported by an SPSS statistical package.

RESULTS

The survey examined 889 residents of Zadar County, including 48.5% men and 51.5% women. The majority of examinees included working population (age 15 to 65), only 9.7% examinees were above 66, while younger population was not included in the survey. With regard to educational structure, half of the examinees had secondary education, 34.1% had an associate or a university degree, while 3.5% had a master or a doctoral degree. A high rate of unemployed examinees (11.9%) is lower than the real rate of unemployed residents, which amounts to ca. 20% according to Croatian Employment Service (CES). Since tourism serves a series of economic purposes, the unemployed are expected to support tourism development either in the form of their own tourist activity or as investment decisions of other people, because in this way they improve the possibility for their own employment.
A total of 70.5% residents lived in a house, while the rest of them lived in apartments. A specific feature of Croatia is a high level of real estates in possession of residents (82.93%), with a permanent growth of residential area per person (27.2 m^2) (Bežovan, 2014). This is significant information when examining the possibility of involvement of examinees in offer of accommodation capacities enabled by their possession of accommodation objects surplus. In Zadar County, household accommodation objects make 61.6% of total capacities (ZADRA and University of Zadar, 2014).

Despite strong preconditions for involvement of residents in tourist offer, they do not have significant economic impacts. More than half of examinees do not have any income from tourism (55.2%). The examinees involved in tourist activities mostly rent their own accommodation objects (26%), 11% of residents offer catering services, 12% offer other tourist services, 5% work in a market. Monthly tourism income amounting to 1 000 € is realized by 38.8% of examinees, while only 6% of examinees realizes monthly tourism income above 1 000 €. Therefore, it can be concluded that tourism is not the basic source of income for residents of Zadar County but it serves to improve their household budget.

 ISBN: 978-9963-711-37-6

Although economic impact of tourism in Croatia is relatively low, the residents' attitude towards the impact of tourism on the state, the county, the place, the family and the individual herself/himself was examined. The residents proved to have a very positive attitude towards the impact of tourism on Zadar County ($\bar{x}$=+2.48), on the Republic of Croatia ($\bar{x}$=+2.45) and on their place of residence ($\bar{x}$=+2.15). A somewhat weaker but still positive impact of tourism, according to examinees, is for them personally ($\bar{x}$=+1.50) and for their family ($\bar{x}$=+1.48), as Table 1 shows.

Influence of tourism on	Very negatively (-3)	Negatively (-2)	Slightly negatively (-1)	No influence (0)	Slightly positively (+1)	Positively (+2)	Very positively (+3)
Croatia	0.3%	0.4%	0.8%	1.6%	7.9%	36.3%	52.8%
Zadar County	0.1%	0.6%	0.1%	1.4%	5.4%	38.1%	54.2%
Place you live in	1.3%	0.5%	0.9%	6.7%	13.7%	37.7%	39.3%
Your family	1.6%	0.5%	0.9%	29.6%	17.0%	30.7%	19.7%
You personally	1.4%	0.9%	1.3%	28.8%	17.2%	29.1%	21.4%

Table 1. *Residents' attitudes towards the impact of tourism*

The level of satisfaction with the development of a place as a tourist destination is related to residents' desire for involvement in tourist offer (Sharpley, 2014). An average level of residents' satisfaction is seen when it comes to assessment of a place as a tourist destination ($\bar{x}$=3.67) and assessment of benefits from tourism in general ($\bar{x}$=3.44). Examinees were neither satisfied nor dissatisfied with the usage of potential tourist destinations ($\bar{x}$=2.89) and tourist activities of private entrepreneurs ($\bar{x}$=2.97). The lowest level of residents' satisfaction (i.e. level of dissatisfaction) is seen when it comes to tourist activities of local and state public authorities ($\bar{x}$=2.64). The results lead to a conclusion that residents express their satisfaction with turning their place into a tourist destination while they express a lower level of satisfaction with the quality of this process in private and public sector. Further involvement in tourist offer is seen in form of residents' renting their own accommodation objects by 36% of those so far involved in renting, 29% of them plan to continue with their involvement, but they do not know in what way, 13% of them will open their own catering facility, and 15% will offer other tourist services. In contrast with them, even 29% of those not involved in the offer so far plan to continue with their non-involvement, 27% do have some plans, but are not sure how to do so, and only 9% of them plan to rent their own accommodation object.

The largest obstacle to tourist development of their place, according to residents, are local government and self-government (26.1%), followed by economic crisis and finances, bad infrastructure and traffic connections (10.5), non-hospitality of residents (10.2%) and a lack of a quality offer (9%). High prices are considered to be an obstacle only for 1.6% of examinees, which leads to a conclusion that examinees perceive the value for money ratio of Zadar County to be set correctly.

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Along with positive economic impacts, tourism has also some negative elements. The most significant impact of tourism demand is seen in higher prices of their everyday necessities and prices of real estates and land in a destination. Growth in the number of tourists definitely has an impact on bigger traffic congestion and crowd in general. Environmental pollution is the biggest potential tourism threat, according to majority of examinees (41.6%). The smallest number of examinees recognizes arrival of tourist of other religion and culture as a negative impact of tourism. Such attitude shows how open the residents are toward tourists. It is extremely interesting that a relatively high percentage of examinees express their uncertainty when it comes to assessing the level of deviant behaviour influenced by tourism – growth of prostitution (21.4%), use of drugs and criminal activities (17.1%). However, there are significant differences in perception of those involved and not involved in tourism. Table 2 clearly shows those not involved in tourism significantly more often perceive the negative effects of tourism than those involved in tourist activities.

	Involvement in tourist offer							
	Not involved				Involved			
	Current problem	Not a problem, but could be	Not a problem	I do not know	Current problem	Not a problem, but could be	Not a problem	I do not know
Higher prices of everyday necessities	62.60%	20.10%	12.90%	4.40%	52.00%	33.90%	9.40%	4.70%
Higher land prices	37.90%	29.60%	16.90%	15.50%	29.50%	34.30%	18.10%	18.00%
Crowd	33.40%	19.50%	43.90%	3.30%	31.60%	28.60%	36.50%	3.30%
Environmental pollution	33.20%	35.40%	25.70%	5.70%	23.00%	44.40%	28.00%	4.70%
Noise, especially at night	26.50%	19.50%	50.30%	3.80%	22.90%	27.30%	47.50%	2.20%
Immoral behaviour	20.60%	22.90%	40.70%	15.90%	17.10%	27.30%	41.40%	14.20%
Drugs and crime	18.10%	23.60%	43.90%	14.30%	16.40%	23.50%	44.70%	15.50%
Arrival of tourists of other religion and culture	11.20%	13.80%	63.20%	11.70%	5.90%	14.80%	67.10%	12.30%
Growth of prostitution	8.10%	15.70%	57.10%	19.10%	7.30%	12.00%	63.30%	17.30%
Other	6.20%	1.30%	4.60%	87.90%	4.70%	2.60%	6.20%	86.40%

Table 2. *Residents' perceptions of the negative effects of tourism in their places of residence*

Table 3 shows residents' desire for a further tourism development and the direction of the development. Most residents expressed their desire for a larger number of tourists in the destination (86.4% completely disagree with the statement "We need no guests", while 56.2% completely agree with the statement "We need more guests"). Different guests are desired by 47.2% of examinees, while a larger number of younger guests is desired by 64% of examinees.

 ISBN: 978-9963-711-37-6

Level of agreement						
	I completely disagree (1)	(2)	(3)	(4)	I completely agree (5)	I do not know
I get closer to the guests	15.5%	13.1%	22.3%	18.5%	**27.8%**	2.9%
I stay in touch with guests I meet	18.6%	16.8%	20.5%	17.9%	**23.6%**	2.6%
We need more guests	3.4%	3.5%	12.4%	19.8%	**56.2%**	4.7%
We need different guests	11.2%	9.3%	19.3%	18.1%	**29.1%**	12.9%
We need a longer season	3.3%	3.1%	7.9%	11.6%	**68.9%**	5.2%
I do not want certain groups of guests in my place	**42.0%**	3.4%	3.1%	4.0%	13.4%	**34.2%**
I would like to see more younger guests in my place	7.7%	5.4%	15.6%	16.5%	**47.5%**	7.3%
We need no guests	**86.4%**	2.4%	2.8%	2.1%	2.6%	3.7%

Table 3. *Residents' perceptions of host – tourist relationship*

Openness toward all tourists can be seen from the response provided by 45.4% of examinees, who express their disagreement with the statement "I do not want certain groups of guests in my place". Although a large number of examinees expressed their uncertainty when replying to this question (34.2%), which might be concerning, still a majority of examinees get closer to guests (46.3%), and 41% of them stay in touch with the guests even after they leave the destination.

Furthermore, the connection between the residents' attitudes and the level of involvement in tourist activities was analyzed. The examinees who expressed their agreement with a certain statement, i.e. those with grade 3 or more, were examined. It was found that biggest differences exist with regard to attitudes towards guests between residents involved in a tourist activity and those not involved in it. Thus, those involved in tourism get closer with guests more often (83% versus 59% of those not involved in a tourist activity), they stay in touch with guests (75% versus 56%), but, more than those not involved in tourism, they believe they need different guests (82% versus 73%), and finally, more than those not involved in tourism, they believe they do not want certain groups of tourists in their place (36% versus 23%).

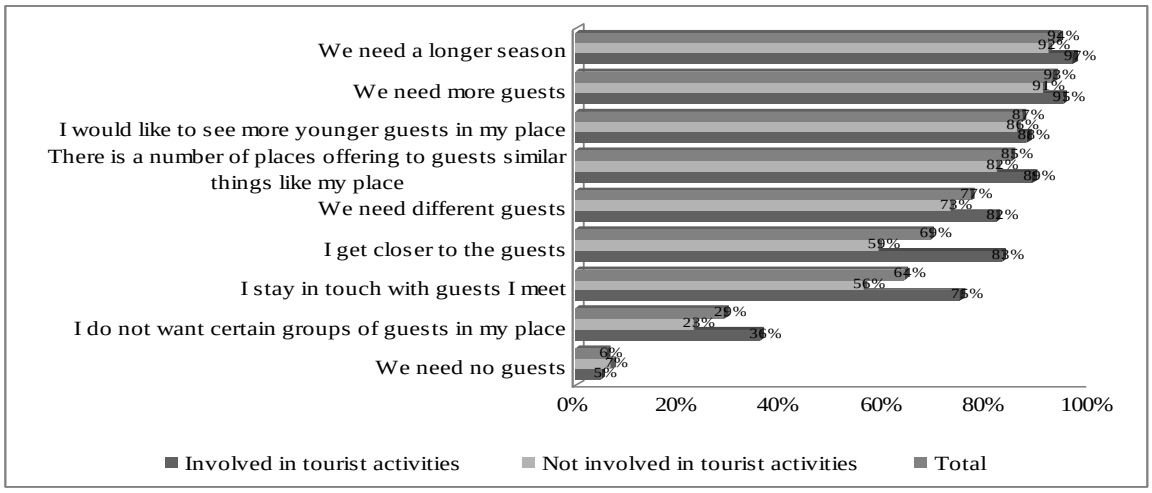

Figure 1. *Relationship with guests with regard to examinees' involvement in a tourist activity*

ISBN: 978-9963-711-37-6

According to examinees, the best stimulative element for tourist development is hospitality and openness of residents (18.6%), which are considered to be even more important than the attraction basis of natural beauty of the surrounding (16.7%) and a rich offer of cultural events and entertainment (15.5%). Contact with residents and an experience of autochthonous destination are some of today's basic motives for tourists when they choose a place for vacation. Involvement of residents in tourist offer presents one of basic preconditions for the destination's development.

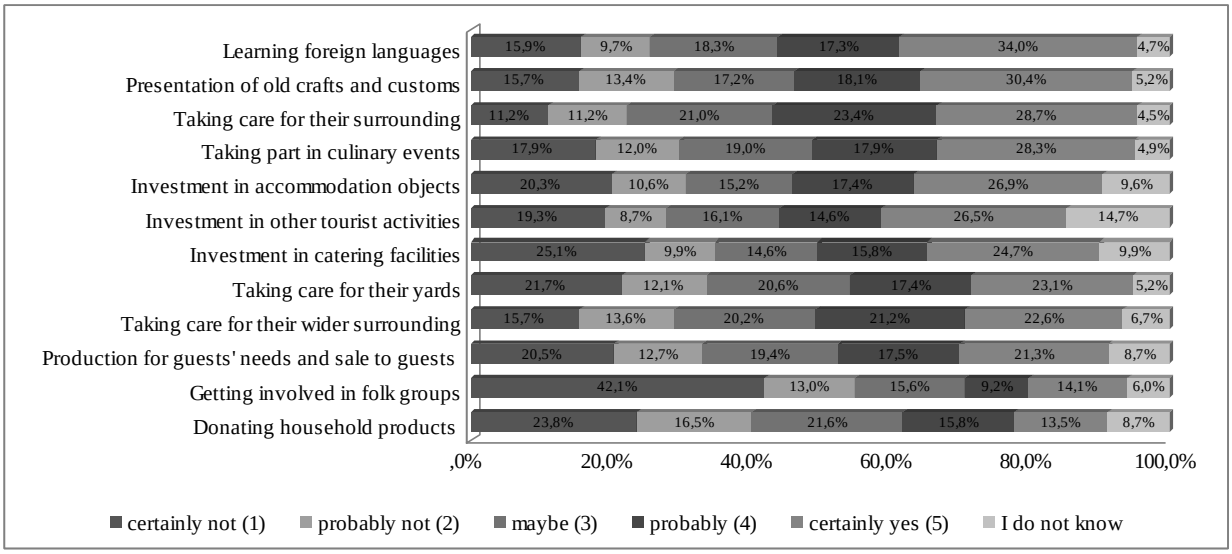

Figure 2. *The desire for residents' involvement in tourist activities*

Figure 2 shows the level of desire for residents' involvement in tourist offer. Most examinees would like to learn a foreign language (51.3% of them would probably or certainly choose such involvement) and contribute to a better communication with tourists, they would like to take care for their surrounding (52.1%), they would also like to get involved in events presenting old crafts (48.5%) and customs and culinary events (46.2%). Around 40% of examinees will probably or certainly get involved in tourist offer through a form of tourism enterprise including investment in catering and/or accommodation objects or other elements of tourism economy. The smallest number of examinees would like to get involved in folk groups (23.3%).

CONCLUSION

Zadar County presents a tourist destination with a constantly growing number of tourist arrivals and overnights, along with an increase in accommodation capacities. However, residents do not have significant economic impacts despite this development. The residents do recognize an extremely positive impact of tourism on the state, the county, and their place of living and they do express their satisfaction with turning their place into a tourist destination. At the same time, the residents express their lower level of satisfaction with the quality of tourist activities taking place in private and public

ISBN: 978-9963-711-37-6

sector. They especially express their dissatisfaction with activities of local government and self-government, recognized as the main obstacle to tourism development. Higher prices in all segments of life present the biggest negative effect caused by tourism, according to the residents, while the problem of environmental pollution is recognized as the biggest potential danger in the future. Despite all this, the residents would like to have a larger number of tourists in the destination and believe residents' openness and hospitality are basic advantage of the destination. To realize this goal, the residents are ready to get involved in different tourist activities, such as learning foreign languages, presenting their culture etc. Most commonly, the residents would like to get directly involved in tourist offer through renting their accommodation objects. To retain residents' positive perception of tourism as such and to use their desire for involvement in tourist activities in the destination, local authorities should take over a more active role in tourism and stimulate the processes mentioned.

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 ISBN: 978-9963-711-37-6

INTERGENERATIONAL CONFLICT IN THE WORKPLACE: THE INFLUENCE OF WORK VALUE ORIENTATION

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ABSTRACT

The aim of the present research was to investigate generational differences in work values and intergenerational conflict within organizations. Informed by both the generational cohort perspective and self-determination theory, this exploratory study examined the relationship between work value orientation and perceived conflict among generational groups. Data was collected from a sample (N=213) of employees at seven Italian subsidiaries of multinational companies. The results showed that having an extrinsic, rather than an intrinsic, work value orientation was positively associated with perceived intergenerational conflict. Furthermore, organizational support – in the form of employee recognition and retention – was found to play a key role in reducing perceived intergenerational conflict.

Keywords: *intergenerational conflict, generational diversity, work value orientation, self-determination theory, intention to stay, employee recognition.*

INTRODUCTION

Demographic trends such as workforce aging due to a rapid increase in the older population and later retirement (UN, 2007), together with the widely-held belief that the younger generations hold different work values and different expectations in relation to their jobs and careers (Twenge, 2006), are among the factors challenging contemporary employers and managers, who are required to keep different generations working together for longer while fostering greater interaction among them. Indeed, one of the risks related to the differences in work values characterizing the multigenerational workforce of today is an increase in intergenerational conflict which, in turn, can compromise organizational performance (Dencker *et al*., 2007; 2008; McGuire *et al*., 2007; Jurkiewicz & Brown, 1998; Lester *et al*., 2012). Despite the growing emphasis on understanding differences in values and expectations among generational groups, there is a lack of consensus in diversity management research concerning both the existence of generational differences in work values and the main factors influencing intergenerational workplace conflict. To date, the studies that have addressed generational differences in work values and attitudes have yielded inconclusive results, either because they have

 ISBN: 978-9963-711-37-6

drawn on mainly anecdotal evidence or because they have been affected by methodological weaknesses preventing them from reliably demonstrating whether such differences do indeed exist. In this regard, Giancola's (2006) and Parry and Urwin's (2011) critiques of the notion that there are generational differences in work values, reveal that the evidence supporting this idea is at best mixed, suggesting an unclear and not universally shared classification of work values as differing across the Baby Boomer, X and Y generations. Consequently, if it has not been firmly established that generational groups are characterized by different work values, this weakens the assumption that greater generational diversity within companies can *per se* result in more intergenerational conflict due to differences in work values.

On the other hand, it is undeniable that work values – which are standards or criteria for choosing goals or guiding action and are relatively enduring and stable over time (see Dose, 1997) – have been recognized as key factors influencing motivation, job satisfaction, commitment (Gursoy et al., 2008) and, in broader terms, workers' attitudes toward their jobs (Chu, 2007). More specifically, following self-determination theory (Deci and Ryan, 1985; 2000; Ryan and Deci, 2000), Vansteenkiste *et al.* (2007) recently found that having an extrinsic, rather than an intrinsic, work value orientation was associated with less positive job and emotional outcomes. Intergenerational conflict among employees may be viewed as a type of negative outcome and the focus of the current study was to analyze it from a work value orientation perspective. This exploratory work was designed to address the gap in the intergenerational conflict research by drawing on generational cohort theory (Inglehart, 1977), and introducing self-determination theory (Deci and Ryan, 1985; 2000; Ryan and Deci, 2000) as an explanation for the perception of intergenerational conflict at work that appeals to individual, rather than generational, factors. Our aim was to unpack the effect of having an extrinsic, rather than an intrinsic, work value orientation on employees' perceptions of workplace dynamics by linking extrinsic work value orientation to intergenerational conflict, and to prepare the ground for more research in this direction. In the following section, we outline our theoretical framework by reviewing two existing lines of enquiry into generational cohort theory (Inglehart, 1977) and Self Determination Theory (Deci and Ryan; 1985; 2000), respectively. We then present our own analysis of data collected from a sample of 213 Italian employees. In the concluding section, we discuss how the findings of this study can contribute to the extant intergenerational conflict literature, clarifying their practical and managerial implications. Finally, we analyze the limitations of the current work and suggest directions for future research.

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THEORETICAL FRAMEWORK

Generational cohorts and work value orientation

Within the broader framework of diversity management, generational differences in the workplace have been a much debated issue in the academic and practitioner literature over recent years. According to the generational cohort theory developed by Inglehart (1977), a generation is a social construction consisting of individuals born in the same period, who have experienced and have been influenced by the same historic and social context, and who share a common generational identity (Strauss and Howe, 1991). Three different generational cohorts are currently represented in the Western workforce: Baby Boomers (born between 1943 and 1960), Generation X (born between 1961 and 1981), and Generation Y (born after 1982) (Strauss and Howe, 1991). Past studies have suggested that there are fundamental differences in work values among these three generations and that these different value systems impact on individual work-related behaviors (Lancaster and Stillmann, 2003; Smola and Sutton, 2002). However, other studies make the case that it has not been reliably proven that such differences exist (Giancola, 2006; Parry and Urwin, 2011).

Values are intrinsic and enduring viewpoints on what is fundamentally right or wrong and are useful indicators for individual decisions and behaviors (Rokeach, 1973). More specifically, Malka and Chatman (2003) defined work value orientation as "work related reinforcement preferences, or tendencies to value specific types of incentives in the work environment" (p.739). According to Self Determination Theory (Deci and Ryan; 1985; 2000), one fundamental distinction in work value orientation is between extrinsic and intrinsic values. An intrinsic work value orientation reflects employees' natural desire to learn, develop and grow at the work place (i.e., self-development), to build meaningful and satisfying relationships with colleagues (i.e., affiliation) and to help people in need (i.e., contributing to the community) (Kasser and Ryan, 1993; 1996). An extrinsic work value orientation concerns "the traditional pursuit of success by advancing up the organizational hierarchy to achieve prestige, status, and high income" (Watts, 1992:51). Extrinsic work values focus on the consequences or outcomes of work, such as income, advancement opportunities, and status. In contrast, intrinsic work values focus on the work process itself, on interest in the work in its own right, potential for learning, and opportunities for creativity (Ryan & Deci, 2000).

According to Inglehart (2008), Western European countries experienced a cultural shift from materialistic values to post-materialistic values following World War II. The "theory of cohorts" (Inglehart, 1977) is based on two hypotheses: the scarcity hypothesis, which refers to the tendency of people living in a given country to attribute greater importance to the most pressing needs, and the socialization hypothesis, which postulates that values in any given society change gradually from one generation to the next and that the values of a particular generation are influenced by the prevailing

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needs in the years preceding its coming to adulthood. Therefore, during periods of scarcity, materialistic values (e.g., money, economic security, respect for authority) predominate. Conversely, during periods of prosperity, individuals attach increasing importance to post-materialistic values such as autonomy, tolerance, creativity and protection of the environment. However, it is difficult to sum up the empirical results from past research on work values and generations, due to the lack of consensus on the existence of differences in work values among generational groups. Indeed, in the managerial field few authors have found empirical results that clearly distinguish between different generations. On the basis of Inglehart's (1977; 2008) theory, one might expect Baby Boomers to display higher levels of extrinsic work values and younger generations to hold more intrinsic work values. However, counterintuitively, older individuals have sometimes been found to be more intrinsically and less extrinsically oriented (Sheldon and Kasser, 2001; Twenge *et al*., 2010). In a broader examination of employees' work value patterns, Cennamo and Gardner (2008) reported mixed results, with employees displaying both generational similarity and dissimilarity in terms of work value orientation. Still other studies have found no significant differences in values among generations (Jurkiewicz, 2000; Wong *et al*., 2008). Given the lack of consensus in the literature just reviewed, our initial hypothesis in the current study was that, in our sample of Italian company employees, we would find no differences among the different generations in relation to work value orientation *(H1).*

Intergenerational conflict

One of the most common assumptions underpinning the relational demography perspective is that demographic diversity increases both task and relationship conflict (O'Reilly *et al.*, 1989; Pelled, 1996; Pelled *et al.*, 1999; De Dreu & Weingart, 2003). In this sense, intergenerational conflict may be viewed as a specific type of intergroup conflict (Jehn,1994; Jehn *et al*., 1997; Jehn *et al*., 1999; Jehn & Mannix, 2001). However, despite being posited as a key outcome of a workforce composed of different generational groups with different values, intergenerational conflict is a relatively new and under-researched phenomenon in the scientific literature (Dobbs *et al*., 2007; Dencker *et al.*, 2007).

Studies on intergenerational conflict have mainly drawn on a sociological perspective, taking competition for resources to be a structural aspect of this type of conflict (Turner, 1998). For example, Bourdieu (1993) argued that generations are themselves the outcome of conflict over resources (both cultural and economic) within a specific field. This perspective is founded on the assumption that different generations view different resources as important and that these differences give rise to intergenerational conflict. Access to resources and control over these resources may thus be seen as a means of maintaining generational identity (Eyerman and Turner, 1998). However, as demonstrated by the lack of agreement among researchers regarding clear differences among generations, it is also possible that within a given generation, values and resource preferences may be relatively

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heterogeneous and that individual characteristics therefore play a stronger role than generational ones in the perception of intergenerational conflict. On these grounds, we hypothesized that individual rather than generational work value orientation leads employees to perceive a higher level of intergenerational conflict in the workplace. In this regard, numerous studies have analyzed the relationship between holding an extrinsic, as opposed to an intrinsic, work value orientation on the one hand and negative job and emotional outcomes on the other (see Vansteenkiste *et al*., 2007). Intergenerational conflict may be viewed as a negative emotional outcome that will be perceived as higher or lower depending on whether a person is motivated to gain control over economic and financial resources or not. In this sense, holding an extrinsic work value orientation means that employees are primarily focused on financial success, having control and influence over others and occupying a prestigious position at work. Thus, we expected participants who were motivated by resources to see other generations as competitors in the struggle to obtain resources and, therefore, to be more prone to perceiving a high level of intergenerational conflict in their workplace (*H2a*). On the contrary, we expected employees displaying an intrinsic work value orientation, that is, who viewed their jobs as opportunities to exercise their competencies and skills, pursue personal interests and make meaningful contributions to society and not as a means of obtaining additional resources, to perceive a lower level of intergenerational conflict in their work context (*H2b*).

It is also critical to note that people with internal vs external work value orientations are motivated by different aspects of their jobs and have different work-related reinforcement preferences (Malka & Chatman, 2003). Thus, job and emotional outcomes will also be influenced by employers' and managers' ability to cater for these diverse preferences. When employees feel that their efforts are recognized and consequently perceive their work environment as fair, whatever their generation or preferred style, they will be less likely to perceive any kind of conflict, given that their job will fulfill their needs. Employee recognition is closely related to empowerment and is typically conceptualized as the acknowledgement of employees' accomplishments by managers and as employees feeling that they are heard (Herrenkohl *et al*., 1999). In general, by specifically reinforcing expected behaviors, leaders signal to employees that their efforts are noticed and appreciated (Luthans, 2000). When employees are recognized and appreciated in their workplace, they perceive fewer real or imaginary threats deriving from the needs of other groups. Therefore, we expected that in our sample employee recognition would be negatively associated with intergenerational conflict in the workplace (*H3*).

Finally, the intention to remain a member of an organization is considered a form of behavioral commitment (Mottaz, 1989) and has been shown to be negatively associated with turnover (Kraut, 1975; O'Reilly *et al*., 1991). The intention to stay indicates a high level of commitment to the organization and willingness to remain in its employ (Hewitt, 2004), while various forms of

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demographic diversity have been found to be antecedents of turnover (Jackson *et al.*, 1991; Wagner *et al.*, 1984). We expected that the participants in our study who intended to stay in their companies would enjoy a satisfactory level of cohesion and integration with their colleagues and, would therefore perceive a lower level of intergenerational conflict in their workplaces (*H4*).

METHOD

Participants

Data for this study were gathered at seven Italian subsidiaries of multinational companies that were involved in a broader study on generational diversity. We administered a survey to 213 employees - who attended focus group discussions on perceived generational differences - consisting of statements to be rated on a 7-point Likert scale.

Participants were 56% male and equally distributed across the three generations under study (Baby Boomers=33%; Generation X=35%; Generation Y=32%). Their ages ranged from 23 to 62 years, with a mean of 42.3 years (*SD*=11.60), while their mean job tenure was 7.4 years (*SD*=8.14). Fifty-four per cent of respondents were graduates or had a higher-level qualification. Job positions varied as followed: 55% had no managerial responsibilities, 34% were middle managers and 11% top managers. All participants worked in large companies (>250 employees) and 36% were employed in the services sector.

Measures

Intergenerational conflict. Due to the lack of reliable measures of intergenerational conflict, we adapted a single-item measure of overall perceived intergenerational conflict from the practitioner literature (Burke, 2004). We asked our informants to rate the extent to which they perceived intergenerational conflict in their work context using a Likert scale ranging from 1(=not at all) to 7(=to a very great extent).

Generational designations. Three generational groups were defined based on participant age. Specifically, we adopted the birth year classification used in Strauss and Howe (1991:32), placing the respondents in three categories: Baby Boomers (born between 1943 and 1960), Generation X (born between 1961 and 1981) and Generation Y (born after 1982).

Work values. Following Lester and colleagues' (2012) classification of work values and Vansteenkiste *et al.'* (2007) distinction between intrinsic and extrinsic orientations, we identified a set of work-value related items that, following our hypotheses, might be expected to impact on perceived intergenerational conflict. Participants were asked to rate the extent to which six different work values – representing both extrinsic and intrinsic work value orientations – were important to them, using a

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Likert scale ranging from 1 (=not at all) to 7 (=to a very great extent). The items a) formal authority, b) structure at work and c) obtaining recognition, concerned valuing organizational hierarchy, status and social approval, reflected an extrinsic work value orientation (Watts, 1992; Kasser and Ryan, 1993; Ryan and Deci, 2000). On the contrary, the items d) respect for plurality, e) work-life balance and f) flexibility, concerned impact on others, altruistic reward and leisure, and were indicators of an intrinsic work value orientation (Deci and Ryan, 2000; Twenge *et al*. 2010).

Employee recognition. Following Herrenkohl and colleagues' (1999) definition of employee recognition we asked our respondents to rate the extent to which they felt they were heard and appreciated by their supervisors and colleagues, using a Likert scale ranging from 1(=not at all) to 7(=to a very great extent).

Employee retention. We adopted the item that scored highest on the scale developed by Kyndt *et al.* (2009), asking participants to rate how strongly they intended to stay with their organization over the following three years on a Likert scale ranging from 1(=not at all) to 7(=to a very great extent).

Control variables. We also asked our respondents to answer some basic questions about their personal and professional characteristics. The control variables were: gender (dummy variable); university degree (dummy variable); role (three dummy variables: non-managerial, middle manager, top manager); job tenure (years).

Analysis

Anovas and post-hoc group comparison were conducted to test Hypothesis 1 regarding generational cohort similarities in work value orientation. Next, a multiple stepwise linear regression was used to determine the relations between the independent variables and the dependent variable.

RESULTS

Descriptive statistics, correlations and reliabilities are presented in Table 1.

	Mean	S.D.	1	2	3	4	5	6	7	8	9
1. Obtaining recognition	4.3	1.5	1								
2. Structure at work	5.3	1.2	.286**	1							
3. Formal authority	5.6	1.0	.229**	.386**	1						
4. Respect for plurality	6.5	.6	-.015	.028	-.012	1					
5. Work-life balance	6.2	.9	.246**	.297**	.114	.244**	1				
6. Flexibility	6.2	.9	.132	-.023	-.042	.243**	.215**	1			
7. Employee recognition	5.6	1.0	.056	.027	.056	.287**	.006	.073	1		
8. Employee retention	5.9	1.1	.011	.191**	.058	.128	.135*	-.037	.256**	1	
9. Perceived intergenerational conflict	3.1	1.5	.169*	.155*	-.014	-.189**	.015	.070	-.333**	-.191**	1

Note. Pearson's correlations: * p<.05, ** p<.01.

Table 1. Means, standard deviations, correlations and reliabilities (N=213)

ISBN: 978-9963-711-37-6

Hypothesis 1 posited that the generations would not display differences in work value orientation. A one-way analysis of variance was used to test this hypothesis. The Anovas conducted to compare the three generational groups were significant for only two of the six work values. Specifically, only Respect for Plurality (F(2;210)=6,05 p<,00) and Flexibility (F(2;210)=5,13 p<,01) differed significantly across generations. The results of Tukey's HSD post-hoc test indicated that members of Generation Y (p=.009) and Generation X (p=.007) attached significantly greater value to Respect for Plurality than did Baby Boomers, while Generation Y participants (p=.005) rated Flexibility as more important than the Baby Boomers did. These results partially supported the hypothesis that the three generations have similar work-value orientations, except with regard to two of the three intrinsic work values (namely Respect for Plurality and Flexibility).

The multiple stepwise linear regression analysis initially included seventeen independent variables and one dependent variable. During the regression, twelve variables were excluded from the model and the final model was based on five variables that explain the dependent variable perceived intergenerational conflict (Table 2). The model offered an explained variance of 20% (F=11.200, df=(5, 203), p<.001).

Model	R	R^2	Adjusted R^2	Std. error of estimate	Change Statistics				
					R^2 Change	F Change	df1	df2	Sig. f Change
1	.335[a]	.112	.108	1.434	.112	26.195	1	207	.000
2	.386[b]	.149	.141	1.407	.037	8.836	1	206	.003
3	.419[c]	.176	.164	1.388	.027	6.706	1	205	.010
4	.447[d]	.200	.184	1.371	.024	6.165	1	204	.014
5	.465[e]	.216	.197	1.360	.016	4.205	1	203	.042

a. Predictors: (Constant), Employee recognition

b. Predictors: (Constant), Employee recognition, Education

c. Predictors: (Constant), Employee recognition, Education, Obtaining recognition

d. Predictors: (Constant), Employee recognition, Education, Obtaining recognition, Employee retention

e. Predictors: (Constant), Employee recognition, Education, Obtaining recognition, Employee retention, Structure

Table 2. Multiple stepwise linear regression: model summary

Concerning Hypothesis 2a, the results showed that two of the three extrinsic work values were positively associated with perceived intergenerational conflict. Higher adherence to the work values Obtaining Recognition (t=1.868, p=.06, β=.122) and Structure (t=2.051, p<.05, β=.137) predicted greater perceived intergenerational conflict. Hypothesis 2b could not be assessed because all three intrinsic work-values (Respect for plurality; Work-life balance; Flexibility) had to be excluded from the final model.

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Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	B		
(Constant)	5.966	.800		7.453	.000
Employee recognition	-.433	.101	-.279	-4.272	.000
Education	-.624	.202	-.205	-3.094	.002
Obtaining recognition	.124	.066	.122	1.868	.063
Employee retention	-.263	.095	-.188	-2.764	.006
Structure	.169	.082	.137	2.051	.042

Table 3. Multiple stepwise linear regression: coefficients

A particularly important role was identified for Employee Recognition (t=-4.272, p<.000, β=-.279) and Employee Retention (t=-2.764, p<.01, β=-.188), both of which were associated with lower perceived intergenerational conflict. Specifically, the high β-coefficients showed that employee recognition and retention were strong predictors of the tendency to perceive intergenerational conflict.

Finally, the control variable Education (t=-3,094, p<.01, β=-.205) was negatively associated with the dependent variable. It appeared that those holding a university degree perceived less intergenerational conflict within their company than those with a lower level of educational attainment. We also controlled for generational group effects, testing whether some generations perceived more intergenerational conflict than others, but the results showed that perceived intergenerational conflict was not influenced by employees' generational designation (BB: ref.; X: t=-.357, p=.721, β In=-.023; Y: t=-.061, p=.383, β In=-.061).

CONCLUSION

Previous research has provided mixed support for the idea that generations may be defined in terms of different work values and that this can lead to intergenerational conflict. The purpose of the present study was to investigate generational differences in work values as well as to make a first empirical attempt to analyze perceived intergenerational conflict in relation to individual work value orientations. The outcomes of our analysis represent an interesting contribution to diversity management research and bear useful implications for managing a multigenerational workforce.

First, it emerged that significant generational differences do not exist in relation to extrinsic versus intrinsic work value orientations, except for the fact that Generation Y displays stronger intrinsic work values than the Baby Boomer generation. What is more, further analysis (see Lazazzara, 2013) revealed a high level of intragroup heterogeneity within each generation, with other individual characteristics (e.g., role, gender, industry) influencing work value orientation more than generational designation. Secondly, work value orientation was found to play a key role in perceived intergenerational conflict. Specifically, having an extrinsic work value orientation appears to be

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related to a stronger tendency to perceive intergenerational conflict, while in the current study it was not possible to assess the relationship between intrinsic work value orientations and perceptions of intergenerational conflict. This means that those who are extrinsically motivated and are focused on financial and social resources see other generations as competitors in this struggle for more resources and, therefore, perceive more threats related to the coexistence of different generational groups within the workplace. Third, the results also pointed up the vital importance of organizational support in preventing intergenerational conflict. Employee recognition and retention were found to be critical intervening variables implicated in reducing perceived intergenerational conflict. In other words, appropriate management styles that respect individual reinforcement preferences can diminish the risk of intergenerational conflict.

The limitations of the current study need to be taken into account when interpreting the results. Caution should be used when generalizing from our findings. First, we used a convenience sampling method to recruit employees working in multinational subsidiaries based in a specific Western country, so our sample is representative of a very specific cultural context and of highly specific occupational situations. Additional data collection is recommended to test whether these findings may also apply to other contexts. Second, we used a cross-sectional research design that does not provide any insight into causal relationships. Further longitudinal studies might also assess causal patterns among the variables. Another limitation stems from the use of self-report and single-item measures, especially with regard to the dependent variable. We recommend the development of a more reliable scale to measure the construct of intergenerational conflict, as well as further studies examining how intergenerational conflict might be explained by self-determination theory.

Despite these limitations, our study has multiple practical implications. First, it strongly suggests that adopting managerial styles and HRM practices that meet individual needs and preferences would be an effective strategy for reducing intergenerational conflict at work and fulfilling employee needs. Moreover, diversity management would benefit from changing its approach to the analysis of generational issues by emphasizing the similarities, rather than the differences, among generations and leveraging these commonalities to promote a collaborative work environment.

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 ISBN: 978-9963-711-37-6

CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE REPUTATION IN THE FINANCIAL SECTOR OF DEVELOPING COUNTRIES

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ABSTRACT

This research seeks to study the influence of Corporate Social Responsibility (CSR) on the reputation of a corporation from a strategic point of view. The literature review suggests the absence of this type of study for the banking sector in emerging countries. In this sense, this research seeks to contribute to a better understanding of the CSR effects on the corporate reputation (CR) in the banking sector in Peru. By using the methodology of the case study, the four most relevant banks in Peru have been analyzed representing 25% of all participants of the banking system in Peru and 80% in the participation of three financial indicators: % credits, % deposits and % patrimony (equity) and, it has been detected that CSR could affect both corporate reputation (CR) and the investor's confidence. In addition to this, it has been found that CR could act as a moderating variable between CSR and the investor's confidence. Peruvian banking companies have improved their reputation due to their social responsibility actions. This improvement of reputation has been correlated with a strengthening of enterprise value. Likewise, the analysis of each of the cases, within the scope of the plans of CSR, seven propositions were detached classified in three relations (CSR and investor confidence, CSR and corporate reputation, and corporate reputation and investor confidence). The novelty of this work is twofold. The literature has analyzed the concepts of CSR and CR in an isolated manner. After a thorough review a model that relates the two concepts is proposed. Secondly, the model is used to pose hypotheses of the relation CSR and CR in financial sector companies in developing countries. Research in this topic has been done mostly in production enterprises and in developed countries.

Keywords: *investor confidence, corporate social responsibility, corporate reputation, banking sector, case study, Peru*

[1]*The paper is part of doctoral research.*

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 ISBN: 978-9963-711-37-6

INTRODUCTION

The research on corporate social responsibility (CSR) has evolved in time and currently has positioned itself as one of the pillars of analysis in the scope of business organization. In recent years, corporate social responsibility (CSR) has received increasing attention from companies, the financial community, regulators and policymakers (Bouslah et al., 2013). From the academic point of view, various studies have addressed its importance in the economic benefits of the company and in the development of the community. In addition, as shown by the empirical evidence, the CSR actions have an impact on the company's reputation (Knox and Maklan, 2004). It is therefore important that the *company's stakeholders* not only consider the corporate social responsibility within their strategic plans but also consider the corporate reputation (CR) as a variable that can be influenced by the decisions of the CSR.

When reviewing the literature, different lines of research that address separately the study of the CSR and CR have been found. Also, the existence of a limited set of investigations that relate both theories has been confirmed. Few banking theories are related to CSR. One way to incorporate CSR with banks is to relate the role of the bank's reputation (Wu and Shen, 2013). In the theoretical model of Chemmanur and Fulghieri (1994), for example high-reputation banks are shown to have incentives to perform the pre-loan more rigorous evaluations of unobservable prospects borrowers compared to banks with low reputation. Also, Bushman and Wittenberg-Moerman (2012) document that high reputation banks are associated with variables such as profitability, credit quality of accounting data reported by borrowers. Far less are even the empirical studies that analyze CSR and CR in conjunction and the relationships between them. This scarcity represents a gap in research on this topic.

The purpose of this document is to overcome both the theoretical and empirical research gap existent in the CSR and CR. To do this, in the first place, it shows the state of art with respect to the existing research on CSR and the CR by focusing on those *papers* that address these theories separately. In section three an exhaustive review of the research that analyze jointly CSR and CR to propose a theoretical model that relates both concepts is performed, besides it is include the investor´s confidence. The investigations in this field, especially those of empirical nature, are oriented toward developed countries and to productive sectors. The objective of this paper is to apply the theoretical model proposed that relates CSR and CR to companies in the financial sector in developing countries through an analysis of cases. There is no knowledge, up to where the revision of the authors has reached, that this analysis has been performed previously. Therefore, we hope that the results of this research will contribute to a better understanding of the effects of CSR on the CR in other different contexts other than their own of developed countries.

 ISBN: 978-9963-711-37-6

THEORETICAL FRAMEWORK AND LITERATE REVIEW ON CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE REPUTATION.

In literature, the theories of CSR presents four common dimensions (Garriga and Mele, 2004): benefits of CSR in the companies, the political performance of business in society, the social demands on CSR and the ethical values. Under this premise, you can sort the theories of CSR in four blocks according to the emphasis that each one of them makes in any of the four dimensions: instrumental theories, political theories, integrative theories and ethical theories.

Research within the instrumental theories includes those authors who consider the company as a tool for wealth creation and its social activities as a means to achieve economic results. Companies are now opting for a ethical and responsible behavior to the extent that such behavior provide competitive advantages to the business. There are three subgroups within these theories which are distinguished by the proposed economic objective. The first one considers that the goal of the CSR is to maximize the value of the shareholder, as measured by the share price (Friedman, 1970; Jensen and Meckling, 1976; Jensen, 2000). The second considers that the goal of the CSR should be to reach different sources of competitive advantage (Teece *et al.*., 1997; Husted y Allen, 2000; Hillman and Keim, 2001; Petrick and Quinn , 2001) or to have an incidence on the results of the company (Prieto *et al.*., 2014) or at least an stakeholder can differentiate between initiatives that align with the interests of business and society (Goss and Roberts 2011). The third proposed that the objective of the CSR is to extend the effects of marketing (Varadarajan and Menon, 1988; Smith & Higgins, 2000).

The second block of research is made up by the authors that develop the political theory . This theory refers to the effects of the excessive power of business in society and the benefits of a responsible exercise of that power in the political arena. Within the variety of approaches, three are considerable: the corporate constitutionalism, the theory of integral social contract and corporate citizenship. Corporate constitutionalism (Davis, 1960 and 1967) considers that the company is a social institution that has the power (social power), which must be used responsibly. The theory of integral social contract (Donaldson, 1982; Donaldson and Dunfee, 1994, 1999) take into account the socio-cultural context and also normative and empirical aspects of management in a comprehensive manner. Under this theory, the social responsibility comes from the consent of the society. Finally the corporate citizenship analyzes the activities of the company to be considered legitimating before society (Davis, 1973; Altman and Vidaver-Cohen , 2000; Matten et al., 2003).

Another block of research refers to the integrative theories that study the identification, channelization, training and response of firms before the social demands of the stakeholders. Four distinct lines of research are differentiated.

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The first deals with the social responsibility from a point of view of management (Sethi, 1975; Wartick and Rude, 1986; Greening and Gray, 1994) suggesting that the gap between the expectations of society over the company behavior and the actual behavior of the company is crucial for managing the company's CSR. The second theory, proposed by Preston and Post (1975, 1981), define the principle of public responsibility as company policies that is not only based on the law and regulation, but also in broad pattern of social direction reflected in public opinion, formal legal requirements and implementation practices also Bouslah et al., 2013 establishes the relationship between the performance of the business and business risk. The third theory focuses on the possible effects that business decisions can have on other interest groups in society (Rowley, 1997; Agle *et al..*, 1999; Berman *et al..*, 1999). Finally, the fourth theory is the corporate social performance that seeks to integrate certain aspects of the previous theories and, moreover, it includes research on the social legitimacy (Carroll, 1977; Wood, 1991).

Finally, the fourth approach of theories of CSR are the ethical theories that are studying the ethical responsibility of enterprises to society and are grouped into four approaches: the normative theory of the *stakeholders*, the universal rights, sustainable development and the approach of the common good. The normative theory of the *stakeholder* begins with Freeman (1984) and is based on the fact that the interests of all *stakeholders* are of intrinsic value, i.e. each group of *stakeholders* deserves credit for its own sake and not necessarily because of its ability to promote the interests of any other group. The theory of the universal rights believes that human rights is the foundation of the CSR (Cassel, 2001) emerging from here approaches such as the Global Compact. The theories of sustainable development were originally aimed at environmental issues (Russo and Fouts, 1997). However, this concept has been developed over time and has been including other factors such as the social (World Business Council for Sustainable Development , 2000). Finally, the approach of the common good argues that the company, like any other social group or individual in the society, has to contribute to the common good, because it is part of society (Carroll and Savannah, 2010). In that sense this approach argues that the company is a mediating institution.

With regard to corporate reputation (CR), in the literature there is a range of definitions, and all of them share a common element: that the expectations and perceptions of the *stakeholders* involved with the company determine its degree of reputation (Ferguson et al ., 2000; Fombrun and Van Riel, 2002; Chun, 2005). It is expected that the different *stakeholders* have different interests and different expectations, so the corporate reputation will depend on the crossing of these expectations with the real-world experiences resulting from compliance or noncompliance with the commitments made by the company.

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In line with the above, the CR will be the result of confronting what the company is committed to do, with what it really does and with the opinion of the *stakeholders* in this regard. This means that the company must align the CSR with its objectives, its declared values, with its behavior and expectations of the *stakeholders*. Following Chun (2005) it is possible to identify three types of schools of thoughts about CR: evaluative, impressional and relational. The main difference between these schools lies in the *stakeholders that* are taken into account as a focal point in assessing the CR.

Evaluative school considers reputation as a competitive advantage for its interference in the financial value or by the short-term financial performance of the company (Williamson, 1985; Barney, 1991; Grant, 1995; Deephouse, 2000; Kotha et al.,2001; Bromley, 2002; Williamson, 2002; Eberl and Schwaiger, 2005). In this scenario, the relevant stakeholders are the shareholders, the managing director and the chief investment (Srisvastava et. al. , 1997).

The impressional school focuses on the emotional association of stakeholders with the company, which will influence on the financial performance in the long term. Under the perspective of this school, three factors explain the CR, the image, the identity and legitimacy (Dowling, 1993; Brown *et al.*., 2005 ;). Also, this school believes that the reputation is evaluated as the perception of the employees and consumers instead of some financial indicator, as is the evaluative school. The relational school maintains that the corporate reputation includes the internal perspectives of the *stakeholders* (identity and desired identity) and external (image). These three elements represent the core of the relational school (Hatch and Schultz, 2001; Davies and Chun, 2002; Chun and Davies, 2006).

Table 1 summarizes the contributions of the literature about the corporate social responsibility and corporate reputation, evidencing the absence of traslational researches between both of them, implying the existence of a breach within the research.

Tabla 1: Contributions of CSR and CR

Research in CSR	
1. Instrumental theories (CSR as tool for wealth creation)	
1.1 Maximize the value of the shareholder	Friedman, 1970; Jensen Meckling, 1976; Ross, 1973; Jensen, 2000
1.2 Other competitive advantages	Husted and Allen, 2000, Goss and Roberts 2011
1.3 Extend the effects of marketing	Varadarajan and Menon, 1988; Smith and Higgins, 2000
2. Political theories (power of business in society)	
2.1 Corporate constitutionalism	Davis, 1960 and 1967
2.2 Integral Social Contract	Donaldson, 1982; Donaldson y Dunfee, 1994, 1999 and 2000
2.3 Corporate citizenship	Davis, 1973; Altman and Vidaver-Cohen, 2000; Andriof and McIntosh, 2001; Matten et al., 2003
3. Integratives theories (strategies on stakeholder´s demands)	

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3.1 Management point of view	Sethi, 1975; Ackerman, 1973; Jones, 1980; Greening and Gray, 1994; Brewer, 1992; Wartick and Rude, 1986
3.2 Public responsibility as company policies	Preston and Post (1975, 1981), Bouslah et al., 2013
3.3 Management of Stakeholders.	Kaptein and Van Tulder, 2003; Ogden and Watson, 1999; Rowley, 1997; Berman et al., 1999; Agle et al., 1999
3.4 Corporate social Performance	Carroll, 1977; Wartich and Cochran, 1985; and Wood, 1991

4. Ethical theories (ethical responsibility with the society)

4.1 Normative theory of the stakeholder	Freeman (1984)
4.2 Theory of universal rights	Cassel (2001)
4.3 Sustainable development	TheWorld Business Council for Sustainable Development (2000)
4.4 Approach of common good	

RESEARCH BREACH

Research in CR
1. Evaluative school
The reputation is important due to its interference in the financial value or the short-term financial performance of the company (Barney, 1991; Hall, 1992; Grant, 1995; Dunbar and Schwalbach, 2000; Sabate and Puente, 2003; Eberl and Schwaiger, 2005). In this scene, the relevant stakeholders are the stockholders, the General Manager, and the Investment Head (Srivastava et. al., 1997).
2. Impressionist school
Emotional association of the stakeholder with the company (Balmer, 1997; Brown et al., 2005; Dowling, 1993; Yoon et al., 1993; Weiss et al., 1999; Dutton et al.,1994). Three elements explain the corporate reputaion: imagen, identity and legitimacy.
3. Relational school
Corporate reputation includes the perspectives of internal stakeholders (identity) and external (image) (Davies and Miles, 1998; Hatch and Schultz, 2001).

Elaboration: Authors

TRASLATIONAL RESEARCH ON CSR AND CR AND RESEARCH MODEL

The reputational risk can be defined as the possibility of loss or decline in the reputation of an organization. This loss of reputation affects the perception that the social environment has on the company producing a direct or indirect loss in the value of the company (Rayner, 2003; March and Shapira, 1987; Bebbington, 2007). The reputational risk can be situational or planned. The situational is characterized by being immediate, that is to say, it is impossible to anticipate CSR actions

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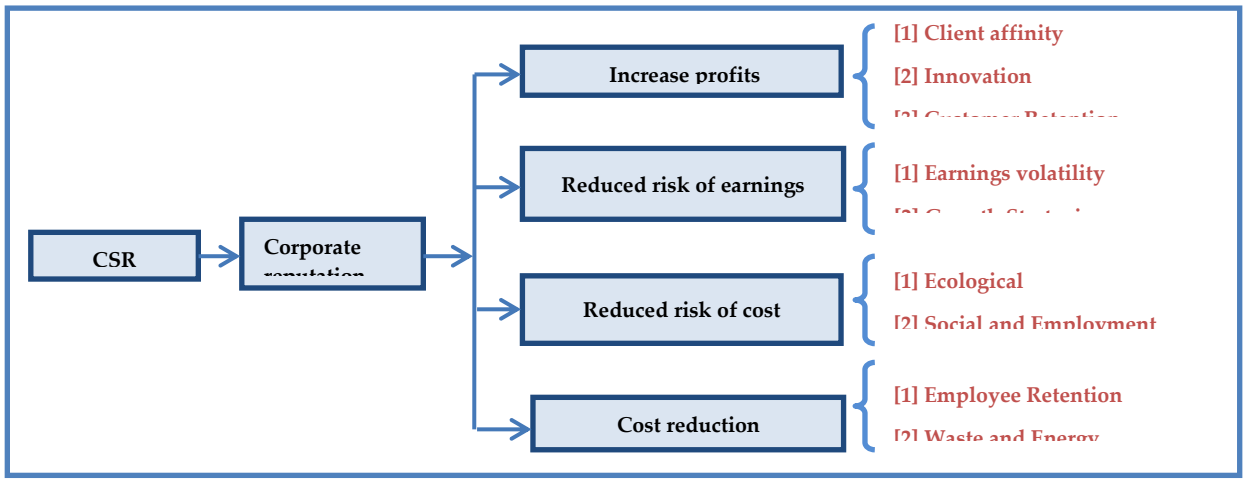
on it to control the situation. In the reputational risk provided the company can anticipate actions of CSR with the purpose of minimizing the consequences. For example, a company that plans the closure of a plant will carry out communication campaigns with sufficient time to explain the reasons and try to minimize adverse reactions.

According to the above, the corporate social responsibility has an impact on the risk of reputation provided. Since the reputation of the company depends on the perceptions of the *stakeholders*, then each of them is a source of risk that the company has to manage through plans of CSR. In addition, the company must manage its relations regarding these interest groups (Pfeffer and Salancik, 1978; Turban y Greening, 1997; Wagner et al. , 2009).

The CSR is part of a cycle through which companies generate capital of reputation, managing reputational risk and improve their performance. Companies invest in corporate social responsibility, which generates a capital stock of reputation which is used for two purposes: on one hand, it represents a launching pad for future opportunities and, on the other hand, safeguarding existing assets, acting as a damper against losses. Through the CSR programs it gives consistency to the cycle and manages the risk of reputation. According to Knox and Maklan (2004), the ultimate effects of CSR on corporate reputation can be divided into four categories: profit, risk associated with the loss of profits, cost and risk reduction of costs (Figure **1**).

Figure 1: Effects of the relationship between CSR and corporate reputation



Source: Knox y Maklan (2004)

As a result from the review of the literature about the traslational research between CSR and CR there are three main conclusions. The first is that the corporate social responsibility could have positive effects on the company's reputation (Newgren et al.,1985; Bromiley and Marcus, 1989; Brown and Perry, 1994; Klassen and McLaughlin, 1996; Graves y Waddock, 1997; Wright & Ferris, 1997; Moore, 2001; Hill et. al. ,2003). This finding is not only theoretical (between the different conceptual approaches), but also empirical. However, it has been found that the research in this field are geared

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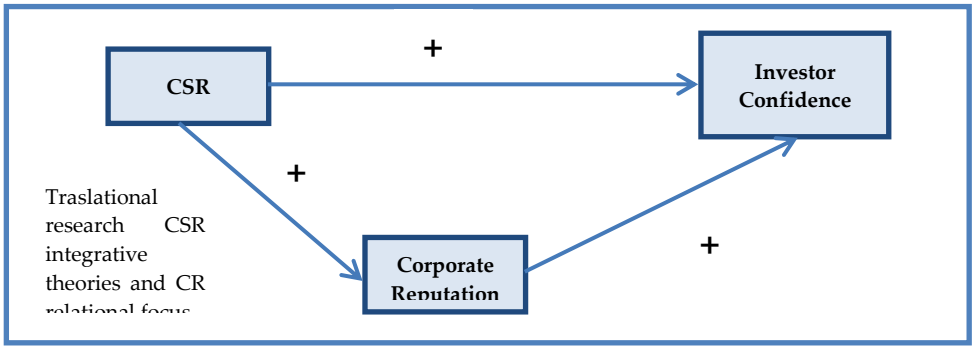
mainly to developed countries. This is important because it opens up a line of research that involves the application of the theoretical framework of the CSR and CR in developing countries.

A second conclusion is that among the different approaches of corporate reputation, one that emerges as the one that considers the perceptions of all *stakeholders* is the relational school (Hatch and Schultz, 2001; Davies and Chun, 2002; Chun and Davies, 2006). This is important because it lets you relate it to the integrative theories of the CSR. From the literature review it was found that in this aspect the relationship between the CSR and the CR has not been addressed from a point of view of *stakeholders*. This, for example, is important to production and financial sectors in developing countries.

A third conclusion is that of the reviewed studies it is found that the main reason whereby the company maintains CSR plans and improves their level of CR is because both variables will yield greater economic benefits (Newgren et al., 1985; Brown and Perry, 1994; Klassen and McLaughlin, 1996; Graves and Waddock, 1997). In line with this, studies that quantify the impact of the CSR and the CR on the benefits of the company or of the relationship between the two on the business benefits have not been found.

As a result of these conclusions, a research model that relates the CSR, the corporate reputation and the confidence of the investor is proposed in this investigation. In the following graph the major variables of study and their relationships between them is outlined. In the first place, it is expected that the CSR plans undertaken by the companies positively influence on the investor confidence and on the corporate reputation (Newgren et al., 1985; Bromiley and Marcus, 1989; Brown and Perry, 1994; Klassen and McLaughlin, 1996; Graves and Waddock, 1997; Wright and Ferris, 1997; Moore, 2001; Hill et.al.,2003). Secondly, it is expected that the corporate reputation could increase investor confidence (Orlitzky *et al.*.,2003; Margolis et. al. , 2007; Wood , 2010). In addition, the role of the corporate reputation will be evaluated as a moderator variable of the relationship between CSR and the confidence of the investor (Klassen and McLaughlin , 1996; Graves and Waddock, 1997; Knox and Maklan, 2004) in order to support the research model showed in figure 2.

FIGURE 2: Research Model



Elaboration: Author

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METHODOLOGY

This research employs the methodology "case study" to produce a inductive reasoning and from the study, the observation and data collection to establish hypotheses or theories to contrast the proposed research model with large samples. In literature various classifications of the case studies are distinguished. However, two of them are considered principal: the classification of Williams (1987) and the classification of Stake (1994, 1995). Williams (1987) considers that the case study has four types: illustrative, exploratory, cumulative and critical. While Stake (1994, 1995) considers three types of case study: study of intrinsic case (only case), instrumental study of cases and study of collective cases (multiple cases). In this investigation it was opted to follow the classification of Williams (1987), and in particular the "*cumulative case study*" has been elected. This choice is justified by three arguments: the first is that we want to analyze the plans of CSR in a transversal manner between the participants of the selected sample, this is in response to the interest in obtaining similarities and differences in the CSR among the studied cases. The second is that the taking of various cases strengthens the research by means of more information on the studied variables. Finally, the third reason is that it not only allows you to describe each case but also make possible inferences of the analyzed cases more rigorously. The study of collective cases (cases multiple) proposed by Stake (1995) presents some similarities with the cumulative case study by Williams (1987). However, the latter was chosen because it considers the information available not only at a particular point in time but over a period of time that the investigator considers to narrow the research, which would provide more information. In this regard, for this research it is being considered the available information from 2005 to 2013.

4.1 Choice of the sample

The novelty of this paper is to apply the model of relational research between CSR and CR to developing countries and to the different sectors of manufacturing. According to Schumpeter (1912), the well functioning of financial institutions such as banks, through technological innovation, allows companies to increase their chances of successful introducing innovative products and production processes. Therefore, a healthy banking system is the key to sustained prosperity (King and Levine, 1993). Similarly, banks also played an important role during the last credit crisis (Wu and Shen, 2013). It is important to note in this line, that the banking system plays an important role in economic development (Levine, 2005; Shen and Lee, 2005) due to its safety and soundness create several external benefits to society. Therefore, the research is defined to the study of cases of companies belonging to the Peruvian banking system, which is formed in 2012, by sixteen banks (Banco de Credito del Peru (BCP), Banco Continental (BBVA), Scotiabank Peru, Interbank, Banco Interamericano

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de Finanzas, Mibanco, Banco Financiero, HSBC Bank Peru, Citibank, Banco Falabella Peru, Peru Banco Santander, Banco de Comercio, Ripley, Banco Azteca Peru, Banco Cencosud, Deutsche Bank Peru). Of this universe a representative sample is selected by choosing a set of financial indicators that provide you with the necessary criteria to discriminate sample members.

Between the different financial indicators available three have been chosen: involvement of the company in the credit market, in the market of deposits and in the assets. Its justification is that the selected indicators reflect the income of the banking company, the source of funds and the financial health crises.

The first (% credits) indicates the percentage of loans of the bank with respect to the total in the banking system and reflects, to some extent, the market power of the banking companies. The second (% deposits) shows the market participation of funds and the third (% patrimony) reflects the own capital of each bank in comparison with the total of the banking system. The latter is important because it explains the financial strength to cope with unexpected losses. The sample shall consist of those banking companies that together, they have a participation above 80 %. Figure 3 shows such indicators for the banking system in 2012.

It is noted that the Banco de Credito del Peru (BCP) has the largest market participation in credits, deposits and in net patrimony (equity) with regard to the total of the banking system. Secondly, there is the Continental Bank (BBVA), leaving in third and fourth place Scotiabank Peru and Interbank respectively. Also, in the graphic on the right it is noted that these four banks, as a whole, have a participation of more than 80% in the three proposed indicators. This suggests that the sample will be composed of these four banks, which represent for 25 percent of all participants of the banking system.

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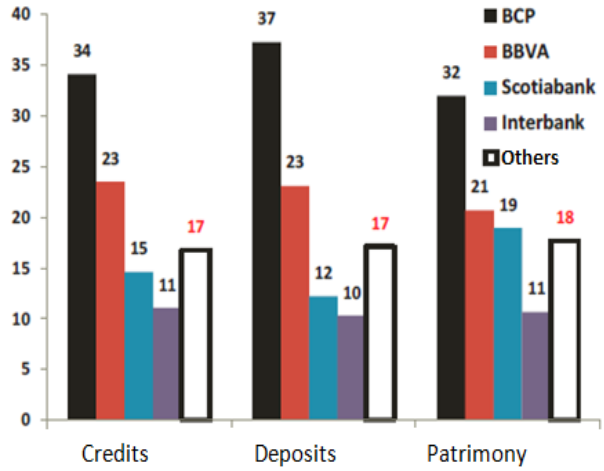
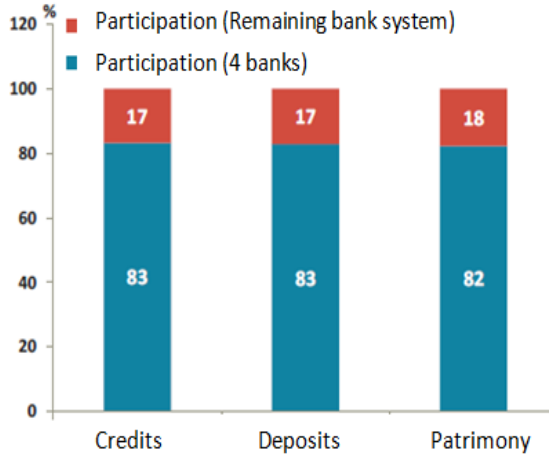
Figure 3: Participation of the banking companies in the financial market

Participation for bank corporation



Accumulate participation



Source: Superintendency of Banking and Insurance

The selection of the cases under the three financial indicators, where such cases have a representativeness -in the banking system - above the 80 percent; and that the selected cases represent a 25 percent of the population, respond to the objective of generalizing the findings in this sample to the universe as a whole in line with Eisenhardt (1989). In each of the cases we analyze three comparative fields, strategic goals, interest groups and actions taken. This allows to arrange the information contained in each case to then make proposals and inferences.

DESCRIPTION OF THE CASES

Banco de Credito del Peru (BCP)

The BCP conceives the CSR as the way to satisfy the economic, environmental and social expectations of the interest groups that are related to the objectives and functions of the Bank. To give organizational content to this philosophy, it creates the area of Social Responsibility (SR) in the year 2008 within the Corporate Affairs Division, in order to manage the expectations of its stakeholders through ethical and responsible actions that promote the economic sustainability of business, and to incorporate social and environmental aspects to its management. The following table summarizes the main elements of the CSR in BCP.

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Elements of the CSR	Description
[1] Strategic objectives	- Understanding the expectations of the groups of interest. - To strengthen the commitment of the partners with the business and with the activities of SR. - Promote financial inclusion in disadvantaged communities of Peru. - To promote the development of childhood and youth through education and sport. - Be environmentally responsible. - Encourage financial education and culture
[2] Interest groups	- Shareholders, Partners, - Community, opinion leaders and customers.
[3] Actions undertaken	
3.1 Education	- BCP is the nation's leading sponsor of Mathematics for all project, to arouse interest in schoolchildren for mathematics and strengthen their learning. Beneficiary: 59,460 schools, 38,822 educational materials delivered, 1,148 trained teachers, 115 schools which benefit in 15 regions of the country - BCP gives an Integral scholarship for undergraduate studies in Peru to the first place of the promotion of the School Mayor Presidente del Peru, and financial support throughout their years of study. - BCP signed the first agreement of cooperation with the Faculty of Statistics at the Universidad Nacional de Ingenieria. Beneficiaries: 2 integral scholarships granted with 10,000 annually to the scholarship students and 20 preferential loans placed.
3.2 Infrastructure Works	BCP supports the Peruvian state in infrastructural issues through the mechanism of "works by taxes". In 2012, BCP financed the project of "Expansion and improvement of the potable water system and construction of the sewerage system in Centro Poblado La Encantada" in Piura. In addition 12 million has been made in public investment with 4,000 winners and 670 residential connections.
3.3 Volunteer	Led by partners, through ten committees at the national level. Beneficiaries: 857 volunteers mobilized, 2,516 voluntary participations, 5,164 beneficiaries, 28 activities undertaken, 20 emergency shelter built.

In addition to the three types of plans of CSR that BCP has implemented (education, infrastructure, and volunteer work), the bank has focused its efforts to promote the development of small and medium-sized enterprises (SMEs) and the development of the tourism sector. In regard to the

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development of SMEs, BCP implemented CSR-oriented plans to increase the competitiveness of companies operating in the textile-clothing sector (Lima). In these plans CSR worked with 500 SMEs to enhance production processes and quality, direction and management of business, access to new markets, and design of quality clothes and accessories. On the other hand, in the tourism sector, BCP conducted trainings and technical assistance so 50 lodgings and restaurants located in the Moche Trail (Trujillo), could obtain the CALTUR stamp of the Ministry of Foreign Trade and Tourism.

Banco Continental (BBVA)

The policy adopted by BBVA Continental in the areas of corporate responsibility follows the general trend of all the financial institutions that make up the BBVA Group: define decisions and actions to promote those that involve all the interest groups in the generation of social value and directly involving the Group in the generation of economic value and reputation.

Since 2008, BBVA Continental has a Committee of Corporate Responsibility and Reputation, which meets periodically to monitor and evaluate the most relevant issues that are proposed in this area. Meetings are led by the Managing Director of the bank and have the assistance of members of the Management Committee and the Manager of Image and Communication, responsible for the execution of actions in the CSR. The following table summarizes the main elements of CSR of BBVA.

Elements of the CSR	**Description**
[1] Strategic objectives	Financial Inclusion and financial education and culture.
[2] Interest groups	-Shareholders, Partners, -Community, opinion leaders and customers.
[3] Actions undertaken	
-Program: "Reading is to stay ahead"	This program allows large number of teachers and students, in eight regions of the country, to achieve the objectives of increasing the rates of reading and to improve the levels of understanding among the Peruvian students. Currently the bank is implementing this program in 8 regions of Peru: Ancash, Arequipa, Ayacucho, Ica, La Libertad, Lima, Loreto and Piura. The program has four lines of action: **Materials:** The program has developed textbooks for the students and teaching guides for teachers in agreement with the intervention area. **Training:** The program strengthens the teachers in a set of conceptual, pedagogical and

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methodological abilities for the teaching of reading comprehension.

Measurement of learning: The measurement of component programming seeks to analyze the effectiveness of the intervention of the program from the point of view of the change in the performance of students in the area of reading comprehension.

Institutionalization: The transverse component of institutionalization seeks to strengthen the efforts and local initiatives and macro-level related to reading comprehension. To do this an Agreement of Interinstitutional Cooperation with the Ministry of Education has been signed since the beginning in order to contribute from the program design to the national education policy.

Scotiabank Peru

Scotiabank integrates internationally Corporate Social Responsibility in all their daily activities. CSR priorities established by the Head Office are aligned in a five-point strategy: (1) Sustainable and profitable growth of the business, (2) Management of the capital and the balance sheet, (3) Leadership, (4) Prudent risk management and moderate appetite for it, and (5) Efficiency and expense management. Also, Scotiabank believes that the CSR is a vision of business committed to ethical values, people, environment and communities. This behavior contributes to sustainable development, considers the stakeholders and complies with the laws.

In order to manage the CSR, the bank has developed "The Social Responsibility Strategic Plan", which was formulated with a time horizon of five years, from 2009 to 2014. In the following table are mentioned the strategic objectives, interest groups and the main actions of CSR that the bank has implemented in Peru.

Elements of the CSR	Description
[1] Strategic objectives	**(1)** Join the CSR transversely throughout the Bank. Includes development of management tools. **(2)** Integrate external interest groups in the actions of CSR (customers and suppliers). **(3)** Exercise social and environmental leadership. **(4)** Spread the actions performed in the society in terms of Social Responsibility. **(5)** Financial education.
[2] Interest groups	Shareholders, customers, partners, suppliers, environment and community.
[3] Actions undertaken	
Improvement of income and food	Scotiabank Peru and Care help families, especially the women of the

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security with women in Santa Teresa - Cuzco Phase II	microwatersheds, to improve their income and food security. This is part of the project Good Local Governance and Corporate Social Responsibility to improve the quality of life for women and children in the Andean Watersheds.
Building capacities for the financial and social inclusion of low-income families in Piura, Ica and Huancavelica	The objective is to repeat the methodologies and strategies developed in Santa Teresa, including innovations and the outcome of the lessons learned. Expected results: 2 thousand low-income families generate their income in a sustainable manner, as more than 1,800 children under 3 years old will improve their state of health and nutrition. 27 educational institutions achieve quality of teaching.
Access opportunities to higher education and volunteerism in Callao (marginal urban areas)	This project is being implemented in strategic alliance with COPRODELI and has two components: **Component 1:** Scholarship Fund and Educational Credit aimed at school children and graduates for entrance and studies in higher centers. **Component 2:** Actions of transfer of skills through volunteering
School Program EcoBusiness	Support for the program of environmental education and entrepreneurship created by IPES (Institute for the Promotion of the Social Economy), aimed at young school children between 14 and 16 years old. It has expanded to 100 participating schools, with training to 100 teachers in the areas of science, technology and environment and Education for Work and to 461 students in business plans, budgets and team work.
Implementation of drinking water systems and sanitation in vulnerable areas	The NGO "Agualimpia" facilitates coordination between local governments, regional governments, the private sector and communities to implement self-sustaining systems of drinking water and sanitation in vulnerable areas of Peru. Between the years 2007 and 2012, Scotiabank Peru has conducted participatory work with twelve local governments and 46 sanitation projects.

As noted in the chart above, Scotiabank has implemented a set of programs of CSR, which respond to a strategic plan. This suggests that in the future this Bank will continue to strengthen its programs in such a way that they are sustainable over time.

Interbank

Interbank has tried to differentiate from their peers as a bank based in people and a value-based organization. In this sense, the company has undertaken several projects that have sought to foster human development within and outside the bank. In the following table are mentioned the strategic objectives, the interest groups involved and the main actions undertaken under the concept of CSR.

Elements of the	**Description**

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CSR	
[1] Strategic objectives	Education, financial inclusion and environment
[2] Interest groups	-Shareholders, Partners, -Community, opinion leaders and customers.
[3] Actions undertaken	
Graceland	Is the program of Interbank intended to transmit to all the collaborators, the culture of the bank through an experiential methodology of values who seek to form better people before better bankers. At Graceland all the staff of the bank are involved regardless their position or hierarchy in groups made up of members from all areas of the institution.
Program "All Terrain"	This program seeks to facilitate access to financial services to the employees of the firms that operate in rural areas, agricultural and/or difficult to access. This program involves the installation of financial shops, Global Net ATMs and coin compartments and even correspondents as Interbank Agent within companies to facilitate the payment of remuneration by allowing workers to gain quick and safe access to their holdings, as well as to give workers the possibility to pay their services. In addition, this program benefits the employer in the reduction of costs in the treasury management.
Program "The Teacher who Leaves a Mark"	This program is a contest that recognizes the contribution of teachers in improving the quality of education. "The Teacher who leaves an impression" is a social initiative that promotes and recognizes the effort and innovation in teaching in favor of national education, this initiative, started from the year 2007, and is being supported by the Ministry of Education.

DISCUSSION

Of the cases of the previous section some propositions are released, which are grouped under three relations.

6.1 CSR and investor confidence

In the banking cases analyzed it shows that one of the main stakeholders of the strategic objectives are the investors and/or shareholders. This clearly responds to that the company wants to provide signs of financial health in order to create confidence in investors. This confidence is important to avoid, on one hand, that the current investors withdraw their funds from the company and, on the other hand, for future investors to decide to reorient its cash flows toward the banking company. This is in line

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with findings by Newgren *et al.* (1985), Brown and Perry (1994), Klassen and McLaughlin (1996), Graves and Waddock (1997). These authors argue that the plans of CSR influence indirectly in the value of the company by means of the increase in the price of the shareholders, which improve because of the confidence of investors. It is noteworthy that the study of these authors is within the scope of real sector companies but not financial. In consequence, with all of the above, there is the following proposition:

Proposition 1: *Corporate social responsibility could have a positive influence on investor confidence.*

It was also noted that part of the CSR plans involve the workers of the company that implement such plan. For example the program of "Volunteerism" of BCP, which is led and managed by the collaborators, through ten committees nationwide. This program involves the collaborators with the community in sessions of infrastructure construction, dictated by workshops in business management, and design and implementation of projects developed by the staff of BCP.

The objective of this program is to strengthen the bank's presence in various areas of Peru through a "personalized" approach by BCP workers to the members of the community. It is anticipated that these programs not only improve the perceptions of stakeholders in the community about the bank's shares, but also increase the commitment of workers in BCP and therefore increase labor productivity. The latter is a good sign for investors, since higher labor productivity could lead to greater economic benefits. This is in line with the instrumental approach to CSR, specifically that sustains that the CSR plans must be oriented to create competitive advantages, which should be based on resources and dynamic capabilities; being the workers one of the main resources of the company (Teece *et al.*., 1997; Husted and Allen, 2000; Hillman and Keim, 2001; Petrick and Quinn , 2001). With the above the following proposition is deduced:

Proposition 2: *Corporate social responsibility, when it involves employees in the company could have a positive influence on investor confidence.*

6.2 CSR and corporate reputation

The corporate reputation represents a set of perceptions that the stakeholders have about the behavior of the company. In particular, of the four cases discussed above (BCP, Interbank, BBVA and Scotiabank) it is deduced that the banking companies have sought to strengthen its "name"; that is to say, a continuous strengthening of its reputation. For this purpose, they have implemented plans of CSR oriented not only to the community but also to customers, investors, suppliers, etc. This effort has been reflected in some local contests on CSR, for example BCP won the award for "Social

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Responsibility and Sustainable Development" in 2007 organized by Peru 2021. It is worth mentioning that this award is a recognition to good business practices that are aimed at seven key stakeholder groups: shareholders, partners, customers, suppliers, community, government and civil society, and environment. A recognition will be made to those programs of social responsibility of companies transversely working with two or more stakeholders (multistakeholder).

Likewise, this recognition, is an initiative of Peru 2021 - non-profit civil association led by entrepreneurs, whose mission is to get the company to acts as an agent of change for the country's development, incorporating CSR as a strategic tool management- which takes place ten years ago, since 2003. In the edition of 2012, Interbank was the bank that received this recognition through its program "All Terrain". From the above it is shown that the key stakeholders are interested in knowing the *performance* of the company in the aspects of CSR and form this form perceptions about its business reputation.

Also, of the reviewed literature, following the approach of the instrumental theory of CSR as a means of improving marketing (Varadarajan and Menon, 1988; Smith & Higgins, 2000) it is deduced that the objective of implementing plans of CSR should be to strengthen the relationship between the consumer and the company, in such a manner as to strengthen the brand, i.e. to improve corporate reputation. This raises the following proposition:

Proposition 3 : *The corporate social responsibility could have a positive influence on the corporate reputation.*

In addition, to the four cases studied it is noted that the plans of CSR are oriented to different regions than to the capital of Peru (Lima). This is important because such regions are less favored in terms of economic dynamics in comparison with the capital. For example the program "All Terrain" implemented by Interbank has been designed to facilitate access to financial services to employees of the firms that operate in rural areas, agricultural and/or of difficult access. This initiative, as has been mentioned before, has been rewarded by Peru 2021. This type of geographic orientation of the CSR plans, on the part of the companies, could be because they wish to strengthen their reputation throughout the country.

In this particular context , the defenders of the relational school of corporate reputation (Hatch and Schultz, 2001; Davies and Chun, 2002; Chun and Davies, 2006) argue that in the construction of the corporate reputation various *stakeholders participate*, and those that are geographically more further away from the company or who receive "less benefits" of business projects, could build a negative perception of the company affecting their reputation. From the above the following proposition arises.

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Proposition 4 : *Corporate social responsibility oriented towards rural areas outside the capital could have positive influence on corporate reputation.*

On the other hand, is appreciated that among the main actions of CSR those that stand out are oriented to improve educational quality. An example of this is the program of BBVA: "Reading is to be ahead". This program has enabled a significant number of teachers and students, in eight regions of the country, to increase the rate of reading and improve levels of understanding. Another effort similar to this is the program "The Teacher who Leaves a Mark". This program, implemented by Interbank, is a contest that recognizes the contribution of teachers in improving the quality of education, which began in 2007 and has the support of the Ministry of Education.

These efforts reflect the importance that companies give to education within their plans of CSR. This responds to the fact that these companies expect that the target population, which is benefited by these programs, build positive perceptions about the image of the company and thus strengthen its reputation over time.

This is in line with the political theories of the social contract (Donaldson, 1982; Donaldson and Dunfee, 1994, 1999), who suggest that the company could understand CSR as an integral social contract, in which it is committed to providing priority to structural issues of society such as education. In this regard, many companies are gearing their plans of CSR to the educational sector, which according to Dhir and Vinen (2005) could influence positively on the reputation of the company. From the above the following proposition arises.

Proposition 5: *Corporate social responsibility oriented to strengthen the educational quality could have a positive influence on corporate reputation.*

6.3 Corporate Reputation and investor confidence

Of the analyzed cases it is noted that the CSR programs are oriented to two large groups: education and financial inclusion. Both aspects respond to needs consensus by all *stakeholdes* related to banking firms. In this regard, guiding efforts to increase the quality of education and integrate more Peruvians to the financial system would result in a favorable perception of the community and investors on the company's shares.

In this regard, the corporate reputation is strengthened and hence the confidence of investors outside the bank would increase. This is in line with the school of the evaluative CR (Williamson, 1985; Barney, 1991; Grant, 1995; Deephouse, 2000; most frequently used *et al.*., 2001; Bromley, 2002; Williamson, 2002; Eberl and Schwaiger, 2005) who argues that corporate reputation could reduce

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transaction costs and attract better competitors and investors and improve your confidence . This raises the following proposition:

Proposition 6: *The corporate reputation could have a positive influence on investor confidence*

Also, due to the fact that in the last few years the environmental aspect has been strengthened in the social consciousness by means of differention channels of communication, companies have oriented greater efforts to be classified as "environmentally responsible" companies. This can also be seen in companies in the Peruvian banking sector, which have introduced plans of environmental responsibility within CSR. An example of this is the program "EcoBusiness School" created by IPES (Institute for the Promotion of the Social Economy), but financed by Scotiabank. It should be emphasized that "EcoBusiness School" is a program of environmental education and entrepreneurship, which is aimed at young school children aged between 14 and 16 years old.

The contribution of Scotiabank has allowed, on one hand to increase to one hundred the number of participating educational institutions, and on the other hand, train one hundred teachers in the areas of Science, Technology and Environment and Education for Work and to 461 students in business plans, budgets and team work.

These effort implemented by companies could respond to two factors: the first is that currently every company considered socially responsible must include a plan for environmental improvement; the second is that these plans (environmental) could contribute to strengthen the reputation of the company because it improves not only the perceptions of the stakeholders associated with the community but also those considered as investors, shareholders and stakeholders outside the company (local, regional and national governance).

The aforementioned matter has been partially approached by some authors within the scope of the developing school of CR, Deephouse (2000) y Kotha et al. (2001), who argue that the corporate reputation could improve investor confidence by means of a risk reduction not only financial and operational but also environmental. This raises the following proposition:

Proposition 7: *Corporate reputation could have a positive influence on investor confidence when the company demonstrates that environmental care is part of its strategic plan.*

CONCLUSIONS, LIMITATIONS AND FUTURE AGENDA

This research aims to study the relationship between CSR, corporate reputation and the confidence of the investor in the Peruvian banking sector. For this the literature has been reviewed, from which the research model is deduced. This model suggests that the corporate social responsibility could have

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positive effects on the company's reputation (Newgren *et al..*, 1985; Bromiley and MaCRus, 1989; Brown and Perry, 1994; Klassen and McLaughlin, 1996; Graves and Waddock, 1997; Wright & Ferris, 1997; Moore, 2001; Hill et. al. ,2003), that the corporate reputation could influence the confidence of investors (Orlitzky *et al..*, 2003; Margolis *et al..*, 2007; Wood , 2010), and that the latter could be influenced by the CSR (Klassen and McLaughlin , 1996; Graves and Waddock, 1997; Knox and Maklan, 2004).

In Peru, the corporate social responsibility has been usually within the scope of the productive sector; which means, it has been related to companies extracting raw materials such as the mining and fishing industries. The development of the CSR has been improving as time passed, and companies have been including strategic plans that seek the development of all the *stakeholders* involved with the operation of the company. In this line, the Peruvian financial sector since the beginning of 2000 has begun to include within its strategic plan different plans of CSR. Such is the case that, in recent years different banking companies have strengthened these plans because the result of the first actions have been positive.

Between the main results it can be mentioned that the Peruvian banking companies have improved their reputation because of its social responsibility. This reputation improvement has been correlated to a stenghtening of the company value, in such a way that the the net economical benefit that CSR represents has surpassed the execution costs of such plans. Also, the analysis of each of the cases, within the scope of the plans of CSR, seven propositions are deduced, classified in three relations (CSR and investor confidence , CSR and corporate reputation, and corporate reputation and confidence of the investor), which will seek to prove its veracity or falsification in future research with larger samples.

The main limitation of this research lies in the weakness of the method; that is to say, it does not seek to test hypotheses but only describe each case and suggest possible relations (hypothesis). Also, the lack of generalization from the analyzed data represents another limitation . However, it remains as future agenda to contrast propositions (hypothesis) proposed in this research. With regard to the latter (contrast of the propositions), it is anticipated that in future research surveys are used, which would be within the scope of different generenciales lines of the four selected banks. In addition, these surveys should consider the direct different stakeholders with whom the company maintains a certain relationship not only in the capital, but also in the rural areas throughout the country.

In addition, this reserach could establish a model for relations between CSR and CR, in order that it can be applied in other countries and in other economic sectors such as mining or other sectors that consider important the CR and the stakeholder impact.

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Another source of information to compare the propositions is MERCO (Business Monitor of Corporate Reputation), a company that has a set of information on corporate reputation in Peru. Previously, the database that has this company could serve to assess whether the CSR plans implemented by the banking companies have had an effect on the financial performance of the company.

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 ISBN: 978-9963-711-37-6

GOVERNMENT EXPENDITURE AND ECONOMIC GROWTH IN THE EUROPEAN UNION: THE ROLE OF GOVERNMENT EXPENDITURE CLASSIFICATION

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ABSTRACT

There are no doubts nowadays that the amount of government spending may affect economic growth significantly. Economic theory distinguishes between different categories of spending, showing their different effects on growth. For sustainable long-term economic growth only certain types of expenditures are suitable. In this paper, we show that traditional classification of spending on so called productive and unproductive part is not accurate. Using the data for EU countries in the period 1995-2012, we show that only expenditure on collective services (e.g. defence, economic affairs, housing and community amenities and including all of expenditure on R&D) promotes sustainable long-term economic growth, while expenditure on individual services (e.g. health, education and social security without their part on R&D) has negative impact on growth.

Keywords: *Government Expenditure, Collective Services, Individual Services, European Union, Economic Growth.*

INTRODUCTION

Nowadays, fiscal policy and its impact on economic growth is a frequently discussed topic. It is a natural development, because at the time of economic, financial or debt crises, economists are looking for answers to questions about how to appropriately promote sustainable economic growth. For more about economic, financial or debt crises from several interesting points of view, see e.g. Funta (2011); Kačaljak (2011); Aiginger, Horvath and Mahringer (2012); Ziyadin (2012); Caba (2013); Olteanu (2013) or Šišková (2013). Economists analyze either the influence of different types of taxes, or the influence of different types of government expenditure on economic growth, but the aggregate influence of all the fiscal variables on growth is studied above all. However, in the analyses, in accordance with contemporary literature, direct and indirect taxes are usually distinguished, as well as productive and unproductive government expenditures, because to achieve sustainable long-term growth, it is not

 ISBN: 978-9963-711-37-6

possible to change the amount of the expenditure to infinity - the only way is to change their structure. The explanation of the categorization of taxes is that direct taxes have higher distortionary effects on the economy and thus harm economic growth more. In the case of government expenditures, there is an assumption that productive government expenditures are investment expenditures that support economic growth, while unproductive, consumption expenditures do not. However, the conclusions of empirical studies are contradictory. It has been neither significantly confirmed what the effects of separate types of taxes are, nor what the effects of particular types of expenditures are.

While the issues of the influence of taxes on growth were examined in several recent papers (Kotlán and Machová, 2012a, 2013; Machová and Kotlán, 2013a) and are not of interest in this paper, the effects of government expenditures seems a rather unexplored area. Starting from economic theory, there are also doubts about the accuracy of the classification of expenditure into productive and unproductive parts, or rather about the accuracy of the assignment of specific types of expenditures to productive or unproductive parts. There appears to be a question as to whether another classification would be better, with respect to the analysis of government expenditures effects on growth. One possibility is to study the separate effects of expenditures on individual, and on collective services including expenditures on R&D.

Thus the aim of this paper is to investigate the effects of government expenditures on economic growth in European Union countries, using their standard breakdown into productive and unproductive parts, along with alternative categorization. Empirical analysis is performed for a panel of 28 European Union countries in the period 1995-2012.

MODEL OF GROWTH: THEORETICAL AND EMPIRICAL FOUNDATION

Current growth theory is based on the model of Solow (1956) and its extension towards the endogenization of technological progress (Lucas, 1988; Romer, 1986). In the original Solow model, fiscal policy could not influence economic growth in a steady-state, i.e. the growth of developed economies. But later work, e.g. Barro and Sala-i-Martin (2004), shows that fiscal policy may affect particular growth variables (physical and human capital accumulation above all), and thus also the growth. According to Barro (1990) or Rebelo (1991), the growth rate of an economy (γ) in a steady state is equal to the growth rate of physical capital (k), human capital (h), and the growth rate of consumption (c) of households, and depends on intertemporal elasticity of substitution in consumption ($1/\theta$) adjusted to time preference rate (ρ), and net marginal rate of return on capital (both human and physical):

ISBN: 978-9963-711-37-6

$$\gamma = \frac{\dot{k}}{k} = \frac{\dot{h}}{h} = \frac{\dot{c}}{c} = \frac{1}{\theta}\left(r - \rho\right). \qquad (1)$$

In the basic model (1), taxes may affect the growth rate through their effect on the net marginal rate of return on capital. The channels are described in Mendoza, Milesi-Ferreti and Asea (1997), or Denaux (2007) in detail.

According to Barro (1990), government expenditures may be considered an input to private production in the event that they are of investment character (expenditures on infrastructure above all). In that case, government expenditures have a positive effect on economic growth, as they raise the net marginal rate of return on capital. Many empirical studies have been based on Barro's assumption, and this type of government expenditures has become labelled productive (see e.g Kneller, Bleaney and Gemmell, 1999; Gemmel, Kneller and Sanz, 2011; Denaux, 2007). However, the studies differ in what type of real government expenditures they include into the productive part.

For simplicity, Barro (1990) assumes the broad concept of capital that includes both physical and human capital (consistently with Rebelo (1991) and his AK model). With constant returns to scale, the production (Y) function thus shall be as follows:

$$Y = AK\left(\frac{G}{K}\right)^{\alpha} = K\phi\left(\frac{G}{K}\right), \qquad (2)$$

where A is the technology level, K is capital, G is productive government expenditure, α is technological coefficient, and ϕ expresses a positive decreasing marginal product (i.e. $\phi' > 0$ and $\phi'' < 0$). For the purposes of expressing the relationship between government expenditure and economic growth, it is possible to assume the existence of a flat tax rate on income τ, which is used to fund government expenditure: $G = \tau Y = \tau K\phi\left(G/K\right)$, in the case of a balanced budget. For simplicity, different rates for different types of taxes are not considered. The influence of different types of taxes is taken into account e.g. in Kotlán and Machová (2013). They show the channels through which the taxes affect the growth variables. They also point out that some economic and legal aspects of labor markets must be considered in the analyses. For these aspects, see e.g. Horvath (2012); Simonovits (2012, 2013); Schovánková (2013); Birčiaková, Stávková and Antošová (2013) or Nagy and Való (2013).

ISBN: 978-9963-711-37-6

The net marginal return on capital is then equal to:

$$r = (1-\tau)\phi\left(\frac{G}{K}\right)\left(1-\phi'\frac{G}{Y}\right) = (1-\tau)\phi\left(\frac{G}{K}\right)(1-\eta), \qquad (3)$$

where η is the sensitivity of Y to changes in G for a given K, and the growth rate of an economy is modified from the equation (1) to:

$$\gamma = \frac{1}{\theta}\left[(1-\tau)\phi\left(\frac{G}{K}\right)(1-\eta)-\rho\right]. \qquad (4)$$

As already stated, the growth rate of the economy is thus positively affected by productive government expenditure, but the sensitivity of production to changes in government expenditure has, on the other hand, a negative influence on growth.

The most important study by Kneller, Bleaney and Gemmell (1999) uses the standard Classification of the Functions of Government (COFOG), but distinguishes only between a group of productive expenditures (including general public services, defense, educational, health, housing, and transport and communication expenditures), and a group of unproductive expenditures (including social security and welfare expenditures, expenditures on recreation, and on economic services). The authors show that the group of productive expenditures really positively affect growth, while unproductive ones do not.

Among similar studies, Denaux (2007) must also be mentioned. He uses the breakdown of expenditures on government expenditures to physical capital accumulation (approximated by stock of roads per cap.), and expenditures to human capital accumulation (approximated by government spending on schooling). He finds no significant effect of spending on physical capital, but he confirms the positive effect of spending on human capital, i.e. on higher education on economic growth.

However, as already stated within the introduction, the results of empirical analyses are not consistent, especially when a more detailed level of classification of expenditures is used. For example, Drobiszová and Machová (2015) also use the COFOG, but they include all the main types of expenditures into their analysis. They show that only spending on defense, education, health, and general public services have a positive effect on economic growth. Unlike the abovementioned studies, the positive effects of expenditures on infrastructure were not confirmed.

 ISBN: 978-9963-711-37-6

Recent experience from OECD countries shows that public wages, interest payments, subsidies and government consumption are less growth enhancing, while spending on education and health boosts growth (Afonso and Jalles, 2014). It is also interesting to realize the consequences of the fact that Bhattacharya and Mukherjee (2013) confirm that households in the OECD move from non-Ricardian to Ricardian behaviour as government debt reaches high levels and as uncertainty about future taxes increases.

At first glance it may seem that expenditures on, e.g. education and health, i.e. human capital, are provably supporting economic growth, while the effects of expenditures on, e.g. infrastructure are questionable. But it is very important to realize that, according to the methodology of COFOG 98, all of the main categories of government expenditures also include corresponding expenditures on R&D. This may significantly distort the analyses.

One of the ways to avoid this problem is to distinguish between expenditures on collective services, and individual services, which should be closer to Barro's approach above, assuming that expenditures on collective services have positive effects on growth, while expenditures on individual services do not. The classification and further explanation are described in following part.

EMPIRICAL ANALYSIS: METHODOLOGY, DATA AND RESULTS

According to the OECD and Eurostat (2012), individual services are the services that general government provides to specific identifiable households. That is, services such as health and education, which are consumed by households individually. Collective services are those that the general government provides simultaneously to all members of the community. That is, services such as defense and public order and safety, which are consumed by households collectively. Because they are considered as part of gross fixed capital formation (according to the SNA 2008, and ESA 2010), the R&D for individual services are also included, which is the most important point of the classification. Collective services also include the overall policy-making, planning, regulatory, budgetary, coordinating and monitoring responsibilities of ministries overseeing individual services. These activities, unlike the services to which they relate, cannot be identified with specific individual households and are considered to benefit households collectively.

Based on the COFOG 98, individual services include expenditures on:

- Health (category 7), Recreation, culture and religion (8), Education (9), Social protection (10),

except for categories including R&D (7.5, 8.4, 8.5, 9.7, 10.8), and n.e.c. categories (7.6, 8.6, 9.8, 10.9).

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The excepted categories as well as categories:

- General public services (1), Defense (2), Public order and safety (3), Economic affairs (4), Environment protection (5), Housing and community amenities (6),

make up the group of collective services. The extend of all the expenditure types is involved by national and international laws. However, in the case of environmental protection, the impact of laws is very strong (for more on the legal aspects, see e.g. Černič, 2012; Bogataj, 2012; Škrk, 2012; or Gaberščik, 2012).

From a methodological point of view, the analysis was based on a dynamic panel model which used data for 28 European Union countries in the period 1995-2012. Real gross domestic product per capita in PPP (Y) was dependent variable. Independent variables included control growth variables, i.e. gross fixed capital formation as a percentage of GDP (K), and human capital expressed as share of tertiary education to the labour force in the 15 to 64 years (L).

The second group of independent variables was formed by fiscal variables. The model included both the revenue and expenditure side of the budget; fiscal balance was omitted to avoid perfect collinearity of the variables. Regression coefficients of the fiscal variables may thus be interpreted as a change of the output in the case that the corresponding variable as well as the fiscal balance in opposite direction is changed by unit, ceteris paribus. Fiscal variables included taxes expressed as corresponding tax quota, i.e. tax revenue-to-GDP (alternative indices could be also used, e.g. the World Tax Index, see Kotlán and Machová, 2012b; Machová and Kotlán, 2013b), and finally government expenditures. At first, productive and unproductive expenditure in accordance with Kneller, Bleaney and Gemmell (1999) were included, and secondly expenditures on individual services and collective services, all of them expressed as a percentage of GDP. The data was gained from Eurostat and the World Bank.

As the estimation technique, a generalized method of moments (GMM) was used, which included the method of instrumental variables. This method uses the Arellano-Bond estimator (Arellano, Bond, 1991), and the transformation method of first difference of each variable in the regression, which prevents potential problems with the stacionarity of the time series. Using a robust estimator in calculating the covariance matrices (White Period method) ensured that the estimation results of standard deviations of parameters and hypothesis tests were correct with regard to a possible occurrence of autocorrelation and heteroscedasticity. This estimation type ensures that the appropriate transformation process and using appropriate instruments eliminates the risk of endogeneity of the lagged values of the dependent variable and the independent variables with a random component. In the analyses below, the lagged values of the dependent variable were used as the instruments, starting

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from a lag of two. A Sargan test (see the J-statistics in the tables below) confirmed the validity of the instruments in both estimated models. For better interpretation of the regression coefficients, all the variables were used in logarithmic form.

Table (1) shows the results of the estimation of the model including productive and unproductive government spending according to Kneller, Bleaney and Gemmell (1999). Table (2) shows the results from the model where government expenditures were divided on expenditures on collective services, and on individual services.

Dependent variable	log(GDP per capita)		
Instrument rank	28		
J-statistic	23.587		
Variable	Coefficient	Std. Error	t-Statistic
log(GDP per capita (-1))	0.735	0.022	34.042***
log(Capital accumulation)	0.126	0.025	4.899***
log(Human capital)	0.163	0.011	15.050***
log(Tax revenue)	-0.158	0.022	-7.280***
log(Productive expenditure)	0.026	0.027	0.975
log(Unproductive expenditure)	-0.246	0.022	-11.373***

*Notes: t-statistics are adjusted for heteroskedasticity and autocorrelation; standard deviations are calculated using robust estimates; *, **, *** indicate significance levels of 10 %, 5 %, and 1 %, respectively.*

Source: own calculations

Table 5. *Effects of productive and unproductive expenditures on growth in the period 1995-2012*

In both models, a statistically significant positive effect of control growth variables was confirmed, with human capital having a quantitatively stronger impact on long-run growth, which corresponds to economic theory for developed countries. Also, in both models, a statistically significant negative effect of taxes was confirmed. The issues of the influence of taxes on growth are not of interest in this paper therefore taxes are approximated as a total tax revenue in the model. For more detail about impact of particular types of taxes on economic growth see, e.g. Kotlán and Machová (2012a, 2013), or Machová and Kotlán (2013a).

With regard to the aim of the paper, the results concerning government expenditures are, nevertheless, the most important. Table (1) shows, that the influence of unproductive expenditures, classified according to Kneller, Bleaney and Gemmell (1999), on economic growth is negative, but in case of productive expenditures impact on economic growth are not significant.

ISBN: 978-9963-711-37-6

Dependent variable	log(GDP per capita)		
Instrument rank	28		
J-statistic	23.287		
Variable	Coefficient	Std. Error	t-Statistic
log(GDP per capita (-1))	0.746	0.018	42.590***
log(Capital accumulation)	0.127	0.014	9.659***
log(Human capital)	0.170	0.010	16.186***
log(Tax revenue)	-0.230	0.009	-26.502***
log(Collective services)	0.022	0.008	2.843***
log(Individual services)	-0.310	0.012	-26.273***

*Notes: t-statistics are adjusted for heteroskedasticity and autocorrelation; standard deviations are calculated using robust estimates; *, **, *** indicate significance levels of 10 %, 5 %, and 1 %, respectively.*

Source: own calculations

Table 6. *Effects of expenditures on collective and individual services on growth in the period 1995-2012*

On the other hand, if the expenditures are examined in categorization on expenditures on collective and individual services (table 2), it is shown that the impact of expenditures on collective services is significant and positive, while the effect of expenditures on individual services on growth is negative and quantitatively is higher than the effect of unproductive expenditures.

CONCLUSION

The topic of fiscal policy and its impact on economic growth is very current, especially with regard to research questions that have arisen with the recent economic, financial and debt crises. Fiscal consolidation is inevitable in many countries, and their fiscal authorities are forced to make budget cuts, which is in direct conflict with the standard Keynesian approach. Furthermore, many empirical papers have confirmed the negative effects of most types of taxes on economic growth. Improving fiscal balance by raising taxes could thus be counterproductive. On the other hand, there also exist theoretical as well as empirical studies showing that certain types of government expenditures may have significant positive effects on economic growth. Restructuring the expenditures side of a budget could thus improve the performance of the economy without any negative effects on fiscal balance. This implies that not only by changing the amount of government spending in the economy, but solely by changing their structure may promote sustainable economic growth.

Most of the previous studies distinguish between the effect of so-called productive and unproductive government spending. However, unproductive expenditures also include expenditures on R&D in those studies, as well as expenditures on education and health which are of an individual character. These methodological discrepancies may be easily avoided using a classification distinguishing

 ISBN: 978-9963-711-37-6

between expenditures on collective services, and expenditures on individual services, which is also in accordance with new national accounting methodology SNA 2008 and ESA 2010.

This approach was also used in this paper, where a dynamic panel model for 28 European Union countries in the period 1995-2012 was estimated, using a GMM and instrumental variables method. Two models were estimated – the first included government expenditures classified as productive and unproductive in accordance with the literature, while the second included expenditures on collective, and on individual services. In the first model, unproductive government expenditures have a negative effect on growth, but in the case of productive expenditure the effects are not significant. It only supports the inconsistency of the results in the case of the breakdown of expenditures on productive and unproductive. On the other hand, in the second model, it is shown that, in accordance with the assumptions, expenditures on collective services, including all the expenditures on R&D, positively affect long-run economic growth, while the expenditures on individual services, including individual expenditures on education and health, affect growth negatively.

The results support the idea that the conclusions of previous studies on this topic may be strongly distorted by the inappropriate classification of expenditures, typically in the case of expenditures on education and health. These are usually considered productive, but if their part of R&D expenditures is detached, their effect on growth is not clear in fact.

This paper was financially supported within the VŠB - Technical University SGS grant project No. SP2015/110 "The Influence of Fiscal Deficit on Economic Growth and the Possibilities of its Decreasing in the Czech Republic".

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 ISBN: 978-9963-711-37-6

SEA AND SEE PIRACY

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ABSTRACT

Maritime law is intrinsically connected with the fundamental principle of freedom, particularly on the high seas. Piracy is a non-political economic crime committed by private individuals against ships or planes, and the relevant air space. However, the term ''piracy'' is informally used for copyright crimes and has recently been connected even with campaigns against cigarette smuggling. This paper aims at analysing the real nature of piracy both in its literal meaning, at the sea, as well as in its metaphorical one, in copyright terms, particularly on the Internet.

Keywords: Antipiracy, Cigarette Smuggling, Cultural Sponsorship, Copyright, Maritime Law, Nautical Law, (Air / Maritime / Intellectual Property works) Piracy, "Piratage''

INTRODUCTION: NOTION OF MARITIME LAW

Maritime Law is the legislative branch having to do with navigation and shipping. It is divided into Nautical Law, which has a general content, and Shipping Law. Nautical Law has to do with Public Law, regulating the role of the state against shipping factors and navigation, such as the Shipping and Aegean Ministry in Greece, the coastguard etc., and with Private Law (Commercial Law and Labor Law).

Shipping Law is a branch of Commercial Law, including various forms of contracts focusing on the economic exploitation of ships, particularly the charter agreement for the transport of passengers and mainly of cargos and the maritime insurance contracts.

It would be interesting to focus on the phenomenon of maritime piracy, which is regulated by Nautical Law. More concretely, this paper aims to analyze the question whether there is a piracy law, let alone with repercussions on copyright law.

 ISBN: 978-9963-711-37-6

AN INTRODUCTION TO PIRACY LAW

The international public law has piracy as its most typical and diachronic crime, as far as this economic and non-political crime is committed by private individuals (not by states) outside territorial waters of any sovereign state (Chapleau and Pancracio, 2014). Piracy may be committed in territorial waters; in this case it is not a crime of international law.

However, the most usual version has to do with non-national spaces. Even in this case, suspected pirates should be judged by a national jurisdiction (Scharf, 2015). The United Nations Convention on the Law of the Sea (UNCLOS), of 1982, declares the Freedom of the high seas in article 87. The high seas are open to all states, whether coastal or land-locked. Freedom of the high seas is exercised under the conditions laid down by this Convention and by other rules of international law. It comprises *inter alia* freedom of navigation, overflight, to lay submarine cables and pipelines, to construct artificial islands and other installations permitted under international law, of fishing and of scientific research.

Article 101 cites: "*Piracy consists of any of the following acts:*

(a) any illegal acts of violence or detention, or any act of depredation, committed for private ends by the crew or the passengers of a private ship or a private aircraft, and directed:

(i) on the high seas, against another ship or aircraft, or against persons or property on board such ship or aircraft;

(ii) against a ship, aircraft, persons or property in a place outside the jurisdiction of any State;

(b) any act of voluntary participation in the operation of a ship or of an aircraft with knowledge of facts making it a pirate ship or aircraft;

(c) any act of inciting or of intentionally facilitating an act described in subparagraph (a) or (b)".

The Convention previews no criminal law sanctions but it implicates the obligation of states to collaborate against this kind of criminality. More concretely, article 100 cites that all states shall cooperate to the fullest possible extent in the repression of piracy on the high seas or in any other

 ISBN: 978-9963-711-37-6

place outside the jurisdiction of any State. Piracy is considered as a 'crime against humanity', transgressing the diachronic legal principle of freedom, particularly of navigation.

Pirates are private individuals that attack mainly ships (or planes), to get economic benefits.

CASE STUDY: SOMALI PIRACY OFF THE COAST OF EAST AFRICA

Piracy in Somalia has been a threat to shipping, since the second phase of the civil war, in the early 21st century. The continuous attacks by pirates in the Gulf of Aden have attracted the immense interest of the international community for Somalia. In 2009, the Forbes Magazine named the East African country the „World's Most Dangerous Country" (Osei-Tutu, 2011). Piracy originated after state collapse in 1991, as foreign trawlers began illegally overfishing Somali waters and local fishermen were organized to protect their livelihood (Singh and Singh Bedi, 2012). Since 2005, many international organizations have expressed concern over the rise in acts of piracy. Piracy impeded the delivery of shipments and increased shipping expenses. As a result, insurance companies significantly increased their profits relevant to the pirate attacks risks.

Figure 1: Somali pirates logo

For instance, the release by pirates of the ship ''Asphalt Venture'' in April 2011 took an unexpected turn that was estimated to change forever negotiation practices with pirates (Zachariadis, 2011). The agreed ransom was paid in full but not all the crew-hostages were released. Several crew members were retained by the pirates who, for the first time, did not keep their word. Seven crew members from this vessel, held four years in Somalia, were released and were safe in Kenya, according to the Maritime Piracy Humanitarian Response Programme, in October 2014.

The wider region of Somalia remains the main region of piracy attacks, worldwide, in spite of the fact that from 2013 and on there has been an important decline in such events. IMB says that the single

 ISBN: 978-9963-711-37-6

biggest reason for the drop in worldwide piracy is the decrease in Somali piracy off the coast of East Africa. Somali pirates have been deterred by a combination of factors, including the key role of international navies, the hardening of vessels, the use of private armed security teams, and the stabilizing influence of Somalia's central government. (Anonymous I, 2014) However, it remains the case that the pirates are active and retain the capacity to attack far into the Indian Ocean. ICS emphasizes that it is premature to conclude that the crisis is over, with seafarers still held hostage in Somalia, some of whom have now been in captivity for three years. (Anonymous II, 2014)

ANTIPIRACY MEASURES

The need for protection of shipping against piracy has led to two developments of major importance, from 2008 and on.

First of all, European Union has created the first military navy fleet in its history, to cope with piracy in the wider region of Somalia. This operation, called "ATALANTA'', is a European example of syncretism, having a very important impact, particularly in terms of prevention. Another similar operation, the NATO force "Ocean Shield", collaborates with this fleet.

The second measure, adopted in various national legal orders, was about the institutionalization of protection offered by private professional guards, being onboard only when ships pass through the zones of high danger for piracy attacks, like Somalia, Nigeria etc. This international trend of traditional nautical countries is exemplified by specialized law 4058/2012 "Delivery of services by unarmed or armed guards to merchant ships and other dispositions", in the Greek legal order. One of the first cases of application of this measure was the protection of the oil product tanker, ''Great Lady'', registered in Greece, in August 2012. Somali pirates attempted to rob the ship, which was protected by four unarmed professional guards being in cooperation with the crew. They could not reach the ship surface because their ladders were proved to be too short to make landing.

French Republic was reluctant to modernize its maritime law by adopting the measure of private guards onboard, as this state was inspired by ''doctrine Colbert''. This doctrine has to do with the traditional culture of state interventionism for the protection of merchant navy, introduced by the Marine Minister Baptiste Colbert in eighteenth century. Antipiracy policy was considered as a case of "royal power" (Beurier, 2014). However, in 2014 the French state institutionalized anti-piracy protection by private guards for mercantile navy, registered in France. French law is rather

 ISBN: 978-9963-711-37-6

conservative as it previews that the guards onboard should not be less than three. In a parallel way, France still makes use of its own Military Navy, more precisely of the so-called ''embarked teams of protection''. Before this liberalization of the legal status, it had conducted various operations against current piracy, on its own.

SEA CONTESTATION MOVEMENTS BAPTIZED PIRATE

In the sixteenth century to the eighteenth one, namely in the period of growth of the phenomenon of piracy in the Mediterranean, a lot of people, many sailors being among them, became pirates because of sociopolitical conditions. European kingdoms exerted an authoritarian power and social inequalities became acute. Catholic Church banned almost any new idea and act aiming at the development of society or the change in religious beliefs. The structure and the administration of the society of the pirate ship were thoroughly different from the ones of a merchant vessel or a warship. Decisions resulted from voting whilst the captain did not benefit from a regime of privileges against crew. In cases the crew was dissatisfied with the skipper, he could lose his post through voting. Besides, all pirates had access to the booty, without discriminations. It is to point out that pirates acted and decided in terms of an informal democracy. So, it has been signalized that pirates have been the precursors of constitutional governance. They offered the first evidence that democracy is a very successful form of social organization (Karizoni et al., 2010).

From sixteenth century to nineteenth century, a particular rule was formed within international law. The rebels operating at sea were prosecuted for the crime of piracy. For instance, Irish people made nautical war in favor of the former King of England James II, who was the last Roman Catholic monarch to reign over England, Scotland and Ireland. Those maritime rebels were executed by being hung while the members of the Army, defeated in 1690, were treated as war captives. Comparable cases took place during the civil war in the USA, where tribunals considered attacks coming from vessels of the forces of the South as pirate ones. Piracy is very close to the phenomenon of privateers, authorized by the King of a state to attack foreign ships, particularly of merchant navy, in time of war. Through this practice, the military navy of the King could be devoted to attack the military fleet of the enemy state. Furthermore, privateers should share the booty with the state, in contrast with pirates that had no political mandate and no state to share the pirated goods with. The operations conducted by privateers were as a general rule abolished by the treaty of Paris, which terminated the war of Crimea, in 1856, in spite of the fact that the USA Constitution still previews this anachronistic mechanism.

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SEE CONTESTATION MOVEMENTS BAPTIZED PIRATE

French language has an important particularity, as it is endowed with two forms to designate the same thing, in its both literal and metaphorical meanings, namely "piraterie" and ''piratage'', respectively. The term "piraterie'' is the general one, being in use with both meanings while the other term is used only for copyright cases, such as spectacles, Informatics programs etc. It is not useless to point out the roots of this metaphorical use of the term ''pirate''. ''Pyrate'' has been used in England, from the seventeenth century and on, namely before the Statute of Anne, to mention the guild of printers, (the Stationers' Company), who did not pay respect for the privilege of the University (Macrez, 2014). This use was clearly of a metaphorical nature, against the literal meaning of maritime piracy (theft or robbery against ships at the sea).

The Statute of Anne, an act of the Parliament of Great Britain, was the first statute to provide for copyright regulated by the government and courts, rather than by private parties. Prior to this text, being in vigor from 10 April 1710 and on, and copying restrictions were authorized by the Licensing of the Press Act 1662. This regime was enforced by the Stationers' Company, given the exclusive power to print as well as the responsibility to censor literary works. The censorship administered under the Licensing Act led to public protest. As the act had to be renewed at two-year intervals, authors and others sought to prevent its approval. In 1694, the Parliament did not renew the Licensing Act, ending the Stationers' Company monopoly and press restrictions.

Nowadays, the principle of freedom of navigation on the high seas tends to be duplicated. Indeed, the freedom of "navigation'' in the cyberspace is a strong political demand, being partly or indirectly institutionalized in legislative texts of international and national legal orders. In 1968 a movement began to make speech of the "death of the author'', against the originality of the creation of the individual authors, with the famous article of French expert Roland Barthes. On the basis of this doctrine, the idea itself of the creator is informally abolished (Spivey, 1996). Nowadays, the new technologies lead to serious contestation of the traditional copyright of the author, particularly for material available on the Internet (Grynbaum et al., 2014). However, jurisprudence is still not friendly to free use of legally protected audiovisual material. For instance, in the A & M Records v. Napster case, the tribunal judged in 2001: *"Napster users infringe at least two of the copyright holders' exclusive rights . . . Napster users who upload file names to the search index for others to copy violate plaintiffs' distribution rights. Napster users who download files containing copyrighted music violate plaintiffs'*

ISBN: 978-9963-711-37-6

reproduction rights….[V]irtually all Napster users engage in the unauthorized downloading or uploading of copyrighted music. . ."

Figure 11: Logo of the online-music store Napster

TOBACCO PRODUCTS PIRACY AND ADVERTISEMENT BAPTIZED CULTURAL SPONSORSHIP

Another pirate sign has been recently invented as a discouraging logo, and it is the case of the tobacco products companies in Greece. It is to correlate this graphic warning with the fact that on European scale, among the provisions of the revised Tobacco Products EU Directive, three are claimed by the tobacco industry to be potential drivers of illicit cigarette trade: 1) graphic health warnings, 2) restrictions on packaging and 3|) regulation of ingredients. Nevertheless, according to a European Parliament study, there is no indication that implementation of pictorial health warnings increases illicit cigarette trade. Studies revealed that the more aversive a warning, the more it is perceived as effective against smoking. (Volchan, E., Isabel A.; Tavares, G.; Nascimento, B., Oliveira, J.,Gleiser, S., Szklo, A.; Perez, C., Cavalcante, T., Pereira, M., Oliveira, L., 2013).

More than 60 countries now require pictorial health warnings on cigarette packs, and there is no research evidence of increased levels of illicit cigarette trade due to these new regulations. In the UK, after implementation of pictorial health warnings in 2008, the illicit cigarette share of the cigarette market dropped from 12% in 2008/2009 to 9% in 2012/2013, according to estimates by HM Revenue & Customs. This drop in illicit cigarette trade levels occurred with the UK having one of the highest

 ISBN: 978-9963-711-37-6

tobacco taxes in Europe. Similarly, a recent survey of 1,024 smokers in Belgium revealed no significant purchases of cheap cigarettes from friends and street vendors (illicit cigarettes) after the country's implementation of graphic health warnings in 2007 (European Parliament, 2014).

Figure 3: Discouraging logo and picture on tobacco products

It is to point out that indirect taxes, traditionally imposed on legal cigarette commerce, raise often severe criticism. In other words, states may gain incomes from this technique of taxation but this funding is however unfair in socioeconomic terms. Unfair taxes create contestation, just as high prices of copyrighted audiovisual material.

Last but not least, cultural sponsorship in its current form appeared initially in 50's in the USA. Companies, mainly the big enterprises in the tobacco market, started to accomplish the mission of sponsors when they faced serious problems of media exclusion in the sector of advertisement, because of the introduction of the antismoking legislation. Due to this legal obstacle, they decided to enhance their image, *inter alia* by sponsoring the arts production. It is about a very interesting case of formal prohibition that led to a new form of deontology, the corporate responsibility. Of course, it was not merely a question of a best practice in terms of managerial deontology but mainly a suitable communication means to achieve commercial targets. So, cultural goods are in various aspects controlled by the tobacco industry, which baptizes and treats as pirates the smugglers contesting its own privilege, to cause cancer in counterbalance of its social corporate responsibility, whose emblematic form is cultural sponsorship.

 ISBN: 978-9963-711-37-6

CONCLUSION: VOICI LE TEMPS DES PIRATES

The combination of the aforementioned measures against maritime piracy, such as operation ATALANTA and protection by private guards onboard, has been conducive to success, at least against piracy in the wider region of Somalia. However, almost never pirates have been beaten at the sea in the entire history of mankind.

It has been proved that the state power has baptized various, dangerous for its own interests, contestation social movements as pirates so to marginalize them and to punish them hard, particularly in the UK. This is the case of factors of navigation, such as the rebels leading a maritime war, and the holders of the copyrighted pieces reproduction and promotion, like the printers.

However, history:

1. Teaches that all big Revolutions of mankind from the American Revolution and on, were driven by economic reasons, exemplified by the question of abolition of slavery being existent till the current era (Skinner, 2008). So, piracy in a wider sense (Napster case, cigarette smuggling etc.) has a socioeconomic legitimization in praxis.

2. Takes revenge, through the boomerang effect, exemplified by the case of the principle of freedom of navigation. The literal meaning of navigation was combined by the diachronic criminalization of maritime piracy, particularly on the high seas, while the metaphorical meaning (use of the Internet) contests the copyright version of piracy itself, at least on the Internet.

In this context, it is about time mankind created and elaborated a flexible branch of law, Piracy Law, on the basis of various anthropocentric and consumer - oriented principles, such as the liberty of expression, the liberty of press, the consumers fundamental rights etc. Piracy Law should regulate maritime piracy and hijacking as crimes but policy – makers should also take measures to eradicate the real reasons of this particular "blue collar" criminality. Furthermore, it should be enriched by a systematic opening to the field of copyright law, Internet law etc. In this framework, the notion of ''piracy'' should be revised, at least as long as pirates in non-juridical terms could be conceived as those that love and want to savor life, the amateurs of life.

ISBN: 978-9963-711-37-6

Paraphrasing Arthur Rimbaud, being the main fan of revolution among the poets, at the emblematic end of its poem "Morning of Drunkenness":

Voici le temps des Pirates.

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 ISBN: 978-9963-711-37-6

A CARING INTERPRETATION OF NON-PROFIT AND THIRD SECTOR ORGANIZATIONS

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ABSTRACT

The paper aims to present care morality as a normative stakeholder approach for advancing meaningful conceptions and interpretations of the responsibility principle in non-profit and third sector organizations. The language and method of care, with their focus on both dialogue and the reciprocal strengthening of interpersonal relationships as a primary means of moral deliberation, prove to be sound and defensible for enhancing proper justifications of the moral legitimacy of stakeholder and 'organization-stakeholder' relationships in European third sector environments. A reasoned review of the main literature on caring offers new insights and suggestions to conceive of non-profit and third sector organizations as ideal 'architectures of care' that might simultaneously enhance the effectiveness and moral quality of public service provision in local communities.

Keywords: *care, ethics, non-profit organizations, third sector organizations, stakeholder involvement*

INTRODUCTION

The current turmoil facing Western European societies has relevant consequences for the sustainability of third sector economies. The steady shortages of public funds in a transnational context characterized by chronic budget constraints and structural crises of social-welfare systems, are forcing non-profit and third organizations to rethink their strategies and restructuring their service-delivery models in order to survive. This legitimacy crisis of third sector economies has also deep ethical roots and consequences that urge organizations and management scholars to call for a revival of the contribution of ethics and moral disciplines to the subject.

At first glance, such a revival would seem tautological, if not almost paradoxical, when specifically concerning non-profit and third sector organizations. Indeed, management scholars and practitioners often conceive of such organizations as ethically driven. This is to say that they are thought to share an intrinsic moral commitment to social responsibility, inherent both in their social purpose and in the co-operative nature of the relationships they establish with service users and community stakeholders.

 ISBN: 978-9963-711-37-6

However, there is a need to develop new approaches and methodologies that are able to disclose new ethical perspectives for reassessing or, in some cases, reshaping, concepts and interpretations of the proper ethical basis and morals underpinning their organizational principles of responsibility. In so doing, organization and management scholars still have a real chance to delve into ethical disciplines for the purpose of rediscovering ethical thought and moral philosophies. The path this paper suggests is consistent with helping non-profit actors and practitioners to clearly understand what it means to reason – and what really counts as reasoning – with real facts and decisions from a value-laden, moral viewpoint.

At its simplest, ethics is nothing more than a system of normative cores and moral principles that force us to account wisely for ourselves and our actions in order to offer good and defensible reasons for our decisions and to justify our own conduct. What counts as a 'good reason' (or bad reason) – whether a set of justifications to give decision-makers clear choices or a right (or wrong) justification to come to their own conclusions – is indifferently influenced on the basis of the normative approach we assume for determining or evaluating ethical behavior. Such relevant aspects here include the duty to comply with principles and rules, the role of one's character and virtues embodied by one's character, and the consequences derived from the outcome of an act or a decision itself. Ethical disciplines and moral philosophies, basically, serve as common theoretical grounds for identifying a range of substantial normative cores and value systems that enable us to put practical questions and events up for meaningful conversation and discussion. Highlighting an underlying moral stance may be of special interest for grounding and developing more suitable decision-making skills. This ability may help tackle the growing ambiguities and uncertainties that board advisors, staff, or volunteers currently face when dealing with dilemmas of responsibility and accountability deficits in modern non-profit and third sector environments.

This work aims to outline the salient contents and methodological traits of the normative theory of care, with a special concern on offering new insights and suggestions for reasoning on care morality in approaching managerial studies on non-profit and third sector organizations.

The paper is organized as follows. The next section proposes an alternative methodology to mainstream business thought for approaching ethics in organization and management research. This underlies an attempt to highlight the strict interdependence and blurring of boundaries that exist between the ethical sphere of knowledge and the understanding of facts and managerial decisions in organizations, which is a point of special importance when considering the moral relevance of 'stakeholder-organization' relationships in given, situated contexts, such as in non-profit and third sector markets. In the wake of this argument, in the second section, the theoretical fundamentals and methods of feminist ethics, and, especially, of the moral grounding of care, are presented. This is

 ISBN: 978-9963-711-37-6

directed at shedding light on care morality as a normative stakeholder approach for advancing meaningful concepts, sound descriptions, and coherent interpretations of the responsibility principle. The third section suggests a *caring* interpretation of non-profits and third sector organizations, based on four distinguishing attributes useful for setting the boundaries of care. This hopefully helps to conceive of these organizations as an ideal type of 'caring organizations' that are able to simultaneously enhance the effectiveness and the moral quality of public service provision in local communities.

PRELIMINARY CONCEPTS: THE 'INSEPARABILITY PRINCIPLE' AND THE ROLE OF 'VIRTUE ETHICS' IN STUDYING NON-PROFIT AND THIRD SECTOR ORGANIZATIONS

For outlining a new ethical thought for non-profit and third sector organizations, and in order to ensure that it might really fit for the purpose of properly affecting the moral debate on these organizations, a preliminary step needs to be taken, namely, to assume the 'inseparability principle' (Freeman et al., 2010) as an epistemological foundation of the ethics in modern organization and management sciences.

As simply put by this principle, ethics is seen as a body of knowledge that cannot be distinguished from knowledge of real facts and phenomena. This amounts to saying that, when a certain fact happens, or a certain decision is made, several ethical and moral consequences and evaluations related not only to our own interest, but also, at least, to the interests of one other part, inevitably arise and give birth to new knowledge about reality. Hence, facts, decisions and values are inseparable from their own implicit moral constructs. This deep intermingling of real facts and values holds implications that go beyond the common understanding of reality in the modern organization and management sciences. It allows real facts to be re-valued and reinterpreted by means of new moral concepts and ethical reasoning that are ultimately designed to make a more genuine moral sense of our own conduct, as well as others'. Actually, business facts and managerial decisions always have consequences, and the way these consequences are distributed among the individuals and group stakeholders necessarily involves ethical issues. Furthermore, reciprocally, one can hardly encounter moral judgements or ethical decisions that do not involve any type of business facts or consequences.

Such moral epistemology, however, stands in stark opposition to the usual role of ethics and the usual way of understanding the responsibility principle in modern organization and management sciences. In fact, in such contexts, analyses and conversations involving ethical reasoning and moral judgments are inherently antagonistic and fundamentally separate from theory building and the making of knowledge regarding facts and managerial decisions.

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In this regard, literature on business ethics offers clear examples of the major strands of thinking based on such an epistemological dichotomy (Freeman et al., 2010). At first, as a disciplinary specialty, business ethics deals with the sophisticated analysis of practical and specialized problems on behalf of practitioners and managers, who often need consultancy and the right training to navigate ethical dilemmas in their own strategy-making in order to avoid destroying 'shareholder value'. Secondly, ethics is asked to serve as an extension of the law, a form of external constraint that reins in the excess of selfish actors. At the core of the issue, that is, there is no connection seen between ethics and self-interest. The role that ethics plays in the market, for instance, is essentially normative, as it helps to accomplish the 'invisible hand' by making sure that a firm's behavior does not become so driven by its own self-interest that entrepreneurs begin to run a business for the sole purpose of taking advantage of others – whether by fraud, lying or theft. In the same vein, ethics has to do with the moral foundations that underlie corporate social responsibility (CSR). In CSR rhetoric, ethics, as applied to business, serves primarily to balance the firm's self-interest by extending the enterprise's function to society as a whole. The firm is regarded as a voluntary contributor to society and is supposed to perform this role mainly by promoting inter-sector partnerships with charities, by adopting good citizenship practices, by enhancing the safety of employees or by assessing quality standards for consumers and clients. Though the CSR literature recognizes the existence of implicit moral obligations on the part of the firm, considering them basically as legal, economic and social by-products of society, it has thus far not offered any sound justifications or inspiring remarks regarding the fiduciary duties or moral obligations underpinning CSR. The supposed normative cores underlying the notion of CSR remain rather vague and mostly under-theorized. Despite repeated references to the universal values of justice and fairness, as well as the implementation of cooperative schemes of corporate citizenship (Wood and Logsdon, 2002; Palazzo and Scherer, 2006; Waddock, 2006), this largely undefined normative approach paves the way to the emergence of a dominant thinking on CSR that is broadly disconnected from ethical disciplines and moral philosophies.[1]

Moving the focus of ethical thought from compliance with hard-and-fast rules and abstract codes of moral conduct to the (re)discovery of human virtues would help us to gain an idea of how human virtues are still deeply embedded in current non-profit and third sector environments. Dignity, care, mutual aid, sociality and solidarity (meaning a personal sense of interrelatedness and connection to others), for instance, are all humanist values deeply embedded in human beings, who share an inborn concern for something or someone beyond our own self-interests. Basically, these human virtues refer

[1] Indeed, it has to be noted that the CSR approach, along with the above-mentioned main strands of thought in business ethics, shares a common epistemology with philosophical objectivism, best epitomized by the 'ethics of justice' (Gilligan, 1982).

ISBN: 978-9963-711-37-6

to a sort of morality that is intimately connected to the subjective and interpersonal aspects of the self in relationship with 'the other' in a given context. Embracing such a value system as a common ethical ground, therefore, would help to deepen our critical understanding of the nature of moral obligations, social norms and fiduciary duties, as well as the ways in which they affect an organization's responsibility. Ultimately, this ethical ground would also help to 'humanize' our common sense about the morally desirable nature of stakeholders' expectations and behaviors when studying non-profit and third sector organizations. In this sense, the core aspect of the notion of 'stakeholder', that is, the intrinsic moral commitment affecting the nature and functions of 'organization-stakeholder' relationships, lies at the very heart of the theoretical questions about the sources of moral legitimacy and the principle of organizational responsibility.

FEMINIST ETHICS AND MORAL GROUNDING OF CARE

Amongst the most relevant ethical theories investigated in the stakeholder literature,[1] 'feminist ethics' and, more specifically, the moral grounding of *care*, possess distinguishing virtues and attributes that deserve special attention when considering the sources of moral legitimacy influencing the responsibility of non-profit and third sector organizations.

Feminist thought has been developed over many decades as a critical analysis of and reaction to contemporary mainstream economics and social science. Feminist ontology of human beings is tied to their epistemology. It assumes that humans are essentially relational, not individualistic beings, and that this social nature cannot be separated from the self (England 1993, 2003; Nelson, 2003). Individuals know through their relationships, and these sources of knowledge also have moral worth, as they provide the basis to undertake open-ended responsibilities with regards to each other (Sevenhuijsen and Svab, 2003). For feminist scholars, the social construction of contemporary economics has to be questioned from the central standpoint of its relationship to gender. Gender relates to the ways in which society ascribes 'masculinity' or 'femininity' to people, activities and concepts (Ferber and Nelson, 1993, p. 1ff.). Economics mirrors the way people have come to think about economic life. In the social construction of modern economics, culturally 'masculine' conceptual associations are signalized, such as men and market behaviors, along with culturally 'masculine' features, such as autonomy, abstraction and logic. Quite opposite conceptual associations are labeled as 'feminine', such as women and family behavior, along with culturally 'feminine' attributes of connection, interdependence, concreteness and emotion. In other words, feminists have argued that

[1] A synopsis of the most relevant literature examining the moral foundations of thought on the stakeholder is offered by Phillips, Freeman and Wicks (2003).

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masculinity entails separation from others, the creation of a strongly bounded sense of self, and a drive to establish agency, power relations and domination in order to ensure stability and predictability over others, whereas human emotions, care, enthusiasm and personal vulnerability are seen as impediments to action (Sevenhuijsen and Svab, 2003).

Feminist economics has extensively influenced stakeholder thought, notably beginning in the 1990s. In this process of transposition, some of the early and most prominent stakeholder scholars, including R. E. Freeman, have led, with the outcome defined in various ways, but always with labels suggesting far-reaching revisions, such as 'reinterpretation' (Wicks, Gilbert and Freeman, 1994), 'alternative approach' (Burton and Dunn, 1996b), 'hybrid approach' (Burton and Dunn, 1996a), or 'different perspective' (Burton and Dunn, 2005). Wicks, Gilbert and Freeman (1994, p. 475) start from the consideration that certain masculinist assumptions 'retained by stakeholder theory from the wider business literature' limit the usefulness of the theory, and that 'the resources of feminist thought provide a means of reinterpreting the stakeholder concept in a way that overcomes many of the existing limitations'. The intent is to suggest a different insight into 'the identity and meaning of the firm', that is, into the very core of stakeholder theory. This particularly results in a diverse image of firm-stakeholder relationships and of 'what it means for a firm to succeed', which reflects the very purpose of the firm. Indeed, some masculine metaphors are contrasted with feminist alternatives. The reasoning revolves around the following five major combinations, with the first metaphor reflecting the masculine view, while the second reflects the feminist view (Wicks, Gilbert and Freeman, 1994, p. 475):

- Corporations as autonomous entities, separate from their environment vs. corporations as webs of interpersonal relations between and among stakeholders as individuals;
- Corporations as entities aiming to enact and control their environment, seeking order and stability vs. corporations accepting change and uncertainty as enriching forces, and hence guided by the idea of 'thriving on chaos';
- Conflict and competition as a fundamental approach to managing firms vs. communication and collective action (or adversarial vs. cooperative approaches);
- Objective strategy formulation vs. strategy as a process of solidarity, drawing on people's capacity to challenge situations with empathy and communication;
- Power and authority structures as strict hierarchical constructions vs. decentralization and empowerment of people by promoting communication, involvement, trust and commitment.

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On the whole, the general meaning of the proposed revisions adhering the feminist view reinterprets stakeholder management as aimed at creating value 'for an entire network of stakeholders by working to develop effective forms of cooperation, decentralizing power and authority, and building consensus among stakeholders through communication to generate strategic direction' (Wicks, Gilbert and Freeman, 1994, p. 493).

One of the most relevant strands of thought underlying the feminist philosophy is the 'ethics of care' (Gilligan, 1982; Noddings, 1984, 1999; Held, 2006). It is linked with considering relationships as an essential part of the firm, since 'a firm and its stakeholders are related to each other as part of their very existence' (Burton and Dunn, 1996b, p. 2). Transposed into stakeholder theory, this implies the adoption of a caring approach to stakeholders.

The caring approach to stakeholders has been mainly developed as scholars' response to their frustration with the direction stakeholder research has taken with its adoption of a contractual-based moral grounding and ethics of justice (Wicks, Gilbert and Freeman, 1994; Burton and Dunn, 1996a; Wicks, 1996; Burton and Dunn, 2005). Care scholars have implied that stakeholder theory is something different from a mere collection of generalized rules and universalizable principles; instead, it is a way of managing and practicing relationships that must be understood in depth and lived within particular contexts (Burton and Dunn, 2005). Wicks, Gilbert and Freeman (1994, p. 12) precisely state that 'the corporation is constituted by the network of relationships which it is involved in with employees, customers, suppliers, communities, businesses and other groups who interact with and give meaning and definition to the corporation'. In this sense, the ethics of care, like stakeholder theory, is built upon recognizing the interdependence between and among the individuals who form stakeholder groups. Stakeholder relationships are best investigated by focusing on interpersonal aspects of consensus building, communication, trust and cooperation, as it is likely that managers ought to respond to stakeholders mainly with understanding, concern and the desire to do something to help them (Burton and Dunn, 2005). The adoption of care, indeed, implies a substantial change in managerial attitudes toward firm's stakeholders that emphasizes 'the importance of human interaction and the ability to flourish in a network of relationships' (Wicks, Gilbert and Freeman, 1994, p. 494).

Moving onto a more specific, care-based line of ethical inquiry, the widely referenced first major work by Noddings on the 'ethics of care', *Caring* (1984), provides landmark insight into the 'feminine approach' to the ethics of care. According to Noddings (1984), care and the commitment to sustain it are seen as the universal heart of ethics. The author has proposed a well-known distinction between two defining concepts of care, concepts that have been progressively refined: *caring for* and *caring about* (Noddings, 1984). While *caring for* implies 'face-to-face encounters in which one person cares

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directly for another', *caring about* is more general in character, since it may refer to 'strangers who have not addressed us directly, or those unknown others at a great distance' (Noddings, 1999, p. 36). '*Caring about*' may be the foundation of justice, while *caring for* should be placed over caring about, which is 'morally important because it is instrumental in establishing the conditions under which *caring for* can flourish' (Noddings, 1999, p. 36). Acknowledging Noddings' distinction between *caring fo*r and *caring about*, Tronto (1993) uses it to present four stages of the caring process. Rather than excluding care about persons from ethical care, she views 'caring about' as a necessary but insufficient precondition for fully realized care. "Caring begins with *caring about* (stage 1), identifying a need as one that ought to be met. Care progresses to *taking care of* (stage 2), assuming the responsibility for meeting the need. It moves to 'care-giving', directly meeting the need, analogous to Noddings' *care for* (stage 3). Then, the process culminates with *care receiving* (stage 4), as the recipient of care responds. Here, too, the personal nature of care ultimately remains fundamental – as it must, for as long as we *care about* the other, they remain generalized rather than concrete" (Liedtka, 1996, p. 184). In short, caring as a successful process based on successive, developing stages defies generalized and problem-solving approaches. In fact, it must always be interpreted as an investment in interpersonal relationships of which one becomes aware at – and acts properly from – a subjective level, due to the uniqueness of perceptions and lived experiences of the individuals with whom we see ourselves as having relationships.

In describing care as a practice, Tronto (1993) emphasizes its concern with both thought and action directed towards some end and dependent upon the resources of time, skill and material goods. Contrary to the stereotypical view of caring as fostering dependence, her research interests are addressed to its ability to empower the *cared for*, that is, to respect the other's autonomy and to work to enhance the ability of the cared for to make his or her own choices well. The very existence of care as a long-term practice, however, rests on mutual acceptance of the other in his or her current state as one capable of growth (Liedtka, 1996). Care is focused entirely on persons, not on 'quality', 'profits' or any of the other types of ideas around which much of today's 'care-talk' in organizations seems to revolve. It has to be undertaken essentially as an interpersonal process aimed at growth-enhancing the full capacities of the '*cared for*' to empower themselves according to defined needs and aspirations (Liedtka, 1996).

Finally, another aspect to consider is the recognition that care as practice must not be treated as an isolated process but as a part of a larger caring system, that is, as a 'community of mutual aid' (Herman, 1993). In such a caring system, the development of a capacity to care, or to *care for* others, is fully attained only when members become aware that helping each other is the only way to advance the caring process. Particular relationships between individuals, therefore, derive their shared focus

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from the needs of that community, and become sustainable only by nurturing self-reinforcing cycles of care involving personal investments of care by each community member.

THE CARING ARCHITECTURE OF NON-PROFIT AND THIRD SECTOR ORGANIZATIONS

If care may really support an alternative moral conception of the firm in which activities and outcomes rather than profits and self-interest take the lead, how might this ethics be different in practice from the conventional managerial view? What does it mean, in concrete terms, to *care for* others, whether they be users, employees, suppliers or other stakeholders? Broadly speaking, is it possible for an organization to *care for* others, in the *feminist* sense of the term?

Liedtka (1996) offers an interesting reflection on the preceding decade of feminist writings, advancing an original reading of the problem of promoting care as a comprehensive moral theory of stakeholder management. Liedtka (1996, p. 185) introduces a conceptual framework for approaching and developing the study of 'caring organizations', with the aim of expressly defying the easy managerial fads and business-like 'talks' that usually arise when ethical issues are raised in the firm. For Liedtka (1996, p. 196), attempting to inspire 'caring organizations' to a heuristic design of principles and practices would help scholars to address dialogues and debates to stimulate operationally meaningful translations of these ethical concepts into the managerial domain. The starting point of this reasoning is the recognition that 'caring organizations' are something more than an assembly of caring individuals, and that organizations never care alone but always as part of an all-embracing 'community of mutual care' nurtured by shared goals and resources, human skills and networked infrastructures designed to support care efforts over the long term (Liedtka, 1996, p. 187). Based on this recognition, Liedtka (1996, pp. 192-197) addresses her analysis to the following founding elements of an ideal 'architecture of care' that is able to enhance the moral quality of a firm in the market:

- Decision-making openness, since the reach of care is determined as much by sphere of influence as it is by proximity, not decision-making by conformity with rules. 'Caring organizations', therefore, cannot be bureaucracies or large corporations, because hierarchy and managerial compliance are keys of organizational survival in bureaucracies, wherein the 'superior' becomes internalized as the only 'other' worthy of concern;
- Decentralization of power, to allow managers and employees the 'reach' necessary to care autonomously and on an on-going basis. This would entail the creation of an organizational web of connections, in which the focus is on the proximal nature of mutual

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and horizontal relationships with key organizational stakeholders rather than on the position of 'boxes' in a hierarchy;

- Engagement of managers and employees as team-focused members for increasing the purposefulness of organizational values and goals;
- Internal communication, shared expertise and continual renewal of the firm's objectives by entailing a dialectical approach to decision-making properly handled through dialogues and the search for consensus;
- Small size, to favor decentralization of power and boost collective voice.

Accordingly, the author states that a firm bounded both by its own reach of care and the need to be competitive would have a responsibility to care 'for those in proximity to them who have needs that they are especially well-suited, by their capability to base, to fulfil, where giving such care does not act against their own needs' (p. 196). To paraphrase Wicks (1996, p. 528), therefore, to be in keeping with care implies that any 'entity', whether an individual or an organization, 'must be intimately connected with the stakeholders who make up the firm and the arrangement they use to shape their interactions'. This point has special reference for those stakeholders who are in a position of proximity to the organization and for the ways in which they direct effort at the corporation without doing harm, or acting against, their own needs and interests. As Liedtka (1996, p. 196) argues, '[…] the focus on care is also upon needs, rather than interests. Self-care is also important, so that I do not have responsibility to give care where to do so would be of significant harm to me'. This suggests that setting the boundaries of care is an exercise that serves not only to enhance the inherent moral qualities of the firm, but also to offer logics and a mechanism for evaluating the substance and health of its stakeholder management.

If the idea of the firm as a caring organization exists as a possibility, and if it really might sustain competitive advantages, then non-profit and third sector organizations may be conceived as significant 'organizational exemplars' trying to set the boundaries of care and envisioning 'what' and 'how' an organization designed to *care for* in a fully reciprocal sense would look like in practice.

To support this moral inquiry, we focus our attention on four founding organizational attributes that are especially promising in order to provoke a meaningful conceptualization of *caring* in non-profit and third sector organizations that could simultaneously enhance both the effectiveness and the moral quality of public service providers. We refer specifically to the following attributes: (1) the embeddedness in third sector environments; (2) social purpose; (3) social ownership; and (4) stakeholder engagement.

Third sector environments

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European third sector economies are usually depicted as highly complex and regulated environments with blurred economic and societal boundaries comprising multiple local actors, including public authorities and civil society. In these environments different mixes of solidarity and civic virtues, public regulation, competition, and several social expressions converge for the planning of social and community-based services (Evers, 2004).[1] In essence, these mixed environments are outlined as socio-political spaces based on the preservation of power and resources and that monitor and enforce mutual expectations and co-operative efforts (Evers, 2006). This may well convey the impression of institutional environments in which the identification and pursuit of the collective interest are shaped by collaboration and mutual trust among societal participants.

Social purpose

Addressing care morality to a social purpose, instead, may lead many conceptual and practical challenges subsequent to the underlying uncertainty about the social quality, or nature, of such a purpose. The heterogeneity of organizational forms underlying European third sector environments opens up almost unlimited approaches for the identification of social purposes. If we look at the definition of social enterprise proposed by the U.K.'s Department of Trade and Industry[2] – one of the most accepted in the European literature – the primacy of social objectives is seen as a defining characteristic, with the generation of funds (profit) being a means to further the social purpose. The use of the adjective 'social' as a qualifier of the term 'enterprise' raises serious concerns about which typologies of organizational objectives can legitimately be considered social – not to mention to what extent a given organization may actually advance those social objectives. In order to resolve the point of care referred to the social enterprise's social objectives, it would remain essential to understand what 'social' means in the specific contexts of the social enterprise and how these social objectives differ in nature and extension from the two extremes of the 'for-profit' business and pure 'non-profit'

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[1] Although specifically referring to the emergence and institutionalization of social enterprise, Pearce (2003) has proposed a reasoned and exhaustive categorization of European third sector markets based on three distinct fields of service delivery in the local community:

- Local development and community regeneration (managed workspace, enterprise training programs, green services, social business advice and support, and infrastructure regeneration);
- Partnership with the State for the outsourcing of local public services (e.g., housing, leisure and recreation, health and social welfare services, childcare and domiciliary services);
- Community-based services in response to local demand, with a special focus on the promotion of work-integration initiatives and employment-development schemes for socially disadvantaged groups.

[2] "A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community rather than being driven by the need to maximize profit for shareholders and owners" (DTI, 2002, p. 13).

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firms. In our opinion, discussing social enterprise – or, more generally, non-profit and third sector organizations – without acknowledging the possibility of fundamentally divergent social objectives makes little or no sense. 'Sociality', that is, the quality of being social, inasmuch as an organization intentionally and effectively pursues the advancement of a social purpose, is a contested and problematic concept in the literature that seems to remain inextricably linked to a variety of potentially incompatible value systems and normative commitments (Nicholls and Cho, 2006). Sociality can be meant both in subjective (related to organizational ends and purposes) and objective (related to selected fields of action) terms. Organizations delivering human services, such as health and social care, education, housing, or other services to the community, clearly reflect an intrinsic commitment to a socially responsible behavior in both subjective and objective terms. Further, this orientation to sociality can range from mutuality to pure solidarity (or altruism), though it often finds expression in a combination of these two principles of action. Addressing care morality to the social purpose, therefore, seems to reach the heart of the debate about the moral foundations of social responsibility in non-profit and third sector organizations. However, this issue seems inevitably confined to a subjective exercise, resting essentially on judgments and evaluations dependent on personal attitudes and cultural values that are inextricably associated with a particular individual's or group's own social sensitivity with regards to specific acts or given, situated contexts.

Social ownership

Social ownership is one of the most distinguishing attributes conveying caring traits to non-profit and third sector organizations. This can be defined as a private form of collective ownership by stakeholder members or basic constituencies that basically control the organizations in order to prevent or limit the exploitation of financial surpluses and corporate assets (Pearce, 2003), or, more generally, the pursuance of divergent purposes. Many types of social ownership have an open, voluntary and formally democratic structure that is regulated to ensure co-operative advantages among the member constituents. Bratman (1992) identifies the principle of mutuality based on tripartite aspects of mutual responsiveness, commitment to the joint activity, and mutual support for the common action. These are the basic rules governing social ownership. Such organizations, by their very nature, have a participatory and highly decentralized decision-making process, facilitating internal communication, openness to dialogue and consensus building among member constituents, managers and staff. Further, the democratic governance inherent in the social ownership of many non-profit and third sector organizations, such as voluntary organizations and 'member-based' social enterprises (e.g., co-operatives and mutual organizations), usually provides member constituencies with voice and influence, if not the formal allocation of voting rights. Following that comes a strong

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sense of collective ownership and common identification with the values of equality, equity, and democracy.

Stakeholder engagement

One of the major tasks of the stakeholder approach is not just to simply identify who matters or who should be considered a stakeholder, but, instead, to seek boundary constraints that can clearly define who might not be considered a stakeholder at all (Mitchell, Agle and Wood, 1997). As previously argued, conceptualizing care morality in order to seek boundary constraints to properly address 'organization-stakeholder' relationships and searching for effective ways to influence the resulting activities and decision-making, are tasks intimately connected with the specific nature of the relationship-building established in given institutional environments.

This theoretical insight suggests that we try to sketch an all-embracing framework of methods of stakeholder engagement suited to non-profit and third sector organizations, which may hypothetically range from conventional methods of stakeholder engagement to the management of differentiated forms of stakeholder involvement in organizational activities, even to the extent of creating 'multi-stakeholder structures', also known as 'multi-stakeholder governance'. This mixed attitude towards stakeholders can be easily observed as inherent in many such organizational forms, mainly voluntary organizations and social enterprises, which provide local public services (such as human services). Indeed, it is quite common to observe, for example, members and key stakeholders of voluntary organizations and social enterprises – such as staff, users, and volunteers, along with other local stakeholders – taking part in board meetings and 'having a say' in decision-making, as well as involving citizens and community stakeholders in the service-delivery process in various ways to enhance user co-production (Brandsen, and Pestoff, 2006). Further, it is worth emphasizing that many of these organizational forms tend to evolve into 'multi-stakeholder structures', that is, organizations which advance stakeholder engagement from a set of informal or specific practices under strict managerial design and control, to a new one based on the formalization of rules and mechanisms of stakeholder board representation.

In sum, stakeholder engagement in non-profit and third sector organizations leads us to distinguish among four distinct – not mutually exclusive – operational logics that ideally range from 'external information' (minimum engagement) to 'multi-stakeholder structures' (maximum engagement; adapted from Gijselinckx, 2009):

- 'External information', typically addressed to key environmental stakeholders, often involving minimal or no information disclosure to other stakeholders;

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- 'Informal involvement' of key service stakeholders (i.e., communication, dialogues and meetings to discuss service issues, often with little or no chance for them to influence decision-making);
- 'Formal involvement' in decision-making, which requires managerial design and control skills at different stages of the process, from identifying the principles of stakeholder engagement and the matters at stake to choosing the method, allocating voting rights or 'having a say' options, measuring outcomes, and auditing;
- 'Multi-stakeholder structures', by which key stakeholders are formally represented on the board and/or are entitled to join the membership.

With regards to the latter, two main definitions can be found in the specialized literature. On the one hand, Pestoff (1995) stresses the importance of 'multi-stakeholder structures' only in terms of stakeholder board representation. Such a form of stakeholder representation is typical of nonprofits and charities, that is, of organizations where staff, volunteers, donors, and other key stakeholders are formally represented as a board of advisors or constituency stakeholders. On the other hand, Borzaga and Mittone (1997) explicitly define as 'multi-stakeholder structures' those organizations where stakeholders are supposed to be at least members or co-owners of the firm. Such a form of stakeholder representation specifically refers to member-based organizations, like mutuals and co-operatives, with a membership (or ownership) that is formally open to the co-existence of multiple stakeholder groups who hold salient interests in taking part in decision-making and benefit from sharing in the organization's results.

According to these definitions, the nature and functions of care would be better justified by reason of 'social proximity' that affects the relationships with those stakeholders who take part in the organization's processes and get some benefit from sharing in organizational outcomes. The suggested process of setting the boundaries of care, therefore, would also require attention drawn to those interpersonal and fiduciary attributes affecting stakeholder relationships that enable us to reinforce a vision of non-profit and third sector organizations as abler to *care for* the others in the full, reciprocal sense.

The specialized European literature on third sector organizations as providers of local public services and, more specifically, of human and welfare services, offers quite a bit of evidence on user benefits and improvements resulting from the involvement of key stakeholders in the service co-production. These are mainly pursued by sustaining user dialogues, further suggesting that users have a more effective voice when commitment to service change is critical, and when it relies mainly on customization and user attitudes (Pestoff, 1998, 2006, 2012; Fazzi, 2012; Verscheure, Brandsen and Pestoff, 2012). As a matter of fact, mutual trust, reciprocity and the nature of 'social relatedness'

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inherent in relationships with service users, for instance, are all self-evident traits that clearly also reveal the potential reach of care in terms of service quality and effectiveness. A 'caring interpretation' of user empowerment, indeed, can be revealed in the aim of strengthening users' knowledge, making them aware of their own experience and taking into account their views and voice on the service delivery system. Finally, caring virtues and attitudes would seem to be fully appreciated when focusing on the social networking that such organizations are able to establish and nurture with local citizens and the civil society. This informal networking is essential for bridging relational capital and other voluntary resources at the grassroots to sustain the service delivery. Likewise, it is often considered a key resource to enabling efforts aimed to democratize local welfare systems by enhancing citizen participation in the co-planning of social services (Verscheure, Brandsen and Pestoff, 2012).

To *care for* others in a fully reciprocal sense and to be concerned for all the relevant interests at stake – at least to the extent that they do not harm their stakeholders – seems as obvious and tacitly accepted when reflecting on the moral legitimacy of stakeholders and the responsibility principle in non-profit and third sector environments. This would also be of special relevance to improving our understanding of the role of 'virtue ethics' as a normative approach enhancing a stakeholder conception of organizations as relational entities. In this view, organizations appear not only as by-products of a set of formal and informal agreements among key stakeholders, but also as foundational parts of a more extensive and evolving social network of collaborative relationships and co-operative efforts.

CONCLUSION

The legitimacy crisis facing European third sector environments has deep ethical roots. It urges management scholars to delve into ethical disciplines, approaches and languages for rediscovering the moral sources affecting stakeholder legitimacy and the responsibility principle. This needs to be conducted in a way consistent with helping organizational members, staff, managers and other key stakeholders to better understand what it means to reason – and what really counts when reasoning – with real facts and decisions from a value-laden, moral viewpoint. The ethical thought best epitomized by 'virtue ethics', as opposed to the business-like 'ethics of justice', would seem most to the point, helping to advance our knowledge of the moral foundations of non-profit and third sector organizations. Specifically, the language and method of care, with its special focus on both the dialogue and the reciprocal strengthening of interpersonal relationships as a primary means of moral deliberation, proves to be sound and defensible thought to enhance proper justifications of the moral legitimacy affecting the notion of stakeholders, and 'organization-stakeholder' relationships, in

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European non-profit and third sector environments. As we have noted, the attitude to care would seem clearly visible in terms of stakeholder engagement by non-profit and third sector providers of local public services, especially in the 'multi-stakeholder structures' delivering human and welfare services for the community. Indeed, care morality would seem to affect mainly those stakeholders who are in 'proximity' with service users, that is, those stakeholders who have salient interests in taking an active part in the service co-production process, and benefiting from sharing in the organization's outcomes.

However, at least at the current stage of research, we cannot know for certain that the moral grounding of care is the best normative theory conveying meaningful interpretations of the moral legitimacy of stakeholders in third sector realms. Once an intrinsic moral commitment to the principle of responsibility is supposed, several additional questions need to be addressed in order to reach the potential of care morality. What combinations of stakeholder practices might efficaciously manage and balance an organization's multiple objectives? How can stakeholder practices be integrated into a governance system? How should divergent stakeholder interests be balanced without doing harm or acting against them? How should boards address the potential conflicts arising from key stakeholders?

Little attention has been so far paid to conceive of care as a comprehensive moral theory of organizations. One critical explanation for this is that care morality has been contextualized only in the business realm for approaching decisional conflicts or teaching managerial dilemmas from an alternative ethical perspective. It has been used in business discourses to maintain distance from the dominant ethical thoughts on justice. Specifically, it has been developed with the prior concern of showing that the best way to understand and teach morality is to focus on the complexity of a single business issue, making use of languages and methods that try to select and isolate the caring attitudes and meanings inherent in the mutual and interpersonal aspects of 'organization-stakeholder' relationships and decision-making (Burton and Dunn 2005). Unfortunately, ethical reasoning and judgements in business studies have always been conveyed by focusing on specific facts or strategic decisions related to relevant business issues in large corporations, often adopting a strictly masculine language dominated by concepts such as self-interest, leadership, competition and profit maximization. By contrast, studying 'organization-stakeholder' relationships from the viewpoint of those key stakeholders who are in 'proximity' to – and take active part in – the service co-production process could be a useful starting point to make morally sound interpretations of the human virtues and moral qualities of non-profits and third sector organizations as effective public service providers for local communities.

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The proposed framework of care morality should hint to scholars that feminist language, methods and principles of care need to take on more relevance in the study of the moral obligations and fiduciary duties of organizations. The necessity of a moral stance on stakeholder orientation is a claim largely shared in literature; the ways in which this can be inflected in any specific culture and/or context, though, are open to debate. The hypothesis can be made that specific ethical theories are abler than others in any given environment or situation for interpreting people's ethical motives. Largely similar ethical behaviors can be traced back to different sources, according to people's sensibilities and ways of thinking, the specific context within which 'organization-stakeholder' relationships are enacted, and the specific values deposited in the organizational culture. This leads us to claim that further theoretical speculation on care and, more generally, on stakeholder thought is still required. Above all, much comparative fieldwork directed at examining concepts and ideas affecting ethics and the responsibility principle in current European third sector economies is essential.

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PATENT RIGHTS MANAGEMENT: PROTECTING OR SHARING KNOWLEDGE? A POSSIBLE SOLUTION

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ABSTRACT

The strategic role that intangible assets, and especially innovation, play in the corporate value-added process has recently been growing. Thus, our work purpose is to investigate the most efficient intellectual property management strategy, with a special regard to patents, since they are an archetype of technological protection. Analysis of patents enables us to understand *if* and *how* IP rights improve market competitiveness, thanks to the information's protection. The survey considers IP as a given, because the regulations that allocate economic monopolies to the inventors are yet irreversible, in opposition to the literature orientation supporting the theory that knowledge protection would be a boundary to innovation. Moreover, being impossible to ignore the actual economical trend named "massive collaboration", the research develops a knowledge management paradigm to define the most efficient way to exploit patent rights.

Keywords: *intangible, value creation, innovation, intellectual property, patent rights management, full-exclusion strategies, open access, limited-exclusion strategies, patents licensing.*

1. INTRODUCTION

Companies consider intellectual capital as a key factor to succeed in the long term, because of the growing complexity of the socio-economical environment (Edvinsson and Malone, 1997; Foray, 2006; Rifkin, 2001; Sveiby, 1997). Amongst the intangibles, a strategic role is played by technological innovation, which is a part of the structural capital (Stewart, 1999). It is widely recognized that process innovation is one of the main strategic tools that a firm has to differentiate itself from competitors (Shumpeter, 1942).

Focusing the analysis on innovation, we found that one of the firms' main goal is to *protect* the information coming from the inventions, together with *producing* new knowledge. Thus, having intellectual property results a positive impact on how market players act, grow and compete (Lev, 2003; TEECE, 2000), it is obviously considered a source of value production.

 ISBN: 978-9963-711-37-6

The survey focuses on patents, because they are the archetype of knowledge protection of an invention. Therefore, it is necessary to investigate patent dynamics to reveal *if* and *how* patent rights improve market competitiveness thanks to the protection of the technological information. In fact, if on one hand patents grant the exclusive rights to the inventor (the faculty to prevent others from doing the same activities/processes), on the other hand they are an important tool to regulate the market. If that tool would be not efficiently managed, it would result in a threat to the knowledge creation process.

Moreover, the importance of those features is even more pressing within the economic trend named "massive collaboration". An ever-growing number of people are contributing to innovation and to value creation in several economic areas, with an "open" approach, which seems likely to transform every institution of society.

Given the above, the present research investigates the possible strategies developed to manage knowledge and offers an efficient paradigm of control, which would define the best utilization of the patent rights.

In paragraph 2, we describe the motivations for building a strict information protection system, while in paragraph 3 we analyze the reason for knowledge management based on an open style of approach.

As it is impossible for the authors to conclude that one style of knowledge management (if protecting or sharing information related to a discovery) is the most efficient, in paragraph 4 we present the limited-exclusion strategy as the optimum tool for control of the company's knowledge assets.

In paragraph 5 we develop a possible paradigm of knowledge management which would better work to obtain the most efficient promotion of the patent rights.

Finally, paragraph 6 presents the authors conclusions on the topic and survey's implications.

2. THE PROTECTION OF KNOWLEDGE AND FULL-EXCLUSION STRATEGIES

The field of Research and Development is the main tool that the companies can exploit to gain and preserve a competitive advantage. For ages, it has been considered possible to manage processes in terms of "property rights", which create a real entrance barrier for new competitors and are the key factor in obtaining a competitive advantage.

Basically, that model is based on the assumption named "closed innovation". A competitive advantage is a direct consequence of the growth of an entrance barrier. Those barriers are both *organizational*, due to the R&D functional emphasis, and *financial*, because of the investments required and the intellectual capital protection, which is a significant strategic driver.

ISBN: 978-9963-711-37-6

Thus, one part of the literature supports the thesis that the protection of new ideas would have several benefits.

First of all, allocating property rights to the inventions would be an important tool to promote innovation, since an economic return is granted for investors through the price mechanism (Trequattrini, 2008).

Secondly, the need to ensure a certain return to the inventor for the discovery, would avoid the market failure dynamics involved when knowledge is expressed as a *public good*. It is a well known that the definition of the public goods includes some characteristics like the *non-rivalry* and the *non-excludability* of the good itself. Combining those features, we identify the origin of the so called *free riding* phenomenon, where the economic players tend to reduce the investment in a public good, since they can exploit some other people's investments.

Another advantage of the institution of patents is the dissemination of knowledge. The patents systems are designed so as to make the inventors reveal their discovery's contents through detailed technical documentation. That compulsory disclosure of the technological information would help the diffusion of new innovative ideas and promote a boost in technological development.

On the other hand, those considerations are contested by an opposite theoretical orientation, that supports the belief that the institution of patents would not be justified, because of the divergence between property in ideas and property in tangible goods.

In fact, tangible goods are seen as property rights because of the shortage of those goods, thus avoiding possible conflicts (Hoppe, 1989).

The ideas, instead, are not a scarce resource: using someone else's idea will not prevent the original inventor's usage, thus avoiding the threat of conflicts. When someone claims the right on an idea, an artificial and unfair scarcity is created (Bouckaert, 1990). According to that, ideas could not be considered as a property and its exclusivity would not be necessary. Intangible ideas, that have not yet been applied, would be like some books into Babel's library, because they are socially useless because inaccessible.

So far, we can claim that a first disadvantage coming from protecting knowledge would lie into the unjustified enrichment of a private person – the inventor – and in the social damage resulting.

In this regard, Boldrin and Levine (2002) underline that intellectual protection is useless because the market is able to pay off the entrepreneur's production costs without the need to allocate some monopolies, thanks to the rights coming from the first sale.

Moreover, those that criticize the patents institution do not identify into knowledge protection an instrument to generate more innovation, but an obstacle to produce new ideas.

ISBN: 978-9963-711-37-6

As Landes and Posner (1989) said, any kind of knowledge is itself something cumulative, because it comes from former knowledge already discovered and accumulated over time. Thus, an overexploitation of protection risks to limit knowledge diffusion and the learning accumulation process required to inspire other inventors.

Regard to this, Heller and Eisenberg (1998) define as «*tragedy of the anti-commons*» when knowledge fragmentation stops any kind of innovation process, because it destroys the equilibrium between past and present innovators. Any knowledge holder will tend to exclude other people from his research environment.

The economical reasons given by IP detractors would also be founded on the actual economical trend named "massive collaboration", where knowledge management is based on an "open" kind of approach, which seems to be transforming every institution in the community.

3. KNOWLEDGE MANAGEMENT WITH THE "OPEN ACCESS" APPROACH

The industrial revolution involved both an economic and a knowledge revolution (Mokyr, 2004). In regard to intellectual capital and above all patents, the protection of ideas made the "privilege" of learning and testing useful knowledge extend further towards the middle classes. Using the returns on their inventions, they could invest in learning processes to improve their social status. Before then, only the aristocracy would have that privilege.

This encouraged the pursuit of a double benefit: on one hand, a greater technological progress took place, so as to support the city's economic development; on the other hand, it increased significantly the individuals employed in the research field.

However, the previous function of patents during the industrial revolution seems not to exist anymore in the present socio-economical context, due to the formative role played by our educational systems.

Moreover, the collaborative economy would seem to support the view that such an institution is old fashioned, since there are some new organizational paradigms existing, such as the *peer production* (or *peering*). It is a productive system made by peers. By saying that we mean people or companies that collaborate with each other, using an "open" approach to promote innovation and growth in the business (Tapscott and Williams, 2008).

Massive collaboration is basically founded on the ratio that a large horizontal net of participants would spread group know how, capabilities and resources more significantly than a single company could do. To access other people's knowledge within peer production means the traditional kinds of intellectual property are totally overturned. The production communities use general public licenses

 ISBN: 978-9963-711-37-6

to grant the right to share and modify the creative works for the users, as long as every modification is shared with the community (Benkler, 2006).

It is worthwhile to underline, though, that a sharing strategy is not free from limits and criticalities.

First of all, such a radical change as the massive collaboration, is frequently accepted with some skepticism, bringing an uncertainty factor (Tapscott and Caston, 1993). The top management could barely imagine a world where their companies would lose control of their monopolized sources. That is the reason why so many companies consider information sharing as a threat and choose to obstruct it, rather than accept it.

Secondly, the detractors of the open-source believe that a collaborative economy is "flattening culture" (Friedman, 2007), because of a great participation of amateurs in creative activity. That confused and anonymous "massive mediocrity" would risk to compromise the highest level of quality and originality and, finally, damage the true talent.

Furthermore, the general public opinion shows how the "knowledge producers" are increasingly less incentivized in a world where individuals can join their talents to create free goods for competing with the proprietary goods offered on the market. Basically, the intellectual property sharing is a potential threat for the free market and for the right to realize a profit in the *knowledge-based* areas.

However, there are also some extreme theoretical orientations which support that a more open and independent world, which would be more potentially dynamic and active, but also more exposed to terrorism and criminals.

4. PATENTS STRATEGIC MANAGEMENT THROUGH LIMITED-EXCLUSION STRATEGIES

The opinions described in the above paragraphs suggest that efficient knowledge management would not rely either on a total opening or on a total privatization of the information involved in a new inventive creation. In fact, the analysis revealed that a significant amount of limits and opportunities belong to both strategic approaches. Thus, we can support the thesis that the fairest knowledge management is a good mix between protecting and sharing knowledge.

It would be appropriate, therefore, the introduction of an incentive system to reward the inventors and the knowledge producers and to encourage them to spread the results of their works widely. In such a scenario, an optimum knowledge control might be based on "*limited exclusion*" strategies (Palfrey, 2012), through the grant to third parties (i.e. the purchase by third parties) of patent licenses. Basically, a licensing strategy would help pursue a double benefit (Ghidini, 2009):

- to let the patent's owner transform the R&D field in a profitable centre thanks to a wider and more efficient monetization of their patent portfolio;

 ISBN: 978-9963-711-37-6

- to promote the offer of new ideas and inventions developed by the firm, that have not been used yet because of the cost of realization or because they were not appropriate to the brand image or company's strategy.

At the same time, companies that are willing to increase their competitiveness on the market can purchase a technological innovation by the inventor. So, companies would provide solutions to problems that have not been solved internally, for some reasons related to costs, timing or a lack of experience.

Considering all those advantages, we can claim that protecting knowledge assets would make firms more inclined to collaboration, even though − at a first glance − we could have seen an ideological conflict between IP rights and the theoretical economic principles based on the sharing of learning. That would actually realize a more "balanced" intellectual property management: firms do not have to renounce to potential patent rights, but they have to share some basic elements of them so as to introduce on the market some innovations that would otherwise not be realizable, and with a faster timing.

So, protecting personal assets with IP rights would become a prerequisite at that point. In fact, despite the limits involved in a full-exclusion strategy, something that does not belong to anyone cannot be transferred (Palfrey, 2012).

Moreover, considering IP as a significantly valuable strategic asset, we could find also other benefits.

First of all, the allocation of intellectual property rights solves the so called «information paradox» by facilitating knowledge transfer and commercialization (Arrow, 1962). The paradox is the following: pure information−which is a *non-rival* and *non-excludable* information − can turn into economic value only when it is revealed; but, when it becomes public, its value turns into zero because anybody can use it without any cost. Thus, it is extremely difficult that a market for goods that have the characteristics of pure information can exist. It is obvious that the presence of this paradox makes useless minimal economic incentives to invest to realize the innovation, because it is impossible in practice to transform a personal innovative idea in economical value. The precise IP rights allocation, if negotiated, would solve the information paradox, facilitating the existence of a knowledge and innovation market.

Secondly, the claiming of IP rights would become like a "shield", since it would offer to inventors the freedom to develop more products.

Finally, in the company's evaluation, the IP rights value is just as important as other asset classes' value. So, by having a positive impact on the company's credit standing, intellectual property assumes a fundamental role into external financial processes of the firm (Faccincani, 2009).

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On the other hand, using only information protection is not enough to promote more innovation processes: some sharing learning is necessary. It would seem, in fact, that innovation leads to a significant amount of patents, but a greater number of patents, with full exclusion strategies, would not lead to a wider innovation.

In such a scenario, an IP licensing strategy would represent the most efficient knowledge management to gain a long term advantage. The reason for preferring licensing strategies rather than privatization strategies is actually the gain of economic returns and competitive advantages on a medium-long term perspective. Instead, privatization is a response to the drive for short term wealth creation.

5. THE FAIR BALANCE BETWEEN KNOWLEDGE PROTECTION AND SHARING: TOWARDS A POSSIBLE SOLUTION

Even though licensing advantages are understood, it is worth underlining that an efficient IP management should not disregard the need for a certain *dynamic* and *flexible* approach. In fact, in an optimal knowledge management paradigm, each of the strategies analyzed could play a crucial role, because each one could be needed to satisfy some particular needs.

A *full-exclusion* strategy would be efficient against the competitors offering very similar goods and services, although they differ slightly. That efficacy, however, would rely on the presence of two conditions:

- the lack of any IP violation by the competitors;
- a certain width of the good's life cycle.

Regarding the first condition, it is known that nowadays by the excessive tendency of companies to protect any technological item discovered, and by the subsequent lawsuits in defense of the same, is derived a waste of money. That waste appears not to be justified as for two kind of reasons. First of all, it would make the products' prices rise so to have a final negative effect on consumers; secondly, they would slow down the technological advancement, since the legal expenses sometimes overcome the R&D investments (Bessen and Hunt, 2007; Levine and Saunders, 2004).

About the product life cycle, an efficient management of intellectual property should consider the phase where the technology is positioned, following the phases of its development path (Chesbrough, 2006). In the initial phases of a new technology (initial development and growth), firms should invest in intellectual property creation and choose the best way to protect it, by strongly developing its technology. In the maturity phase, companies should search for new technological applications in the emerging sectors of the industrial field, but also in totally different fields. Thus, a more restrictive IP strategic approach could not support different technological applications in different usages in that

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phase. In fact, a company holding IP rights could be characterized by the scarcity of innovative processes, since the decision on *how* and *when* to innovate is taken by some external organizations.

On the other hand, companies agreements for IP sharing would support the so called "*generativity*" of the existing technologies (Zittrain, 2008), which is the realization of further innovations, thanks to the improvements done by several actors, external to the patenting company.

Therefore, a full-exclusion strategy could be extremely dangerous, because of a strong decrease in the products' life cycle, being in an economic phase with integrated markets and a more and more dynamic competitive environment.

Thus, it would be appropriate to claim that full-exclusion strategies would be efficient to pursue the *short term profitability*. That is how *limited-exclusion* strategies would take place, whose benefits are not only monetary, but also strategic, such as the generation of alliances for eliminating or reducing the limits of a knowledge closed approach.

In that direction, *cross-licensing agreements* are a strategy that companies should take under into serious consideration (Raysman *et al*., 2011).

A first benefit of that approach is the possibility to prevent or solve the legal arguments for violation of third parties patents. That also avoids the danger of utilizing a huge quantity of financial resources in legal disputes, rather than in R&D activities. They also encourage the businesses to innovate with more freedom.

Moreover, cross-licensing agreements would help promote technological progress. Firms involved in the contract are able to access to patents of others and, therefore, to information that would be otherwise secret. That will help introducing possible technological development, which is often limited by the knowledge fragmentation associated with "patent thickets" (Choi, 2010; Shapiro, 2001).

Another advantage of the cross-licensing agreements is the reduction of variable costs, especially those of production and negotiation (Lennon, 2008).

Thus, a limited exclusion strategy would better work to satisfy the *innovation* and *medium-long term liquidity* needs: limiting the right to exclude somebody else from the proper IP, would facilitate a faster development of the technological horizons.

Finally, an optimum model of patent rights management involves the *open access* approach, that could be essential when *necessity* and *equity* needs have to be satisfied, such as public health needs.

Often, the observers point out that the only industry where patents would literally have a fundamental role when launching new products on the market is the pharmaceutical field, because of the high fixed costs of innovations. So, in that field, the decrease of incentives for creating new drugs could appear very dangerous (Carrier, 2004).

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The excessive costs of new medicines, though, facilitate their access only for the consumers in wealthy countries. Thus, many people support the end of patent rights for the poorest countries, where the multitude of diseases represents a more dramatic and urgent issue than the high cost of the drugs in the more technologically advanced countries.

Some radical changes would be required in such a scenario, like instituting a prize system whereby governments pay pharmaceutical companies a prize for their developments instead of granting them patents rights (Fisher and Syed, 2010). Another solution is the use of "*Equitable Access*" licenses (**Kapczynski** *et al*., 2005), whereby patented information is available for free use in certain contexts, such as in that of access to lifesaving drugs in developing countries.

The model of patent rights management proposed is illustrated in the following matrix (figure 1)

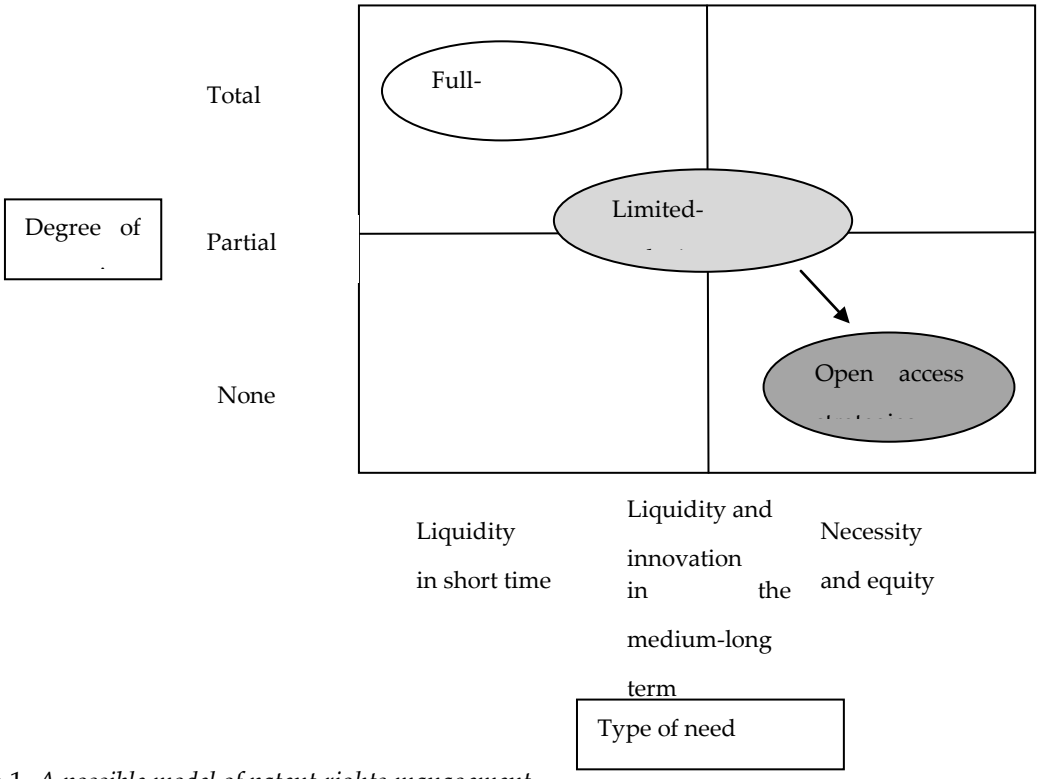

Figure 1. *A possible model of patent rights management*

Given that, we can claim that − due to the short term advantages come from a full-exclusion strategy − the most efficient intellectual property paradigm of control would be based on limited-exclusion strategies, which aim to an open access management in order to ensure a larger diffusion of the saving-life drugs. We should start to think about how the law of intellectual property can evolve over time in the public interest.

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6. CONCLUSIONS

The research results are that the most efficient patent rights management system would appear to be an efficient mix between knowledge protection and sharing. In fact, both full-exclusion and open access strategies analyzed involve some opportunities, but also a certain amount of dangers.

In particular, we can state that optimum mix should be meant as in a double perspective:

- in a strict sense, because of the *limited exclusion strategies*' crucial importance;
- in a broad sense, since there is a *strategic turnover* between the closed, open and mixed knowledge management, in response to the specific needs of the situation.

While discussing the first feature, about the crucial relevance of limited exclusion strategies, we pointed out the strategic function played by licensing activities. In fact, the patent transaction would create several benefits both if the company owns the patent and if the company is the "licensee".

Thus, the best model for knowledge management would appear to be the "*Open Innovation*" paradigm, introduced by Henry Chesbrough in 2003. It is based on the participation and cooperation between organizations − private and public ones − to promote some innovative ideas useful for the market. That model describes value creation as a variable not only dependent on the internal transformation of inputs in outputs (as described by the traditional innovation model), but rather as a smart and efficient combination between external and internal resources. In fact, the Open Innovation paradigm claims that businesses could and should adopt external ideas as well as internal ones, in order to improve their technology; also making the other firms able to use their unused ideas (Chesbrough, 2003).

Thus, a fair mix between protecting and sharing technological knowledge is the only way of realizing an efficient knowledge management process. So, patents would not be considered only as assets within the balance sheet, but also like some *negotiable goods*, using an efficient knowledge management paradigm. Thus, there would be a double usefulness of protecting rights for companies: to hold know-how themselves and to be able to transfer the innovative information to attract potential partners. The mutual relationship would be realized through their selection, which would be based on the property rights portfolio and on the potential complementarities.

To answer to the research question of the survey, we intend to underline that the balanced mix between protecting and sharing knowledge would not be realized only by using a *limited exclusion* strategy, but instead by implementing a "flexible" managerial approach. On the authors' opinion, the most efficient knowledge management would be the implementation of a model that would allow a

 ISBN: 978-9963-711-37-6

company to catch the opportunities and to manage the risks that belong to a certain phase of the company's life or to a certain industry. Thus, the optimum patent rights management model implies the *alternation* of closed, mixed and open strategies, rather than adopting only one of those strategies.

In this regard, the paradigm developed showed how full-exclusion strategies fit perfectly the short-term liquidity needs. Limited-exclusion strategies, instead, eliminate the limits of the closed knowledge management and, furthermore, they appear to satisfy liquidity and innovation needs in the medium-long term. Finally, an open-access strategy finds its fundamental ratio in the accomplishment of equity needs, which are needs higher than the necessity of any form of protection.

In conclusion, we can say that both full-exclusion and open access strategies do not represent a solution to the general issues concerning a certain kind of business, but they are rather two approaches complementary to systems where reaching a good balance between the public foundations and the private firms represents the main goal to let the companies and the markets hold a long-term competitiveness (Tapscott and Williams, 2008).

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 ISBN: 978-9963-711-37-6

DOES COUNTRY IMAGE AFFECT CONSUMERS' WILLINGNESS TO PATRONIZE ETHNIC RESTAURANTS?

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ABSTRACT

The main aim of this paper is to investigate the influence of Country Image (CI) on consumers' willingness to patronize (INTP) an ethnic restaurant. The research is conducted in a multi-cue approach, taking also into consideration the impact of the dining core service offer (COFF) on INTP. Specifically, a model in which CI, consumer ethnocentrism (ETN), country familiarity (CF) and COFF affect INTP is proposed and tested. As extant literature is mainly addressed at studying consumers' evaluations and purchase intentions of tangible products sourced from foreign countries, while the Country of Origin (COO) effect on consumers' perceptions and behaviors of services has rarely been examined, this study topic should be expressly interesting for advancing the theoretical and managerial understanding on the COO effect. This is particularly true in the case of dining services, taking into account the widespread market offer of ethnic restaurants and cafés that consumers are increasingly facing today. To test the proposed model a survey was performed. Data was gathered administering a structured questionnaire to a convenience sample composed by three hundreds individuals. Structural equation modeling (SEM) serves to test the hypotheses. The model shows a good fit and the proposed hypotheses are all fully supported. Theoretical and managerial implications are discussed.

Keywords: *Country Image, Consumer ethnocentrism, country familiarity, dining services, ethnic restaurants and cafés, French bistrot, core service offer, Italian consumers, SEM.*

INTRODUCTION

Consumers are increasingly exposed to an enlarging range of foreign products and brands. This acknowledgement has stimulated a strong and increasing scientific and managerial interest on the impact that the origin of a product in terms of sourcing country, the so-called Country of Origin (COO) effect, exerts on consumers' evaluations and behaviors (Papadopoulos and Heslop, 1993; Kaynak and

 ISBN: 978-9963-711-37-6

Kara, 2002; Roth and Romeo, 1992; Wang and Chen, 2004; Pappu *et al.*, 2007; Chattalas *et al.*, 2008). As a matter of fact, COO is considered as one of the most researched topics in international marketing and consumer behaviour (Peterson and Jolibert, 1995; Usunier, 2006).

Despite the richness of the COO literature, extant research is almost fully addressed at studying consumers' evaluations and purchase intentions of tangible products sourced from foreign countries, while the COO effect on consumers' perceptions and behaviors regarding services has rarely been examined. This is particularly true in the case of dining services whose literature is mainly focused on investigating customers' satisfaction and perceptions of service quality (Andaleeb and Conway, 2006; Weiss *et al.*, 2005) and restaurant attributes (Johns and Pine, 2002; Park, 2004) but is completely lacking, to our knowledge, in considering the COO role. Batra (2008) focused on foreign tourists' motivation and information sources influencing their preference for eating out at ethnic restaurants in Bangkok but do not consider CI in its analysis. Czarniecka-Skubina and Nowak (2014) investigated the popularity of Japanese cuisine in Poland and examined attitudes of Polish consumers towards it but, again, neglecting the CI role and the influence of COO cultural components. However, taking into account the widespread market offer of ethnic restaurants and cafés that consumers are increasingly facing today in their home countries, this literature gap is calling for a specific focus on this topic.

Within this context, the main aim of this paper is to investigate the influence of country image (CI) on consumers' willingness to patronize (INTP) an ethnic restaurant. Specifically, a model in which CI, consumer ethnocentrism (ETN), country familiarity (CF) and the dining core service offer (COFF) affect INTP is proposed and tested. The country image investigated regards France and the dining service evaluated is a French bistrot. To this aim, a quantitative survey was performed, administering a structured questionnaire to a sample (N = 300) of Italian consumers and applying Structural Equation Modeling (SEM).

This study contributes to the COO literature in a threefold way. First of all, this research investigates the COO effect in an understudied business sector, namely dining services, in this way contributing in overcoming the knowledge gap of the COO literature in this business context. Secondly, this study employs a multi-cue approach evaluating not only CI but also another fundamental cue on the bases of which consumers decide to patronize a dining service - that is: the core offer service – enabling a better and more complete insight of the phenomenon investigated. Last but not least, the analysis is performed furthering our understanding on cross-cultural management as the model includes ETN and CF.

 ISBN: 978-9963-711-37-6

The paper is organized as follows. After having described the conceptual model and stated the research hypotheses, the methodology used to reach our study goals is depicted. Results are then presented and discussed. Main conclusions together with some issues regarding study limitations and possible future research directions end the manuscript.

CONCEPTUAL MODEL AND RESEARCH HYPOTHESES

COO is traditionally conceived as a synthesis of stereotypes, skills, experiences and knowledge concerning a certain country and its manufacturing capabilities. Traditionally, it has been defined as "information pertaining to where a product is made" (Zhang, 1996, p. 51). In this sense, COO is an heuristic that can help consumers to make inference about product quality, affecting their beliefs about product attributes and intention to buy. In fact, many empirical studies have measured country image through product rather than country measures (Han, 1989). In the current study COO is conceptualized in terms of country image (CI). This is a broad definition relating to the stereotypes and generalized opinions that individuals possess about a specific country (Roth and Dimantopoulos, 2009). CI is measured employing indicators such as the industrialization level and technological development of a specific country and its political, cultural and economic situation (Pappu *et al.*, 2007). The image of a country as the origin of products is regarded as an extrinsic cue often used by consumers in the process of evaluation of the product quality and impacting on the intention to purchase products. This could happen also when a dining choice would have to be made. So, our first hypothesis is as follows:

H1: Country image positively influences the consumers' willingness to patronize an ethnic restaurant.

The COO cue, as brand and price cues, often acts as a risk-mitigating information about adverse consequences arising from a product purchase (Oberecker and Diamantopoulos, 2011) and it is particularly significant when consumers lack of knowledge/experience about the product. This effect is known as halo or summary effect (Han, 1989). According to the halo view, the uncertainty related to the characteristics of the products leads the customer with low knowledge of a country product category and with low familiarity with it, to use country image to infer an evaluation of its quality before purchase (Han, 1989; Laroche *et al.*, 2005). However, authors (e.g., Johansson, 1989) who support that the COO effect rises as the level of product familiarity increases, believe that individuals, having prior experiences with similar products from the same country and then with high level of product country familiarity, are not only able to evaluate product quality through intrinsic cues, but they are also capable to increase their ability to linking information concerned with extrinsic cues, such as COO, to product quality (Rao and Monroe, 1988). In the situation of high product familiarity, COO acts,

 ISBN: 978-9963-711-37-6

therefore, as a summary factor used as a proxy of the product attributes (Laroche *et al.*, 2005; Josiassen *et al.*, 2008).

H2: Country Familiarity positively influences the consumers' willingness to patronize an ethnic restaurant.

Country image cue can also be affected by some biases related to cultural orientation and national stereotypes of the consumer, such as ethnocentrism (Kaynak and Kara, 2002; Balabanis and Diamantopoulos, 2004; Ahmed and d'Astous, 2007; Chryssochoidis *et al.*, 2007; Chattalas *et al.*, 2008). The concept of consumer ethnocentrism explains the phenomenon of consumer preference for domestic products, or prejudice against foreign-made products (Sharma *et al.*, 1995). "From the perspective of ethnocentric consumers, purchasing imported products is wrong because, in their minds, it hurts the domestic economy, causes loss of jobs, and is plainly unpatriotic" (Shimp and Sharma, 1987, p. 280). According to this concept, consumers with high ethnocentric tendency prefer to buy national products because of appropriateness, morality and sense of loyalty to their home country (Shimp and Sharma, 1987; Watson and Wright, 2000; Kaynak and Kara, 2002; Wang and Chen, 2004; Hamin and Elliot, 2006; Bandyopadhyay *et al.*, 2011). On the contrary, consumers showing a low ethnocentric tendency evaluate foreign products on their qualities and on the basis of the utility they offer, rather than of their country of origin; and whenever this is considered, this condition is evaluated in a favorable manner when products are manufactured in a country with a positive image (Shimp and Sharma, 1987). Therefore, ethnocentrism supports the understanding of how consumers compare domestic with foreign-made products and how their judgments may be subject to biases (Kaynak and Kara, 2002; Balabanis and Diamantopoulos, 2004). Consequently, ETN can affect the intention to buy foreign products (Sharma *et al.*, 1995; Wang and Chen, 2004). Thus, our third hypothesis is as follows:

H3: Ethnocentrism negatively influences the consumers' willingness to patronize an ethnic restaurant

In this study we adopt a multi-cue approach as we investigate not only the CI cue but also the impact of the dining core service offer (COFF) on INTP. Traditionally, research in hospitality management identified three critical factors that restaurant guests consider when choosing where to dine: the food, the service, and the environment (Berry *et al.*, 2002; Sulek and Hensley, 2004). Weiss *et al.* (2004), investigating the attributes of the restaurant experience, demonstrated that restaurant food and atmosphere are the most important attributes relating to repeating intention. And, as fundamental benefits a customer receives, namely core benefits, are the essence of the dining choice of consumers, we would focus on the dining core service offer and prove its impact on INTP.

H4: The dining core service offer positively influences the consumers' willingness to patronize an ethnic restaurant

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METHODOLOGY

The final version of the questionnaire was submitted to a convenience sample of 300 consumers in the city center of the town of Modena (Italy). Data were gathered within a period of two weeks on different days and at different times in order to reach the major variety of restaurant patronize habits.

In terms of socio-demographic features, the sample was composed as follows: 61.3% of the respondents were females, while 38.7% were males. In terms of age distribution, 47.3% were younger than 25 years of age, 35.0% were 26-35 years old and 14.7 were 36-50; just 3.0% of the respondents were older than 51. Family composition is as follows: 10.3% were single; 20.0% lives in pairs, 15.7% live in a family of 5 or more members and the remaining 54% live in a family of 3 or 4 components.

Measures Validity

Relevant reference literature was used to ensure the content validity of the measures. Interviewees were asked to evaluate the items investigated on a 7-point Likert scale anchored at 1 "strongly disagree" and 7 "strongly agree", apart from the level of CF anchored at 1 "very low" and 7 "very high" as well as COFF anchored at 1 "not at all important" and 7 "very important".

	References	Items	Mean	SD
Intention to Patronage			***4.254***	***1.860***
INTP1	Adapted from Roth and Romeo (1992), Wang and Yang (2008)	I would be willing to patronize this French bistrot		
INTP2		I intend to patronize this French bistrot in the future		
INTP3		I would consider to buy food & drink from this French bistrot next time I'll go to a café/restaurant		
INTP4		I would be willing to test the offer of this French bistrot		
Country Image			***4.978***	***0.943***
CI1	Martin and Eroglu (1993), Pappu *et al.* (2007)	France has a high level of industrialization and technological research		
CI2		France is a producer of high-quality products		
CI3		France has a high standard of living		
CI4		France has an excellent welfare system		
CI5		France has a high developed economy		
CI6		France has a good level of education (literacy)		
Country Familiarity			***3.480***	***1.436***
CF1	adapted by Josiassen *et al.*, (2008)	Overall level of knowledge of France		
CF2		Number of times visiting France		
CF3		Overall level of experience with the French culture/people		
Ethnocentrism			***2.630***	***1.354***
ETN1	Shimp and Sharma (1987), Ouellet (2007)	A good Italian does NOT buy foreign products.		
ETN2		It is NOT right to purchase foreign products because it puts natives out of jobs		
ETN3		We (Italians) should purchase products manufactured in Italy instead of letting other countries get rich off us		
ETN4		It should cost me more in the long run, but I prefer to buy Italian Products		
Core Offer			***4.773***	***1.309***
COFF1	Adapted by Keyt *et al.* 1994	Menu (Food & drinks) variety		
COFF2		Use of local raw materials		

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COFF3	Attention/care in preparing/serving food & drinks
COFF4	Courses and drinks originality

Table 1. *Measurement Scales and Items*

To examine the reliability and unidimensionality of each construct composing the proposed model, we use Cronbach's alpha and exploratory factor analysis. The psychometric analysis of the five construct scales show good internal consistency indexes. The Cronbach's alpha index for each scale is much greater than the threshold value of 0.70 (Nunnally and Bernstein, 1994) showing a good level of internal reliability (αINTP=0.958; αCI=0.879; αCF=0.822; αETN=0.798; αCOFF=0.802) (Table 2). All items exhibit a high item-total correlation, indicating their capability to measure the constructs investigated.

	Cronbach's alpha	**INTP**	**CI**	**CF**	**ETN**	**COFF**
Intention to Patronage (INTP)	***0.958***					
INTP1		0.925*				
INTP2		0.975*				
INTP3		0.959*				
INTP4		0.831*				
Country Image (CI)	***0.879***					
CI1			0.722*			
CI2			0.732*			
CI3			0.786*			
CI4			0.720*			
CI5			0.815*			
CI6			0.679*			
Country Familiarity (CF)	***0.822***					
CF1				0.738*		
CF2				0.771*		
CF3				0.836*		
Ethnocentrism (ETN)	***0.798***					
ETN1					0.604*	
ETN2					0.779*	
ETN3					0.766*	
ETN4					0.679*	
Core Offer (COFF)	***0.802***					
COFF1						0.622*
COFF2						0.685*
COFF3						0.805*
COFF4						0.725*
AVE		**0.854**	**0.553**	**0.613**	**0.505**	**0.507**
Reliability		0.959	0.881	0.826	0.801	0.803

Note: *All factor loadings are significant at the p< .01 level.

Table 2. *Factor Analysis: Individual item factor loadings and reliability; AVE and CR*

Structural Equation Model (SEM) with the method of Maximum Likelihood was conducted to assess the validity of the hypotheses. Data was analyzed using Lisrel 8.80. To test the convergent validity we verify that all items were significantly (p < .01) and substantially (factor loading >0.604) loaded onto the expected latent constructs (Table 2).

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Moreover, all constructs show good levels of average variance extracted (AVE) - larger than the suggested cutoff of 0.5 (Fornell and Larcker, 1981) - and composite reliability (CR) - greater than the recommended 0.7 cutoff (Hair *et al.*, 2011). Furthermore, to test the discriminant validity of constructs, we verify that the square root of every AVE value belonging to each latent construct was greater than any correlation among any pair of latent constructs (Table 3). We confirm that items correlate higher among them than they correlate with other items from other constructs.

	INTP	**CI**	**CF**	**ETN**	**COFF**
INTP	1.00				
CI	0.31	1.00			
CF	0.33	0.40	1.00		
ETN	-0.28	-0.14	-0.18	1.00	
COFF	0.14	0.01	0.04	0.11	1.00

Table 3. *Coefficients Correlation Matrix*

Goodness of the Model

Table 4 points out that the overall fit of the conceptual model estimated is good. In fact, with the exception of the chi-square test, that is not significant probably because affected by the sample size, all the other alternative measures of fit show the good model fit: GFI=0.910; NNFI=0.967; CFI=0.972; IFI=0.972; RFI=0.928. Furthermore, RMSEA=0.0498 and the significance of its Close-Fit (RMSEA < 0.05) = 0.505 indicate an excellent model fitting (MacCallum *et al.*, 1996). The model has no substantial problems with residuals as shown by SRMR=0.0449 (Hu and Bentler, 1999).

CRITICAL N	300
CHI-SQUARE	x^2 (179) = 311.548, P<.000
x^2 /DF	1.74
RMSEA	0.0498
CLOSE FIT RMSEA<0.05	0.505
NNFI	0.967
CFI	0.972
IFI	0.972
RFI	0.928
SRMR	0.0449
GFI	0.910

Table 4. *Goodness of the Model Fit Indexes*

RESULTS

Results indicate that CI, CF, ETN and COFF explain approximately 21% of consumers' intention to patronize the French bistrot. The role of CI in the INTP formation is positive and significant. Thus, we can confirm that individuals perceptions on the political and cultural system of a certain country (Laroche *et al.*, 2005) as well as their evaluations on its technological development (Knight and Calantone, 2000; Pappu *et al.*, 2007) have a positive effect on INTP. More positive the image that

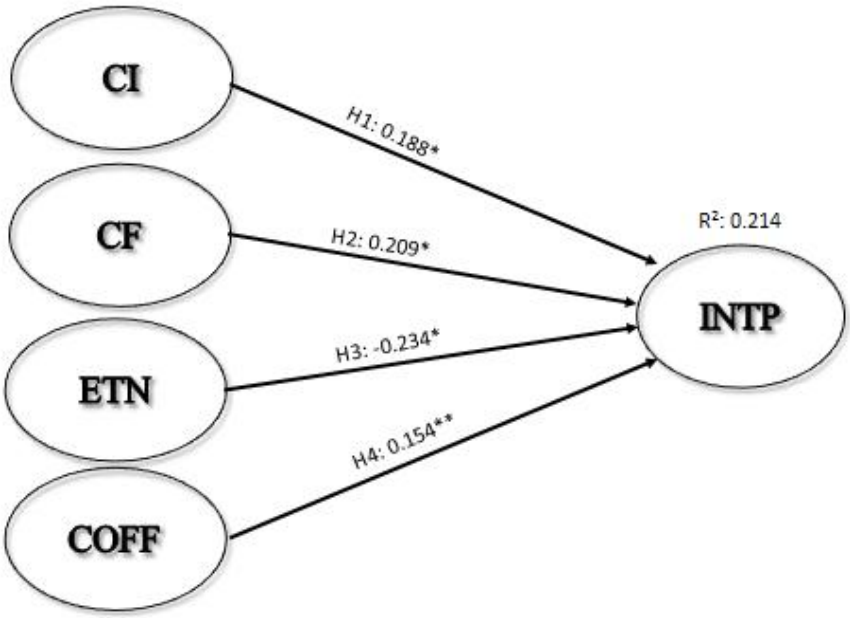
ISBN: 978-9963-711-37-6

consumers possess regarding a specific country, the greater their intention to patronize a restaurant offering the cuisine of that country, confirming our H1 (β=0.188, p< .01).

Consumers' knowledge and familiarity with the country of origin of the ethnic restaurant positively impacts on INTP. In particular, we found that the greater the overall knowledge of France and its culture, as well as the number of visits to France, the greater the consumers' intention to patronize a French bistrot, confirming our H2 (β=0.209, p< .01).

As expected, consumers with high ethnocentrism tend to prefer to dine in local restaurants/cafés because of appropriateness, morality and sense of loyalty to their home country's products (Shimp and Sharma, 1987; Watson and Wright, 2000; Kaynak and Kara, 2002; Wang and Chen, 2004). Thus, results confirm the negative impact of ethnocentrism on the intention to patronize the French bistrot, confirming our H3 (β=-0.234, p< .01).

Finally, we found that there is a positive relation between consumers' evaluation of the core offer and their intention to patronize the French bistrot. In fact, the higher their evaluation on the menu variety, the use of local raw materials, the care in preparing and serving foods and drinks, rending them original and attractive, the greater the intention to patronize the restaurant/café, confirming our H4 (β=0.154, p< .02).



Note: *All relations are significant at the p< .01 level.

** All relations are significant at the p< .02 level.

Figure 1. *Conceptual Model*

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DISCUSSION

This paper is one of the first attempts to investigate the impact of COO on consumer intentions towards a service offer rather than products. This is done taking into consideration a specific business sector particularly interesting for the international marketing and the consumer behavior literature, namely the dining service business, as ethnic restaurants are widespreading all over the world and tend to be ambassadors of the specific cuisine and culture of a certain country.

Findings evidence that COO can affect consumers' intentions even in an understudied context such as the dining service business and that this is consistent with the summary effect known in country-of-origin research (Josiassen *et al.*, 2008). In this way, the present research contributes to the extant COO literature overcoming the knowledge gap on this business context. Major COO statements and findings regarding physical products could then be extended also to the service context, with particular regard to the restaurants/cafés business. When studying the latter economic activities, scholars should also include CI and cross-cultural measurements as they result in specific attributes on the basis of which consumers tend to choose the restaurant in which to dine.

The general evaluation of the ability of the foreign country to perform the core offer has a positive impact on consumers' intention to patronize the ethnic restaurant. In our study, findings show that consumers' evaluation of the core offer of the service in terms of variety, use of raw materials and caring in preparing and serving food increase the intention to patronize the ethnic restaurant. Indeed, the greater the consumer evaluates the "country image" able to perform the service, the greater is his/her intention to patronize the ethnic restaurant.

Moreover, our findings give support to the negative role of ethnocentrism, confirming Wang and Chen (2004) and Hamin and Elliot (2006) results even when a service offer and not products are going to be evaluated by consumers.

Results would also have some managerial implications. Managers of this sector should emphasize the information on the country of origin of their businesses, as the effect exerted by a positive CI is stronger than that of the core offer. Indeed, this is a critical attribute to manage, potentially very useful in pursuing internationalization strategies aimed at replicating the dining formats in other countries. But at the same time they should also increase the level of knowledge on the restaurant country of origin as CF shows the highest positive impact on INTP, involving customers in thematic and cultural events to spread the French values and distinctive national traits. From this point of view, the role of public institutions could also be useful to increase the level of knowledge of a specific ethnic cuisine. National governments could support advertising and promotional campaigns in foreign countries referring to their cuisine as a CI sign and in so doing activating a virtue circle on the country image.

ISBN: 978-9963-711-37-6

Ethnic restaurant managers should also be aware of the importance to segment the possible clientele on the basis of their ethnocentric tendencies, in order to address their marketing efforts to open-minded people, prone to meet other culture habits without feeling guilty if they would not patronize only the autochthonous offer.

LIMITATIONS AND FURTHER RESEARCH

Despite the possible theoretical and managerial interest coming from our study, some limitations could affect our contribution.

First of all, we focused on a cognitive definition of CI, while recent literature suggests to include the affective dimension of the COO construct too (Laroche *et al.*, 2005) intended as consumers' emotions to another country. Even if a cognitive conceptualization of the country of origin construct is predominant and widely accepted in the literature, including affective measures would result in a better and more complete understanding of the impact of CI on consumers' intentions (Maher and Carter, 2011). Accordingly, next studies should embrace both dimensions, cognitive and affective.

Secondly, this research was focused on a single ethnic dining offer, relative to a country image concerned with a developed country (France) as perceived by consumers of another developed country (Italy). Future researches should test the proposed model with regard to other ethnic offers, especially the ones coming from developing countries in order to compare both and check for potential differences. At the same time it could be interesting to repeat this analysis in other developed and developing countries in order to collect the country images and core offer perceptions of consumers of different nationality, as well as measuring for their level of individualism vs collectivism as this has been found to affect consumer intentions in COO literature (Gürhan-Canli and Maheswaran, 2000).

Furthermore, as product evaluations are affected not only by the image of the country they come from, but also by the perceived logical and consistent capacity of that country to manufacture/offer that specific product (Hamzaoui and Merunka, 2006), another construct that could be useful to include in further investigations could be the FIT construct.

Again, the literature on the dining experience evidenced different perceptions as this activity is performed alone or with relatives or friends (Johns and Pine, 2002). Thus, our model could be improved taking into consideration also the social dimension of eating out.

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 ISBN: 978-9963-711-37-6

ISBN: 978-9963-711-37-6

COMPETITIVENESS AND SUSTAINABILITY IN ALPINE DESTINATIONS. THE OPPORTUNITIES OPENED BY INTEGRATING AGRICULTURE AND TOURISM

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ABSTRACT

The main current challenge for tourism destinations is to innovate and differentiate offer and products in order to meet the new segments interested in authentic holiday experiences. The integration of tourism and agriculture offers interesting opportunities, especially to traditional destinations needing to renew their offer. The paper underlines the importance of managerial and governance choices in multi-stakeholder contexts and sets them within the wider debate about management for destinations' sustainability and competitiveness. The main research question is whether or not this intersectorial integration can give Alpine destinations a sustainable competitive advantage. Using a supply-side analysis based on desk analysis, we examine the dairy and cheese-making sector in Alto Adige/Südtirol and, using a qualitative method, establish whether and how landscape, specific local resources and mountain products can be valorised by intersectorial integration. From a managerial point of view results show that the integration of agriculture and tourism works effectively when three enabling factors are present: 1) a coordinating territorial meta-management organization which is involved in the governance of the destination, and ensures consistency with the objectives of the government body; 2) public-private partnerships which stimulate top-down and bottom-up relationships, support entrepreneurial initiatives and contribute to the development of the local tourism offer; 3) the promotion of authentic local traditions, identity and culture. Positive effects are thus generated by intersectorial integration both in the destination development and in targeting the new tourism demand.

Keywords: *tourism, intersectorial integration, agriculture, destinations' sustainability and competitiveness, new demand segments, Alpine destinations*

INTRODUCTION

The issue of destination competitiveness has always been a focus of particular interest in the study of tourism management. Acquiring and retaining competitive advantage are essential to sustained long term development, both that of the enterprises involved in the tourist chain and of tourism destinations

 ISBN: 978-9963-711-37-6

as a whole (Kozak, 2002; Dwyer *et al.*, 2004; Hudson *et al.*, 2004; Kozak and Baloglu, 2011; Komppula, 2014; Benur and Bramwell, 2015). Since the 1990s these themes have gained ever greater importance within international academic debate, in relation to two specific topics above all.

The first is linked to the many factors – both internal and external – which have considerably increased the complexity of the competitive environment (take, for example, the spread of ICT, the emergence of new market segments and new models of consumption). Globalization and the influence of megatrends (Dwyer *et al.*, 2009; Mihalič and Gartner, 2012; McDonagh and Prothero, 2014 and 2015) mean that traditional tourism destinations have to overcome the maturity stage of their life cycle, making new strategic choices and redefining their offers (Alpine destinations are typical examples, see Mussner *et al.*, 1999; Pechlaner and Weiermair, 2000). From an academic point of view, destination management unites all these considerations and is, today, a firmly established, wide ranging branch of study concentrating on research into crucial subjects like the governance, management and marketing of tourism destinations (Laws, 1995; Leiper, 1995; Bieger, 1996; Keller, 1998a; Manente and Cerato, 2000; Pechlaner *et al.*, 2003; Beritelli *et al.*, 2007; Wang and Pizam, 2011; Laesser and Beritelli, 2013) (see also the Special Issue of *Tourism Review* 63/2, 2008 and 65/4, 2010).

The second topic is linked to strategies of sustainable tourist development. Ritchie and Crouch (2000 and 2003) were the real drivers of a conviction that competitiveness and sustainability are inseparable: "competitiveness is illusory without sustainability" (Ritchie and Crouch, 2000, p. 2). And so - on the one hand - the valorisation of territorial resources and the integration of the product bundle become essential to destination competitiveness. And on the other, the adoption of a sustainability orientated strategic-managerial approach creates value for the territory and for the actors therein, combining the goals of profit and economic growth with those of valorising the area's environmental heritage and its community (Inskeep, 1997; Swarbrooke, 1999).

Tourist destination competitiveness from a sustainable perspective thus remains a particularly topical theme (Chen *et al.*, 2011; Franch and Martini, 2013; Goffi and Cucculelli, 2014; Esparon *et al.*, 2015). Today's challenge for destinations is to make strategic choices which allow them to innovate and differentiate their offer in order to respond to the new demand segments interested in experimentation and having authentic holiday experiences (Chhabra, 2005; Sedmak and Mihalič, 2008; Volo, 2009; Sims, 2009; Sidali *et al.*, 2013; Engeset and Elvekrok, 2015). The differentiation and innovation of the offer result from the integration of actors working in the tourism chain and from a capacity to systematize the competences of individual enterprises, combining collaborative and competitive relationships (Williams *et al.*, 1998; Beritelli and Laesser, 2013; Zehrer *et al.*, 2014). The coordination and management of the territorial stakeholders' plurality of interests and objectives thus become crucial both for the

 ISBN: 978-9963-711-37-6

organizations involved in meta-management and for the actors involved in the governance of the destination. Responding to current market demand requires that destinations identify their specific local attractions; valorise authenticity and define tourist products and offers which allow tourists to understand and appreciate the unique character of the territory. Many destinations have focused their offer on the rediscovery of their territory's historical and socio-cultural heritage and its traditional local products. A growing interest in events and shows which allow tourists to experience local traditions, customs and dress, and the increasing popularity of wine and food tourism, are good examples of how destinations are aiming to respond to new holiday behaviours. Within this context the integration of the tourism and agriculture sectors seems to offer particularly interesting new opportunities. From a managerial perspective it is interesting to observe whether virtuous circles develop between the two sectors: does the valorisation of typical agricultural products help to strengthen the identity of the territory and promote the destination's tourism offer? Does the presence of market segments interested in the authenticity of their holiday and in discovering local specialities help to support the agricultural sector (*e.g.* through the buying of local products, visits to producers and/or farmers) and to incentivize connections between the enterprises involved in the tourist chain (*e.g.* local restaurants/hotels using local produce)? The aim of this study is to show that new development opportunities arise from the intersectorial integration of agriculture and tourism. Such integration is very challenging for Alpine territories: it is already possible to find innovative products and tourism offers which imaginatively and constructively meet this emerging demand.

In the light of the above observations, the main research question driving this study is whether or not the integration of agriculture and tourism can give Alpine destinations a sustainable competitive advantage. Using a supply-side analysis based on desk analysis, we examine the dairy and cheese-making sector in Alto Adige/Südtirol (henceforth Alto Adige) and, using a qualitative method, establish whether and how landscape, specific local resources and mountain products can be valorised by intersectorial integration. The choice of Alto Adige as the location of our investigation into intersectorial relationships between agriculture and tourism was based on two factors in particular. The first is linked to the importance which these sectors have for the socio-economic development of the territory, the second to the presence of an established network of territorial organizations which are involved in the management of the enterprises and actors in the two sectors and therefore define the strategies in support of sectorial integration.

This analysis points up managerial and governance choices in multi-stakeholder contexts which sit within the wider debate about management for destinations' sustainability and competitiveness. Our thesis is that agriculture and tourism can be realistically and appropriately integrated in territories

 ISBN: 978-9963-711-37-6

where 1) there is a territorial meta-management structure/organization which is involved in the governance of the destination, ensuring direction and coordination coherent with the objectives of the government body; 2) public-private partnerships (PPP) support and incentivize entrepreneurial initiatives consistent with the development of the local tourism offer; 3) the valorisation of the socio-cultural dimension is based on authentic local traditions, identity and culture. If all these factors are in place and well managed, sectorial integration becomes an effective choice for destinations seeking to win and retain a competitive advantage.

AGRICULTURE AND TOURISM: WHAT ARE THE OPPORTUNITIES FOR ALPINE DESTINATIONS?

The opportunities offered by integration between agriculture and tourism were already being considered in the 1980s by international organizations (i.e. UNECE - United Nations Economic Commission for Europe, FAO – Food and Agriculture Organization of the United Nations) and by the scientific community (Dernoi, 1983). Until the end of the 90s, however, the opportunities offered by intersectorial choices were underresearched, or limited to particular territories (Telfer and Wall, 1996). However, awareness of the subject has noticeably increased in recent years, fuelled by obvious consumer interest in traditional/typical local foods (Sims, 2009; Engeset and Elvekrok, 2015; Organ *et al.*, 2015). Torres and Momsen (2011) examine the connections between agriculture and tourism, emphasizing the possible opportunities presented – for both developing and developed countries. If the former can benefit from sectorial integration by reducing poverty and improving living conditions, the latter (as has been done in the US, Japan and Europe) can use it to differentiate tourist offers and strengthen territorial identities.

Against these advantages, however, must be set one of the main issues regarding the integration of tourism and agriculture, that of resource competition. The question is whether intersectorial connections create value for the territory or whether, on the contrary, they make a trade-off inevitable, in that the resources, labour and investment that go into the tourism sector are thereby removed from the agricultural sector (Latimer, 1985; Telfer and Wall, 1996; Torres and Momsen, 2011). This wide-ranging debate is still ongoing, as academics continue to differ in their observations and conclusions (Fox and Cox, 1992; Telfer and Wall, 1996; Fleischer and Tchetchik, 2005; Hernández Hernández *et al.*, 2010).

The possible opportunities presented by the integration of agriculture and tourism are of particular interest for Alpine territorial development since the debate about the use and protection of natural resources has always been a key topic, for both International organizations (i.e. International

 ISBN: 978-9963-711-37-6

Commission for the Protection of the Alps - CIPRA) and for the academic community (see, for example, the contributions to the *Forum Alpinum 2014* dedicated to "Alpine Resources" www.forumalpinum.org). The importance of the agricultural sector in the Alps is not limited simply to its role within the economy (for an historical analysis of the development of agriculture and the economy in the Alps see Bätzing, 2005); it actually extends to the role it has to define the beauty of the landscape (Shirpke *et al.*, 2013) and to the multifunctional services which mountain agriculture can perform. As shown in Ruffini *et al.*, 2011 (p. 91) "structural changes in agriculture pose a social problem, as demonstrated by the intensive debate on agriculture among politicians and the public alike. Indeed structural changes in agriculture influence not only the physical aspects of landscape, but also the vitality of rural areas and ultimately the quality of agricultural products." Probably the most urgent questions faced in the development of Alpine areas are the depopulation of the more marginal zones (see also Vogl and Vogl-Lukasser, 2014) - leading to the inevitable abandonment of farms (Bartaletti, 2004; Ruffini *et al*., 2011) - and the decrease in unspoilt landscapes and genuine, traditional cultural practices (www.cipra.org). CIPRA notes, however, that in areas where tourism is the main source of income fewer people are migrating from the mountains. They also emphasize that the future of mountain agriculture depends to farm businesses' ability to maintain their traditional cultivation and production methods and, in so doing, to attract those market segments by whom the quality of a product and the care and skill with which it is made are highly valued (www.cipra.org). Considering the individual nature of farm businesses, CIPRA considers, moreover, that mass production is not only hard to achieve but also economically uncompetitive (Ruffini *et al.*, 2011).

The problems faced by mountain agriculture and the consequent effects on the general socio-economic development of these areas have also been examined by the EU in the *Alpine Space Programme* (ASP). In the last ASP (2007-2013) the focus on the agricultural sector was particularly related to the impact of climate change on the Alpine area (*e.g.* the *ClimAlpTour* and *Silmas* projects) and on changes to the territory's social structure (*e.g.* the *Demochange* project). In some cases the possibility of creating value for the territory through the integration of agriculture and tourism has been realised. An example of this is the *Demochange* project, which ran a pilot project called "Model Region Langa Astigiana", involving collaboration between farmers and stakeholders in the tourism sector aimed at promoting typical products as part of the region's tourist offer (www.alpine-space.eu/projects/projects/detail/DEMOCHANGE/show/). Given the results gathered over the seven year period up to 2013, the ASP 2014-2020 very clearly states the need to support the development of the Alpine area through - among other approaches - the integration of agriculture and tourism.

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Such accounts strengthen the hypothesis that intersectorial integration in the Alpine area can be a development opportunity which benefits both local businesses and the local community. Further support is found for this account in the experiences of some Alpine territories which have already introduced new tourist products. Cheeses, and dairy products in general, are a good example of this: Bregenzerwald (Austria) with its "Käsestrasse" (cheese route) (www.kaesestrasse.at); Switzerland, with its Milk and Cheese Paths and The Swiss Chocolate and Cheese Trail (www.myswitzerland.com), the Haute Savoie with the typical cheese and potatoes based recipes (www.chamonix.net).

The DOP (protected nomination of origin) and IGP (protected geographical indication) labels, which certify the area of origin and the specifically local character of a product, have also benefited the local agricultural and food and wine products that integration between agriculture and tourism promotes. The Slovenian cheeses bovški sir, tolminc and nanoški sir, which have been awarded DOP labels, are examples of this (www.slovenia.info), as are some Italian Alpine cheeses, like "Bitto della Valtellina" (Lombardia) (www.valtellina.it/eng), "Fontina della Valle d'Aosta" (www.lovevda.it/en/) and "Spressa delle Giudicarie" (Trentino) (www.visittrentino.it/en).

In the light of the examples which have emerged in some Alpine territories and the strategic choices these territories have made around intersectorial integration as a development tool, the next sections of the paper describe the experience of the Alto Adige destination. The dairy and cheese making sector is used to illustrate some initiatives put in place to encourage the integration of agriculture and tourism and the managerial and governance decisions in which stakeholders from the two sectors have consequently been involved.

THE INTEGRATION OF AGRICULTURE AND TOURISM IN ALPINE DESTINATIONS: THE CASE OF ALTO ADIGE/SÜDTIROL

Main research results

The role of mountain agriculture in Alto Adige is critically important. Alongside its significance in the development of the local economy in its pre- and post-industrial phases (see Bartaletti, 2004; Bätzing, 2005), the current importance of this sector for the socio-economic development of Alto Adige is clearly revealed by the data from the last general agriculture census (Astat, 2011 and 2014), and, indeed, by the focus - since the 1970s - on the certification of agricultural produce and foods from the territory (Provincial Law of the Autonomous Province of Bolzano, n. 44/1976).

A testament to its strategic importance is the fact that agriculture is the sector of the local economy which has been least affected by the financial and economic crisis (IRE, 2014). In 2010 (most recent data

 ISBN: 978-9963-711-37-6

available) there were more than 20,000 farm businesses in Alto Adige, most of which were family run (Astat, 2014). About 5% of the population works in the agricultural sector, 1.1% more than in Italy as a whole, or than in other Alpine areas (Provincia Autonoma di Bolzano, 2014). Some of the families running these businesses earn their entire income from them; for others - more than half, in fact - the farm enterprise provides a supplementary income. Farmers are choosing more and more frequently to combine their original occupation with activities closely linked to the agricultural sector. Since 2000 a growing trend towards agritourism has been observed, allowing additional family members to become involved, and, indeed, find their main employment within, such enterprises (Astat, 2011). Agritourism combines perfectly with the specialist production of most farmers in Alto Adige: about 27% of them are dairy farmers and about 26% fruit growers (Astat, 2014).

The enterprises involved in the dairy/cheese-making sector are represented at local level by the "Federazione Latterie Alto Adige" (Sennereiverband Südtirol) (FLAA). Founded in 1941, its members are local dairies and cheese-making enterprises for whom it provides consultancy services and assistance in ensuring the quality of farmers' milk and standards of production and transformation. The local institutions and territorial bodies recognize that the 5,000 plus dairy farmers in Alto Adige do more than just produce milk and cheese – they are also instrumental in maintaining the high Alpine settlements, farms and pastures and thus in tending and protecting the landscape (www.suedtirolermilch.com/en/dairy-association/).

Since the end of the 1970s the promotion and marketing of milk and dairy products has benefited from the quality assurance label "Qualità Alto Adige", established by provincial law. This label guarantees the quality and origin of agricultural produce and has been extended over the years to cover more than ten food product groups (www.suedtirol.info/it/News-e-info/Prodotti-tipici-altoatesini.html).

Territorial organizations – both public bodies and tourism organizations – are key to the valorisation and promotion of a local tourism offer through which the area's identity can be expressed and its traditional products marketed. Since 2000 this objective has found form in the destination management organization (DMO) "Alto Adige Marketing", which replaced the previous tourist board, thus completing the process of privatizing tourist associations which had begun ten years earlier. Alto Adige was among the first destinations in the Alpine Arc to initiate this process. Its strategic aim is to increase the operational and managerial flexibility of the organizations involved and to incentivize the building of relationships between local enterprises in order to define and promote a destination offer which revolves around intersectorial integration.

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The reorganization of the tourism sector in Alto Adige and the growing concentration on the part of territorial bodies on destination marketing has led to the reform of these regulations and the creation of the "marchio ombrello Alto Adige" (*umbrella label*) which guarantees the location and/or provenience of the products and services generated by local tourism and industry. Established in 2004, the aim of the umbrella label is to exploit the potential of sectorial integration in order to strengthen the competitiveness of Alto Adige as a tourist destination and as a region known for the production of high quality goods and services. The umbrella label allows each product to be marketed under a common brand without having to give up its own identity (www.provincia.bz.it/marchioombrello/marchio-ombrello.asp). It developed out of an awareness raising program initiated by territorial organizations and aimed at all sectors of the local economy. Following this reasoning, the brand guarantees the quality of the product and the rigor and care with which it is processed and produced (*e.g.* as attested by the amount of international recognition dairy-products have received www.suedtirolermilch.com/en/current/press), its provenance and authenticity and hence promotes traditional local products and strengthens territorial identity. An analysis of the FLAA's own initiatives, and of those organized in collaboration with the territory's tourist associations/organizations, provides useful examples of the integration between the agricultural and tourism sectors.

The FLAA has targeted many of its initiatives at the local community, one of the most important of these has been a project for primary schools, in which the provincial Chamber of Commerce also participates.

Among the most significant activities upon which the FLAA collaborates with local tourism organizations are a wide range of events and initiatives aimed at tourists. The "Festa del Latte" (Milk Festival) is of particular importance; it takes place every two years, in a location chosen for its typically Alpine setting, with the traditional summer pastures and mountain farmsteads (alms). The agricultural and tourism sectors, as well as being represented by sectorial associations and by local public bodies, are also directly participated in by associations of breeders, of artisans, of the catering and accommodation sector, as well as by hotel schools, voluntary associations and local folk groups. There are cheese tastings, tastings of other local specialities, hiking or walking itineraries, creativity workshops designed to allow adults and/or children to experience and learn how to make cheese and other dairy products, and to appreciate their specialness.

Discussion of results

ISBN: 978-9963-711-37-6

This analysis of the dairy/cheese-making sector in Alto Adige highlights the strategic importance of the agricultural sector for the economic and social development of the territory and the care with which political institutions, businesses and the local community have always supported farming and local products. The establishment of the umbrella label, and that of the other labels certifying the quality and origin of local products were important steps along a shared development path. As anticipated two initiatives emerge as paramount: education of primary school pupils and territorial promotion.

Investing on primary school oriented initiatives addresses a key target, as they are consumers of dairy products as well as being the next generation who may go on to work in dairy production, or in other agricultural enterprises and/or sectors. The project investigated focuses particularly on raising the children's consumer awareness in terms of local products and teaching them about the importance of agriculture for the continued existence of local farming businesses and the mountain pastures, thus attempting to discourage them from leaving their mountain territory.

The Milk Festival is also an opportunity for Alto Adige not only to promote its dairy products, but also, very importantly, to valorise its local peasant traditions, customs and costumes.

In Alto Adige, where authenticity is rooted in distinctive aspects of the territory, the integration of agriculture and tourism has become a real opportunity to differentiate the territory's offer and increase its competitive advantage. Although sectorial integration is a strategy open to many Alpine destinations, Alto Adige can differentiate its particular offer because the territory's authenticity reflects the values which truly define its identity.

The above account reveals the extent to which mountain agriculture has acquired a key role in the definition of Alto Adige's territorial identity and in the promotion of a tourist offer which can express authentic values and support traditional local products. This case study on the relationship between agriculture and tourism in Alto Adige is particularly important since it enables the detailed examination of these themes and identifies possible best practice which could be extended to intersectorial development in other territories.

CONCLUSIONS

Our research reveals further examples of integration with the tourism sector which help to differentiate the offer by focusing on and enhancing its unique identity. This study rests on the thesis that the integration of agriculture and tourism works when there are 1) synergies between organs of government and those of governance, 2) public-private partnerships (PPP) and 3) the valorisation of the unique, authentic socio-cultural identity of the territory. An analysis of the case study bears out this theory. Although the research was confined to a single destination, the relevance of the analysed case study allows us to reply in the affirmative to the research question which begins the investigation. The

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integration between agriculture and tourism is shown to be a valid approach to strengthen the competitive advantage of Alpine destinations, while making choices consistent with sustainable tourist development in the territory. In order to ensure that this competitive advantage can be maintained over time, however, all the main stakeholders involved in the economic and social development of the area must share similar objectives and collaborate in its planning. From a strategic-managerial perspective, in fact, we see that:

1) The reorganization of the tourism sector has created the conditions in which consortia and associations can be formed and then develop their own particular offers, consistent with the DMO's guidelines; the latter, in turn, operates in conformity with the development plan produced by the organ of government. The shared objective of incentivizing sectorial integration is one of the territory's strong points since it facilitates coordination in multi-stakeholder contexts and supports the enterprises of the actors directly involved in the governance of the destination.

2) The integration between the agriculture and tourism sectors encourages PPPs by creating an environment in which local business people/entrepreneurs find backing when realising products and projects coherent with the territory's overall development. Given the diversity of all the little businesses operating in farming and tourism, many of the initiatives would never take off if they were embarked upon by single enterprises alone. Sectorial integration is thus a strategic choice which nurtures top-down and bottom-up relationships between public and private actors, and gives individual businesses the opportunity to create value - not just for themselves, but also for the whole territory.

3) The valorisation of the resources, traditions and values of the local community and its territory strengthen its identity and emphasize its authenticity; the latter then becomes a key element for the systematic promotion of the territory's agricultural and food products and tourist offer more generally.

This paper emphasizes the positive effects generated by sectorial integration, both for the development and preservation of mountain agriculture and for the definition of a territorial tourism offer aimed at demand segments who value the authentic and experiential dimensions of their holiday. The development of intersectorial synergies can help to reduce some of the problems affecting Alpine destinations, like depopulation and the abandoning of farms. Furthermore, the conservation of high mountain pastures means that soils are not impoverished and hydrological risks due to landslides and/or soil movement are decreased. From the point of view of the tourism offer, the territory's landscape and natural resources are undoubtedly a powerful pull factor for new market segments. The valorisation of typical products and experimenting with new products and tourist offers which

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enhance/highlight the territorial identity are strategies which can turn a holiday into an "authentic experience". Mountain agriculture products typify the specialness of local food and become a distinctive part of the territory, helping to differentiate the offer and to avoid the homogenisation that globalization so often dictates (Mark et al., 2012).

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 ISBN: 978-9963-711-37-6

THE STRATEGIC PLANNING AND THE ROLE OF THE SOCIAL CAPITAL

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ABSTRACT

Strategic planning includes all activities by which we define the mission of the institution, we define the general objectives and develop policies that will optimize resources efficiently to effectively achieve the objectives in order to meet the needs and expectations of citizens (Meola and Antonelli, 2006: 18). In the process of identification of strategies is crucial involvement and listening to stakeholders, primarily the community, through mechanisms of active participation. Civic participation in the construction process of the strategic plan is, therefore, a challenge and the condition for the success of the plan.

The reference to civic participation draws attention to the concept of social capital, defined as assets of attitudes and beliefs shared by a given community or, as claimed by Putnam (1993), a facilitator of collective action, identifying in civicness (civic culture) one of the main factors that affect the performance of the institutions. The aim of this work is the analysis of the relationship between the strategic planning activities of a territory and the provision of all aspects of social life (trust, norms and social networks) that, by allowing individuals to act together, increase the efficiency of the company. In this way, therefore, the share capital is a variable that can promote the efficiency of the administrative institutions, facilitating the assimilation of identity and individual interests to those of the community.

Keywords: *Strategic planning, public administration, social capital, civicness*

THE ROLE OF STRATEGIC PLANNING

The strategic plan is one of the most innovative instruments of territorial governance, experienced in recent years by the most dynamic cities in Europe and in Italy. It has accompanied profound economic, social and environmental issues, implementing participatory and inclusive processes of all forces on the territory and therefore setting a powerful incubator of policies and shared development strategies.

 ISBN: 978-9963-711-37-6

In local government, through the strategic planning process, the administration must identify the route to follow throughout its mandate, assessing threats and opportunities in order to define their long-term goals; such decisions will be crucial to produce actions that orient and guide what an administration is, what it does and why it does (Bryson, 1995).

A clear and complete definition comes just from Bryson, according to which the strategic planning "Clearly is a leadership and management innovation That Is Likely to persist Because, unlike many other recent innovations, it Accepts and builds on the nature of political decision making. Raising and resolving important issues is the heart of political decision making, and the heart of strategic planning. Strategic planning seeks to Improve on raw political decision making, However, by helping To ensure that issues are raised and resolved in ways That benefits the organization, ITS key stakeholders, and society" (Bryson, 2011: 40).

It is obvious that the realization of this process can not be separated from "processes of participation, discussion, listening; a pact between directors, actors, citizens and other partners to achieve that vision (shared about of a given territory's future) through a strategy and a series of subsequent projects, variously interconnected, justified, assessed and shared "(Camagni, 2003: 83).

With the introduction of the strategic planning process, the local authority can achieve significant benefits (Mazzara, 2009: 12-13), including:

- the systematic evaluation of the environment in which it operates;
- identification of the critical factors and trends characterizing its way of functioning of the institution and to develop their roles;
- the achievement mandate's objectives and, consequently, their respective missions;
- the identification of strategic instances that need to embrace;
- the definition of how to achieve these instances, through the analysis and review of the mandate and objectives of the mission, service levels, and its costs and financing, management or organization.

The characteristic elements of the strategic planning process can be identified in leadership, partnership and participation (Presidency of the Council of Ministers, 2006: 19-21):

a) leadership on the part of local politicians, based on:

- political legitimacy from the people and the system of actors;

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- strong transparency and accountability in decision making;
- the tension to build truly shared visions and consensual;
- the search for ways to give voice to the interests unorganized and weaker;
- recognition of partnership that not only to start, but also to maintain;

b) partnership, negotiating and public-private agreements, which have become the rule for new models of governance. The conditions to contribute to the effective improvement are:

- the presence of mutual respect and mutual trust;
- the presence of a sufficient capacity for the management and trading;
- the careful choice of partners;
- the formulation of ex ante few clear rules of the game, not subject to negotiation;
- the transparent distribution of tasks and responsibilities between partners and clarity in the distribution of benefits between public and private;
- accountability on the part of public leadership;
- the public administration has to maintain a strong power of projects' evaluation ex ante of projects and monitoring and ex post of their realization.

c) citizen participation in the decision-making process, which is, at the same time, a challenge, a goal and a condition of success.

Seen in this light, therefore, strategic planning is a "process of deliberative democracy. It joins the representative institutions elected through a wider involvement of collective actors, public and private, in fundamental decisions on the future of the city" (Perulli, 2007: 33).

It is necessary then the involvement of citizens' organizations and their interests, as weak or strong they may be. Key player in the whole process is the public body; the important role assigned to it comes from the fact that it is the only actor "to have the necessary authority, or rather the position and legitimacy, to influence the initial decision of other stakeholders to work together with the strategic project" (Cavenago, 2004: 189). For this reason, it takes in the process, in its different phases, different roles: not only the manufacturer of the plane, but promoter, facilitator, coordinator, evaluator of compatibility and scorer (Camagni, 2003). The value of strategic planning is the process and not just the final product. The preparation of a strategic plan, outside of any prescriptive nature, it is possible

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only if they can rely on an efficient organization and recognition of the authority of the institution that has initiated the preparation of the plan (Martinelli, 2003 : 40).

The whole process starts from the precise definition of clear objectives, easily understood outside, specific compared to the expected result, realistic in relation to the resources available, limited in time, graduated according to priorities.

But to be able to attribute the status of the strategic objective, it must meet the following requirements and answer these questions: "*Characterizing*: is the goal relevant, does it mark and represent the contents of the program to which it belongs? *Governable*: is the administration able to decide on the content of the objective independently of other stakeholders? *Critic*: can the failure in achieving the objective determine a substantial adverse impact on the perception of the institution towards the citizens and stakeholders? *Challenger*: can the realization of the objective be translated in terms of performance and great impact? *Measurable*: is the objective measured by objective indicators that make the different results over time?" (Goretti and Meacci, 2013: 407-408).

This activity definition of decisions which are of strategic significance is, and must be preceded by a moment of analysis of the context in which the institution is located, namely an evolutionary analysis of the needs of the area in terms of potential demand and real, the identification of the possible scenarios to follow and explication of the strategy in intervention programs arranged in a defined sequence of priorities in relation to trends and expectations of citizens, but in connection with the superstructure to which it belongs: the European Community, State Region and Province.

In such a process of identification of strategies is crucial involving and listening to stakeholders, primarily citizens through active participation.

The active participation of citizens in the construction process of the strategic plan is a challenge and the condition for the success of the plan itself. This involvement enhances and strengthens elective democracies with extensive involvement in the decision-making system. The task of the local authority will provide "not only all logistical and technical support operating so there are opportunities for comparison, but also verification and synthesis tools" (Meola and Antonelli, 2006: 24).

The stakeholders involved in the process can develop mutual trust, understanding, ability to work together and improve their attitude to dialogue and cooperation.

But the process to be successful needs "a strong insurance policy that the result of joint work will be taken into account, that the decision-making system is ready to receive advice and guidance from the

 ISBN: 978-9963-711-37-6

project groups and discussion. The risk is to produce a simple communication, not less important than the previous one, but it could lose its main competitive advantage: the ability to create dialogue between the actors on strategic issues and to draw signs for the future, taking into account the different opinions and needs" (Rosso, 2005: 79-80). It is a constantly evolving process, which does not end in the preparation of a unchangeable document or in a number of projects, but it an instrument subject to constant checks and revisions, to support the implementation of cost-effective solutions for the majority of citizens (Meola and Antonelli, 2006). Regardless of the structure, the content, the method of construction of the plan, the aim is always to "support the process of social development and revitalization of the local economy through the expansion of networks of collaboration among stakeholders, promoting forms of public-private partnership and the involvement of citizens" (Lecci, 2011: 14). The common goal is to help local actors to find ways to grow and mobilize toward common goals of development, redefining of the city's identity, identification of processes for the conversion of the social and economic structure of a whole (including through partnerships), strengthening of existing networks between different actors, the identification of projects and actions possible with public funds, national and community, but also with additional resources such as private funds.

THE SOCIAL CAPITAL AS CIVIC PARTICIPATION

The reference to civic participation, as mentioned in the previous paragraph, draws attention to the concept of social capital, defined as assets of attitudes and beliefs shared by a given community or, as claimed by Putnam (1993), "the trust, the rules which regulate it, the networks of civic engagement, elements that can improve the efficiency of social organization promoting initiatives taken by mutual agreement" (1993: 196), allowing individuals to act collectively, through a better coordination of individual actions and helping to contain forms of opportunism and free raider.

According to the author, the social capital is a facilitator of collective action and it locates in *civicness* (civic culture) as one of the main factors that affect the institutions' performance.

In his analysis, Putnam relates the institutional performance of the regions with the endowment of social capital, understood as civicness. In this perspective, the social capital consists, in fact, of those aspects of social life - networks, norms and trust - that, by allowing individuals to act together more effectively to achieve shared goals, increase the efficiency of the company. In this way, therefore, the share capital is to be a variable that can promote the political and economic development of a social system, as it facilitates the assimilation of identity and individual interests to those of the community to which they belong (Vespasiano and Martini, 2008: 28).

ISBN: 978-9963-711-37-6

By taking into account these considerations, It is our intention to show that the efficiency of the administrative institutions grows with the increasing levels of social participation, arguing that democracy of a government can be strengthened by comparison with a vigorous civic community, woven from relationships of trust extended by rules of generalized reciprocity and networks of civic engagement. The great significance of these findings has facilitated the interest of many scholars who have reaffirmed the complementarity of the state and civil society, for the dissemination of social norms of trust and reciprocity. Many parts, in fact, have proved the existence of a strong relationship between the endowments of social capital, measured as the level of building confidence, and the extension of political rights and civil liberties in a particular country. In the light of these considerations, strategic planning appears to be a new method, a new form of urban governance (or good governance) in which can be placed diverse contents and objectives, which are the result of an interaction and a collective reflection.

To avoid falling into naive simplification it is necessary to emphasize that there could be limits in this planning process based on the relatedness between the parties: often it is more inclined to cooperate with known or sufficiently similar people, or that possess a good reputation based on their past.

In these cases, it is essential to build a trusty networks starting from political guarantees. It becomes essential that external and local government share the same interests, and that the local one is engaging, with long-term strategies, the same associations (cultural, productive, recreational) in the mechanisms of governance. As a result, a further step in building confidence is the development of a series of autopoiesis mechanisms, which ensure the stability and longevity of these attempts on cooperative and, where necessary, including the self-reproduction and the redefinition of the same (Martini and Serluca, 2012: 269).

A POSSIBLE APPROACH TO PARTICIPATED PROCESS OF THE STRATEGIC PLAN CONSTRUCTION

The process to be implemented can not be improvised by following the current fashion or relying on expert / external consultants. On the contrary, this process requires the development of an adequate culture in order to realize the document itself and to manage the application. In a bottom-up development and integrated local programming perspective, the ability and willingness to constantly monitor concrete actions represent the premise so that everyone has a validity within the administration of the institution. The participation of social actors does not occur naturally. It is driven by different motivations such as the idea of being able to access the benefits of an economic nature, the

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commonality of interests and values (Cangelli, 2012). The strategic plan will be accompanied by politics and public administration. In fact, it risks of remaining on paper if there is not the necessary conviction to make use of it. Only in this way the strategic planning can be a tool able to help place the City in a more technical managerial and modern dimension, in which the administrative action is better targeted, more verifiable and, as such, more effective than it is now.

It follows that the methodology should be based on the broader stakeholder engagement, "the different local actors (public / private, institutional / non-institutional, formal / non-formal) can provide carriers of resources, knowledge, intelligence that are useful to interpret the complexity and nature of the needs, to improve the effectiveness of decision-making, to foster an interactive exchange that sediments awareness on the need for new scenarios to be pursued "(Gastaldi, 2003).

This will develop elements of social capital through interaction and participation, the growth of mutual trust and shared values and goals, synergy and cooperation *ex ante* between different economic entities in the implementation of projects (Camagni, 2003: 98).

This path can be powered, for example, by:

- meetings with the institutions in that area (chamber of commerce, professional associations, banks, cultural associations, Union of Industrial investee public Enterprises, ASL and health authorities, Superintendence, neighboring municipalities, provincial administration, Territorial Office of the Government, trade unions, ...). They must be invited by the person responsible for the process (Mayor, Councillor ...) not only to present the process, the main guidelines, but mainly to listen to the needs, concerns and priorities that participants exhibit, as well as suggestions and proposals for orienting the administration's decision;
- open events and public forum to collect instances of specific issues;
- working groups on specific strategic issues.

At all stages of the process it is necessary to give a chance to everyone in order to let them express their opinion and participate in the debate. In other words it means to pay special attention to the issue of communication. The communication must be conceived as a real process that fits into all actions, projects, services entity (Alessandrini, 2006). The overall objective is to ensure “openness, visibility and transparency of all activities carried out by a circuit of information spread, effectively and efficiently to the parties concerned able to ensure and encourage their participation and involvement in the process” (Lecci, 2011: 120-121). The Public administration needs to communicate with citizens and one of the ways to achieve this goal is the use of new communication technologies

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(Information and Communication Technology - ICT) through a multi-channel approach, using a variety of tools in a coordinated manner with each other (web pages, social networks, logo, wineskin the traditional activity of dissemination of news in the press and local TV stations, as well as traditional forms of meeting such as seminars, meetings, conferences), so as to be effective with respect to the number of individuals covered , the information provided and the feedback obtained (Secondini, 2014).

However, ICT should not replace, but rather to support, strengthen, extend and innovate the scope and manner of participation activated through traditional channels and locations; its use can make distant subjects closer to the institutions. To do this is required an effort on the part of political actors to a conscious use of such instruments. "Being citizens in the information society does not only mean to access the services of a more efficient PAL, able to draw their own services on the needs of users (e-government), but also to participate in a new way in the life of political institutions (e-democracy), taking into account the ongoing transformation in the relationship between public and private actors" (Department of Public Service for the efficiency of government departments, 2004: 12).

It is essential the creation of a web page on the corporate website of the institution, as a showcase of the whole process on, where to put all the activities, products and publicize the results promptly to the initiatives to be undertaken. It may be divided into several sections:

- actors of reference;
- towards the strategic plan;
- primary sources;
- time schedule;
- study group;
- channel power level (institutional meetings, public meetings, open events and forums citizens, etc...);
- memoranda of understanding;
- press clippings;
- video presentation.

ISBN: 978-9963-711-37-6

Creating also a page within the popular social network is an effective communication channel. It is essential if the goal is to reach a large number of people quickly, greatly expanding the opportunities for comparison. Ultimately, then, as happened to many Italian administrations, the critical condition to oversee the success of the strategic plan can be summarized as follows (Presidency of the Council of Ministers, 2006: 157):

- a strong and committed political leadership, able to consistently reproduce the legitimacy of the entire process;
- a constant and targeted communicative investment, because without adequate visibility process, the widespread perception may not exist or at least lose legitimacy;
- oversight of relational dynamics, rather than the content of the plan, which is accomplished essentially as active form of reproduction of capital. It is, therefore, necessary to pay close attention to the conditions of the context and the continuous maintenance of fiduciary bonds through which passes the perception that a community has of itself and its objectives;
- avoiding spending too much time in building a mechanism theoretically perfect, which really does not intercept the expectations, conveniences, the guidelines of the actual system of actors.

CONCLUSIVE REMARKS

The strategic planning for the development of the territories is one of the issues on which the local public administrations have placed more attention in recent years. The principal idea is that it is crucial to read their own territory at the local level, to select the priorities sustainable and drive around these priorities the public and private resources. Local institutions of each nature and political orientation are primarily responsible for the development of a territory, for the power they direct the development choices, their legitimate share of social control and for their role of facilitators of the dynamics of social cohesion. The institutions, especially in depressed economies, have roles that they should play, determining institutional excesses with perverse outcomes: too much politics, too much bureaucracy, too many rules, too much uncertainty, discretion, laxity and amnesties. This is at the expense of the social component, which instead should participate to a greater extent and with greater accountability to the dynamics of territorial development (Vespasiano and Martini, 2008: 130). That's why the performance of a strategic planning process leads to profound changes in the decision-making power of the government. The local authority, which makes use of inclusive decision-making processes of the stakeholders in the development of the strategic plan, can not avoid starting similar processes within their organization in order to involve senior management, employees and citizens in

ISBN: 978-9963-711-37-6

decision-making organization. This active involvement requires executives to assume a role of stakeholders inside and get used to the negotiating objectives and priorities through dialogue and discussion with colleagues from different areas and departments of the administration. This active involvement asks executives for assuming a inside stakeholder role and getting used to the negotiating objectives and priorities through dialogue and discussion with colleagues from different areas and departments of the administration.

Who wants to play around with the local development process first of all has to face the resistance territorial and it must be done by starting from the perverse mechanisms of the local culture, in order to transform it into a real engine of development: without it, or against it is not possible initiate or support any local development process. From this perspective, then, it appears that the presence of the ruling class - made up of social actors able to analyse reality, think of a development process, mobilize the resources needed to accomplish this process, produce cultural consensus (even before the political and economic) – it appears to be the mainstay of the engine of development.

If the formed local culture and the human resources should be considered the engine of development of the territory, then it becomes essential to invest not only in projects to promote the local culture, but also in training programs of a culture for the population of these territories (Triglia, 1995, 1999).

It is essential to develop and support networks where synergies among institutional actors and collective subjects, both inside and outside the territorial reference, become the most effective and efficient way to produce the mobilization of the best cultural resources available in the area. They are resources related to the local culture, stratified and tacitly passed from generation to generation, which have codified a valuable know-how, but still wasted or misused, because of the shortage of operational capabilities, entrepreneurial, financial (Vespasiano and Martini, 2008: 131). In summary, it can be said that local development is not guaranteed by the mere existence of one or more factors propulsion. Social capital - alone - is not enough to start territorial development processes; it must and can be increased through appropriate actions networking of different components of society. This naturally requires the availability of: a significant political capital (not only in the form of a strong local leadership, but a strong representation and accountability to the city) necessary for the animation of the entire process; a cultural capital and civil equally significant, revealed the availability of urban actors to interact seamlessly outside the usual channels and economic power, and the ability to diagnose and imagination; an organizational capital public oriented not only to the efficiency of the various projects of the local administration, but the facilitation of consensus and collective decision (Presidency of the Council of Ministers, 2006: 39-40). The combination of all these elements allow to set an effective strategic planning path , which is not a simple agenda of projects, but the outcome of a

 ISBN: 978-9963-711-37-6

true path of rethinking and re-launch of the territories, by focusing on the interaction between government, society and civil market. Good governance (good governance) means precisely an effective state, a civil society mobilized and a productive market capable of ensuring the reduction of corruption, the consideration of minorities, the participation of the weakest in decision-making and therefore sustainable human development. In other words, good governance is facilitated by effective governments that create legal and political environment favourable to economic growth and the right distribution of wealth. But it all depends on and much to a civil society "lively" able to mobilize groups and communities, facilitate interactions political and social, generate capital and social cohesion (Martini and Serluca, 2012: 262).

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 ISBN: 978-9963-711-37-6

THE ROLE OF INFORMATION DIFFUSION ON FARMERS GOOD AGRICULTURAL PRACTICES: A SOCIAL NETWORK POINT OF VIEW – THE CASE OF THE FRENCH AGRO-ENVIRONMENTAL PRACTICES

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ABSTRACT

Many recent researches focus on the sustainable agriculture and the advantage of the adoption of good agriculture practices for farmers, consumers and for the environment. In this work, we agree on one thing: better information diffusion leads to better adoption of good agricultural practices by farmers. The objective of our article is double. Firstly, we aim to propose an analytical model of the relevant factors which can help to better understanding the process of adoption of these practices. Our framework is developed around three main elements: the individual level (the information seeker), the economic level and the social network level. Secondly, we aim to test empirically this model, by confronting it to some field experience in agro-environmental practices. Our first empirical results put a lot of emphasis on the importance of the formal network in knowledge transfer. Finally, we discuss the implication for theory and practice and present the next steps of this ongoing research.

Keywords: Network, good agricultural practices, information diffusion, knowledge

INTRODUCTION

Sustainable agriculture is concerned with the ability of farmers to adopt good agricultural practices. They are defined as practices "that address environmental, economic and social sustainability for on-farm processes, and result in safe and quality food and non-food agricultural products" (FAO COAG 2003 GAP paper). Adopting them creates new market opportunities for farmers, helping them optimizing their use of inputs (e.g. water, fertilisers, pesticides) yielding to safety and security products, which consequently leads to best health of the plant and for the environment.

In this study we focus on the adoption of recent innovative practices that benefited from the existence of a historical and pioneering one as the organic farming. " In France, it is a well-known symbol of agro-environmental practices. From a political standpoint, the French national strategy considers the agricultural area engaged in organic farming as an official indicator of sustainable development. The development of this forerunner practice, for nearly half a century has greatly influencedthe context for

 ISBN: 978-9963-711-37-6

agri-environmental practices. And recent innovative practices will be illustrated by the High Environmental Value (HEV) and the conservation agriculture (CA), both launched in France in the middle of the 2000's.

More specifically, we look at the role of the information diffusion on the process of adoption of new agro-environmental practices. A review of the academic literature makes sure that this adoption process is a complex process that includes many factors. These factors could objective such as the increasing consumer willingness to pay environmental friendly products, and the institutional context, and subjective/intrinsic such as the psychological features of the farmer and his education level. All these factors are interconnected, and not easy to measure.

As far as agro-environmental practices can be considered as a combination of technological and organizational innovation, the social network approach could be a pertinent framework to the comprehension of the information diffusion and the adoption of the agricultural innovation. That's why, in addition to these elements mentioned earlier, we mobilize a new approach which is not addressed by agricultural researchs: the social network. For indeed a farmer isolated is not able to get useful information. Farmers who are less isolated than others (they are members of cooperatives, members of networks, etc.) obtain useful knowledge either from colleagues, from other members of their networks or also from neighbours and friends. This view of farmers put a lot of emphasis on the importance of the network in knowledge transfer, incorporating both formal and informal dimensions.

Then in this paper we consider that the adoption of good agricultural practices is not the result of the unilateral farmer alone, but the result of a combination of many interconnected factors. Information is the "lifeblood" that connects all these elements; it is also making the link of farmers with other actors. Until recently, the subject of good agricultural practices interest many researchers in different disciplines. The dominant concern of studies was on the impact of the use of inputs on the environment (Van der Werf and Petit, 2002; Hansen, Alrøe and Kristensen, 2001). Economic and management sciences studies have focused more specifically on the financial-economic concerns of good agricultural practices (Mccann et al., 1997). Sociological and psychological literature have focused on the farmer profile such as the farmer's personal characteristics, farm operation characteristics, and farm's perception of agricultural practices (Willock et al., 1999; Greiner and Gregg, 2011; Greiner, Patterson and Miller, 2009).

There is however no unified framework to guide debates and methods for helping farmers achieving sustainable agriculture. Little is said about how farmers have got access to information. Nevertheless, it is evident that the adoption of good agricultural practices largely depends on the access by farmers

 ISBN: 978-9963-711-37-6

to information. In social science and economics the challenge then is to examine how farmers could obtain useful knowledge about good agricultural practices. Our key question in this research is: What are the determinants of the information diffusion within farmers leading them to adopt good agricultural practices?

The objective of this study is double. First, we aim to understand the mechanisms and the process that conduct a farmer to adopt these good practices. This requires the examination of all indicators of information diffusion such as external and intrinsic indicators. Second, our ambition is to mobilize a social network approach to the comprehension of this process, which is used in management literature but not yet explored in agriculture studies (this point will be developed in further researchs).

This work follows in 3 further parts. In the first section we try to identify the main factors that are relevant to explain the adoption of good agricultural practices. In the second section we will explain the methodology that will be used in the next steps of this ongoing research. Finally, int the third section we present our first results in focusing on agro-environmental practices in France and the network level.

LITERATURE REVIEW

The aim of this section is to develop an analytical framework capturing -main elements that could explain information diffusion and lead to the adoption of new good agricultural practices. This framework could help us to understand the relationship between the knowledge seeker (the farmer) and the knowledge source (agricultural institutions, electronic and paper-based sources of information, persons, etc.).

1.1. Psychological-based explanation

The first actor concerned with the adoption of good agricultural practices is the farmer. Information access depends largely of intrinsic characteristics of the farmer. Agricultural science researches have offered clear evidence of the role of the farmer's profile and psychological aspects in adopting good agricultural practices. The attitude of the farmer toward risk is identified as important in deciding whether to adopt or not a new good agricultural practice. This decision is considered as risky because farmer cannot be sure about outcomes (Greiner et al., 2009). Economic analysis showed that farmers are generally risk averse (Willock et al., 1999), which can slow the agricultural innovation process and the adoption of new practices. But, if economical approach profit maximization is the principal motive of farmer's adoption of innovation, farmers could be driven by non-financial motives such as "life-style" and "social motivation (Greiner et al. (2009). Greiner and Gregg (2011) support the idea that "personal and family well-being" and ethical considerations are also motives for farmers to adopt

 ISBN: 978-9963-711-37-6

innovation. In the same line of idea, for Traoré, Landry and Amara (1998), farmer's concern for personal health is an important determinant to his decisions. In addition, other intrinsic factors can influence the decision of a farmer of whether to adopt or not good agricultural practices such as his age, education level (Gould, Saupe and Klemm 1989), and prior experience.

1.2. Economic-based explanation

We consider organic farming as a pioneering and forerunner event in the sense that its development has impacted the whole context surrounding the agro-environnemental practices. For that, we can focus on the consumer's willingness to pay the "environmental" quality of produced goods and on the presence of many institutions that encourage environmental practices. In this section we develop these elements that are important for the launch and adoption of other environmental benefits associated practices such as conservation agriculture and HVE.

The evolution of the final consumer demand

The long term development of organic farming has positively influenced the context surrounding societal demand on agro-environmental practices. Organic farming has spread the idea that one could simultaneously satisfy a nutritional need and do not destroy the environment. Despite the tensions between the different movements that constitute the french organic farming, a consensus ariseed around the fact that it has greatly contributed to education and information of consumers on environmental quality, in a context of globalization and standardization of production.

In industrialized and developed countries such as France, consumers are searching for identity and diversity (Brodhag, 2000) in accordance with the principles relating to environmental, social and ethical preoccupation (Mathe, 2009). This is reflected to the consumer awareness about environment issues and the development of a new behaving, such asthe willingness tu search and to pay an environmental quality.

In France, according to a national survey conducted by the research center for study and observation of conditions of life (CREDOC) in 2009, French consumers are interested to products with specific qualities. That brings a significant number of them to consider accepting to pay more to obtain products environmentally and animal welfare (67%).

THE ROLE OF INSTITUTIONS IN DIFFUSING INFORMATION

The contextual environment can play an important role on the diffusion of knowledge. That means that the capacity of individues (or organizations) to get useful information depend on the context where they are. More specifically, at the institutional level, the national systems of innovation play a

 ISBN: 978-9963-711-37-6

considerable role in the diffusion of information and encouraging networking activities. It is evident that formal institutions can make knowledge transfer easier. By institutions we mean the "legal system, the banking and finance system, the structure of labour markets, the education system and the political system" (Grandori and Soda 1995).

Normally, all farmers are similarly concerned with the institutional environment. But they do not equally benefit from opportunities and information diffused by these institutions. Access by farmers to information can be influenced, among others, by their profiles, localizations, etc.

1.3. The contribution of a social network approach

The social context is also important to consider when to speak about information diffusion. In the literature, many authors have clearly demonstrated the role of the social network in information and knowledge diffusion, in particular in helping individuals to develop theirs innovative ability (Duysters and al., 2003), to get information (Burt, 1992; Borgatti & Cross, 2003)) and to stimulate knowledge diffusion (Rogers, 1995).

Networking promotes social interactions which generate trust and reciprocity that facilitate knowledge transfer between people (Almeida and Kogut, 1999). For entrepreneurs, networking enhances the success rate of entrepreneurial initiatives (Baum and al., 2000), because it allows partners to access to other resources and also to gather informations and advices (Smeltzer and al., 1991). It appears also that, when they need information, people prefer seek it from other people. They prefer using less documentation to find information. For Cross (2001), even people who have access to paper or electronic sources of information, tend to seek information from their colleagues. That is the case also in the research done by Allen (1977) on engineers and scientists.

The social network approach is also concerned with the identification of local cultures and "opinion leader" personalities that can play a considerable role in the decision of a farmer to adopt good agricultural practice. The presence of key personalities in the network of a farmer can influence his way in doing agriculture. The idea of opinion leaders, called also or "influentials" by (Merton 1968), is occupying a central place in the literatures of the diffusion of innovations. An important reflection was led by Coleman (1966) who developed the theory of cognitive processes in adults. The author showed that the adoption of a new behavior results from the interaction between the medical community and the opinion leaders who are members of the same community but are able to influence other opinions or decisions. In this context of knowledge sharing, interpersonal trust has a crucial role (Abrams and al., 2003).

 ISBN: 978-9963-711-37-6

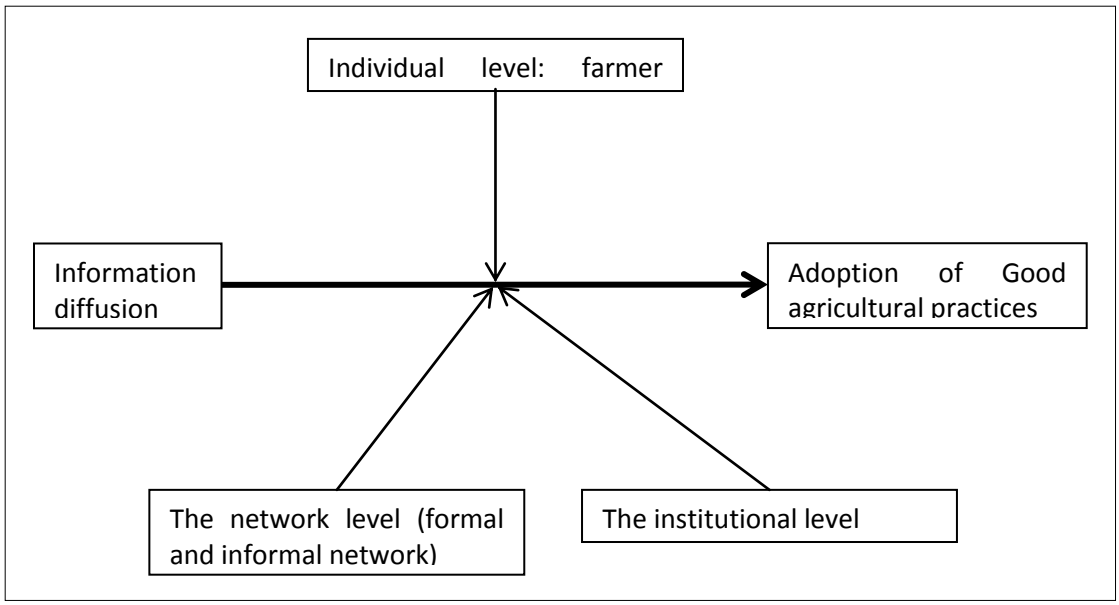

Fig. Conceptual model (This is a simplified version of the model. It does not show all variables)

METHODOLOGY

First step: Case study

This step is about starting to characterize the relationship between the information diffusion, the social network and the adoption of good agricultural practices **in confronting the model with the field experience in agro-environmental practices** (Poux, Faure and Villien, 2015)**.**

Agro-environmental practices mainly address environmental and economic sustainability. They take sources in the concept of agroecology, first defined in 1930, studied and highly enriched up in the 1990s to become a strong orientation of French agriculture over the last twenty years (Schaller, 2013).

Second step: Comparative analysis

This step is about conducting a comparative analysis to complement the results on the network level and focus on the producer and institutional ones, in focusing on other types of good agricultural practices

Data

The empirical study will be done in two steps. First, a qualitative research will be conducted in two regions in France: Aquitaine (10 operations of Hight Environmental Value "HEV" in Viticulture sector) and Picardie (2 operations of HEV in polyculture-breeding farms). Second, a quantitative survey will be conducted. A questionnaire will be administered to all farmers from these regions.

The study will include surveys and data collect. We propose a multi-level approach which includes:

- Analyzing of data-bases

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- Other Case studies, in particular in two geographical areas in France (Aquitaine and Picardie) on adoption of Organic Agriculture (Bio), Conservation Agriculture, and the High Environmental Value (HVE)

For the empirical part, to test our conceptual model, two case studies of farming environmental initiatives were investigated: the Conservation Agriculture (CA) and the High Environmental Value (HEV) certification. Case studies information was collected from technical documents and reports, various dedicated press communications related to the both practices and existing interviews of farmers (adopting HVE or using CA) and support organizations and websites. Especially for HVE program, interviews of pioneers' farmers (first HVE certified farmers in year 2012) were analyzed composed by 2 farmers from Champagne region and 1 farmer from Picardie Region). We used firstly a qualitative method which must be further complemented by a quantitative method within a questionnaire emailed to conventional and certified farmers, and also some semi directive interviews of institutional operators. The data analysis focuses on the adoption process (by responding to following question how and why), thus and also the motives and barriers of adoption of such practices.

Summary description of the case studies

The CA and HVE are seen as an approach which meets the society demand of sustainable food production with various benefits for farmers and the environment. The both approach are marginally used in France but on progress. France records an increase of the area dedicated to the CA from 400,000 hectares in 2001 to 630,000 hectares in 2006, according to Shaller (2013). The HEV approach, launched in the end of 2011, accounts 138 certified farms on 2014 against two dozen on year 2012 (France agricole, 2014)

The Conservation Agriculture according to the Food and Agriculture Organization (FAO) is an approach to managing agro-ecosystems for improved and sustained productivity, increased profits and food security while preserving and enhancing the resource base and the environment. The CA principle is based on a strong reduction, even an abolition of the ground labor, a permanent soil cover and crop rotations.

HEV

The HVE is an official environmental approach stemming from the environmental law «Grenelle environment number 2 "and set up on the end of 2011. The HVE certification is a progressive approach and includes 3 levels of environmental requirements: the first level (1) including requirements to access the approach. The second level (2) includes a set of best practices regarding the biodiversity, the use of phytosanitary products and fertilizers and the water management. Farmers implementing already specific environmental approach can reach directly the level 2 of the process.

 ISBN: 978-9963-711-37-6

Indeed, 22 environmental approaches (example organic agriculture, ISO 14000, etc.) are officially recognized equivalent to the level 2 of the HVE certification process.

The level (3) allows the obtention of HVE certification conditioned by an external audit by a third certification body.

This HEV initiative is in constant evolution although more modest on a national scale. However, regional and sectorial disparities are observed. Some region like Aquitaine or Champagne counts more certified farms than Picardie. In addition, among the certified farms, 85% are from the wine sector but tends to become widespread.

CASE STUDY RESULTS AND DISCUSSION

The case study analysis highlights key factors influing willingness of farmers to adopt environmental approach:

- Farmers attitude and beliefs play a key role in the decision of good environmental practice adoption.

- Meeting consumer behavior towards environmental concerns (more demanding of environmental friendly product) are among the motivation of the conversion of farmers. Indeed, viticulture farmers particularly adopt the HVE approach to improve their image towards the environment conservation and to communicate about their effort about the good agricultural practice.

- The Farmers already engaged on environmental approach, for example environmental management systems (EMS) ISO 14001, organic agriculture, *agriculture raisonée* etc.) are the majority of HVE certified.

- Certified farmers are members of farmers association or environmental network (example DEHPY).

- Interviews of pioneers farmers' show that information was provided by the chamber of agriculture firstly and also from the farmers' network (Example in the wine sector, Qualenvi association or independent wine owners association viticulteurs indépendands de France VIF). Indeed independent wine owners' network counts 75 of HVE certified farms within their members.

The adoption or conversion was accompanied by the support organization (farmers associations, territorial network like DEPHY and AREA approach etc.). They provide information, learning process

 ISBN: 978-9963-711-37-6

and training for farmers. The referee (technician from agriculture chamber) play also an important role (preparation for audit, information diffusion about the certification).

- Information and knowledge are diffused through platform and farmers networks (example for CA and dedicated project through DEPHY). The combination of networking and learning. The adoption of CA requires a high management skills for farm management and knowledge that explain the necessity of strong support from dedicated project, and exchange through networking.
- At the institutional level, it seems also essential to effectively support farmers committing to conservation agriculture because of their complexity: financial supporting technical advice, training in agronomy, technical references. Mobilizing chain actors is finally necessary to fit crop diversification often requires new markets (shaller, 2013). These systems are subject to numerous projects and research, worn both by non-governmental organizations, national or international institutes, or large groups of agro-industry. In France, several experiments are conducted in partnership with farmers, including through the BASE network (biodiversity, agriculture, soil and environment), Sustainable Agriculture Institute or the cooperative group VIVESCIA.

Finally, confronting our model with the field experiences in agro-environmental practices led in France (Poux and al., 2015) enable to characterize first and foremost the relation between **the formal network**, the information diffusion and the adoption of agro-environmental practices.

1) The major role of the French network “Réseau rural” (Rural network)

Agro-environmental policies based on a top-down logic have shown their limits in terms of adoption of good practicess. Indeed, the rural network was built to develop a bottom-up logic. Producers who join the network can participate in any deliberation needed for the construction of the technico-economic “referential” which is the basis for the knowledge and practices dissemination. "Farmers who participated in the deliberations have a high propensity to adopt practices that they helped to be institutionalized"

2) The interdependent role of the “Territorial Network” and the “Agricultural Network”

The success in terms of adoption of good practices within a territory is assured when these two networks are able to collaborate. The Territorial network is seen as an engine that boosts the involvement of farmers. And the Agricultural one has been identified as a support of group dynamics. It sees the creation and the strengthening of relations and exchanges between farmers and other stakeholders.

3) At last and not the least, the famers’ proximity with the “environmental referee”, which is working closely with the “Territorial, Agricultural and Rural networks”

 ISBN: 978-9963-711-37-6

Throughout decades of experimentation, public policy and the different networks have institutionalized a group named "Environmental referent." It is seen as the guarantor of environmental objectives in any agricultural projects. Networks are needed to establish a link between farmers and this group of "environmental referent", to learn about current issues affecting farms, and about how to defend their concerns, and about the associated fundings and european and National supports. Insights from this confrontation are needed to improve our model.

CONCLUDING COMMENTS

The aim of this research is to contribute to the understanding of the factors determinants the impact of information diffusion on the adoption by farmers of good agricultural practices.

The first result of this work is theoretical. We propose a conceptual framework to summarize the relevant variables of this phenomenon that came out mainly from literature on food and rural studies, economic and management studies. With a focus on the social network concept, our framework is developed around five main items: Information diffusion, adoption of good agricultural practices, the individual level (the information seeker), the institutional and the network level.

Secondly, we provide primary empirical support for the conceptual model by confronting it with some experiences in agro-environmental practices such as the "Rural Network", the "Agricultural Network" and the "Environmental Referent". All these examples show mainly the important role of the formal network on the information diffusion and on the adoption of good environmental practices. That is, while these examples are very useful to understand the role of the formal network, they don't allow us to understand how the informal relationships make easier (or more difficult) the information diffusion. That's why more empirical research needs to be conducted on the complex role of the informal network, notably interviews with practitioners (farmers and institutions).

The project will offer many insights that can be helpful to practitioners (farmers, institutions, etc.). First, it will offer evidence that knowledge diffusion consistently matters in the adoption by farmers of good agricultural practices. Second, it can help understanding the mechanisms of knowledge transfer and assimilation by farmers regarding good agricultural practices. Third, it can help all stakeholders to focus on ways to improve knowledge diffusion, especially by networking activities.

In addition to interviews, it seems important, in the next phases of this research, to compare the two French regions. As previously announced, there are less HEV operations in Picardie than in Aquitaine. Consequently, we need to understand the factors related to information diffusion which prevent farmers in Picardie to adopt HEV practices.

ISBN: 978-9963-711-37-6

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 ISBN: 978-9963-711-37-6

CROSS-BORDER ACQUISITIONS AND CULTURAL DISTANCE: THE IMPACT ON PERFORMANCE OF TARGET FIRMS

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ABSTRACT

The present paper aims at analyzing the influence of cultural distance on acquisitions from foreign investors of Italian mid-sized firms in terms of the economic performance of target firms. The research covers two main topics. The first one, related to cross border acquisitions, is quite wide, and it is either focused on acquirer's or acquired's perspective in order to understand whether or not the acquisition performance of these firms increases. The second topic, concerning cultural distance, is particularly relevant in studies on the internationalization strategies of firms. Among them, a variety of works has focused on cultural distance as an explicative variable of the results of cross-border acquisitions. Using data from the Mediobanca Research and Studies Database we analyze Italian mid-sized firms acquired from foreign investors between 1999 and 2009, in order to understand whether or not their performance improved over the post–acquisition period. Using a multidimensional measure of cultural distance, we tested the relationship between cultural distance and target firm's performance in cross-border acquisitions by means of a regression analysis. Our study is the first to examine the impact of cultural distance on post-acquisition performance using a sample of Italian mid-sized firms. The findings support our suggestion that cultural distance has a negative effect on post-acquisition performance.

Keywords: *cross border acquisitions, performance of target firms, cultural distance, mid-sized firms.*

INTRODUCTION

The increase in foreign direct investment in industrialized countries since the mid-1980s has largely come about through mergers and acquisitions (M&As) and, as a result, the share of foreign ownership in the total population of firms has grown in many countries. Yet, despite suggestions of increased cultural homogeneity due to the consequent growing interdependence of national economies, firms continue to struggle or fail in foreign markets because of their inability to appreciate and overcome cultural differences. According to the globalization trend, cultural distance has received significant

 ISBN: 978-9963-711-37-6

attention in international business research and it is among the most commonly applied constructs in the research on the internationalization strategies of firms. Hofstede (1980, 25) defines culture as "the collective programming of the mind which distinguishes the members of one human group from another". According to GLOBE Project, culture is the set of "shared motives, values, beliefs, identities, and interpretations or meanings of significant events that result from common experiences of members of collectives and are transmitted across age generations" (House et al., 2002). The cultural dimensions of Hofstede's model (Hofstede, 1980; Hofstede et al., 1988; Hofstede, 2010) have been largely used in the international literature to describe the phenomenon of the firms' internationalization through Kogut and Singh's index (1988). Of course, they are also a relevant variable in cross border acquisitions especially when there is a significant national cultural distance between acquirers' and targets' countries of origin.

The literature on cross-border M&As rarely investigates the relationship between national cultural distance and target firm's performance after the acquisition. Extant studies only report ambiguous, inconclusive and sometimes contradictory findings (Sthal, Voigt, 2008). There is no unequivocal evidence that national cultural distance influences either positively or negatively the post-acquisition performance of the target firm. In this study we also deal with the question of whether or not cultural differences matter in M&As by investigating a sample of Italian mid-sized firms acquired from foreign investors between 1999 and 2009. Our observation window is relevant to this study as in this period Italy witnessed a rapid increase in inward FDI, mainly through mergers and acquisitions in absolute terms: 486 Italian acquired companies in the 2010-2014 time-frame, for a value of € 54 billion (KPMG, 2014). As a result, the share of foreign ownership in the total population of Italian firms in the last years has grown. Well-known former Italian-owned firms have changed ownership and are still nowadays foreign-owned. Our study is the first to examine the impact of cultural distance on post-acquisition performance using a sample of Italian mid-sized firms.

Methodologically, over the sample period, the MBRES (Mediobanca Research and Studies) database includes 143 completed acquisitions between a foreign acquirer and an Italian mid-sized target firm. We analyzed the post-acquisition performance of a sub-sample of 80 firms surviving as autonomous companies with a foreign ownership in order to understand whether or not they improved. The findings support our suggestion that cultural distance has a negative effect on post-acquisition performance.

The paper is structured as follows. In section two we look at the relevant theoretical concepts and empirical findings of existing literature. In section three, data and sample characteristics are presented, section four discusses the results. Section five concludes.

 ISBN: 978-9963-711-37-6

2. THEORETICAL BACKGROUND AND HYPOTHESIS

The benefits of cross-border acquisitions for the target firm

The literature on cross-border M&A can be divided into two main stream of research. On the one hand, the literature on industrial organization has explored the consequences of ownership changes on the performance of merging firms. Within this context, Lichtemberg and Siegel (1987), analyzing the effects of the ownership change of almost 20,000 US manufacturing plants, found relative increases in the total factor productivity as well as in the total labor input. McGuckin et al. (1995) described the quicker growth in labor productivity of acquired plants in the US food industry. However, it is worth observing that this literature does not separate domestic from cross-border M&As. On the other hand, the literature on multinational enterprises (MNEs) has investigated the impact of the foreign presence in host countries. It is traditionally assumed that foreign-owned firms have a wide performance advantage over their domestic counterparts. The reason most frequently given is a specific comparative advantage of multinational enterprises (MNEs) (Dunning, 1988; Caves, 1974). John Dunning's Ownership, Location, Internalization (OLI) framework stipulates that an MNE has to have a specific ownership advantage in order to overcome the lack of information and extra costs associated with investing in a foreign country. Therefore, the transfer of superior management or technological skills, such as higher quality, more efficient production, better marketing or stronger brand name, to the foreign subsidiary upon acquisition should enhance performance, especially productivity. This assumption seems to be supported by empirical evidence. Davies and Lyons (1991), Driffield (1977), Girma et al. (2000) or Griffith and Simpson (2001) found that foreign-owned firms record higher productivity than domestically-owned firms. However they did not distinguish M&As from Greenfield Investments.

Such issues have only been tackled rather recently for cross-border M&As (Conyon et al., 2002; Bertrand and Zitouna, 2008; (Heyman et al. 2007; Bandick, 2011) (Chen, 2011; Chari, Chen and Dominguez, 2012). Bertrand and Zitouna, 2008, others at firm level (Piscitello and Rabbiosi, 2005; Chen, 2011). Whilst these studies seem to support the above-mentioned theory of multinational enterprises, by emphasizing the increase of target firms' performance, we want to investigate whether or not the acquirer's cultural diversity has a role in determining the performance of the target firm.

Cultural distance and firms' post-acquisition performance

Consistently with the cultural distance hypothesis, which, in its most general form, suggests that the difficulties, costs, and risks associated with cross cultural contact increase with growing cultural differences between two individuals, groups, or organizations (Hofstede 1980), extensive empirical research on International Business has shown that cultural differences are negatively associated with M&As performance. However others (e.g., Morosini et al. 1998) observed a positive relationship or

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found cultural differences to be unrelated to the performance of firms engaging in M&As activity. These ambiguous results call for further theoretical and empirical research directed at the cultural dynamics of M&As. A recent meta-analysis (Magnusson et al. 2008) found that the effects of cultural differences on firm performance are becoming increasingly negative. This may be due to cultural overconfidence. While there is undoubtedly a gradual integration of national economies, it appears we are still a long way from the ''flat world''.

Just as with internationalization theory, Transaction Cost Economics recognizes cultural differences as a key determinant of transaction costs. Cultural differences introduce uncertainty making it more difficult for the firm to predict future events and amplify costs owing to the liabilities of foreignness (LOF). Cultural diversity can be a cause of increased intra-firm complexity at several levels, for at least two main reasons. First, when a firm operates in multiple, culturally diverse markets, this requires it to tailor itself to numerous foreign national cultures, creating complexities in dealing with different beliefs, behaviors and perceptions (Barkema and Vermeulen, 1998). Second, complexities are further expected to arise through differing firm-level characteristics, such as conflict management, decision-making, and leadership styles (de Jong and van Houten, 2014).

Although culturally diverse operations can lead to improved insights and learning opportunities (Morosini et al., 1998), increasing levels of cultural diversity will lead to increased coordination, agency and transaction costs, all negatively related to firm performance (Tihanyi et al., 2005).

In line with the studies suggesting a negative relationship between national cultural distance and post-acquisition performance, our key hypothesis is expressed as:

Hypothesis 1: The higher the national cultural distance between acquirer and acquired firm, the lower the post-acquisition performance of the target firm.

3. METHOD

The sample

In this study, we focus on acquisitions of all mid-sized firms operating in Made in Italy industries. This is because they are particularly attractive due to their competitive strength which resides in the diversification of their products, most of which may be classified under the umbrella of Italian style, their managerial and entrepreneurial governance styles, structure and flexibility, international development and effective niche strategies (Coltorti et al. 2013; Matarazzo, 2013). The sample was extracted from the Mediobanca Research and Studies database. The selection procedure of the medium-sized firms taken over by foreign ownership concerns the 1999-2009 time-frame and shares higher than 50% of the share capital, or with lower share where there is transfer of management powers (table 1). In

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order to understand the effects of national cultural distance on post-acquisition performance, we analyze data over a five-year period, including the acquisition year and the following four years.

Year	Number of firms
1999	3606
2000	3972
2001	4106
2002	4100
2003	4072
2004	4152
2005	4208
2006	4477
2007	4677
2008	4092
2009	3332

Table 1. *Number of firms by year*

On the side of the acquiring firms, the majority is located in the European Union (63.6% of the total), while 21.7% are located in the USA and 14.7% in other countries. 94.4% of the foreign acquirers here considered come from advanced economies, and only 5.6% come from developing countries and emerging economies. Most of the acquiring firms are based in the USA (21.7%), followed by the UK (12.6%) and France (11.2%).

On the acquired firms' side, 49.6% of them belong to the mechanic industry, and 18.2% belong to the chemical and pharmaceutical industry. Together, they represent about 68% of the sample. The other target firms belong to the personal and household goods industry (14.7%), to the food industry (9.8%), to the printing and paper industry (3.5%) and to the metallurgic industry (3.5%). 0.7% of the sample belongs to other manufacturing industries.

47.5% of the 143 acquired firms of the sample come from the northeast of Italy, while 42% come from the northwest. Thus, 89.5% of the acquired Italian firms are located in the north probably because in northern Italy there are more firms, or they are more attractive for foreign acquirers.

The 61 firms removed from the "observed database" present gaps in the budget series due to: merger (25 cases), winding up, bankruptcy, closure (15), double ownership change in the period concerned, namely restoring of the Italian leadership (14), new constitution (6), other reasons (4).

Table 2 shows the number of identified and observed companies per year and the percentage of observed companies on the total, per year.

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Acquisition year (t)	"Identified" companies (a)	"Observed" companies (b)	b / a (%)
1999	11	4	36,4
2000	10	6	60,0
2001	14	7	50,0
2002	9	5	55,6
2003	7	5	71,4
2004	7	4	57,1
2005	13	9	69,2
2006	16	12	75,0
2007	22	11	50,0
2008	26	13	50,0
2009	8	3	37,5
TOTAL	**143**	**79**	**55,2**

Table 2*: "Identified" database and "observed" database*

Out of the 79 observed companies, two were excluded because of the lack of data about their cultural distance and turnover of 2013. Thus, the final sample is composed of 77 acquired firms.

Table 3 shows the country frequencies for the 77 acquisitions of the sample. The USA have the highest number of transactions, corresponding to 20% of the total. European countries completed 58 acquisitions out of the 77 analyzed, that is 71.4% of the sample.

Acquirer's country	Number of acquisitions	% on total
USA	15	20
UK	13	17
France	9	12
Germany	7	9
Holland	6	8
Switzerland	4	5
Austria	3	4
Japan	3	4
Spain	3	4
Belgium	3	4
Portugal	2	3
Sweden	2	3
Luxembourg	1	1
Singapore	1	1
China	1	1
Ireland	1	1
Finland	1	1
India	1	1
Denmark	1	1
Total	77	100

Table 3: *Number of acquisitions by the acquirer's country of origin*

In the concerned period, the largest number of acquisitions in the sample was recorded between 2006 and 2008, with a peak of 13 in 2008, as shown in table 2. Immediately after that year there was a dramatic decline, probably due to the global economic crisis that brought more caution in international investments.

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The variables

Dependent variable: performance is measured as Sales Growth, ROE, Productivity and EBITDA over a four-year period after the acquisition, including the acquisition year and the following four years. We used these variables because, following an acquisition, the target company becomes part of its acquirer's network, gaining the opportunity to expand its market all over the world. Thus, these measures of performance enable us to assess the success of the acquired firms in the post-acquisition period.

Independent variable: the key independent variable in this study is national cultural distance. Following a wide number of prior studies (e.g. Ellis, 2008; Fang and Zou, 2009; Habib, Zurawicki, 2002; Jiang et al., 2009; Morosini et al., 1998; Yu et al., 2013; Slangen, 2006), national cultural distance is measured through the Kogut and Singh's index (1988), based on Hofstede's (1980) national cultural scores. Thus, we used the Kogut and Singh's multidimensional formula (1988) in order to estimate the cultural distance between Italy and the other 19 countries considered, along with Hofstede's power distance, uncertainty avoidance, masculinity/femininity, individualism, long term orientation and indulgence versus restraint scores, updated to 2010:

$$DC_J = \sum_{i=1}^{6} \left\{ \left(I_{ij} - I_{iu} \right)^2 / V_i \right\} / 6$$

In line with Slangen (2006), we consider Kogut and Singh's index to be the best measurement tool of national cultural distance available, as the scores on Hofstede's dimensions are available for a large number of countries and many studies have used it to assess the impact of national culture on firms' performance. Hence, it is easy to compare our findings with those of other researchers.

Control variables

In this study, some control variables were used to control for exogenous effects on the acquired firms' performance.

The Relatedness variable is based on the industry of acquirers and target firms (Morosini et al., 1998). If the two companies are in the same industry, the acquisition receives a relatedness score of one; otherwise, it receives a relatedness score of two. We control for relatedness because it has been found to have positive effects on post-acquisition performance (Morosini et al., 1998).

The Year and Industry variables are included to control for their effect on the target firms' performance (Morosini et al., 1998; Piscitello and Rabbiosi, 2005). In order to understand whether the global

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economic crisis has had an impact on performance or not, we use dummy variable that receives score of one if the acquisition took place before 2007 (included), two if the acquisition took place after 2007. Controlling for the acquisition year was necessary because national and international economic and financial conditions varied during the period considered, and this had a clear impact on the performance of all acquisitions. Moreover, important political, economic and financial changes took place in Italy during the period under investigation.

The Industry variable is introduced in order to control for industry effects on post-acquisition performance of the target firms in the sample (Piscitello and Rabbiosi, 2005). It receives a score of one if the acquired firm belongs to the food industry; two if it belongs to the personal and household goods industry; three if it belongs to the printing and paper industry; four if it belongs to the chemical and pharmaceutical industry; five if it belongs to the mechanic industry; six if it belongs to other industries.

The Macro-area variable measures the geographical origin of the target firms (Karpaty, 2004). We control for it because the specificity of the regional context where the acquired firms operate may affect their post-acquisition performance. Hence, this variable receives a score from one to four, depending on the geographical region of the target firms. It receives a score of one if the acquired firm comes from the northwest of Italy; two if it comes from the northeast of Italy; three if it comes from the center of Italy; four if it comes from the south of Italy.

Finally, we control for the uncertainty avoidance, because literature has shown that it may influence the post-acquisition performance of the target firms (Morosini et al., 1998). In order to control for uncertainty avoidance in this research, the Hofstede's (2010) national culture scores for the uncertainty avoidance of the acquiring firm's country of origin are used.

A large number of studies control for the firms' size (e.g. Bertrand, 2009; Bertrand and Zitouna, 2008; Chari, Chen and Dominguez, 2012; Heyman et al., 2007; Karpaty, 2004). However, the sample of this analysis is only composed of medium-sized companies. For this reason, we believe it is not necessary to control for size.

The model

The hypothesis is tested on the acquisitions sample by using the multiple linear regression.

At the theoretical level, the multiple linear regression equation takes the following form:

$$Y = \beta 0 + \beta 1\ X1 + \ldots + \beta m\ Xm + \varepsilon$$

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where $\beta 0$ is the intercept, and $\beta 1$, $\beta 2$, … βm are the regression coefficient; ε indicates the error of the model.

4. RESULTS

This study analyzes the impact of cultural distance on post-acquisition performance by estimating regression models using different dependent variables expressive of target firms' performance such as Sales Growth, ROE, Productivity and MOL.

The most immediate tool to assess multicollinearity is the examination of the correlation matrix of the independent variables.

Table 4 shows that the most correlated variables are Cultural Distance and Uncertainty Avoidance (-0.563) and dummy variables for the target firms located in the North-West and North-East of Italy (-0.809). In general, given the presence of low values, multicollinearity does not represent a problem in this study. The same conclusion is reached by examining Tolerance and the Variance Inflation Factor (VIF) (table 5).

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Variable	UAI	CD	YE	FO	PE	PR	PH	ME	OT	RE	NO	NE	CN	CS
UAI	**1,000**													
CD	-0,563	**1,000**												
YE	0,125	-0,010	**1,000**											
FO	0,128	-0,205	-0,172	**1,000**										
PE	-0,160	0,092	0,069	-0,108	**1,000**									
PR	-0,178	0,016	0,103	-0,064	-0,069	**1,000**								
PH	0,036	0,194	-0,183	-0,122	-0,132	-0,078	**1,000**							
ME	0,058	-0,075	0,189	-0,356	-0,383	-0,226	-0,434	**1,000**						
OT	-0,091	0,010	-0,013	-0,115	-0,124	-0,059	-0,141	-0,409	**1,000**					
RE	0,154	-0,219	-0,207	0,068	-0,214	0,111	-0,243	0,189	0,105	**1,000**				
NO	-0,105	0,155	0,015	-0,253	-0,010	0,114	0,246	-0,148	0,207	-0,125	**1,000**			
NE	0,155	-0,121	-0,121	0,312	-0,090	-0,070	-0,160	0,064	-0,126	0,130	-0,809	**1,000**		
CN	0,050	-0,178	0,120	-0,074	-0,080	-0,047	-0,090	0,208	-0,085	-0,009	-0,187	-0,237	**1,000**	
CS	-0,168	0,111	0,120	-0,074	0,304	-0,047	-0,090	-0,028	-0,085	-0,009	-0,187	-0,237	-0,055	**1,000**

Table 4- *Correlation matrix*

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Tests	UAI	CD	YE	FO	PE	PR	PH	ME	OT	RE	NO	NE	CN	CS
Tolerance	0,597	0,591	0,792	0,852	0,850	0,890	0,776	0,863	0,920	0,771	0,832	0,838	0,911	0,863
VIF	1,676	1,691	1,262	1,174	1,176	1,124	1,288	1,158	1,086	1,297	1,201	1,193	1,097	1,159

Key:

UAI	Hofstede's uncertainty avoidance score for the acquirer's country
CD	Kogut and Singh's (1988) cultural distance score between Italy and other 19 countries
YE	Dummy variable for acquisitions that took place before 2007
FO	Dummy variable for the Food Industry
PE	Dummy variable for the Personal and household goods industry
PR	Dummy variable for the Printing and paper industry
PH	Dummy variable for the Chemical and Pharmaceutical industry
ME	Dummy variable for the Mechanical industry
OT	Dummy variable for the Others industry
RE	Dummy variable for Relatedness of the acquisition
NO	Dummy variable for the target firms located in the North-West of Italy
NE	Dummy variable for the target firms located in the North-East of Italy
CN	Dummy variable for the target firms located in the Central region of Italy
CS	Dummy variable for the target firms located in the South of Italy

Table 5: *Tolerance and VIF*

The results of the regression analysis are shown in Table 6. The regression coefficients associated with the cultural distance variable indicate that national cultural distance had a negative effect on post-acquisition performance but this factor was significant only in the model 1 and 4. In other words, the grater the national cultural distance between the acquirer and the target, the lower the Sales Growth and EBITDA over the five-year period considered. This is probably due to the post-acquisition strategies of the acquirers and to the reasons of the acquisitions themselves, or to a low level of cross-border acquisitions experience. In fact, prior experience in cross-border acquisitions may mitigate the negative effects of cultural distance because acquirers are more likely to be aware of inter-country differences and are more skilled at resolving acquisition related conflicts, taking measures to have better performances (Dikova, 2009; Dikova and Rao Sahib, 2013; Hutzschenreuter *et al.*, 2014).

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Variables	Model 1: Sales Growth		Model 2: ROE		Model 3: Productivity		Model 4: EBITDA	
	Value	t-value	Value	t-value	Value	t-value	Value	t-value
Intercept	0,467	0,774	5,921	0,895	84,554	0,008	10939,419	0,085
Cultural Distance	-0,916	0,014*	-8,195	0,371	-7,730	0,220	-2551,812	0,049*
Uncertainty Avoidance	-0,013	0,265	-0,495	0,098	-0,169	0,404	-72,945	0,081
Year	0,136	0,806	21,492	0,108	6,771	0,457	2612,954	0,161
Mechanical	0,832	0,284	15,609	0,566	-5,737	0,758	-1513,193	0,690
Food	1,091	0,282	3,173	0,922	-11,132	0,617	-2988,708	0,511
Chemical and Pharmaceutical	1,991	0,033*	49,762	0,121	17,970	0,411	4803,423	0,283
Personal and household goods	0,184	0,851	23,623	0,454	-18,386	0,395	-2451,208	0,578
Printing and Paper	1,179	0,354	0,000	0,000	0,000	0,000	0,000	0,000
Other Industry	0,000	0,000	24,004	0,454	-20,397	0,354	-4621,071	0,304
Relatedness	0,038	0,942	23,867	0,079	14,924	0,108	1737,149	0,356
North-West	1,696	0,088	-24,884	0,316	-15,186	0,371	-521,372	0,880
North-East	-0,568	0,561	-1,874	0,939	-12,631	0,454	-1780,556	0,605
Center Nec	0,000	0,000	26,138	0,424	-26,741	0,234	-4800,429	0,294
Center-South	-0,200	0,877	0,000	0,000	0,000	0,000	0,000	0,000
N	77		80		80		80	
F	0,001*		0,289		0,431		0,172	
Adjusted R^2	0,281		0,032		0,005		0,062	

*Significant at the p< .05 level

Table 6 - *Results of the regression analysis*

Table 6 also shows that the other variables, namely year, uncertainty avoidance, relatedness and macro area were not significant across all models, thus indicating that they did not have any effect on target firms' performance.

Moreover, among the regression coefficients controlling for industry, in the model 1, only the dummy variable for *Chemical and Pharmaceutical industry* had a positive, and significant, influence on the performances recorded in the four years following the acquisition.

However, it is important to highlight that the target firms' performance in the two-year period 2008-2009 may have been affected by the world economic crisis. Hence, these results should be interpreted with caution.

MANAGERIAL IMPLICATIONS, LIMITATIONS AND FUTURE RESEARCH

The results support the hypothesis of a negative relationship between national cultural distance and cross-border post-acquisition performance, in line with the findings of other studies (Barkema and Vermeulen, 1998; de Jong and van Houten, 2014; Hutzschenreuter *et al.*, 2014; Tihanyi *et al.*, 2005). We

ISBN: 978-9963-711-37-6

found that cross-border acquisitions have negative effects on the sales growth and EBITDA of the acquired Italian firms in case of higher national cultural distance.

This study suggests that managers of multinationals making acquisitions in culturally distant countries should not underestimate the role of the target's national culture, because it can have a negative impact on the post-acquisition performance of both acquired and acquiring firm. Hence, managers should be aware of the threats and opportunities of the target's national culture, so as to take advantage of its different routines and organizational practices.

This study is not without some limitations. Above all, in this study we used the Hofstede's model (1980, 2001) and Kogut and Singh's index (1988) to assess national culture distance. Even with their widespread acceptance, a growing number of scholars have underlined problematic aspects in Hofstede's model and in the KSI (Shenkar, 2001, 2012; Kandogan, 2012; Tung and Verbeke, 2010; Yeganeh, 2014). In particular, Shenkar (2001) underlines that the Hofstede's model assumes a necessarily linear association between cultural distance and bilateral business relations and it considers culture distance as a stable measure that does not change over time and space, so it does not take intracultural variations within the same nation into proper consideration. The KSI, using Hofstede's measures, carries all their inaccuracies, along with the illusion that cultural distance between two countries is symmetrical and that all of Hofstede's cultural dimensions are equally important (Yeganeh, 2014). Although we were aware of such issues about Hofstede's model (1980, 2001) and Kogut and Singh's index (1988), we used them in order to easily compare our findings with other researches on the same topic. Another limitation is that the sample of the analysis consisted of cross-border acquisitions in which an Italian firm was acquired by multinational corporations predominantly headquartered in Europe or in the United States. Thus, the findings should be evaluated with caution as to their generalizability to the whole world. In addition, the sample consisted only of mid-sized firms. We have chosen to restrict our analysis to mid-sized firms because of their relevance in the Italian economic system. Nonetheless, this could again affect the generalizability of the findings to the entire Italian context. Furthermore, the study looked at the effect of national cultural distance on cross-border acquisition performance, rather than at the process by which managers of the acquiring and acquired firms try to take advantage of national cultural distance, and at the reason why they did not succeed. To better understand those aspects, we think that a qualitative research could be useful and this is left to future research. Finally, it is important to highlight that our results may have been affected by the world economic crisis of the 2008-2009 years. Thus, despite dummy variable year in our models is not significant, the findings should be taken with caution.

 ISBN: 978-9963-711-37-6

Further studies about national cultural distance and post-acquisition performance should explore the specific mechanisms through which cultural factors influence performance, even by using and combining different kinds of research methods.

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 ISBN: 978-9963-711-37-6

THE IMPORTANCE OF KNOWLEDGE AND INFORMATION TO OVERTAKE EXPORT BARRIERS - A CASE STUDY OF A PORTUGUESE SME

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ABSTRACT

This paper focuses on the main barriers to the internationalization of a SME and the importance of information, not only in major decisions involved in the internationalization process, but also as a prerequisite to successfully overcome the barriers to export. The aim of this study is to understand the importance of knowledge and information in the prevention and surpassing of export barriers. It consists of a single case study developed on a SME that intends to start exporting to China. To highlight the internationalization barriers, the literature on the Uppsala theory, Network Theory and International Entrepreneur Theory will be reviewed. A single case methodology is used, that together with the main literature, allows to relate the theory with empirical evidence. This paper highlights the importance of information to the internationalization process, which is seen as a mandatory requirement not only to market selection and entry mode but also as a precondition to overcome the different exports barriers to SME's internationalization. The principal contribution of this paper consists in finding that all the major barriers SME's encounter in exporting are related to the lack of information, or has somehow to do with the need for information. This paper however, has limitations given the single case study methodology, which means that the findings defended cannot be generalized. The conclusions from this empirical study have important implications for SME's managers that can use this case to better understand the underlining cause and find new ways to overcome export barriers.

Keywords: *Exports, SME's, export barriers, knowledge acquisition, knowledge absorption*

INTRODUCTION

The expansion to new international markets by companies is crucial to follow globalization, a phenomenon that results from significant and constant advances in terms of production, transportation, information technology, financial systems, regulatory environments and social

 ISBN: 978-9963-711-37-6

networks. Crucial for the survival and growth of SME's, the internationalization process can nevertheless represent a significant amount of risk. This risk is intimately related with the barriers particular faced by SME's to internationalize. It is recognized that research on barriers to export still lacks a comprehensive theory to clarify the main export problems of SME's in small countries, in which the economic growth depends largely on this activity (Pinho and Martins, 2010). There is heterogeneity in the barriers studied by the different authors. Each researcher tends to define his own list, based on the literature and in their own studies, making it difficult to compare results (Rocha et al., 2008). The importance of information is recognized in most internationalization theories. Information in not only seen as a prerequisite to the internationalization process, it is also a component of the various theories (Knight and Liesch, 2002). There are multiple theories that refer the fundamental role of information and derive knowledge in the internationalization process. However, obtaining information and knowledge about international markets is considered a major challenge for SME's (Burpitt and Rondinelli, 2000). According to the Uppsala model from Johanson and Vahlne (1977), internationalization is defined as a gradual process, in which the company selects the market according to the degree of psychic distance and where knowledge is acquired through experience (experiential knowledge) gained in foreign markets. It is through this experiential knowledge that the company faces the difficulties that result from the poor knowledge concerning the foreign market specificities - the principal barrier in the model faced by companies, known as liability of foreignness (Hymer, 1976). On the other side, in the Network Theory the internationalization is deeply related with the position of the companies in the network relationships, with the knowledge being acquired through partners (second-hand knowledge), making the process faster, since there is no need to obtain knowledge through their own experience (Costa E Silva et al., 2012). Companies with a weak position in the networks can have to deal with the liability of outsidership, which means a low level of information exchange between the companies and the network and consequently, a limited access to knowledge within the network (Johanson and Vahlne, 2009). Contrarily, according to the International Entrepreneur Perspective, the entrepreneur is one of the principal decision factors on market selection and entry mode, given the main role that (s)he has in the SME's decision making process (Leonidou et al., 1998).

These theories will serve as a starting point for the analysis of this paper's case study, based in a Portuguese SME's that intends to internationalize its main product - *OleoTest*® to the Chinese market. In order to understand how the decision to go to China was made and what were the consequences of this being a mimetic decision. Making part of this process will permit to make an exposition in detail of the principal barriers that the company faces to start exporting to China. The present paper begins with a literature review of the mentioned internationalization theories, and the export barriers literature.

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LITERATURE REVIEW

Barriers to Export

The expansion to international markets is a unique opportunity for companies to growth and for value creation, yet also implies several challenges (Korsakienė and Tvaronavičienė, 2012). Although exports are considered the most common form of involvement in the international market, since they imply a low level of risk, limited resource commitment and offer a great flexibility of movements (Leonidou, 1995), according to Acs et al., (1997) failures in the financial markets, differences in legal systems, culture and language make the internationalization process too risky for many SME's. Consequently, most small businesses see exports as a risky decision due to the lack of resources and right information (Burpitt and Rondinelli, 2000). The risk perception is intimately related with the barriers to exports defined by Leonidou and Katsikeas (1996), as all restrictions, limitations, attitude, structural, operational constraints and others, that prevent the company's ability to initiate, develop or maintain international operations. Present in various empirical studies, the barriers to export, with rare exceptions, appear classified into different positions in terms of frequency, severity or importance. This difference in results is attributed to distinct methodologies, geographic locations, company specific factors, export profiles and different periods (Leonidou, 2004). Firstly presented by Rabino (1980), the author describes not only the problems faced by exporters but also export barriers perceived by non-exporters. Following this, Leonidou (1995) refers that the non-exporters tend to perceive obstacles to exports differently from the exporters, putting more emphasis on the factors that inhibit the start of exports, while exporters emphasize the operational and procedural obstacles more related with marketing being the most important. It is also important to mention that in most studies, exporters perceive barriers to internationalization as less important than non-exporters, or the likely exporters (Shaw and Darroch, 2004). The barriers to exports can be found in all stages of the exports development process, however its nature and severity perception may vary noticeably from stage to stage and between companies that are at the same stage of the export process. The external environmental, the industry-specific factors and the size of the company influence in a great manner the way obstacles and nature of the barriers to exporting are perceived (Leonidou, 1995). According to Knight and Liesch (2002), compared with large firms, SME's are less able to withstand competitive threats and hostile external environments. By operating on fewer countries and therefore having a low level of risk diversification, they are more susceptible to individual markets conditions fluctuations. Activities such as foreign market research, product adaption, discovery and contact with customers, development of channels abroad, moving goods, and ensure delivery quality service, pose serious challenges to SME's internationalization.

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The acquisition and absorption of appropriate knowledge become one of the main priorities for SME's, as it overcomes many of these obstacles, reducing the uncertainty surrounding internationalization. Information about the foreign market is thus considered the key to start the internationalization process (Hutchinson et al., 2009).

Knowledge Acquisition

The Uppsala model, considers that internationalization is a gradual process by which companies increase progressively their participation in international markets (Johanson and Vahlne, 1977). According to Johanson and Vahlne, (2009) the internationalization starts with a low level of commitment, progressing to entry modes that require a greater commitment. Firms tend to begin the internationalization process to nearby countries, both geographically and culturally, which allow a better flow of information, and the development of experiential knowledge obtained only by direct experience (Johanson and Vahlne, 1977). The Uppsala model has two mechanisms that make it a dynamic model. First there is a learning process through the experience gained with the company's current activity in the international market, and second the decision of a greater or smaller commitment to change the company's position in the international market. This means that experience increases the knowledge of the company about the market, which in turn influences the decision of a greater or less involvement in the company's activities (Johanson and Vahlne, 2009).

The lack of specific market knowledge, namely knowledge about the language, laws and rules characterizes the *liability of foreignness* (Johanson and Vahlne, 2009). Defined by Hymer (1976), as the set of difficulties faced by domestic firms in foreign markets, given their condition as foreigners which implies a greater effort to penetrate the markets and the need for competitive advantages. It is also assumed that the main barriers faced by the company are the lack of knowledge and resources, and it is due to this lack of knowledge about foreign markets and the propensity to avoid uncertainty that companies begin exports to nearby countries where the physical distance is smaller (Johanson and Wiedersheim-Paul, 1975). The psychic distance is defined as the "the sum of the factors that prevent the flow of information from and to the market (e.g. differences in language, education, business practices, culture, and industrial development" (Johanson and Vahlne, 1977, p.24). This obstacles can be reduced through the incremental decision making and learning about markets and foreign operations (Johanson and Wiedersheim-Paul, 1975), i.e. accomplishing a gradual process of entering the nearest market to the domestic market and consecutively move to more distant markets.

The business world is currently seen as a network of companies connected with each other, instead of a market formed by independent suppliers and customers. These networks are established with increasingly complex relationships in which companies are connected with each other. Accordingly to the Network Theory, the internationalization depends on the relationships and business networks,

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therefore many companies go abroad because one of the network partners is in the process or it is already internationalized, and wants the company to follow him (Johanson and Vahlne, 2009). Showing the influence of external actors and organizations in the company's internationalization process, Johanson and Mattsson (1988), analysed the internationalization for two dimensions, the degree of internationalization of the company and the degree of internationalization of the market. Introducing a new framework, which distinguishes four groups of companies, Early Starter, Late Starter, Lonely International, and International Among Others. For this study only the Early Starter and Late Starter companies are relevant since they are the ones in an early stage of the internationalization process. The Early Starter has few relationships with foreign companies and the few it has are not relevant. The same is true to other companies present in its industrial network. The Early Starter has little information about foreign markets and cannot use the domestic relationship network to acquire it (Johanson and Mattsson, 1988). Thus, they are susceptible to the liability of smallness, concept presented by Aldrich and Auster (1986), referring to the principal problems faced by small firms, such as raising capital or the difficulties to attract workforce with the same level of qualifications than large companies. Companies that are in this phase do not possess knowledge and enough information, tending to begin the internationalization to nearby markets, through modes of entry that require low resources such as exports, in order to reduce the investment amount and risk, process similar to the one presented by The Uppsala model (Johanson and Mattsson, 1988). The Late Starter has a low degree of internationalization but it is positioned in a market with a high level of internationalization, is also characterized for the low level of activity, commitment and experience in the foreign markets, having few direct international relations (Hadley and Wilson, 2003). The suppliers, customers and competitors are already internationalized, although the company is only present in the domestic market, the international process is influenced by international networks through the contact with suppliers and customers (Johanson and Mattsson, 1988). Due to a shy position in international markets the late starter is more vulnerable to the liability of newness, defined by Stinchcombe (1965), as the set of difficulties faced by newly formed companies which make them more susceptible to failure. This obstacles result of the higher costs incurred at the beginning of the firm operations, given the need to create the functions and tasks that will underpin the company operations, the necessity to establish trust and loyalty relations within the company and the lack of stable relationships with the key partners. Therefore, the presence of companies in relevant social networks (insidership) is of great importance, becoming a necessary condition for the development of the business. At the same time, the lack of presence in social networks (outsidership), more than the psychic distance in the original model, is one of the main sources of uncertainty (Johanson and Vahlne, 2009).

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The knowledge is created through existing exchanges between the links in different networks. The development of knowledge is not just a matter of learning from the other actors, but also from the interaction between the parties, which can generate new knowledge. Thus, the lack of market knowledge (liability of outsidership), is related to the environment in which the company operates, that is, the business partners and the relationship with other companies (Johanson and Vahlne, 2009). The presence in social networks allows the development of second hand knowledge resulting from the experience of other companies, which replaces the need for experiential knowledge (Costa E Silva et al., 2012). In contrast to the experiential knowledge mention on the Uppsala model, the second hand knowledge allows the realization of a less prudent internationalization process, since sometimes the company invests in markets and input modes on which they have no experience, adopting the behaviour of other companies. By imitating companies that succeed in foreign markets, the company reduces the degree of perceived uncertainty without having to acquire its own knowledge (Forsgren, 2002). Although imitation does not mean a direct transfer of knowledge between organizations, it can increase the experimental knowledge that results from the need to deal with the outcomes of the decision to imitate (Bonaccorsi, 1992). According to March's, referred by Haveman (1993), when too many organizations act in a certain way, this particular course of actions can be taken for granted, and consequently, be followed by other organizations without the required attention.

Knowledge Absorption

Knight and Liesch (2002), introduce the concept of internalization of information which is defined as the process of tacit and explicit information absorption into the organization and the subsequent decoding transforming it into knowledge itself. Companies internalize information in order to reduce the uncertainty associated with internationalization as a result of differences in the legal system, physical infrastructure, business practices and obstacles related to the languages and culture. Essential to overcome such challenges and obstacles is the acquisition of relevant information, which is then converted into strategic knowledge by managers and coalitions within the company. Of all the resources, information (transformed into knowledge) is perhaps the most critical for the international expansion of the company. One of the most common obstacles referred in several internationalization theories is the importance of managers to acquire valuable information and translating it into knowledge to support foreign expansion. In this context Zahra and George (2002, p.185), refer the term absorptive capacity, defined as a "dynamic capability pertaining to knowledge creation and utilization that enhances a firm's ability to gain and sustain a competitive advantage". It can be divided in four dimensions, namely, acquisition, assimilation, transformation, and exploitation. In summary the absorptive capacity can be defined "as a set of organizational routines and processes, by

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which firms acquire, assimilate, transform, and exploit knowledge to produce a dynamic organizational capability" (Zahra and George, 2002, p.186).

Fosfuri and Tribó (2008), mention that the efficient absorption of external knowledge requires similar cognitive structures, common skills and shared languages. Once the knowledge is within the organization, it must be shared across the firm's members, transformed and integrated with internally generated knowledge. The internalisation process thus occurs when all types of knowledge are discussed, shared, and used by members involved (Nguyen et al., 2006). The information absorption requires the existence of formal and informal mechanisms that promote knowledge transformation and exploitation. For instance, the firm can facilitate interactions across members of the organization or built knowledge/information databases that are easily accessible in the firm (Fosfuri and Tribó, 2008). According to Zahra and George (2002) knowledge assimilation can be achieve trough social integration, taking place either informally or formally. The informal mechanisms contribute to the exchanging of ideas, and the formal to a more systematic acquisition. Formal social integration eases the flow of information within the firm and contributes to bring together interpretations and identifying trends. The authors mention the external sources of knowledge and experience as two principal keys to the absorptive capacity of the firm. External knowledge sources can be acquisitions, licensing and contractual agreements and inter-organizational relationships, such as R&D collaborations, alliances and joint ventures. This means that the interaction with external sources improve the experiential learning collected by an organization trough dealing with outside information. Experience will also influence the potential knowledge acquisition of the firm, since it is the past experience that will define the knowledge searching areas. The consecutive exploration focus on a determined area, that contributes to the capability to acquire and assimilate external knowledge.

The pursuing of opportunities for expansion to new countries requires not only the acquisition of knowledge but also the absorption of the researched information. This information has to be assimilated, related with prior information and translated into new knowledge that can be applied to the new target market. The company capacity to assimilate new knowledge depends on the existence of routines and procedures that enables the correct analysis, handling, interpretation and understanding of information. Therefore, it is fundamental the existence of routines in the company that make possible this process (Casillas et al., 2009).

METHODOLOGY

The internationalization process is complex and must be carefully planned in order to reduce the risk that entails. Much of this preparation comprises researching and obtaining relevant information. This paper is based on a single case study of Castro Pinto & Costa, a small Portuguese company that intend

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to initiate exports of its main product *OleoTest*® to the Chinese market. Yin (2003), defines case study as "an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident"(Yin, 2003, p.13). In the case study multiple sources of evidence were used, such as informal conversations with the decision maker and employees of the company, internal and external documents, and a participant-observer position. This could be seen as one of the differentiating aspects of this case since the researcher was also an active participant in all the process that was developed within the company.

CASE STUDY: OLEOTEST®

OleoTest® is the main product of Castro Pinto & Costa (CPC), a Portuguese spin off founded in 2000 by four students of Minho University who wanted to change the world. The lack of companies in the food safety area in Portugal seen as a strong business opportunity was the incentive to the creation of CPC. The company provides consulting, audit, training, research and laboratory analysis services, and is also a retailer of a large variety of products and equipment's to the agri-food sector. It is currently leader in the domestic market in the segment of quality control testing of frying oil with the product *OleoTest*®. The *OleoTest*® born from the research of the firm founders in the university. *OleoTest*® is a reliable, fast and cheap method of controlling the quality of frying oils, used in the food and beverage sector, mainly by restaurants and hotels and by official entities in inspections actions. Currently the company is managed by two of the original founders. Both manage the six employees of the company that are distributed through the three company strategic business units, services, products and laboratory. The CEO position, which I will mention as entrepreneur for now on is performed by one of the founders. The entrepreneur divides her time between managing and operational activities, participating in all the business process of the firm. The engineering background and complementary postgraduate business education provide the entrepreneur the technical knowledge required to create and develop the services offered by the firm. She also possesses a deep knowledge of the domestic market and given her proactive nature it is constantly searching for new opportunities internally and abroad. However according to the entrepreneur, she stills lacks management and international business foundations fundamental for a successful international strategy. In addition she mentions that she doesn't have enough time to support the internationalization strategy due to the day to day responsibilities and focus on the internal market, the main source of revenues of the company (75%). These factors combined with the lack of resources, define the firm international strategy based on the lowest commitment possible, supported in most cases by the presence of a foreign distributor that detains the required knowledge to sell the product abroad. Currently it counts with official agents that

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allow the presence in Spain, France, Poland, Turkey, South Africa, Namibia, Botswana, Lesotho, Swaziland, Zimbabwe, Panama, India, Pakistan, Afghanistan, Bangladesh, Sri Lanka, Nepal, Bhutan, Maldives, and local agents in Austria, Bulgaria, Colombia, Italy, Netherlands, USA and Canada, however it is not known exactly in which markets the product is sold. Two types of products compete with *OleoTest*®, disposable tests used only for one application like *OleoTest*®, and electronic devices. The *OleoTest*® differentiates itself from the disposable test by using a different parameter; the total Polar Compounds (TPC) with is more complete and also the required parameter by the Portuguese law for accessing oil quality. The electronic devices require a high initial investment, maintenance, repair or calibrations contrary to *OleoTest*®.

With the desire to improve *OleoTest*® exports, the entrepreneur defined China as a target market, based on her own beliefs and following the trend of Portuguese companies that assume this as a preferential market due to its large dimension, increasing PIB growth, and increasing disposable income. Neither the firm nor the entrepreneur have previous contact with the market nor have made any objective analysis to select this specific market. The internationalization strategy to China first step consisted in a visit to an international food and hospitality trade show in Shanghai, which had as objective to be the first contact with the market and establish relations with potential clients and distributors. At the same time the company's strategy consisted in the identification and contact of SHFDA (Shanghai Food and Drug Administration) the authority responsible for the food safety inspections in Shanghai, in order to establish a partnership, with the main goal of obtaining an official guideline recommending the use of the *OleoTest*®. This strategy derives from the principal entry barrier mention by the entrepreneur, the lack of competition, which results in a market where there is no knowledge about the product, being so fundamental to create the necessity, and influence the creation of regulation related to the control of used edible frying oils. The company was able to meet with the SHFDA officials in Shanghai. However given the difficult in maintaining the conversation between the parties after the meeting, the company decided to hire a translator, being now the communication held in mandarin, which has speed up the process. To successfully enter the market the company defined a set of objectives, related essentially with the information acquisition, namely, framing the market in terms of economic growth, understand the legal framework relatively to the control of the edible used frying oil, framing the product in terms of categories and respective customs fees, make a cost analysis from the importer point of view, analyze the competing products and search for potential product distributors. Given the complete absence of experience in the market and any kind of relation, the acquisition of information was manly gathered through the use of the internet, and direct contact with internationalization promotion agencies and public institutions.

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To accomplish the mentioned objectives, the country principal macroeconomic data was collected and analysed to frame the market in terms of economic growth. Given the wide number of sources of economic data, such as World Bank or OCDE, that compile and process national data, this task did not represent any special difficulty. The acquisition of more specific information related to the food safety sector, in order to understand the country concerns and the existence of legislation was made using the internet website of Chinese national institutions. This represented a bigger challenge since the information is disperses and in many cases is not available in English. Customs procedures and regulations were also analyzed, starting with the *OleoTest*® identification in terms of categories and customs tariffs. Although there is information available through electronic documents, webinars, or even the possibility of direct enquiry with specialists (professional advice) made to help SME's doing business in China, the information is in most cases generalist, needing validation for each case. It is thus important to have access to practical knowledge that is mandatory at many levels to enter the Chinese market, due to the lack of detail of the information available. In this sense, and since the company's lack of any type of partnership or network relationships that could assist in the process, several entities were contacted, for instance, the Portuguese Trade & Investment Agency (AICEP), the EUSME Centre, Chinese public organisms, commercial chambers, freight forwarder and carriers. These sources were used to understand if the product is allowed to be exported to China, to classify the product in terms of customs tariff, perform the cost analysis to export the product, what standards it has to comply with, how it can be imported and what the packaging and labelling requirements are. Other important subject to take into account before start exporting to China, is the the trademark registration process. This was developed with the help of China IPR SME Helpdesk that provided expert advice via email for free, supplying all the information required to perform the trademark registration in China. The analysis of the competing products represent several barriers for the firm, since it was not possible to determine with accuracy which competitor products are present in the market and their prices. A source of information found in this case was the e-commerce site (Alibaba.com).The final objective consisted in finding a distributor for the product in the market, as well as contact potential clients. After several months sending emails to contacts obtained through the Portuguese Trade & Investment Agency (AICEP), the company did not have any results. This noted that information flows are needed in both directions, in this case neither the market was known by the company, nor the other way around.

DISCUSSION

The SME's that aim to internationalize have to overcome many obstacles, making the internationalization process a hard and risky decision for many companies. Exports are one of the

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preferential modes of entry for a big number of SME's, thus understanding the barriers to exports is crucial for the success of SME's internationalization process. Still in the early stage of the internationalization process of *OleoTest*® to China, various barriers can already be identified. Following Leonidou (2004) classification, the main internal barriers experienced were the information barriers, namely the limited information to locate and analyse foreign markets and the inability to contact overseas customers. We can also refer the existence of functional barriers in more detail, the limited managerial time to deal with exports and the inadequate/untrained export personnel. Described as marketing barriers - concerning the distribution, we can mention the difficulties in obtaining reliable foreign representation. In terms of external barriers, classified as procedural barriers, the unfamiliarity with exporting procedures/documentation and difficulties in communicating with foreign customers. Still considering the external barriers, the environmental barriers can be mentioned - classified as sociocultural barriers, were identified the unfamiliarity with foreign business practices, the different sociocultural traits and the verbal/nonverbal language differences. Common to the mentioned barriers is the fact that they are all associated with the lack of information/knowledge and are dependent of acquisition and the capacity to absorb knowledge. Although it is possible to overcome the exports barriers without information there is no internationalization. These barriers can be explained in part by the entrepreneur's decision to choose a geographic and psychic distant market to internationalize from which she does not have any experience, knowledge or contact. Although the firm intends to follow a low commitment entry mode, the decision is not supported by the Uppsala theory neither by the Network approach. This means the decision is based on the entrepreneur's own characteristics and perceptions. There is also "following the herd" behaviour. The selection of China can be explain by the imitation of a practice followed by a large number of organizations, which give credibility and support to the decision that should instead be based on experience and knowledge acquisition and absorption.

A possible way to acquire information would be through the network relationships, however the company as an Early Starter is not present in any relevant network, lacking the relationships with firms abroad, and suffering from liability of smallness, newness and outsidership. In this particular case the network relationships could be a source of useful knowledge to enter the market, namely by helping to find an agent or distributor in the market. In some way the company can also be categorized as a Late Starter, since some suppliers, customers and competitors are internationalized and even the company itself already exports for a considerable number of countries. However, the company did not learn with the previous international experiences and there is no transference of knowledge between the existing relationships. The company suffers thus from the disadvantages of both concepts. This could be explained by the fragile commitment made in these previous markets,

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due to a number of reasons. The benefit of the single European market, with a large number of countries sharing the same regulations and the use of distributors in the destiny markets that deal with all the market related subjects which does not allow any transference of knowledge. Although the entrepreneur's ambition for new international markets, the company strategy is focused on the domestic market, meaning that the internationalization process is in second place, emphasized by the entrepreneur lack of time to deal with internationalization matters. It would also be important for the company to improve the capacity to absorb the internationalization knowledge. After the acquisition it is fundamental to transform and exploit the information in beneficial knowledge for the internationalization. This requires the creation of routines and procedures that allow the sharing of information within the company and its correct interpretation and use.

CONCLUSION

Exports are the most common method of SME's internalization, so it is crucial to understand the obstacles that prevent the successful pursuing of an internationalization strategy. With this premise and based in a Portuguese SME's case study, this paper aims to understand what the principal barriers are and what is the role played by information and knowledge.

In the course of the case study it was possible to identify aspects of all the mentioned theories (Uppsala Model, Network Theory and International Entrepreneur Theory) and export barriers literature, that allowed a deeper understanding of the obstacles faced during the internationalization process. Although none of these theories are deterministic, in order to mitigate the encountered barriers the company could benefit from the adaption to the specific case. It was also possible to realize that all liabilities and barriers are intimately related to knowledge. In this sense, companies can reduce the barriers to exports and be more capable to overcome them if they give the due importance to the knowledge acquisition and absorption.

In this case, contrary to what is referred on the Uppsala model and by the Network theory, the company clearly defined the destination market and the entry mode previously to any kind of analysis or concrete contact with the market, empowering the crucial role of the entrepreneur in the decision making process at SME's. The deviation from what is predicted by the theories results in an increase in the barriers felt to enter the market. It is known that the knowledge and information, mention in all the internationalization theories, are key concepts in the companies' internationalization process, during this study it was clear that all the barriers were somehow related with the lack of knowledge and information. This means that the importance of the knowledge and information is in part related with the role performed in minimizing the internationalization barriers and also by being the main tool to overcome them. There is thus a relation between the barriers felt

 ISBN: 978-9963-711-37-6

and the lack of information and knowledge felt that can be explained by the fact that the company did not follow the assumptions of the Uppsala model or the Network approach.

This study reinforces the importance of obtaining prior knowledge and warns to the risks of only following a market trend. In fact, given the small size of the firm, obtaining information can be prohibitively expensive and a time consuming process, which often leads to decisions based on the decisions of other undertakings. In this way this work can be useful for entrepreneurs, in the sense that it highlights the idea that not every information is worthy, that there is information that is appropriate for certain sectors, and inadequate for others. Furthermore as the trend evolves, it will be a certain time lag that will outdate the information. This work is therefore in line with the traditional models and the network theory, reinforcing the importance of knowledge in the decision-making in the internationalization process.

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 ISBN: 978-9963-711-37-6

CREATING TARGETED FISCAL SOURCES OF ROAD CONSTRUCTION IN RUSSIA

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ABSTRACT

The purpose of the paper is finding a more effective mechanism of accumulating and distributing funds for road construction even more timely and relevant. The paper analyses regional imbalances in the level of car ownership and the development of roads. It is established that the imbalance in road development is more profound than economic imbalances. The authors consider reasons for the slow pace of road network expansion in Russia and look at trends in transport tax revenues and road construction expenditures. It is concluded that there is a number of objective reasons that require far higher spending on road construction in this country in comparison to developed economies. Types of vehicle taxes and fees are studied. It is found that only some of the charges build a link between the amount paid and the intensity of road use by the taxpayer. The hypothesis of the study is to establish that the relationship between transport tax rate and the characteristics of the road network in a region is absence. Sources of government funding for road funds are explored. The research also examines the connection between transport tax rates in various regions, the density of road networks and car ownership levels there. It is established that there is a linear relationship between the tax rates and a low level of car ownership in some regions. The research shows that the fiscal and regulatory role of transport tax should be enhanced in regions with medium, high and very levels of private car ownership.

Keywords: *road network, quality, government revenue, road network funding, transport tax, road maintenance funds.*

INTRODUCTION

The issue of road development is of high importance to any country. It is a particularly burning one in Russia, the largest country in the world. Over the past 20 years, Russia has had to deal with an explosive growth in the number of privately owned cars and an increasingly heavy load on roads. According to government data, the poor quality of roads leads to a loss of around 3 per cent of GDP annually. Substandard roads are the primary reasons for this as poor road surface quality pushes fuel consumption up by 30 per cent and increases the cost of road transport by 50 per cent compared to

 ISBN: 978-9963-711-37-6

those in European countries. This conclusion echoes the Global Competitiveness Report 2013-2014 by the World Economic Forum that placed Russia 136th (out of 144) in the world for the quality of roads (international experts scored road quality in Russia at 2.3 out of 7). (Schwab and Xavier, 2012)

Long distances and underdeveloped roads increase the cost of domestically produced goods and make them less competitive. On average, transportation costs make up 15 to 20 per cent of the ultimate cost of production in Russia, compared with 7 to 8 per cent in developed countries. Poor road quality increases car crash, road fatality and injury rates. Road accidents result in 23.5 deaths per 100,000 population, whereas in European countries the rate is 2.5 times lower and is about 9 to 10 deaths per 100,000 population. The incidence of road accidents has been growing by an average of 10 per cent a year. Traffic accidents negatively affect the country's economic development; experts assess annual losses from traffic accidents at 8 per cent of GDP. (Newbery *at al.,* 1999, Botlikova *et al.*, 2013)

It is quite clear that forced improvement in the quality of the national road network is needed to make the Russian economy more competitive. This strategic task requires a larger amount of investment than earmarked in the federal budget. Funding for investment has to be built up for a long-term period rather than as a lump sum. Against the background of an economic crisis and low natural gas and oil prices that Russia largely depends on for revenue, the government is short of resources for road construction.

The purpose of the paper is finding a more effective mechanism of accumulating and distributing funds for road construction even more timely and relevant. It is equally important to find new fiscal sources of revenue for road funds that would in the long-term perspective shift the financial burden of road development to car owners. The hypothesis of the study is to establish that the relationship between transport tax rate and the characteristics of the road network in the region is absence.

ANALYSIS OF ROAD NETWORK DEVELOPMENT AND STRUCTURE IN THE RUSSIAN FEDERATION

The number of cars in Russia has been growing explosively, with the national car fleet increasing more that twofold during the past 14 years (Tab. 1). At same time, the expansion of the road network is still lagging behind. It is worth noting that although the total length of the road network increased 1.7. times, the length of paved roads increased only 1.4 times. The most alarming fact is that the construction of new paved roads has been going down, with an almost threefold drop since 2000. (Bugakova *et al.*, 2014)

1. The majority of roads are local ones and are owned by local governments. These are urban streets as well as roads connecting areas of a municipality. Local roads make up 43.2 per cent of all paved roads. Local governments are in charge of their maintenance and expansion.

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Indicator	**2000**	**2005**	**2010**	**2011**	**2012**	**2013**	**Change 2013/ 2000**
Total length of the road network, thousand km	898	858	1004	1094	1439	1557	173 %
Paved roadways, thousand km.	752	724	786	841	1038	1094	145 %
Public roads	532	531	665	728	925	985	246 %
including:							
federal motorways	46	47	50	51	51	51	111 %
regional or intercity motorways	486	484	450	452	461	461	95 %
local roadways	…	…	164	225	413	473	
Paved road density, km per 1,000 sq. km of territory	44,1	42,4	46,0	49,2	60,7	64,0	145 %
Number of cars per 1,000 population.	130,5	169	228,3	242	257,5	273,1	209 %
Length of new roads brought to completion, thousand km	6,6	2,0	2,2	1,9	2,0	2,5	38 %

Table 1. *Dynamics of car fleet and road network development in Russia*

2. Regional roads belong to regional governments. They connect municipalities within the regions of Russia. Such roads make up 42.1 per cent of the entire road network in the country. Regional authorities are in charge of road maintenance expansion.

3. Private roads are the ones owned by an organization. They provide access to various facilities (mining, production, logistic ones) and connect them to public roads. Private roads make up 10 per cent of all paved roadways in Russia. They are maintained by appropriate companies or organizations.

4. Federal motorways are owned by the federal government. They form links between the regions of Russia and connect them to the national capital and other countries. Such roads account for only 4.7 per cent of Russia's paved roads. The maintenance and expansion of such roads is a duty of the federal government.

Federal motorways constitute the framework of the national road network as they provide international and interregional links. The quality of federal motorways has always been higher than of other types of roads (regional, local ones), but is still very poor. Twenty-five per cent of federal motorways are overloaded; 4 per cent have reached their traffic capacity limit; 56 per cent of federal motorways have pavement strength issues and 37 per cent do not meet roughness standards. Only 8 per cent of federal motorways have four and more lanes. Eight per cent of federal roads are still surfaced with gravel. As a result, 60 per cent of federal motorways are substandard. In areas of the north, Siberia and the Far East a backbone road network connecting all regions of Russia is yet to be built.

When it comes to local and regional roadways, the situation is even more dismal. Some 46,000 settlements with a combined population of around 2.7m have no paved road connection to the national road network.

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ANALYSIS OF ROAD NETWORK DEVELOPMENT IN THE REGIONS OF THE RUSSIAN FEDERATION

Russia consists of 85 regions. Analysis of indicators of road network development shows highly uneven distribution of all types of roads in the Russian regions (Tab. 2).

№	Region of Russia	Road density, km per 1,000 sq. km	GRP per capita, thousand RUB.	Cars per 1,000 population	Road length, km	Length of new roads constructed, km	Transport tax rate for cars with engine capacity between 100 and 150 h.p., RUB.
1	Moscow Region	698	349	330,6	30905	28,2	29
2	Belgorod Region	639	355	288,4	17305	83,2	25
3	Ingushetia	629	85	130	2264	43,4	7
4	Udmurtia	238	245	250,5	10003	42,4	20
5	Maritime Territory	89	285	369,6	14657	0,8	20
6	Astrakhan Region	84	208	238,7	411	0,4	27
7	Tomsk Region	23	353	249,9	7105	30,8	6,5
8	Sakhalin Region	21	1298	319,3	1832	60,1	35
9	Komi Republic	15	543	268,1	6260	99,3	20
10	Kamchatka Territory	4	396	484,8	1874	1,2	10
Maximum variability of indicators across regions, times		175	26,0	3,7	75	248	5,4

Table 2. *Indicators of road network development and car use in some of Russia's regions in 2013*

The table presents the data for 10 regions of Russia exhibiting the most extreme variations in road network development. It should be noted that the regions vary considerably in terms of their social and economic development. For example, the GRP (gross regional product) per capita in the wealthiest region is 26 times bigger than in the poorest one. There is an even greater variation in terms of the road network. The difference in the levels of vehicle ownership is always less than fourfold (it is the most variable indicator), whereas the density of road networks in a region might be 175 times higher than in the other. The difference in the pace of road network expansion is bigger still. More specifically, the indicators of new road construction and completion might vary 248-fold in different regions. There is a range of reasons for such variability, including the historically conditioned level of development of the regions and, therefore, different road density values in each of them. One of the

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primary reasons, though, is the lack of necessary investment in road development at each level of government: the federal, regional and municipal ones.

ANALYSIS OF SOURCES OF FUNDING FOR ROAD NETWORK

A peculiar feature of public expenditure on road infrastructure over the past 15 years has been the fact that its dynamics are reflective of the country's economic development and are even slightly forward-looking. Growth in spending on the road network is in direct correlation with GDP and state revenue growth (Tab. 3).

Indicator, billion RUB.	**2000**	**2005**	**2010**	**2011**	**2012**	**2013**
Gross domestic product	7306	21620	46309	55800	62599	66755
1. Combined revenues of the Russian federal budget, including:	***2097,7***	***8579,6***	***16031,9***	***20855,4***	***23435,1***	***24442,7***
Fuel taxes	n/a	125,5	169,8	283,5	365,8	418,2
Car excise tax	n/a	5,1	15,1	26,1	33	33,3
Transport tax	n/a	26,0	75,6	83,2	90,2	106,1
Recycling fee	n/a	0	0	0	18,7	49,5
Total for transport-related taxes	n/a	156,6	260,5	392,8	507,7	607,1
Share of transport-related taxes in combined budget revenues, %	n/a	*1,83*	*1,62*	*1,88*	*2,17*	*2,48*
2. Total government spending	***1960,1***	***6820,6***	***17616,7***	***19994,6***	***23174,7***	***25290,9***
Spending on road infrastructure, including:	40,3	250,5	645	714,2	990,5	1172,3
spending by federal government	1,9	42,1	281,1	349,5	442,4	504,5
spending by regional governments	38,4	208,3	363,9	424,5	646,3	731,2
Share of spending on road infrastructure in total government expenditure, %	*1,92*	*2,92*	*4,02*	*3,42*	*4,23*	*4,80*
Share of spending on road infrastructure in GDP, %	*0,55*	*1,16*	*1,39*	*1,28*	*1,58*	*1,76*

Table 3. *Dynamics of revenues from transport taxes and spending on road infrastructure*

At first glance, Russia seems to have been spending enough on its road network. For example, the share of spending on road construction in Russia's GDP compares favourably with that in developed economies. (Doll, 2008, Hysing, *at al*., 2015) Moreover, in the crisis period of 2009-10, the expenditure growth did not slow down. But the higher share of spending on the road network over the past five years is in general unsatisfactory. The increase in the spending to 1.8 per cent of GDP is insufficient because, unlike the well-established quality road networks in developed countries, Russia's road infrastructure is fraught with imbalances.

First, vast territories in the north, Siberia and the Far East are void of any road construction projects and practically lack a federal road network that would provide uninterrupted connection between all regions. There is also a drastic shortage of paved regional and local roads that would be passable all year round.

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Second, maintenance costs are higher because of higher wear and tear to the surface to overloaded roads. The costs are also high because of the damaging impact of extreme temperatures ranging from 40°C to -40°C to the road surface.

Third, the quality of the existing roads and infrastructure is very poor and does not meet international standards.

Fourth, there is a lack of private investment in toll roads as business is not interested in making capital investment in road development because of a long payback period and a low return. (Pinskaya, 2015)

All these are factors that necessitate further growth in public spending on road infrastructure. One of the ways to ensure the growth is by enhancing the fiscal value of transport taxes in Russia.

EXISTING TRANSPORT TAXES AND CHARGES IN RUSSIA

The following levies and charges make the framework of transport-related taxes in Russia (Tab. 4):

№	Levy	Connection between amount paid and intensify of road use by car owner
1	Car sales taxes and fees	no
2	Fuel tax	yes
3	Motor oil excise tax	yes
4	Transport tax	no
5	Pollution charges	no
6	Parking fees	no
7	Recycling fee	no
8	Heavy vehicle use tax (gross weights equal or exceeding 12 tonnes)	yes
9	Mandatory and voluntary insurance	no

Table 4. *Types of transport taxes and charges in Russia*

Car sales taxes are paid by the manufacturer (or the importer) on the sale of cars and motorcycles. The selling of lorries and buses is exempt from excise taxes. The tax rate is progressive.

Fuel taxes are paid by the producer and are included in the price. Tax rates vary for Class 4 and Class 5 fuels. Excise taxes on fuel are designed to establish a link between the mileage of the car and its owner's financial contribution to road funding in the area of fuel purchase. (Duncan and Graham, 2013). This connection works in the following way: fuel tax revenues are accumulated in the federal treasury and distributed among regions for purposes of road construction. The funds are allocated in proportion to fuel consumption in each region. This arrangement implies a strong connection between fuel consumption in the region and traffic load on the road network there. The advantage of the tax is

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that it strongly correlates with traffic load on the road network. Excise taxes on motor oils are paid by the manufacturer or the importer and are included in the price.

Transport tax is essentially an ownership tax. The transport tax rate is based on engine horsepower. Tax rates vary for cars, lorries, buses, motorcycles etc. and are highly progressive.

Pollution charges are only payable by legal entities. The charge is applicable to various types of environmental impact: aerial pollution, discharge of pollutants into water bodies, soil pollution, dumping of industrial and consumer waste, noise and thermal pollution. The amount of the charge is calculated by the payer.

Parking fees are paid by car owners for being able to park their vehicle in a designated place (usually in downtown areas) during a specific period of time.

In Russia, the recycling fee is imposed on all vehicles and is paid before their registration with the traffic police. The fee guarantees that the owner won't have to pay for scrapping his car upon the end of its service life. The fee is paid by car manufacturers or importers.

The heavy vehicle use tax a fee levied on heavy lorries operating on public motorways at registered gross weights exceeding 12 tonnes. It is designed as compensation for damage that heavy vehicles cause to roads. The tax will be determined according to the length of the stated route that will be tracked by means of GPS navigation. (Lindsey,2010)

The analysis shows that of the nine types of fees imposed on car owners in Russia only three appear to establish a direct connection between the amount paid and intensity of road use by the car owner.

The main difference between the system of transport taxes in Russia from that in developed countries is that car owners do not appear willing to increase their financial contribution to road network funding. The opportunistic attitudes among the majority of taxpayers are due to their conviction that their payments dissolve in combined budgets and are not specifically spent on the development of the road network. (Lee and Han, 2009; Shaoul *et al.*, 2006) Funding for roads in a majority of countries is intrinsically linked to a system of taxes on road users through so-called road pricing. It defines the key principle of road user charges that are designed to encourage the reduction of users' environmental impact, the preservation of transport links and higher efficiency of the road network, including by means of international shipping regulations. Experience has shown that vehicle levies and road charges prove most effective when the payment for road use is made in the closest proximity to the point of consumption and the size of the charge is set at a level that is close to marginal costs of road maintenance.

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SOURCE OF FINANCING OF ROAD FUNDS

Russia used to have road maintenace funds between 1991 and 2000. They were the exclusive source of funding for road infrastructure. At that time, road funds were off-budget entities with dedicated tax revenues and strictly targeted spending goals. Road funds were disbanded in 2000 and road infrastructure started to receive public funding from all levels of government. Since their revival in 2012, road funds have been in charge of designing, building, renovating, repairing and maintaining the road network. At the same time, the Federal Road Fund was established and the regions and municipalities were given the right to set up their own regional municipal road funds. The difference is that today road funds are part of government budgets and their source of revenue is a share of combined revenues of appropriate government budgets.

Federal law establishes the following dedicated sources of sizable revenue inflows to the Federal Road Fund:

1) Excise taxes on petrol, straight-run petrol, diesel fuel, motor oils payable to the federal budget;

2) Income derived from the use of property that is part of federal public roads;

3) Income derived from the lease of land within federal public road reserves;

4) Transit fees on foreign vehicles;

5) Heavy vehicle use tax (applicable to vehicles with a gross weight equal or exceeding 12 tonnes);

6) Fee for connecting motorway service areas to federal public roads;

7) Fines for violating freight dimensions and weight limits;

8) Subsidies from the government budgets of the Russian Federation;

9) Donations from individuals and businesses.

The following priority sources of revenue are dedicated to regional road funds:

- Income from excise duties on petrol, straight-run petrol, diesel fuel, motor oils payable to the budget of the Russian region;
- Income from transport tax;
- Other revenues defined by the local law establishing a regional road fund.

TRANSPORT TAX AS A PROMISING SOURCE OF REVENUE FOR REGIONAL ROAD FUNDS

Transport tax is a promising source of revenue for regional road maintenance funds. The Russian model of transport tax has the following specific features.

First of all, a wide range of means of transport is taxable. There is a specific tax base for each kind of transport. At the same time, the overwhelming part of taxable means of transport – almost 99 percent -

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are motor vehicles. Boats and aircraft (including jet-propelled ones) make up slightly over 1 percent of all taxable means of transport. Consequently, taxation is primarily based on engine capacity.

Second, tax rates are set in roubles per one horsepower of engine capacity. The tax is progressive, with the most notably higher rate progression for automobiles. For example, the tax rate for cars with an engine capacity exceeding 250 h. p. is six times higher than for cars with an engine capacity up to 100 h. p, while for trucks the rate is only three times higher. Such an approach to rate differentiation takes no account of vehicles' environmental class and does not allow for compensation of negative externalities incurred by the territorial community.

Third, transport tax in Russia is a property tax, i.e., it is related to the ownership of the vehicle). Owning a luxury car is subject to a tax markup that could hike the tax rate by up to three times.

Fourth, transport tax is a regional tax. It is not a target tax and is fully payable to the region.

STUDY OF CORRELATION BETWEEN TRANSPORT TAX RATE AND CAR OWNERSHIP LEVEL IN A REGION

The regions of Russia can introduce differentiated tax rates for each category of transportation means (the standard tax rate can be increased or decreased, but not more than tenfold). This right is granted to them by the federal government. It would be interesting to establish whether there is a correlation between the transport tax rate and the level of car ownership in the region. In theory, the correlation should exist because higher tax rates would restrict the demand for private cars in regions with a high level of car ownership. Similarly, lower transport tax rates would encourage people to have a car in regions with a low level of car ownership. The tax rate should also be higher in regions with a more developed road network.

To establish the dependence, we analyzed all 85 regions of the Russian Federation to see if there is a correlation among transport tax rates, road density and car ownership levels in the regions. Our conclusion is that there is no correlation between the tax rate and the density of the road network in a region.

A more thorough look at the levels of car ownership in the regions allows for a conclusion to be drawn that there is a certain non-linear relationship amongst these parameters. The graph below characterizes the dependence of the tax rate on the level of car ownership in the region, while the approximation equal to 0.16 implies week correlation of these parameters (Fig. 1).

 ISBN: 978-9963-711-37-6

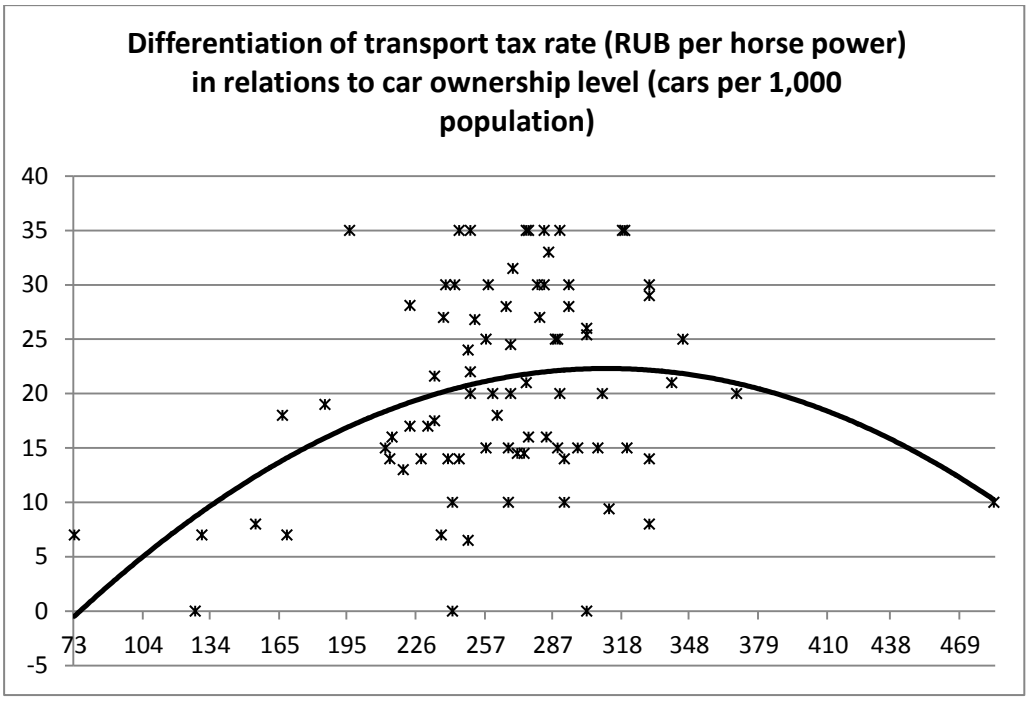

Figure 1. *Dependence of transport tax rates (vertical axis) on car ownership levels (horizontal axis) in the regions of Russia in 2013*

The graph shows a parabolic relationship between the two parameters. Let us examine some parts of the relationship. To do that, we shall cluster the regions into four big groups: (1) those with low levels of car ownership (up to 200 cars per 1,000 population); (2) those with a medium level of car ownership (200 to 250 cars per 1,000 population); (3) those with a high level of car ownership (between 250 and 300 cars) and (4) those with a very high level of car ownership (over 300 cars per 1,000 people) that leads to strong car dependency. What is really interesting is that the regions with medium, high and extremely high levels of car ownership do not take advantage of the regulatory function of transport tax and are not inclined to increase the tax rate. The story is completely different in regions with low levels of car ownership. There one can identify a linear correlation between the tax rate and the level of car ownership.

Car ownership in the region (cars per 1,000 population)	Pearson correlation coefficient	Critical value of Pearson coefficient for a certain number of degrees of freedom (p=0,1 two-tailed)	Number of regions	Correlations
Less than 200	0,6784	0,6215	8	yes
From 200 to 250	0,0878	0,3687	21	no
From 250 to 300	- 0,0125	0,2746	37	no
Over 300	- 0,1772	0,4124	17	no

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Table 5. *Study of linear correlation between transport tax rate and level of car ownership in a region*

Consequently, the regions with medium, high and extremely high levels of car ownership have significant reserves for increasing the fiscal value of the transport tax. The tax should be made purpose-specific so that it would be a source of dedicated revenue for regional local road maintenance funds. The tax rate should depend on the level of development of the road network in the region and car ownership rates there.

CONCLUSION

The poor quality of roads in Russia negatively impacts population mobility, drives up the cost of production, car crash, road traffic death and injury rates. This leads to considerable economic losses that might amount to 10 per cent of GDP. At the same time, spending on road infrastructure increases annually, but never exceeds 2 per cent of GDP. Investing more in the development of the road network might yield considerable economic benefits for the budget in the future.

The establishment of federal, regional and local road funds should be viewed as a positive factor for the development of the road network in Russia. The funds will accumulate targeted financial resources from appropriate government budgets and expand federal, regional and local roads. It is also advisable to dedicate revenues from relevant transport levies to specific road funds.

It is necessary to increase the financial contribution of car owners to road funding. More specifically, it is necessary to enhance the fiscal and regulatory capacity of transport tax. The tax rates should be hiked up in the regions with a developed road network and a high level of car ownership.

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ISBN: 978-9963-711-37-6

BRAND BUILDING STRATEGIES AND BRAND CONSISTENT BEHAVIOR OF EMPLOYEES

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ABSTRACT

Employee brand consistent behavior spurs from an inside-out process that starting from organizational context lead to brand outcomes throughout the impact of managerial strategies on employees' attitude, intensions and behavior.

A theoretical study, 32 interviews with internal communication managers of Italian and American leading companies, and a case study on a retail company, showed that during the inside-out process of brand building, human resource management, managerial communication, internal communication, and communication climate are interrelated leverages that need to be integrated in an effort of creating a favorable context facilitating genuine, discretionary and extra-role employee brand consistent behavior.

Furthermore, the study revealed that the most spread internal communication strategies aimed to sustain such employee brand builder role are *enablement-focused*. Managerial strategies should mostly be devoted to earn loyal behavior of employees rather than to prescribe desirable employee behavior.

Future research is required to develop and test constructs and measures suitable for the current organizational contexts with an increasing diverse workforce, capturing the voice of employees. Major managerial implications show that companies should engage employees as brand ambassadors not by means of in-role behavior prescriptions and control techniques but rather by means of enablement strategies based on the creation of an organizational context leading to genuine, authentic, voluntary, extra-role brand consistent behavior.

Keywords: *brand, brand ambassador, brand building behavior, brand building strategies, enablement strategies, extra-role behavior, employee communication, organizational strategies*

 ISBN: 978-9963-711-37-6

1. INTRODUCTION

Brand experience (Pine, Gilmore, 1999; Schmitt, 1999; Keller, 2003; Kapferer, 2012) and consumer brand engagement (Aaker, 1991; Bowden, 2009; Schultz, Block, 2011; Smaoui, Behi, 2011) are growing relevant issues in marketing studies. Among the customer experience providers (Schmitt, 1999) the employee-stakeholders interaction plays a major role (Henkel et al., 2007; Sirianni et al., 2013). The traditional borders between internal and external relations (Hatch, Schultz, 1997) are increasingly blurred due to phenomena like networking, outsourcing and internationalization of business processes that intensify interactions between organizational members and outsiders, namely stakeholders and, in particular, customers. Furthermore, the pervasive usage of social networks sites increasingly exposes employees to interactions with stakeholders, often without any control from the organization (Cornelissen, 2014; Dreher, 2014; Einwiller, Steilen, 2014; Rokka et al., 2014).

The awareness about the relevance of employee behavior for brand outcomes is strong, but the issue of managerial strategies for promoting employee behavior sustaining the brand is still unanswered (Vallester, de Chernatony, 2006; Henkel et al., 2007; Kim, 2011; Parrk et al., 2014).

This paper tries to contribute to fill this gap presenting the main findings of a long-term research project regarding company's strategies to nourish brand consistent behavior of employees, meant as conscious communication efforts purposefully performed by employees to sustain the company success in its various forms. The paper elaborates on three original studies to offer theoretical, research and managerial suggestions emerging on the overall.

First, the paper presents a holistic model of brand building process based on employee brand consistent behavior (Mazzei, Ravazzani, 2015). Second, it discusses findings from an interview-based study on 32 Italian and American companies aimed to understand what kind of strategies communication managers are adopting in order to sustain employee brand consistent behavior (Mazzei, 2014). Third, the paper describes a case study of a retail company to investigate a specific brand consistent behavior of employee: the brand ambassadorship efforts (Mazzei, Quaratino, 2014). Finally, it concludes with theoretical, research and managerial implications.

2. BRAND CONSISTENT BEHAVIOUR OF EMPLOYEE: A HOLISTIC MODEL

Employee brand consistent behavior includes an array of verbal and non-verbal employee behaviors, prescribed or discretionary, that during the interaction with customers are able to generate valuable outcomes in terms of customer and brand experience and have been included in the expression of behavioral branding (Mazzei, Ravazzani, 2015). Employee behaviors conveying brand values have

ISBN: 978-9963-711-37-6

been defined in many ways: brand citizenship behaviors (Burman, Zeplin, 2005), brand supporting behaviors or brand-adequate behavior (Vallaster, de Chernatony, 2006), brand consistent behaviors (Henkel et al., 2007), behavioral branding (Punjaisri et al., 2009), and brand-aligned employee behavior (Sirianni et al., 2013).

Employee brand consistent behavior confirms the brand promise (Punjaisri et al., 2009) and positions a brand in customers' mind (Henkel et al., 2007). Employees familiar with the brand values are able to "live the brand" (Bendapudi, Bendapudi, 2005) and become brand ambassadors (Vallaster, de Chernatony, 2006) or brand builders (de Chernatony, 1999).

During their interactions with customers, employees affect several brand outcomes as corporate and product branding (Henkel et al., 2007; Gremler, Gwinner, 2008; Punjaisri et al., 2009), the overall brand evaluation and the customer-based brand equity (de Chernatony, 1999; Henkel et al., 2007; Sirianni et al., 2013).

A holistic model of behavioral branding (Mazzei, Ravazzani, 2015) suggest that several contextual conditions affect the employee behavior capable of generating or limiting brand competitive outcomes and that there are several intermediate steps in the path leading from contextual conditions to brand competitive outcomes (Mazzei, Ravazzani, 2015): the cognitive and emotional states of employees, their attitudes, behavioral intentions, and brand consistent behaviors.

a) Contextual conditions encompass variables that can be intentionally and strategically planned, managed and evaluated by a company: management techniques and human resource management practices (Punjaisri et al., 2009); communication climate and internal communication (Smidts et al., 2001; Thomas et al., 2009; Jo, Shim, 2005; O' Neil, 2008; Sharma, Kamalanabhan, 2012); managerial communication style (Dasgupta et al., 2013, 2014; Botero, van Dyne, 2009; Maddolock, Kennedy-Lightsey, 2010).

b) Employee cognitive-emotional states include employee satisfaction (Brown, Lam, 2008; Wangenheim et al., 2007), occurring when employees perceive that their expectations are fulfilled by the company; employee brand identification (Punjaisri et al., 2009; Madlock and Kenney-Lightsey, 2010), conceived as employee sense of belonging to the brand and pride to be its builders and ambassadors; employee brand commitment, that is the extent of employee emotional attachment to the brand (Punjaisri et al., 2009; Ki, Hon, 2012); employee brand loyalty (Punjaisri et al., 2009), that indicates the willingness to maintain a personal relation with the brand and contribute to its success. Employee cognitions and emotional states mediate the effects of contextual conditions on attitudes and behavioral intentions.

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c) Employee brand attitudes towards the brand represent an evaluation (Ki, Hon, 2012) of the brand and indicate the degree to which employees have a favorable or negative opinion, like or dislike the brand. Employee brand attitudes affect brand behavioral intentions, according to the theory of planned behavior (Fishbein, Ajzen, 1975).

d) Employee brand behavioral intentions are distinct from real behaviors and include the predisposition of employees to perform brand consistent behaviors. The degree to which an employee has a favorable or unfavorable evaluation or appraisal of the brand affects his or her behavioral intentions, which are the immediate determinant and most reliable predictors of behaviors (Ki, Hon, 2012).

e) Employee brand consistent behaviors include the ability to identify customer needs and help customers (Gremler, Gwinner, 2008); perform supportive communication behavior as recommend the brand in both work and extra-work situations, defend it from criticism, avoid to criticise it, report to managers information and personal or customers' opinions for the development of the brand (van Vuuren et al., 2007; Burman, Zeplin, 2005; Kim, Rhee, 2011); convey brand values coherent with the brand positioning through verbal and non-verbal communication (Burman and Zeplin, 2005; Henkel et al., 2007), and show inner feelings (Sirianni et al., 2013). Effective brand consistent behavior requires a genuine (or deep) acting consistent with inner actual feelings (Sirianni et al., 2013).

f) Brand-related outcomes of employee-customer interactions include customer satisfaction and brand loyalty (Wangenheim *et al*., 2007; Brown, Lam, 2008), positive word-of-mouth, and brand equity (Yee *et al*., 2008; Chi, Gursoy, 2009).

The holistic model of behavioral branding (Mazzei, Ravazzani, 2015) acknowledges the complex, co-constructive and flexible nature of the process and calls for adopting research and managerial approaches that do not deny or oversimplify this complexity. It further underlines the need to engage employees as brand ambassadors not by means of in-role behavioral prescriptions and control techniques, but more indirectly and genuinely through the management and enhancement of distal and proximal variables (Parker et al., 2006) that sustain proactive and discretionary brand consistent employee behavior. In particular, it would be relevant to adopt non-normative practice (Vallaster, de Chernatony, 2006) that facilitates co-construction processes (Wallpach, Woodside, 2009), and to compare the efficacy and peculiarities of this approach with a normative approach based on in-role prescriptions and control techniques.

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3. MANAGERIAL STRATEGIES TO ENHANCE EMPLOYEE BRAND CONSISTENT BEHAVIOR: FINDINGS FROM AN INTERNATIONAL STUDY

The holistic model of behavioral branding and the huge literature at its foundation (Mazzei, Ravazzani, 2015) show that a wide range of managerial strategies affect employee brand consistent behavior. Then, a further study tried to understand the kind of communication strategies sustaining the brand consistent behavior of employees adopted by companies.

The study was based on interviews with 32 Italian and American companies carried out in 2011 (Mazzei, 2014). The study collected management perceptions about the relevance of employee communication actions for company competitive performance and if their companies had implemented any internal communication strategy to this end.

The study was qualitative and included interviews and focus groups. The research team selected the companies in the study according to three criteria: 'best in class' in internal communication, heterogeneity in terms of industry, and large in size. Data was gathered by in-depth interviews with internal communication managers and specialists. Two focus groups with Italian internal communication managers and specialists were used to support the interpretation of findings.

The area of investigation comprised: the main aims and activities of internal communication in the companies; the relevance of the employee communication role issue and reasons for that; the employees' and managers' communication behavior considered strategic in the company; the expected benefits for the company stemming from strategic communication behavior; and the internal communication strategies, managerial methods, tools, channels and content, used by the company to enhance employees to adopt strategic communication behavior.

The researchers grouped the contents of interviews according to the significance for the research questions (relevance), the number of occurrences (prevalence), and the originality. All findings were anonymized.

Findings depict a wide range of relevant employee communication behaviors: act as brand ambassadors and advocates; be company allies and ~~to~~ support the business of the company, coherently with the commercial role of employees that interact with clients; share expertise and information with colleagues; communicate openly with leaders to convey ideas and suggestions to improve products and services.

Communication strategies mentioned by interviewees in order to support the communication efforts of employees are sometimes *communication-oriented* and directly linked to the classical internal

ISBN: 978-9963-711-37-6

communication functions: create communication paths, develop new languages, adopt a full disclosure style, and stimulate effective managerial communication. These strategies design and manage communication instruments and style assuring information adequacy and proper directions (White et al., 2010), spreading communication competencies (Zerfass and Franke, 2013), and strengthening trust (Jo and Shim, 2005).

In other cases communication strategies are oriented to affect employee communication behaviors as an indirect result of their attitudes and future behavior intentions: build trust between managers and employees, build accountability for corporate values, state mutuality, adopt multiple and integrated practices. These are *enablement-oriented* communication strategies: they aim to create communication conditions and integrate communication to other managerial practice to enable the employee communication role (Mazzei, 2014).

The enabling role of internal communication means to develop competencies, instead of giving advices (Zerfass and Franke, 2013), facilitate employees in their communication roles implementing meta-communication, being communication developers, supporting communication training, and linking evaluation and reward systems to communication (Heide and Simonsson 2011).

4. BRAND AMBASSADOR BEHAVIOR OF EMPLOYEES: A CASE STUDY

The two studies described in the previous sections, showed that employee brand ambassadorship is crucial for company success and it depends on an array of organizational conditions. To better understand the implications of such consideration, the researchers developed a case study on a retail company (Mazzei, Quaratino, 2014).

The company is a cooperative firm and in 2013 has about 7,700 employees and 300 stores. It experienced rapid growth, and consequently hired a relevant number of Millennials, employees who had previously worked for other companies, part-timers, and casual workers. As a result, corporate culture, cohesion around corporate values, and motivation of co-workers, were at risk and the management felt out of touch with the workforce, compared with before. This feeling led to the launch of a structured listening program.

After sixteen interviews with leaders, the study consisted of a survey. The questionnaire addressed the following areas: company identity and values, participation, employee internal voice and brand ambassador behavior, responsibility, relationships among generations, commitment, motivation, the quality of relationships, managerial style, and perceived external communication. The study covered a

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broad range of issues but this article discusses only the findings related to brand ambassador behavior and its determinant.

The sample of 2,300 employees was randomly selected and stratified by gender, age, seniority, education, employment contract and organizational unit, assuring statistical consistency. The questionnaire was delivered on line over a four-week period and the researchers collected the data directly to ensure the anonymity of the respondents. Overall, 1,870 answers were collected, a response rate of 81%. Data were analyzed using frequency distributions and bivariate joint frequency. The interpretation of the results was supported by findings from the interviews, open comments at the end of the questionnaire, and the literature.

Employees were asked about their brand ambassador behaviors when not in the workplace. They feel that it is natural to provide advice on the company's products and services (72.9%), to talk positively about the organization with acquaintances and relatives (72.6%), and to defend the company from criticism (63.3%). Moreover, they are ready to acknowledge mistakes (40.3%) and to criticize the company (28.6%). Employees act as brand ambassadors in a limited way and at times are even disloyal.

Also, the interviews indicate a critical attitude of people toward the company during their interactions with stakeholders. It seems to be a byproduct of insufficient communication about strategic choices: "I believe that people lack information and the overall perspective needed to promote the company's distinctive brand in the eyes of customers". In other cases, people do not feel loyal to the organization: "Some workers own the loyalty card of competitors", or workers just forget the relevance of their role: "Here people do not fully perceive the risk of criticizing the company outside".

Employees in this company were not strong advocates, and did not volunteer to communicate organizational strengths, but were highly adversarial, and dispersed negative information to external constituencies. This amplifies organizational problems and reduces opportunities and increases threats to the organization (Kim and Rhee, 2011).

The study examined the contextual setting in which the brand ambassadorship behaviors are performed: commitment, perceived company's external communication, and level of motivation.

Commitment to the organization was explored by asking employees opinion about shopping in a competitor's store. 60% of the workers consider it an economic drain on the company. The percentage is apparently high, but taking into account the cooperative nature of the company – that is owned by its customers and workers – and its history, one would expect greater awareness of the economic loss. Furthermore, many workers saw shopping in a competitor's store as a matter of convenience ("I go to

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nearest store" 53.8%) and a significant number of them saw it as a normal habit ("It is just normal" 36%). The interviews also underlined the lack of support of workers: "Here many people do not understand how important it is to support the company by buying and promoting its products". In relation to both the survey and the interviews, the level of commitment would appear to be a matter of concern.

Employees' perceptions about the company's external communication are unsatisfactory. On the one hand, workers believe that it fully reflects the values of the company (61%). At the same time, they feel that, "It does not reach all our potential customers" (50.9%), "It is not appealing" (25.5%), and, "It does not express how good we are" (32.9%). Overall, employees seem to lack confidence in the quality of external communication by the company and this perception probably affects their lack of motivation and willingness to become "brand ambassadors" (Schimdt et al., 2001).

The level of individual motivation of employees was explored ~~by~~ asking people about their personal condition inside the organization. On the one hand, they feel "ready to address problems and look for solutions" (59%), which is probably a driver for "voice" behaviors. On the other hand, only the 39.5% of respondents said they were "motivated and satisfied", and there is a widespread feeling of "not being recognized" (56.1%) and of "being discouraged" (43.3%).

Both interviews and free comments from the questionnaire help to explain this widespread feeling: "There is a significant amount of knowledge and competence among employees that is not rewarded or recognized"; "Many people try to contribute with ideas and proposals but often they are not listened to by the management". The feelings of demotivation help to explain the limited efforts of employees to behave as "brand ambassadors", as pointed out by literature on employee satisfaction (Kim and Rhee, 2011; Ki and Hon, 2012).

The attitude of not being strong advocates by employees in this company derives, according to the previous studies in this paper, with weak commitment, unsatisfactory perceived company's external communication, demotivation of employees.

CONCLUSION: DIRECTION FOR THEORETICAL DEVELOPMENT, FUTURE RESEARCH, AND MANAGERIAL IMPLICATION

One theoretical study and two field research projects about employee brand consistent behavior shed light on the inside-out process starting from organizational context and leading to brand outcomes throughout the impact of managerial practices on employees' attitude, intensions and behavior. The

ISBN: 978-9963-711-37-6

three studies increased knowledge about the antecedents of employee brand ambassador behavior and the strategies companies are adopting to sustain them.

This inside-out process should be considered in its wholeness, looking at each and all steps as intertwined elements mutually interdependent. In particular, human resource management, managerial and internal communication, and communication climate are interrelated leverages that need to be integrated in an effort of creating a favorable context for genuine, discretionary and extra-role employee brand consistent behavior. Managerial practices aimed to sustain employees to be strategic communicators of brand values cannot be based on prescription but they require be negotiating and sharing with organizational members.

A qualitative study based on interviews to 32 internal communication managers of Italian and American leading companies indicates that managers are aware about the relevance of employee brand builder role. Furthermore, the study revealed that the most spread internal communication strategies aimed to sustain such employee brand builder role are *enablement-focused*. Managers declared that the effort is mostly devoted to earn loyal behavior of employees rather than prescribe desirable employee behavior. As a consequence, internal communication has an enablement role instead of a being a means for conveying communication rules.

A case study on a retail company confirmed the relevance of a critical organizational context, with a weak employee commitment, dissatisfactory perceived external communication, and low level of individual motivation, on employee attitudes to be brand ambassadors. In this case, it is not possible to expect strong ambassador behaviors because of the critical organizational setting in terms of communication, managerial style and employees' motivation (i.e. antecedents).

The holistic model of behavioral branding contributes to the theoretical development of the understanding of the antecedents, mediating variables, and consequences of employee brand consistent behavior. From the theoretical point of view it has been clarified the wholeness of the process, the presence of multiple stages chain of effects with mutual relationships that strengthen the process.

Future research is required to develop and test measures of organizational context, employee emotional and cognitive states, employee attitudes, employee behavioral intensions, employee brand building behavior and related brand outcomes. Above all, we need further studies to find proper constructs and measures for the current organizational contexts with an increasing diverse workforce including women, non-western cultures workers, job-hoppers, part-timers, contractors, contingency workers and so forth.

ISBN: 978-9963-711-37-6

Furthermore, we need to capture the voice of employees implementing both qualitative and quantitative studies to substantiate the range of employee brand building behavior; verify the most relevant variables influencing their attitudes, intensions and behavior; understand whether different groups of employees require customized enablement strategies; and ~~to~~ verify if enablement strategies adopted by companies so far are effective.

Major managerial implications also emerge from the findings. Companies should engage employees as brand ambassadors not by means of in-role behavioral prescriptions and control techniques but through the creation of an organizational context leading to genuine, voluntary, extra-role brand consistent behavior. In order to do this, we suggest, first, the integration of marketing, human resource management and communication, through job rotation plans, joint training programs, inter-functional working groups.

Second, we recommend enablement-oriented practices, consisting of investment for the creation of a communication and organizational context that promote genuine brand consistent behavior. In particular such enabling practices include: programs for both managers and employees aimed at enhancing soft skills and individual motivation to work; training and development project for managers supporting them in building trust relationships with employees, and using open communication; bottom-up participation to decision-making processes through the listening of employees' ideas and suggestions, both formally and informally. Third, we suggest non-normative practice that facilitate the processes of co-construction of implicit and shared values about brand consistent behavior: this means working on the development of the organizational cultures, establishing rituals, symbols, stories and heroes describing and embodying the expected (brand ambassadors) behaviors.

The three studies about strategies to sustain employee brand building behavior discussed in this paper underline the crucial role of employees as brand builders and the need of enablement strategies to enhance their genuine, authentic and non-prescribed extra-role effort to benefit their company and ultimately themselves.

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 ISBN: 978-9963-711-37-6

ISBN: 978-9963-711-37-6

EVALUATING THE APULIA TOURISM SUPPLY SYSTEM: TOWARDS THE CREATION OF INTEGRATED SYSTEM

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ABSTRACT

The radical changes occurred in recent decades in the tourism sector, largely due to the diffusion of the Information and Communication Technologies, have intensified the competition among tourist destinations. In this scenario, destinations are called to compete at global level by creating an integrated offer able to satisfy the needs and willingness of tourists. Specifically, the creation of regional integrated tourist systems as forms of aggregation and integration between a large differentiated community of actors, directly and indirectly involved into tourism value chain, arises as the main challenge. Based in the above premises, this study aims to deepen how this process of collaborative and synergic growth of a region with a tourist vocation can be managed by promoting the creation of an integrated tourist system.

At this purpose, this work will present the results of a web survey aimed to demonstrate empirically the degree of integration between the different actors of the Apulia tourist system, as regional destination of growing popularity, as well as to derive implications for theory and practice. The results of context analysis evidence the fragmentation of the regional tourism systems, and the low level of cooperation that represents an obstacle to the creation of an integrated tourist offer. Finally, a contextualized model for the development of regional tourism network in Apulia, based on the current situation, will be presented.

Keywords: *integrated tourism system, ICTs and tourism, experiential tourism, tourism network, tourism supply chain, tourism regional competitiveness*

INTRODUCTION

Globalization and the diffusion of ICTs have impacted considerably on tourism sector, enabling the spread of new business models (Del Vecchio *et al.*, 2014). Nowadays, tourists are increasingly interested in living an experience resulting from a variety of goods and services connected to the nature of the

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region they visit. In this context, tourism operators are called to offer an "all-inclusive" package solution able to incorporate that large number of products/services that compose the tourist experience (Buhalis *et al*, 2008).

Focusing on the new technological trends, the growing diffusion of social and mobile applications can be surely assumed as the main factors behind the changes occurred in the tourists' consumption; at the same time those trends have also caused the emergence of new forms of tourism, as the experiential tourism (multidimensional and cross-thematic).

Additionally, those technologies have produced a growing competition among geographical destinations in terms of opening of new markets (Silvestrelli and Agazzani, 2002) and the progressive disintermediation of traditional distribution channels, accompanied by the spread of a multi-channel offering.

The current economic environment allows to comprehend how the competitive challenge of destinations can be afforded through the glance of the local territorial systems (Pilotti *et. al.*, 2013), by stressing the interdependences between companies, institutions, individual actors, companies directly and indirectly linked to the traditional configuration of a tourism supply chain. In tourism, in fact, the competition takes place not only or not so much between individual player or locations, but increasingly among ecosystems (Del Vecchio *et al.*, 2014). Defined as multiactors and knowledge-intensive environments supporting the process of entrepreneurial growth of a regions (Romano, et al., 2104) the ecosystems are suitable contexts to provide concrete solutions at the changeable demand of tourists (Pilotti *et. al.*, 2013).

The importance of territorial systems in the debate on competition of tourist destinations is clear in the literature; some authors have focused on the drivers of competitiveness of tourist destinations, seen as structural and environmental factors (Govers and Go, 1999), or factors related to the share capital (Senn, 2002) or relational and innovative capacity (Buhalis, 2000). Others have identified these drivers of competitiveness in regional policy (Poon, 1993) and in the policies of individual operators (Rispoli and Tamma, 1995; Valdani and Guenzi, 1998). Approaches "resources-based" (Dwyer and Kimm, 2003) and "neo-structuralists" (Crouch and Ritchie, 1999; 2003) lead back the competitiveness of a tourist destination not only to structural endowment but also to the skills and synergies that it is able to activate. Furthermore, the literature has focused on the competitiveness of a destination that is the ability to create value for the question of experiential tourism, allowing the tourists themselves to co-create their own experiences (Caroli, 2009). Moreover, the empirical researches have demonstrated that tourism systems, organized following the logic of networks, could more effectively assist firms in

 ISBN: 978-9963-711-37-6

competing and in creating value. Network systems may help tourism firms to enter in new markets, exploit externalities and gain efficiencies in internal and external activities. The participation of SMTE (small and medium tourism enterprises) in tourism networks help them to enhance their ability to promote their structures to individual travellers worldwide, to persuade potential guests to choose and to provide them with unmatched online services (Ndou and Passiante, 2005).

All these highlights the opportunity of an integrated approach for the management of destinations, understood as a bottom-up process allowing to identify collaboratively among the various stakeholders the objectives of development, maintenance and sustainability of the destination (Pilotti *et. al.*, 2013). It follows that the competitiveness of a tourist destination and its ability to attract resources useful at its development depend on the degree of integration between individual territorial components, companies and public institutions. This systemic perspective moves from the hypothesis that firms of a region cooperate and compete in alliance with all the other regional actors to compose the whole regional tourist offer, as systemic solution at the needs of customers (Pencarelli and Forlani, 2002).

However, as argued in previous researches it is compulsory, before enterprising actions for creation of tourism network systems, to undertake a context assessment in order to establish the level of collaboration among firms, the intensity and density of interactions, the social climate, the technological infrastructure and coordination modalities (Ndou and Petti, 2005). Based on this assessment it is then possible to design and plan the best pathway for tourism managers and executives to start creating tourism networks at local or regional level (Ndou and Petti 2005). Framed in the above premises, this paper aims to provide a contextualized model for the development of a regional tourism network in Apulia, a destination of growing and recognized popularity located in the South of Italy. Therefore, the paper is composed of fourth sections, in the first part we present the theoretical background; the second describes the methodology adopted; in the third empirical findings that assess the level and degree of collaboration and integration among the Apulian regional community of actors are presented. The conclusions discuss the main results achieved as well as provide implications and directions for researchers and practitioners for developing a regional tourism system able to compete at international level.

LITERATURE BACKGROUND

Tourism is an important service sector in both developed and developing nations. According to Page and Connell (2009) tourism is one of the most representative dimension of the globalization and there are a lot of contributions in literature that analyze its geographical, ecological, agricultural, urban, managerial, sociological and technological dimensions (Del Vecchio *et. al.*, 2014). Tourism is a service

ISBN: 978-9963-711-37-6

sector particularly complex, made up of different constituent resources and which depend on an extremely fragmented supply (Ndou, 2011). Like other services, tourism services are intangible, non-storable, customer-specific nature, overlapping of production and consumption, and sensitivity to relationship and reputation (Ndou, 2011). As a service-intense industry, tourism has gone for many decades hand in hand with technology and embraced the potential inherent in its latest developments (Buhalis and Law, 2008). Consequently, technology plays a critical role also for the competitiveness of tourism organizations and destinations (Buhalis 1998, 2003; O'Connor 1999; Sheldon 1997; Poon, 1993).

Information Communication Technologies (ICTs) transformed the tourism sector globally: they have gradually generated a new paradigm-shift, modifying the structure of the industry and developing a whole range of opportunities and challenges (Gretzel, et. al., 2006). Technology is an integral part of tourism and it has transformed the way travel is planned (Buhalis, 2003), business is conducted (Buhalis and Licata, 2002), and the way tourism services and experiences are created and consumed (Stamboulis and Skayannis, 2003). Due at the ICTs, tourists can book all the services for their future journey, with an interesting cost saving, they can realize a virtual pre-tour of the destination selected, they also have the possibility to make decision by learning from the official pages and additional web sources where the tourists' feedbacks and suggestions are available (Del Vecchio *et. al.*, 2014).

A study of the Business Tourism Online (Franchini and Del Forno, 2012) demonstrated that almost 7% of the traffic toward the touristic websites is generated by the social travel platforms (Trivago.com, Tripadvisor.com, Tripwolf.com, Instagram, Facebook.com and Twitter.com). Through these web sites, tourists could know and compare their intentions of trips and journeys, learn from the others tourists, acquire suggestions, feedbacks and recommendation, and share their personal experience after the trip. This highlights the growing importance of the digital tourism as well as the areas of opportunities and threats emerging for the business actors operating in the sector.

A new element of discussion in the current literature refers to the experiential dimension of tourism: during their journeys, tourists are interested in visiting, seeing and living differently from their routines. Those new elements, more and more relevant in terms of experience, add a comprehensive living adventure to the tourists resulting from the visit in a certain area (Pine and Gilmore, 1999) that is composed by a set of services and products with a growing relevance of knowledge (Del Vecchio *et. al.*, 2014). The tourism experience is designed, intentionally produced, organized, foreseen, calculated, priced and charged for them (Pine and Gilmore, 1998) and it is undergoing constant change characterized by the growing importance of consumer involvement, co-creation and the implementation of technology. Neuhofer *et al.* (2013) focused on the "technology enhanced tourism

ISBN: 978-9963-711-37-6

experiences" as integrative conceptual framework to describe tourism of our days as combination of "experiences, co-creation and technology" (Neuhofer et al., 2013).

Consequently, the tourism destinations should have the ability to create, integrate and deliver tourism experiences, including value added goods and services for tourists (Hong, 2008), implementing new ideas to satisfy and anticipate customer needs (Crotts *et al.*, 2000), combining strategies of differentiation and customization and co-creation. In this perspective, a destination should not be considered as a traditional product, but more as a bundle of tangible (attractions, goods, etc.) and intangible (socio-cultural, services, etc.) components (Morgan et.al., 2004; Pritchard and Morgan, 2001), something that is highly relevant in terms of experience (Govers and Go, 2010).

In an experience-based exchange, the tourist enters into a multifaceted interaction with the regional actors and the setting of a narrative staged by the local community. All the elements recalled impact on the competitive dynamics of tourist destinations that are called to compete by promoting the adoption of a systematic approach. The importance of regional tourism cooperation is commonly agreed and inter-firm networking permits both the flexible integration of tourism system and the growth of the predisposition to innovation at the destination level (Denicolai et al., 2010, Del Chiappa, 2004; Moore, 1996; Nooteboom, 1999).

As for the structural sectorial dimensions and dynamics, tourism continues to be populated by small and medium-sized enterprises (Morrison, 1998; Page et al., 1999; Bastakis et al., 2004, Mastura et. al, 2011), and this implies that the great majority of tourist facilities are conceived and delivered by small and medium-sized businesses (Avcikurt, 2003; OECD, 2008). These dimensions represent a barrier for the competitiveness in the global market due to inadequate human and financial resource, marketing and information technology, and economic scale (Irvine and Anderson, 2004; Jarvis, 2006). A practical strategy to overcome disadvantages related to resource and capabilities is represented by cooperation among tourism firms (Merrifield, 2007; Lu and Beamish, 2001). In OECD countries, tourism development policies strongly emphasize the need for cooperation strategies to enhance competitiveness. Therefore, it could be argued that the competitiveness of tourism sector is highly dependent on the competitiveness of other enterprises and more in general on the competitive ability of socio-economic territorial systems where firms are embedded (Ndou, 2011). Linkages between tourism and local and regional resources, activities, products and communities are key success factors for the development of a integrated tourism system (Bousset et. al., 2007).

Researches indicate that cooperation among tourism firms enables the integration of regional planning policy decisions and the development of regional characteristics, which are positive factors for both tourist destinations and regional growth (Huybers and Bennett, 2003; Baidal, 2004). As argued by

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Baggio et al. (2010a) tourism destination may be considered as a cluster of interrelated stakeholders (both public and private) embedded in a social network. This results coherent with the debate on coopetition and companies value networks where performances of firms depend also on the behavior of other companies and vice versa (Freeman 1984; Del Chiappa and Presenza, 2013). In addition, the performance of a tourism destination depends on the connections between the various players and not only on the intrinsic characteristics of the destination (March and Wilkinson, 2009).
The industry needs to be analyzed from an integrated perspective, that is, as a network of tourism supply chains (Ndou, 2011). Therefore, approaching tourism in a systemic and strategic way will be of particular relevance for many social aspects and for the innovativeness of different sectors (Ndou, 2011). Competition in tourism is so a sectorial and regional issue more rather than an individual company's one.

Recently, this has inspired researchers aimed to define tourism as a regional integrated sector with a convergence of a plurality of industries: public institutions, cultural payers, tourism players, agro-food companies, transport and logistics, handcrafts and banks (Del Vecchio *et. al.*, 2014).

Based on these premises and with the aim to understand the path toward the creation of efficient regional tourism systems in Apulia territory, we have undertaken an empirical research to understand the local context in its complexity to establish the level of collaboration among firms, the intensity of their interactions, the social climate, the technological infrastructure and coordination modalities. Afterwards, based on this assessment it is then possible to design and plan the best pathway for tourism managers and executive to start creating tourism networks at local or regional level (Ndou and Petti 2005).

RESEARCH METHODOLOGY

Aimed to contribute at the literature debate on the importance of adopting a systemic approach to sustain the competitiveness of tourist destinations in the current scenario, the study is based on a web survey aimed to assess the degree of collaboration among the community of stakeholders belonging to a tourist destination. The questionnaire survey was carried out in the Apulia region, a destination with a growing popularity in the global scenario, during the period from September to November 2014.

The sample of tourism firms operating in the Apulia Region were obtained firstly by the official Apulian Destination Management System www.viaggiareinpuglia.it and then it was integrated with other information source such as the www.bed-and-breackfast.it, web searches and secondary source (In total the sample obtained was composed of 500 Tourism accommodation firms (hotels and bed and

 ISBN: 978-9963-711-37-6

breakfast, etc.). The Questionnaires were administered online through *Google Drive*. The rate of return obtained was 23%, with 130 questionnaires filled in.

Questionnaire Design

The questionnaire was structured into three parts. The first part dealt with the profile and characteristics of the tourism accommodation firms in terms of typology of business, number of rooms, services offered to tourists, number of presences and nationalities of tourists. The second part contains questions aimed to analyze the strategic organization of the firm and the existence of collaborations with institution and other tourism companies of the territory. The final part refers to the ICTs endowment and social network usage, aimed to comprehend their role on the tourism regional system as well as their contribution to reinforce the systemic management of the destination.

RESEARCH FINDINGS

The analysis of data collected have allowed to define interesting evidences. The results obtained have been synthetized within three main tables that follows. A first result regards the diffused attitude of the Apulian accommodation companies to cooperate with several stakeholders populating the destination, as specified in Table 1 where in line there are the main categories of actors working in partnership with the company and in the column there are the main objectives areas of collaboration.

About the motivation and scope of collaboration, the main reasons identified are the need of a joint promotion/exploitation of tourist offering of the territory with the inclusion of a such large community of actors (23%). Collaborations result mainly with Online Travel Agencies (booking.com, expedia.com, etc.), followed by associations for the promotion and protection of area, public-private consortia or no profit associations. The need of professional training has been identified as the second most important reason behind collaborations; in this case they involve more consortia or associations and public institutions (32%). Although this recognized need of training and life-long learning, there is a negative feedback on the collaborations experimented with universities and training centers (0,48%), while remain higher the interest for initiatives to realized with consortia or associations and public institutions (12%). In relation to the initiatives of collaborations for the creation of an integrated tourist system, the findings show a low propensity of firms to stretch collaborations for this specific scope (11%). Follows the interest for the promotion/ enhancement of tourism vocation of the are (23%). In all cases, Consortia or Associations are identified as the ideal partners for realizing those activities, followed by Online Travel Agencies (booking.com, expedia.com, etc.). In the meantime, rare cases of collaborations with universities and financial institutions have been identified, while are poorly diffused the forms of collaboration with customers, transport companies, car rental and tour operators.

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There are no forms of structured collaborations with the agro-food and cultural players. This last negative feedback is surely one of the most significant limitation at the creation of a regional integrated system, mainly in consideration of the nature of Apulia, largely characterized by consolidated gastronomic and cultural heritages.

Type of Stakeholder	Activities											
	Promotion/ Exploitation of the regional tourist offer	Training Activities	Participation at public or private call for funding	Joint services of consulting	Creation of an integrated tourist system	Co-working activities	Co-marketing and co-branding activities	Creation of new tourist product/services	Creation of regional brand	Activities of sensitization to adopt ICTs	TOTAL	TOTAL %
Consortia and Associations of categories	11	16	12	15	10	12	9	9	9	8	111	26,37%
Public Agency for management of tourist destinations	21	6	6	6	14	6	7	11	10	6	93	22,09%
Public Institutions	7	16	13	3	11	2	0	3	7	3	65	15,44%
Tour Operators	2	3	1	0	4	7	4	5	3	2	31	7,36%
Web Agencies (booking.com, expedia.com, ecc)	49	5	2	3	3	8	10	8	3	6	97	23,04%
Transport companies	0	0	0	0	4	2	1	2	0	1	10	2,38%
Organizations for the management of cultural heritage (es. Museum, etc)	0	0	0	0	0	0	0	0	0	0	0	0,00%
Universities and Training Centers	0	2	0	0	0	0	0	0	0	0	2	0,48%
Financial institution	0	0	1	2	0	0	0	0	0	0	3	0,71%
Agro-food companies	0	0	0	0	0	0	0	0	0	0	0	0,00%
Customers	4	2	1	1	0	0	0	1	0	0	9	2,14%
TOTAL	94	50	36	30	46	37	31	39	32	26	421	100,00%
TOTAL in %	22,33%	11,88%	8,55%	7,13%	10,93%	8,79%	7,36%	9,26%	7,60%	6,18%		

Table 1. *Attitude to the cooperation of enterprises of Apulian hospitality*

About the awareness on the opportunities emerging from the collaboration, it has noted as where forms of collaborations have taken place, there is a positive feedback and awareness about (table 2). In fact data shows as in 84.6% of cases when companies collaborate with others, they acclaimed to benefit from it.

Is the collaboration/integration with other regional partners a benefit for your company?		
No	20	15,4%
Yes	110	84,6%

Table 2. *Apulian Tourist Regional System: Awareness on opportunities of collaboration*

About the lack of cooperation or alliances with agro-food companies, previously recalled, it is important to note that many hotels (27%) retain "strategic" to offer and use local products; this is more valid for hotels and country-houses. Similarly, although there aren't specific forms of cooperation with customers, all surveyed firms claimed to be particularly careful both in the monitoring of customer reviews on specialized sites such as Tripadvisor, Holidaycheck, Zoover, etc., as well as in implementing customers' feedbacks and suggestions (especially in the case of villages, camping and cottages). In terms of valorization of the regional cultural heritage, it results to be scarcely implemented (4.88 out of 7), though all companies participating to the survey have expressed interest in starting relationships

 ISBN: 978-9963-711-37-6

with organizations that deal with the promotion of the regional cultural heritage. In terms of strategic and organizational configuration, the analysis of the opportunities for creating new entrepreneurial ventures starting from the valorization of natural and environmental resources, the survey demonstrated as tourist operators are aware about their potentialities and their value for consolidating the image of the regional destination (the average marks are between 6.53 and 6.38 on 7).

The table 3 illustrates the source of revenues of the firms (Question: On a scale from 1 to 7, where 1 means "not at all" and 7 means "a great deal", to what extent his company benefits from the offer of the following products / services?"). The companies interviewed have identified almost exclusively the sale of the rooms as their main source of revenues. The second most important source is the food, especially for hotels of larger size, where it can be identified an extension of the core business related to the sales of rooms. In second stage, the sale of foods and wines is an additional source of revenues for these structures. The analysis highlights two further negative evidences:

- the first one related to the transport and logistic services. While it is largely diffused the strategy of f transport companies to enlarge their business by including the sales of additional services (hotels, cars, tickets, etc) the companies interviewed result not interested in persecuting a strategy of vertical integration (47% of the sample have expressed the lowest interest for this additional source of revenue);
- the second is about tours and guided visits, that are not considered as source of profits for interviewed. In highlighting the scarce awareness of the potential contribution of cultural heritage at the qualification of the single and regional tourism offering, this result provide the image of a form of tourism still "wide", that leaves tourists free to discovery by themselves of the region.

Items	Score							Average
	1	2	3	4	5	6	7	
Rooms	0	2	2	5	12	20	89	6,41
	0,00%	1,54%	1,54%	3,85%	9,23%	15,38%	68,46%	
Transport	62	16	11	19	9	9	4	2,54
	47,69%	12,31%	8,46%	14,62%	6,92%	6,92%	3,08%	
Tour or guided visits	65	22	13	11	9	6	4	2,32
	50,00%	16,92%	10,00%	8,46%	6,92%	4,62%	3,08%	
Manuals for guided tours	57	18	20	8	6	15	6	2,67
	43,85%	13,85%	15,38%	6,15%	4,62%	11,54%	4,62%	
Restaurant service	53	15	9	4	15	14	20	3,27
	40,77%	11,54%	6,92%	3,08%	11,54%	10,77%	15,38%	
Handmade products	56	20	11	6	11	12	14	2,91
	43,08%	15,38%	8,46%	4,62%	8,46%	9,23%	10,77%	
Agro-food products	49	20	6	11	12	11	21	3,26
	37,69%	15,38%	4,62%	8,46%	9,23%	8,46%	16,15%	

ISBN: 978-9963-711-37-6

	70	14	10	8	10	8	10	2,52
High-tech services	53,85%	10,77%	7,69%	6,15%	7,69%	6,15%	7,69%	

Table 3. *Apulian Tourist Regional System: Sources of Revenues*

Moreover, a cluster analysis has been performed in order to highlight the presence of groups of companies not interested into the enlargement of their areas of business, together with companies interested only in some specific activities, and others that are committed with a more diffuse enlargement.

Given the low number of responses collected from the Apulian accommodations participating in the survey, there has not been necessary to provide collateral inferential analysis, even if it is reasonable to suppose that an expansion of the results of the cluster analysis to the population would be obtained interesting implications.

The largest number of companies interviewed (63% of them) have not shown any interest in the enlargement of their business to business areas complementary or parallel to the sale of rooms (cluster 3). About 22% of the sample is very disposed to expand their business with services as catering, sales of regional foods and wines This result is in line with the findings of the entire discussion. About 13% of the structures resulted quite interested (6 out of 7 votes) to catering services and the exploitation of advanced technological services. This cluster may possible to identify strategic visions and potential of growth.

Sources of Revenues			
	Cluster		
	1	2	3
Number	29	18	83
Number in %	22,31%	13,85%	63,85%
Transport	2	5	2
Tour or guided tour	2	5	2
Manuals, Publications and Guides	4	5	2
Restaurant	6	6	2
Handcrafts	6	5	1
Agrofood Products	6	5	2
Advanced Services and Technologies	3	6	2

Table 4. *Apulian Tourist Regional System: Cluster analysis on the economic advantage coming from collaboration*

DISCUSSION AND CONCLUSION

The context analysis performed for the tourism system in Apulia region evidences a local tourism supply system that is very fragmented, with a relatively low level of cooperation, low level of adoption of innovative and value added competitive approaches and models. Such results suggest the necessity

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of activating solutions that seek to create a culture of collaboration, increase dynamic interaction between diverse participants and to create new skills and capabilities to cope with a complex new environment. This is expected to impact positively on that companies that have just started to work for the creation of systemic regional offering and it could also activate a virtuous mechanism of sensitization on that large number of companies lowly interested and aware about this opportunity. Looking at the emerging dynamics characterizing tourism as knowledge-intensive and experiential sector more and more enhanced by the diffusion of ICTs, the importance of investing in the creation of a regional integrated system of actor arises as a mandatory choice. At this purpose, a first stage is to start involving operators, particularly those aware and interested, around an innovative solution that brings together in an integrated and collaborative frame the different actors of the tourism supplier to publish, promote and market easily and "seamlessly" their products and services. As the cluster analysis indicates, in the specific case, there is a group of firms that are more prone on collaborating and adopting new technologies and business models. Therefore, it could be more efficient to start with creating a seamless travel tourist experience by blending together the supply offer of this first group of supplier. The effects and benefits reaped by them will, then, drive the path toward the enlargement of the collaborations to other local actors, tourism and non-tourism firms. The creation of a territorial tourism system will add value to the region through an integrated qualitative supply for tourists and through serving autonomous operators with strategic services and tools that they are not able to develop singularly. However, an awareness phase is compulsory in order to build and increase local tourism capabilities regarding the importance of integrated and experiential tourism systems. In particular actions should be oriented towards making local tourism operators aware of two main things: the need to cooperate for developing comprehensive propositions that can attract tourists to the destination, and the opportunities that technology con provide for the creation of regional tourism systems. It is worth to note that, the creation of regional tourism system should be strongly based on collaboration and partnership between and among different players, tourism/non-tourism organizations, and it provides comprehensive, qualitative, integrated, specialized services, information and products (Ndou, 2014).

Nevertheless, any solution, no matter how simple, will not automatically be adopted if not framed in a wider awareness initiative aimed at informing the relevant stakeholders of the impacts and benefits that it can have for them over the short and the medium-long term.

At this purpose the active involvement of public agencies and institutional actors could allow to overcome the lack of collaboration registered; it could result useful in balancing the different interests emerging within the large set of companies and industries interested by tourism.

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Another, important feature for an effective tourism regional systems is the range of activities, services and information necessary for tourists before its journey in the place in addition to a wide number of value added services, personalized and customized. Furthermore the management and development of an innovative tourism systems involves integrating a mixture of skills and network interdependency which allow the knowledge sharing and creation, use of core competencies of each networking group as well as more efficiency in tasks' handling.

ACKNOWLEDGMENTS

This paper provides a contribution to the research related to an on-going research project Puglia@service leaded by the Apulia regional technological district D.HI.TECH and funded by the Italian Ministry of Education and Research (MIUR).

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 ISBN: 978-9963-711-37-6

DISABILITY STAKEHOLDERS. CONSIDERATIONS FROM ITALIAN CONTEXT

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ABSTRACT

Ordinary business logic could potentially lead to a bias against disability stakeholders if they are merely perceived as factors affecting productivity. A more balanced assessment should take into account both tangible and intangible effects on the business system in which disabled people may have stakeholder roles.

Relations with disabled customers/users or suppliers who require special aids are complex.

Disabled employees certainly have a greater impact in terms of structural requirements, training, prevention and healthcare, not to mention the operational discontinuities that any form of disability is likely to cause. Disability, however, could contribute towards the creation of a stimulating, motivating and empowering working environment, this way maximizing the overall result.

Diversity management and, above all, disability management increase overall productivity, also because they tend to boost tolerance with positive effects in terms of reputation. Financial benefits deriving from central and local government grants often compensate for the expenses the company may incur.

The beneficial impact on the economic system is also often overlooked: otherwise unproductive resources are brought back into use, this way freeing productive energies within families with disabled members.

Disabled stakeholders who are customers or users represent a substantial and growing target for companies producing specific goods and services, tailoring their strategies to demand.

Disabled people are therefore seen as useful economic players, regardless of any other ethical consideration which, on the basis of the principle of universal destination of resources, could only reaffirm the subordination of the economy to life values, always, anywhere and in any case.

Keywords: *Disability Stakeholders; Disability Management; Diversity Management; Inclusive Society; Handicap.*

ISBN: 978-9963-711-37-6

DISABILITY AND THE ECONOMY: INTRODUCTORY PROPOSITIONS

It seems at first that a 'handicapped' input can only be accepted if the reduced productivity is somehow compensated by economies related to the 'acquisition' or the 'employment' of the factor itself. There could therefore be room for a bias against disabled people, in terms of their participation in the economic process, as long as disability affects their productivity.

The assessment regarding the economic feasibility of the disabled productive input should however be formulated within a broader analytical framework, considering the effects throughout both the business system and the wider economic and social context in which the resource is employed. The analysis should therefore be carried out according to different perspectives: corporate and macroeconomic, but also on an ethical/economic and social scale.

AIMS AND STRUCTURE OF THE PAPER

This paper wants to answer some questions:

- Does a strict application of economic logic exclude the notion of 'limited' resources?
- Do 'handicapped' productive inputs affect efficiency and effectiveness of production?
- Can diversity and disability management help to create an inclusive society?

This contribution therefore would demonstrate that disability management promotes a new vision of disability in society and especially in the economy. In particular, the objectives of this paper are:

- to spread the diversity and disability management;
- to encourage ethical values to build participatory and inclusive society and economy in which everyone can play a productive role;
- to facilitate this process by switching diversity and disability management.

In the beginning part, the paper discusses literature review. Subsequently, it emphasizes effects of disability on business viability: disabled stakeholder are employee or business operative, and customers or users. The paper discusses also effects of disability beyond corporate level and in the general economic system. In the last part there are some notes about ethical and socio-economic issues. Finally, the paper will reach a successful conclusion: despite hard-to-die prejudices, disability does not necessarily lead to corporate diseconomies.

RESEARCH APPROACH

Objectives of the paper will be achieved with some theoretical considerations based on a qualitative approach with an updated conceptualization of Italian literature review.

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This paper, therefore, does not propose the results of a specific research, but wants to propose a number of critical considerations taking into account the latest developments, described by the best Italian bibliography. It has an interdisciplinary value because it originates from the combination of general economic, managerial, ethical etc. aspects.

LITERATURE REVIEW (NOTES)

It is very difficult to propose a comprehensive literature review in a few pages. The theme is interdisciplinary and can be approached in different perspectives.

By analysing the most recent international contributions, there are al lot of paper about ICT (Information and Communication Technology) functions (Govardhan et al., Eds, 2015; Garbutt and Kyobe, 2013; Bocconi and Ott, 2013; Mach-Król et al., 2015). With ICT, lives of people with disabilities can be improved. ICT can help people with disabilities in education, training and cultural development and promotes also the employment of people with disabilities. ICT can, however, also create new disability because not all people know how to use technologies that change constantly (digital divide) (Pick and Nishida, 2015; Masini et al., 2011; Tarallo, 2003; Anzera and Comunello, 2005; Bauerlein, 2011; Parks, 2012).

About disabled stakeholder as employee or business operative, and customers or users you can read: Oberfield, 2014; Burns et al, 2014; Sabharwal, 2014; Janssens and Zanoni, 2014; O'Brien, 2013; Scarpat, 1984 and Scarpat (Ed.), 1987; Migliaccio, 2015; Metallo et al. (Eds.), 2009. Some Italian studies highlight the economic impact of disability on the system, emphasizing the costs to the community, but also the benefits (Migliaccio, 2009 and 2015; Metallo et al., 2009). O'Brien (2013) demonstrates instead, that macroeconomic conditions may influence disability.

There are also specialist studies related to specific industrial sectors, such as the green economy and job creation for disabled people (Bruyére and Filiberto, 2013).

There are, finally, studies on the relationship between disability and economy of individual Nations or particular geographic areas (Mehrotra, 2013; Twigg, 2005; Shang, 2000).

The international literature is therefore rich in many specialized contributions. Interdisciplinary works that mix the different perspectives are rare: this pages offer a summary of this type providing a brief overview of the whole topic, focusing on the relationships between disability and economy. It is based primarily on the best Italian literature: interesting Italian papers will be mentioned later.

EFFECTS OF DISABILITY ON BUSINESS VIABILITY

Disabled people, taken either individually or in groups, can virtually play any stakeholder role: capitalists, lenders, investors, customers/users, suppliers, opinion makers, employees or business

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operatives (Migliaccio, 2009, p. 202 and ss.).

In many cases the handicap is unrelated to the task performed.

One might think, for instance, of a mere disabled lender, of an investor or a shareholder who takes little part in the governance of the company, and so on. In these cases disability would have a negligible effect on the operation of the company, limited to those rare occasions in which the disabled and the organization get in touch. The latter should therefore only facilitate communication and remuneration processes and, in a wider sense, the exercise of rights related to the role of provider of either borrowed or own capital.

The relationship between the company and the disabled person becomes more complicated, however, if the latter is an employee, a business operative or a customer/user.

Those cases should be more closely examined.

The disabled stakeholder as an employee or business operative

Disability, in this case, could have a significant effect on corporate organization[1].

Constant participation in the productive activity is probably the trickiest option, if one considers the costs associated to it.

First of all, there is the investment in appropriate facilities in order to overcome obstacles to effective participation. That is not always offset by an innovation-bound production culture, that could actually benefit any technological facility, preventing obsolescence and potential diseconomies. Training and updating policies could become more complex and expensive, and therefore not always viable. Also to be considered are healthcare needs related both to prevention and assistance, not to mention a higher amount of sick leave due to the disability itself and often regulated by law. Opportunities arising from disabled employees seem to be often overlooked, but are nonetheless significant and often able to compensate for the above mentioned additional costs. Those opportunities are analysed through the conceptual framework of the diversity management (Cuomo and Mapelli, 2007; Mauri and Visconti (Eds.), 2004; Padua, 2007) and its derivative, the disability management (D'Amato, 2009, p. 229 and ss.; Angeloni, 2010, p. 215 and ss.).

The first introduced a new notion of diversity, which is no longer considered a threat due to the conflicts it may cause, but it is instead viewed as a stimulus towards the enrichment of the working

[1] The Ibm and Asphi Foundations launched a special study programme about the integration of disabled people, providing useful recommendations about the subject. The research led to the publication of a set of guidelines, which are available for consultation (Fondazione Ibm, Fondazione Asphi Onlus, 2007).

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environment and the overall increase in productivity, thanks to the tolerance and respect existing among the different players involved.

Greater attention to human resources, regardless of their features, leads to a creative, motivating and empowering environment, this way maximizing the overall result.

Intentionally pursued by the company, diversity management has become necessary when the work-force are multiethnic, and the amalgamation multicultural.

An embracing attitude, willingness to listen and appreciation of diversity, when shared and accepted, should improve business performance and promote corporate reputation, consolidating its social legitimacy.

Of course the assimilation process will not be instantaneous, having to overcome initial prejudices and disruption, with potential damage to internal and external relations.

While valuing diversity, disability management deals in particular with disabled people, and of course with the prevention of accidents which could cause disabilities and have financial consequences for the company involved (compensation, replacement of the injured employee(s) with consequent loss of skills already acquired, etc).

Several areas of potential intervention can be identified, all starting with an analysis of structural and organizational corporate features, and of the disabilities carried by the stakeholders involved. It is likely that its implementation should first go through a review of the values and culture affecting the management style and the existing human relations.

It also deals with the 'workplace' analysis – both of the physical space and of the set of tasks to be performed - with relation to the disabled person.

The first point is related to the removal of architectural barriers through the design of structures and tools suitable to the disabled person's needs: technological evolution, with particular emphasis on IT and telecommunications, allows now adjustments which were unthinkable only a short while ago (Festa, 2009, p. 287 and ss.).

Also important is the job analysis, in order to determine if the tasks considered are suitable to perform for the disabled person in question.

Disability management also deals with the different arrangements regarding the tasks to be performed, taking into account flexible hours, redistribution of job titles, training, etc.

Discrimination and prejudice both during the selection process and at work are to be overcome.

In the first case current rules and regulations, but also a biased psychological approach, may discriminate between disabled and able-bodied people, creating understandable friction.

Disabled people's apprenticeship might then need specific procedures.

The disability manager should also assess the disabled employee's status within the company and

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especially his/her contribution to the production process (Colella and Varma, 1999, p. 79 and ss.), in order to avoid bias in the award of promotions, as the most sought-after positions are sometimes primarily reserved to the able-bodied. He will also seek to level the perception of disability within the company, whereas the physical handicap is often more easily accepted than the psychological one.

Generally speaking, any assessment of productivity could be affected by the type of disability and its visibility, by the origin of the disability itself (either genetic or accidental), by the possibility of reversing the problem and by its impact on social relations[1].

Any measurement of productivity regarding disabled people should also consider contributions and public funding that compensate the company for either expenses or lost opportunities, this way boosting the economic and financial dynamic.

Finally, in many countries the employment of disabled people is, in certain circumstances, required by law: abiding represents a civic duty and prevents penalties.

Disability stakeholders as customers or users

Despite the difficulties in listing, counting and classifying disabled people (Lucadamo and Simonetti, 2009, p. 137 and ss.), it is clear that the advancement of medical science and life elongation have made the disabled more numerous and varied. In Europe approximately 10% of population can be considered as bearing some sort of disability: that is a significant market target for many companies (Metallo et al., 2009, p. 325 and ss.). Rough data should however be disaggregated because it includes quite different aspects. Besides any quantitative remark, companies' attention also stems from the social and cultural dynamic: the disabled are now not only socially active and aware of economic issues, but also make the able-bodied judge companies according to their policies on disabilities.

Disabled stakeholders are therefore influential opinion makers: on their own, best if associated, they are citizens and voters, involved in social initiatives or directly in politics, their opinions influence policies and trends.

Their needs and desires, once only latent, are now well-known and openly proclaimed.

This context favours an increasing attention towards the disabled, however heterogeneous their presence in all socio-economic groups might be.

This requires specific segmentation techniques that could also take into account the families of the disabled, as they often affect their choices. Typical features of a market segment (measurability, accessibility, relevance, profitability) are all present here to consider the disabled as a group requiring specific marketing strategies and policies.

[1] The disabled, unlike the able-bodied, often do not have role models to look at.

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The following are key factors to be considered in order to make the right choices:

- the loyalty of disabled customers/users towards companies that show constant attention to their needs;
- how choices made by able-bodied people are affected by their interest in the disabled;
- how the analysis of disabled people's needs and requirements could also have beneficial effects on products not specifically designed for the disabled.

Marketing mix policies should therefore be specifically tailored.

The product may, for instance, require specific adjustments for it to be used in the context analysed. In other cases, for certain disabilities, it is necessary to design specific products, which are quite different from those already in use. Accessibility and usability should be paramount in goods and services made for the disabled, either tangible or intangible.

The price is often determined after the application of a substantial margin, which in many cases is considerably higher than the additional costs associated with design and manufacture. Demand is in fact quite rigid due to lack of substitutes, and also because thanks to them the disabled can often address significant problems in their lives.

Users, on the other hand, often benefit from tax breaks that offset higher costs.

All these factors concur to make possible for the company to fix a premium price for products aimed at the disabled. On the other hand, the company should not give the impression of exploiting other people's weaknesses.

Revenues may also increase due to sponsorship, public grants, tax breaks etc.

Current advertising trends advocate the presence of disabled people in ads, as that supports the image of a company which is sensitive to the issue and is close to families affected by disabilities. Web communication and e-commerce have adapted accordingly, particularly through the set up of user-friendly websites. It is easy to find plenty of examples of disabled-friendly communication in day-to-day life: subtitled television programmes, lift buttons and public telephones using the Braille system, etc.

Sponsoring conferences and initiatives aimed at disabled people could also boost the company's reputation.

The ads, as well as dealing with emotional and sensitive issues, should be able to illustrate specific features of the goods and services being advertised and to balance the use of technicalities with the desire of the disabled to feel like ordinary consumers. At the same time, communication should avoid giving any hint, however veiled, of segregation or the impression to exploit the disability only to maximize profits.

Tact, respect, sensitivity, combined with professionalism, will be needed.

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Selective distribution, typical of goods with a high added value, may cause discomfort to people with disabilities, especially to reach the facility providing the goods/services they need. Special corners in shopping malls seem a better solution, as they can also promote integration. The store should be devoid of architectural barriers and the staff should be able to tailor the product or service offered to the customer's needs. The staff involved should display not only technical competence and expertise, but also sensitivity and willingness to listen: for this reason a significant investment in training will be needed.

Besides political and strategic considerations arising from a new notion of the disabled as business customers or users, one can identify some sectors of the economy in which disabled people consistently produce specific instances.

Rehabilitation. It includes all actions aimed at restoring physical, emotional and functional qualities of a disabled person (Oliva, 2009, p. 376 and ss.). It could be either clinical or social.

The first one includes both diagnostic and therapeutic interventions, while the other one is about any action aimed at ensuring full participation of the disabled person in social life.

Rehabilitating is therefore essentially about healing, as much as possible, and above all about embracing the disabled, taking into account one's limits and potential.

The rehabilitation sector is often affected by the availability of public resources and can be either run by the State or by private contractors.

Furniture. New technologies, particularly those related to IT, telecommunications and electronics have been also applied to the domestic environment, increasing safety and energy savings, and above all introducing new forms of automation to the benefit of disabled people (Rossetti, 2009, p. 381 and ss.). Home automation is attentive to the needs of the disabled, contributing to the simplification of many of the tasks usually performed at home.

Barriers being overcome, customized equipment for the disabled and their families, furniture and appliances whose use has been simplified and made accessible to disabled people, are just some examples.

Transportation. Several national and international legislative sources call for policies facilitating the mobility of disabled people. Transport is in fact considered one of the keys to integration, allowing the disabled to reach places of study, work, socialization and specialized care (Serluca, 2009, p. 392 and ss.). It is now possible to purchase cars specially adapted to meet the whole range of disabled people's needs. Buses, trains, planes and ships are now designed to facilitate access to the disabled (either motorial, blind or deaf) and are also able to guarantee certain standards of assistance on board.

Tourism. In recent years, the disabled person has been considered a 'tourist with special needs' (Lurgi, 2009, p. 406 and ss.; Gallucci and Marino, 2009, p. 449 and ss.; Migliaccio, 2015). A large market

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providing leisure and rest activities is now opened. This has led hotel facilities to adapt to the new needs through ad hoc investments and special entertainment programmes.

IT. Possibly the sector most affected by recent changes, whereas many specific aids can meet different needs, bringing to light the potential previously overshadowed by the handicap.

The products one could use for this purpose are many (Migliaccio, 2014).

Also to be mentioned are the substantial investments made to promote education and social integration among disabled students, starting from their childhood; to allow them access to museums, libraries and archives, and to produce books in electronic format that could be used by people with particular disabilities; to promote sports activities among the disabled, some of whom are excellent athletes who take part in competitions specially arranged for them.

EFFECTS OF DISABILITY BEYOND CORPORATE LEVEL AND IN THE GENERAL ECONOMIC SYSTEM

In the occurrence that a disabled person cannot fill any position in a company, due to high costs not adequately balanced by the potential benefits outlined above, one should try to find out whether the socio-economic system, which includes our hypothetical company, still considers the employment of the disabled person in question something worth pursuing. A business group, for instance, could intervene through beneficial synergies in favour of a controlled company, sometimes only to boost the group's image and reputation.

If we consider things in a general perspective, we can say that the burdens placed on society should be balanced by the benefits coming from a successful integration of the disabled into the production cycle. Public spending usually covers fixed costs related to disabled people of all sorts: hospitalization, tackling diseases (using drugs, prostheses, and rehabilitative assistance), education and training (for support teachers, specific educational technologies), public infrastructure projects designed and built to improve accessibility, etc.

Finally, it is worth thinking at the distortions deriving from the application of legislation aimed at facilitating the employment of disabled people: this could lead to the paradox that disabled resources might be used more than 'healthy' ones ... Indeed, even if one goes beyond corporate level, considering the general economic system, the employment of disabled people in the production cycle could be beneficial (Pizzuto, 1987; Scagni, 1987).

First of all, it brings back into use resources which otherwise would remain unproductive and therefore constitute a financial burden for the community. This will in turn increase overall productivity. The employment of the disabled releases members of their families, who would

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otherwise be almost exclusively devoted to their care: families' work should be therefore included in calculations regarding the general economic system.

Individual and family incomes will increase, boosting the demand of goods and services. Triggering a virtuous circle will also bring an increase in tax revenues.

A disabled person who is also committed and motivated faces a lower risk of further illness, and could therefore contribute towards the reduction of public spending. The disabled, their families and all those directly and indirectly involved with them affect, through their investment and consumption choices, general economic trends, also because disability enhances the use of 'relational' goods rather than that of 'positional' ones. These are part of the traditional, one-way bargain: there is an offer of goods to be eventually accepted.

'Relational' goods, on the other hand, follow the principle of reciprocity, meaning that they are considered useful if enjoyed together (Bruni and Zamagni, 2004, p. 22; p. 161 and ss).

Goods that only meet material needs are therefore not enough. One also needs to establish genuine relationships with other people. Transfers of relational goods depend therefore on human relationships and on people who create them.

Taking care of relational issues should therefore be viewed not only as another commitment the community takes towards its members, but also as a potential motivational resource.

A trading economy, for instance, offers one-way rated services to disabled people in need, while in a relational economy there is a reciprocal exchange, with completely different motives, between the social worker and the disabled.

The civil economy, the non-profit and the third sector can therefore coexist with standard markets, which might be efficient but are at times unfair.

ETHICAL AND SOCIO-ECONOMIC ISSUES ABOUT DISABILITY

The economic dynamic faces limitations imposed by common ethical principles which sometimes are a compromise between the demands of different races, cultures and religions living together. However, the notion that man's main purpose is the conservation and the harmonious development of all his faculties, from generation to generation, using all available resources, seems to be commonly acknowledged (Alford et al., 2010; Guzzetti, 1987, p. 9 and ss.). It is therefore unacceptable any use of resources which tends to exclude others, especially if they bear some sort of disability. The economic system should therefore facilitate the access to available resources for everyone, even if disabled, for the development of individual and social values which are at any time unquestioned in one's life, from conception to natural end, regardless of one's contribution to the production cycle.

ISBN: 978-9963-711-37-6

Consumerism, technological progress, frantic innovation, pronounced territorial inequalities, globalization, self-regulating markets are all factors potentially operating in the opposite direction. Vigilant participation on all citizens' part will therefore be needed.

The promotion of consumption patterns which respect the environment and favour distributive equality can only be achieved, however, within a cultural framework that places solidarity before utilitarianism and fairness before efficiency.

Economic ethics still lay the foundations of social legitimacy for companies, ruling out any form of production aimed at meeting illegal or morally/socially unacceptable demands. They do not condemn profit though, which is the necessary return for the entrepreneur. Ethical choices made by the management shape corporate values, particularly regarding the competitive, social and economic dimension of the company, which are seen as intertwined, and assimilated as such into the organizational fabric of the company itself (Ricci, 2004, p. 9 and ss.). Its role also has ethic and social implications: the durability that may increase and develop, the progress and evolution of the sector and area of operation, the enhancement and reward of the resources employed etc. One could also mention environmental issues, the protection of cultural heritage, any relation entertained with minorities, the local community and all external stakeholders, transparency in communication and fairness in competition.

Finally, there is the broad topic of industrial relations: hiring and dismissing employees, placement of recovering workers, proper working conditions, adequate remuneration, freedom of speech, trade unions, etc.

The topic of industrial relations also includes, of course, the employment of disabled personnel in the production process.

It seems like almost all areas of business management could be imbued with ethics, which strongly affects business choices.

This is not necessarily synonymous, however, with lost opportunities or internal and external diseconomies.

Ethics can contribute towards sustainable corporate development, creation of value (Angeloni, 2010, p. 186 and ss.), and can also generate useful competitive advantage[1].

Among the benefits of correct choices are: a safe and engaging work environment, that attracts and retains qualified staff; establishment of long-term relationships with customers; an excellent reputation; improved relations with financial institutions etc.

That means we are not just being sentimental: ethics can and should influence strategies, help meeting targets, increase profitability (Coda, 1992, p. 12 and ss.)[1].

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[1] There are many cases of high ethic-high profit companies.

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CONCLUSIONS

Despite hard-to-die prejudices, disability does not necessarily lead to corporate diseconomies.

Potential additional costs resulting from structural adjustments or cultural changes are often offset by significant gains and/or public intervention.

But even if the economic situation of single entities calls for the exclusion of disabled people from the production cycle, assessments based on a wider perspective could favour the adoption of compensatory measures. Ethics further endorse this perspectives.

It should be noticed that in our paper the economic analysis has preceded the ethical one, which in most cases has merely confirmed what already ascertained through the utilitarian approach.

That in order to avoid the pathetic deviation, although morally and emotionally convincing.

Ethics should primarily take care of those few cases whose disabilities are so serious to prevent them from working altogether.

They can still play economically important roles which are unaffected by their physical condition (investors, lenders, opinion makers etc), but above all they buy certain goods and use specific services that sustain market demand. Even in this hypothesis, however marginal, we should not only consider the costs associated to it, but also the benefits for the suppliers and the redistributive effects of social spending. If the overall balance is still negative, ethics should eventually prevail over mere economic logic, reaffirming subordination of the economy to life values always, anywhere and in any case.

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[1] Also Porter and Kramer (2007) call for business strategies having a sound ethical basis, considering the mutual relation existing between companies and society. The principle of shared value should be applied first (p. 7 and ss.). Choices should therefore benefit both parties.

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 ISBN: 978-9963-711-37-6

IMPLEMENTING SUSTAINABILITY IN WINERIES: ISSUES FROM AN ITALIAN CASE STUDY

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ABSTRACT

This paper aims to investigate sustainability issues in wineries by analysing the drivers that suggest the consideration of this concept in the day-to-day activities and main barriers to the process of improving sustainable practices in the winery sector. A literature review on the topic and a qualitative, in-depth explorative case study are presented. The choice of the case, Ripasso, was driven by its nature as a cooperative winery and its participation in Magis, an Italian project on sustainability. The article presents levers and problems to consider in the introduction of a protocol that aims to improve the quality of the grapes harvested and environmental biodiversity, reducing impacts of the production in terms of several aspects, such as water consumption and fertilizer use. A future research agenda is outlined, based on the literature gap and the main points provided by this study.

Keywords: *measurement, barriers, reporting, certification, Italy, wine*

INTRODUCTION

In recent years, the increasing focus on sustainability in agriculture, particularly in the winery sector, has been driven by several reasons. The heightened interest in this practice is demonstrated by a large number of academic publications that consider the various degrees of sustainability applied in the winery sector. This attention could be considered as a consequence of consumers' behaviour that, according with Renton *et al.* (2002), is demonstrating a growing interest in environment-friendly products and of managers who follow market requests and are motivated by a strong belief in sustainable practices. Understanding the new consumer needs, these leaders are the formers of organizational change—from the cultivation of grapes to the delivery of the bottle—comprehending that with sustainable production, the efficiency of their enterprise will also improve.

Casini *et al.* (2011) separate the research on sustainability in the winery sector into two main streams. The first focuses on the attitude of the enterprise toward sustainability in terms of the management approach and behavior of a single person in the organization. The second stream considers the

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importance of sustainability in the definition of strategies and long-term plans. Both groups of studies usually overlap, and the consideration of one point of view does not exclude the other. In light of this, our study can be considered into the first stream and overlapping partially the second.

As noted by Isaak (2002), firms can approach sustainability at two different times of their existence. In a 'green business,' managers discover the importance of 'greening' their behaviour during the life span of the organization, where costs and innovations are part of marketing advantages and usually do not involve an ethical argument. On the other hand, a 'green-green business' designs its practices to be green from the beginning, as a start-up company. These organizations aim to apply sustainability to processes and products for the purpose of socially transforming their host sector "towards a model of sustainable development" (Isaak, 2002, p. 82).

Despite the increasing number of studies on this topic, scant is known about the drivers of sustainability development in Italian wineries. From the understanding of sustainability dimensions to the measurement of these improvements' effects on production, there is a lack of in-depth research to analyze the numerous aspects of sustainability in Italian wineries (Santini *et al.*, 2013).

Given the general literature gap in wineries' sustainability in the Italian context, we conducted a explorative case study analysis by considering a best practice in implementing sustainability. Driven by its certification on sustainability, the Ripasso cooperative enterprise under study has implemented changes in several aspects of its production. Through this analysis, the study aims to provide a better understanding of the drivers that guide wineries toward a more sustainable production and the barriers to this virtuous process.

The following section summarizes the meaning of sustainable practices in the winery sector. It reviews the literature that considers these aspects from several perspectives, such as the definition of the boundaries that entrepreneurs have to consider in defining strategies and actions to transform the implementation of sustainable practices. The methodology section describes the research steps followed, while the case study section explains the results of the analysis of a specific reality. Finally, the conclusions provide main implications of our study for future research.

SUSTAINABLE DEVELOPMENT AND SUSTAINABILITY IN WINERIES

Due to years of indiscriminate use of natural resources, environmental preservation should be taken into account, moving from a short-term to a long-term view. According to Bastianoni *et al.* (2001), "currently natural resources are consumed at a rate, which is higher than the rate at which they are

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replenished. In order to avoid a depletion of natural resources and a subsequent loss of well-being in the long term, consumption rates must be reduced."

Economic development, as well as public policy decisions, should be based on the idea of sustainable development (SD). A widely recognized definition of SD is given in the Brundtland Commission Report, *Our Common Future*: "Sustainable development seeks to meet the needs and aspirations of the present without compromising the ability to meet those of the future" (World Commission on Environment and Development, 1987, p. 151).

Various meanings of SD have considered several impacts that organizations can wreak on the environment in which they operate. Because the environment comprises a complex mix of nature, networks, and people, it can be influenced by a number of actions and practices carried out by a single subject, a group of people, and organizations.

Ohmart (2008a, p. 143) reports the California Association of Winegrape Growers and the Wine Institute's definition of sustainable agriculture as "growing and winemaking practices that are sensitive to the environment (environmentally sound), responsible to the needs and interests of society-at-large (socially equitable), and economically feasible to implement and maintain (economically feasible)." As noted by the author, the farm is influenced by the interests of several subjects that could be involved in its activities from numerous points of view. In accordance with Tee *et al*. (2007) and Gabzdylova *et al.*, (2009), the firm approach to sustainability depends on the various influences coming from several stakeholders and on the resources investable for sustainability. This approach is first, a consequence of external and not manageable forces and second, the result of decision-making processes of the managers of the firm or a personal interest of the entrepreneur (Tee *et al.*, 2007). As noted by Marshall *et al.* (2005), this last subject plays a pivotal role as the former of the process of development in her/his firm. This person's approach to sustainability is a consequence of personal knowledge, experiences, and the belief that actions toward SD generate a positive return in terms of value creation (Schaltegger, 2002).

Considered a managerial approach, enhancing sustainability also means measuring it with the aim of understanding if any change in the firm performance is a consequence of this virtuous behaviour and a positive effect on corporate imagine and reputation (Gabzdylova *et al.*, 2009). As underlined by Ohmart (2008a), the increasing interest in sustainability in the winery sector faces three main challenges: (1) defining the meaning of sustainability in this specific industry, (2) implementing it in the vineyard, and (3) measuring the effects of its implementation process. Measurements of sustainable aspects can be

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applied in all the parts of the value chain from the inputs selection to the production transportation and the waste production.

Despite numerous studies on sustainability implementation in wineries, there is no recognized definition of sustainability in this sector. In this regard, several initiatives have arisen to identify sustainability issues and to promote practices and actions in these terms. As highlighted by Klohr *et al.* (2013), no common standard can be considered that comprehensively covers several aspects of sustainability in wineries. Nonetheless, these authors' study on six implementation programs proposes a common understanding of the meaning of sustainability in action, emphasizing the development of these practices by considering the three dimensions of sustainability: economic, social and environmental impacts of the activities.

According to Elkington (1997), the identification of sustainability dimensions should consider the triple bottom performance (economic, social, and environmental impacts). As underlined by the internationally recognized Global Reporting Initiative (GRI) guidelines, measuring sustainability means implementing a number of indicators built on the three dimensions presented in sustainability reports. Despite the completeness of the last version of the GRI framework (G4) published in 2013, a supplementary sector that supports the peculiarity of the agriculture sector still does not exist. Due to the lack of a widely recognized, international framework on sustainability measurement in the agriculture sector, particularly in wineries, several initiatives have proposed the evaluation of different aspects of sustainability, such as the tools for carbon footprint measurement (Pulselli *et al.*, 2008), which have drawn much attention.

Other points under discussion are which dimensions of economic, social, and environmental impacts are usually considered and which stages of wine production should be evaluated in terms of sustainability costs and performance. Several case studies on best practices have proposed insights from different perspectives, such as environmental drivers and impacts (Marchettini *et al.*, 2003; Marshall *et al.*, 2005; Pulselli *et al.*, 2008), competitive advantage (Atkin *et al.*, 2012; Flint and Golicic, 2009), and environmental management tools for the entire chain (Hughey *et al.*, 2005; Ardente *et al.*, 2006; Ohmart, 2008b; Forbes and De Silva, 2012). However, knowledge remains limited about the drivers of Italian wineries' sustainability implementation and the barriers to its path, and there is a call for further studies on issues regarding practices, particularly performance measurement (Casini *et al.*, 2011). With the aim to contribute in filling this gap, this article presents an explorative case study analysis on a particular cooperative distinguished for its keen attention to sustainable production and tangible interest in the governance of sustainable issues.

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METHODOLOGY

With the aim of identifying the features of sustainability implementation, drivers of this process, and barriers that render these actions difficult, our research was based on an in-depth analysis of a case study, hereafter called "Ripasso," that we identified as performing best practices in terms of sustainable behaviours. To answer our research questions through the case study (Patton, 2002), a qualitative approach was employed (Creswell, 2007) to observe actions and facts in their natural conditions (Yin, 2009).

The case was selected as a best practice due to the involvement of the cooperative in Magis, a sustainability project promoted by BayerCrop Science, which promotes low-impact wine production. We identified Ripasso as an excellence-seeking cooperative comprising 106 firms, using Gabzdylova *et al.*'s (2009) matrix that classifies firms according to their extent of corporate social responsibility (CSR) and drivers of CSR.

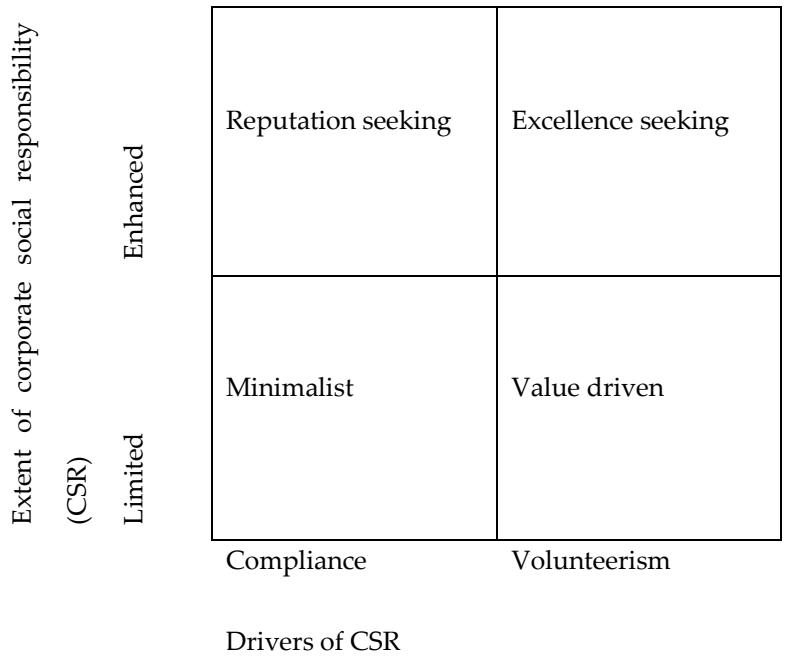

Figure 6. *Matrix of sustainability orientation, adapted from Gabzdylova et al. (2009).*

Gabzdylova *et al.* (2009) categorize the four main groups of firms as minimalist, value driven, reputation seeking, and excellence seeking. The firms classified as minimalist consider sustainability issues only in relation to compliance with the standards sector or national or regional laws, and they do not invest in sustainability improvement beyond the legal requirements. The value-driven firms are partially involved in sustainable practices, but their actions are driven by volunteerism and expression of a champion that consider sustainability processes important but are limited by scant financial and economic resources. Companies considered as reputation seeking believe that sustainable efforts are an

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easy way to improve their reputation, which means enhancing their value as perceived by the hosting social and economic environment, as well as increase their products' prices. To reach a high level of reputation, companies employ signs, logos, and statements, such as sustainability reports and brands. Finally, the excellence-seeking firms consider sustainability both as part of their business and the philosophy of their operations, making high investments to improve cost efficiency and ensure green production. In this case, the higher price paid by the consumer is justified by a product with a high quality of raw materials and an environmentally sensitive way of production.

Gabzdylova *et al.*'s (2009) study is based on the New Zealand context, with the country's close attention to sustainable issues. Due to Italy's limited experiences in such issues, Ripasso was selected among a group of firms considered sustainability sensible and involved in the Magis project. This particular case was chosen because of its position in the matrix as an excellence-seeking enterprise. As shown in the findings, this cooperative winery considered the acquisition of a sustainable brand and related certification as an effort driven by the importance of its entry to this particular market and its strong belief that to act for sustainability is the correct decision.

Magis is an Italian initiative on sustainability in wineries and internationally recognized by *Organisation International de la Vigne et du Vin* (OIV), an intergovernmental organization with scientific and technical objectives concerning the winery sector. The project aims to develop the sustainability and quality of Italian wine in an effective and transparent way, involving wine producers, the scientific community, oenologists, and the industry. In view of the lack of techniques on how to improve sustainability practices, Magis is an example of how an external initiative can improve the protocols and knowledge on this issue. Despite the entrepreneurs' belief and their will to act for sustainability, there is often a lack of understanding on how complex its implementation process can be. Through a protocol adapted to different geographic areas and farming styles, wineries record results by using a computerized platform. This system permits monitoring the data collected, with the aim of improving sustainable production.

Between September and November 2014, we conducted semi-structured interviews with key informants at the farm (oenologist, general manager, accountant, and agronomist) who were involved in the introduction and development of the Magis project. We also held a meeting with the geographic area responsible for the project.

The framework of the semi-structured interviews was carefully adapted to the specific issues to be explored with the various professionals, providing both different points of view on the same topic and important notes on particular aspects (Miles *et al.*, 2014). The open questions of the questionnaire

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enabled interviewees to respond in their own words, and because the interviews were held at the farm, the comfortable environment helped them carry on a natural conversation. We taped the interviews and coded the written transcriptions by using computer-assisted, qualitative data analysis software (Atlas.ti), which was helpful for organizing data (Bryman and Bell, 2011). After the first round of open coding, we refined the coding labels through a discussion among the authors and summarized the data by using main concepts, such as sustainability drivers, barriers, and measurement tools. Field notes and other documents provided by the cooperative and the Magis protocols were included in the hermeneutic unit and subjected to the process of analysis.

RIPASSO AND SUSTAINABILITY IMPLEMENTATION IN PROCESSES

Ripasso is a cooperative winery with more than 100 partners among the best wine makers within the zone of analysis, using about 150,000 tons of grapes yearly for the production of white, red, and rosé wines, highly recognized by Italian certifications of quality.

Ripasso considered participation in the Magis project from the beginning of its implementation. Since the first years of the 21st century, Ripasso has demonstrated the application of sustainable principles in the management of the vineyard. Through the project, this attention was expanded to the entire production, increasing the application of sustainable principles to the other parts of the chain, such as the canteen. Initially, the process was applied only to one type of wine, with the aim of extending the implementation to the entire production.

Because as a cooperative (see for example Begalli and Capitello, 2015; Warner, 2007), Ripasso engages in the production of many wineries, the interviewees emphasized how the approach to the protocol could differ, depending on the dimensions of a firm. The common improvement has focused on precision in vineyard management, which is usually easier in small farms with a limited number of plants. The protocol to be followed issues the rules to maintain the practices in a range of actions that are considered "sustainable." In this regard, from the soil treatment to the harvesting phase, the framework is built to monitor the production through a particular software, which also allows Magis to have a broad view of the implementation level at each firm involved in the process and to identify areas for further improvement.

From the respondents' opinions, it is clear that one of the main drivers that led to the introduction of the protocol was consumers' increasing attention to environment-friendly products and brands linked with firms that considered the impacts of their production. Regarding the market position of winemakers interviewed, it means long-term returns in terms of a higher price per bottle, in accordance with brands or labels that certify the sustainability of the wine or the winery.

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The key informants had not observed vast changes in their daily work, and they stressed that main efforts would have be made at the vineyard level in terms of fertilizer use, water management, and the care of plants. In different ways, the interviewees provided evidence of the importance of knowledge development on sustainability, which had been disseminated among other farmers, thanks to the cooperative nature of the canteen, that have worked as a network (Marshall *et al.*, 2005). As noted by Warner (2007), also in this case the drivers that guide the implementation of sustainable production have a general need to increase the sustainable techniques and quality level of vineyard management as a common starting point. In practice, this means contributing to improving the quality of both the grapes harvested, which are healthier with the reduction of chemical fertilizers, and the work environment. All the interviewees stated that in their opinion, the protocol application had resulted in cost reduction in terms of higher production efficiency. Similarly to Forbes and De Silva (2012), despite the perception of the people interviewed, no evidence from the data collected proved that the cost reduction is directly linked with sustainable improvements. In accordance with Hughey *et al.* (2005), the adoption of a more sustainable process in itself provides not clear improvements in environmental performance.

Notwithstanding several positive effects on Ripasso firms by the implementation of sustainability practices in the wine production, numerous barriers were reported by the respondents. On one hand, the lack of measurement prevented performance monitoring; on the other hand, implementing the protocol meant increasing the amount of data to be measured. As observed about the cost reduction that was perceived but not recorded, similarly, the general opinion that the implementation of sustainable protocols increased the value of sales was not demonstrated by precise accounting. This lack of proof was also common in the supposed improvement of the biodiversity quality in the vineyard.

CONCLUSIONS

According to Renton *et al.*, (2002), sustainability issues in the winery sector have been driven by consumers' expectations and increasing attention to more sustainable production in terms of economic, social, and environmental aspects. Despite the stronger focus on this topic, knowledge remains limited regarding the drivers that enhance the process of development and the measurement of these aspects. In view of this literature gap, this study contributes in shedding light on the drivers of sustainability implementation and the barriers to the path that Italian wineries should take. Moving from the demonstrated attention to the Magis project, we selected the Ripasso cooperative for its best practices in sustainability initiatives, highlighting problems and levers to be considered in introducing sustainable aspects to wine production.

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In accordance with Marshall *et al.* (2005), the introduction to a sustainable process is usually driven by the research on the higher quality of grapes harvested, management's attitudes to sustainable issues, and a personal desire of the entrepreneur (Tee *et al.*, 2007) also for the benefit of customers who are more interested in sustainable production. At the same time, participating in a sustainability project means sharing knowledge among farmers, researchers, and project developers.

According to previous studies on sustainability implementation in wineries (Ohmart, 2008a; Forbes and De Silva, 2012), it is difficult to measure the level of adoption in sustainable farming operations because sustainable agriculture addresses all aspects of farming and encompasses a broad range of practices across the continuum of sustainability. The respondents' perception on cost efficiency and effectiveness is probably connected with the rationalization of processes due to the protocol boundaries. Despite this positive feeling demonstrated in the Ripasso environment, it is important to remember that enhancing sustainability also means the ability to measure these practices' effects on performance.

This study has some limitations. The case study analysis is limited to the cooperative canteen rather than to consider all the farmers involved in the sustainability implementation process. Furthermore the analysis focused on Magis project strongly link the results with the features on the related protocol. Further studies are needed to gain a better understanding of these last issues and also to better appreciate the measurements in terms of cost efficiency and performance related to the sustainability implementation.

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 ISBN: 978-9963-711-37-6

GAINING LEGITIMACY IN NON-PROFIT GOVERNANCE. THE ROLE OF STAKEHOLDER ENGAGEMENT

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ABSTRACT

The growing importance of non-profit organizations (NPOs) in raising the social and economic development of a local community has increased the number of research studies related to NPO governance mechanism features to understand territorial needs. In this sense, the representation of the local community within boards is a governance tool that allows NPOs to increase legitimacy. Moving from Guo and Musso (2007) and Rossi *et al*. (2015), our research explores how governance dimensions affect representational legitimacy. This paper analyzes among Italian Bank Foundations—organizations where the representation of community within boards is provided by law—the case study "Sigma." An in-depth analysis of this organization's practices provides insights from a well-balanced representational mix, in which different local stakeholders have different weights in appointing board members. This paper improves the understanding of governance representational dimensions, describing levers that can contribute to gaining trust and increasing the ability to act in the interests of the local community.

Keywords: *local stakeholder, representation, Italian Bank Foundations, governance, stakeholder engagement, case study, Italy.*

INTRODUCTION

The growing role of non-profit organizations (NPOs) in fostering the social and economic development of a territory has increased the number of studies focused on their governance mechanisms and board capabilities to understand local community needs. In this sense, a good governance acts to better plan actions in light of the local communities' interests and of gaining stakeholder trust. Among the studies on governance mechanisms, some authors have focused attention on the representation of the local community within boards to increase NPO legitimacy (Pitkin, 1967, 1969; Cnaan, 1991).

 ISBN: 978-9963-711-37-6

As representation is a controversial and multi-faceted concept (Pitkin, 1967), models that analyzed this issue in NPOs highlighted several dimensions of representation corresponding to several mechanisms for representing stakeholders' interests in decision-making processes (Guo and Musso, 2007; Guo and Zhang, 2013; Rossi *et al.*, 2015). While these models illustrated how different dimensions of representation influence the representational legitimacy of an NPO, they did not explain why this happens.

Due to a lack of studies on this topic, our research explores how and why some governance mechanisms could affect the representational legitimacy of Italian Bank Foundations (IBF), a kind of NPO where the representation of the local community within boards is provided by law.

IBFs originated in the early 1990s under the so-called Amato Law (Law No. 218 of 30 July 1990), which led to the privatization of community-owned public savings banks with a strong vocation of solidarity toward the territory in which they operated. The law separated philanthropic undertakings from lending activities and created 88 community-owned IBFs (Jassaud, 2014). In light of their aim, IBFs must use the income derived from the management of their endowments exclusively for the development of the territories in which they are rooted (Anheier, 2001). In this way, the law defines general matters of governance, and statutes must consider deeply how to represent community interests in decision-making processes. Each bank foundation is called to describe in its own statute the mechanisms that allow the board to engage community representatives in determining objectives, priorities, and long-term plans for both asset management and grant-making activities.

The link between an IBF and its local community is strengthened by the mechanisms through which board members are appointed that aim to balance several stakeholders' claims. As highlighted by Rossi *et al.* (2015), four groups of stakeholders are representative of the interests of the local community (public sector entities; cultural, educational, and research organizations; trade and professional associations; civil society associations). These groups of stakeholders have the power to designate IBF's board members or to propose lists of candidates from which the expiring board chooses new members.

Moving from the frameworks proposed by Guo and Musso (2007) and Rossi *et al.* (2015), an explorative case study is presented to identify the features of representational dimensions found in a large-sized IBF (Sigma). This particular case was selected according to asset dimensions and the well-balanced representation in board composition in terms of the four stakeholder groups.

This paper is organized as follows. In the next section, we present a summary of the existing literature on representation within boards by considering the main models developed for analyzing this issue in NPOs. The methodology section describes the selection criteria for choosing the case study Sigma, as

 ISBN: 978-9963-711-37-6

well as how data collection was carried out. Then, we present and discuss the main findings from the case study in terms of representation dimension features and tools implemented in this context. At the end, we provide final issues identified through the case study analysis, as well as further suggestions and limitations to solve in future studies.

THE DIMENSIONS OF REPRESENTATIONAL LEGITIMACY IN NPO BOARDS

While there is a general scholarly agreement that NPOs should embody community interests in their boards, little is known about the mechanisms to effectively achieve this goal. Scholars emphasized the role of participation as a mechanism for engaging the community in decision-making processes and making non-profit boards more responsive to community needs (Brown, 2002; Checkoway & Zimmerman, 1992; Freiwirth, 2007; Harrison & Mort, 1998; LeRoux, 2009; Saxton, 2005). More recently, a recent area of research in the NPOs field focused on engaging local community through representation on boards (Guo and Musso, 2007; Guo and Zhang, 2013; Rossi *et al.*, 2015).

Most of the models that analyzed the issue of representation in NPOs are based on Pitkin's (1967) work, 'The Concept of Representation'. In her study, Pitkin (1967) defined 'representation' by identifying four dimensions: substantive, symbolic, formal, and descriptive. Substantive representation occurs when board members act in the interests of the represented community. Symbolic representation occurs when the community trusts an organization as its legitimate representative. Formal representation is based on formal mechanisms that establish the way board members are selected and stay in charge. Finally, descriptive representation is concerned with a board whose members have socio-economic and demographic characteristics similar to those of the organization's constituencies.

Starting from Pitkin's models (1967; 1969) and Rothschild and Russell's study (1986), Cnaan (1991) summarized ten criteria for analyzing the level of representativeness of NPOs: free open elections, member participation, informed membership, accountability to constituents, due process, level of similarity, similarity in perceived needs, *cui bono*, successful advocacy, and competition among NPOs.

More recently, Guo and Musso (2007), by considering participation and representation to be interconnected in the context of non-profit governance, proposed a comprehensive conceptual framework to understand specific sorts of representation in NPOs. Starting from Pitkin's (1967) idea, these authors proposed a five-dimensional model by adding to Pitkin's (1967) conceptualization another dimension called "participatory representation." This new dimension occurs when there is direct and active involvement of the community in organizational activities. The authors applied their conceptual framework to two community-based organizations to demonstrate the complexity of representational mixes in NPOs. Specifically, as illustrative case studies, they considered a charitable

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service provider, whose primary goal was to deliver services to constituents, and the Los Angeles' neighborhood councils, whose primary goal was to engage in external representational activities. The findings showed that a uniform 'gold standard' does not exist and the organizational type influences the extent to which NPOs are representative of the different dimensions. In particular, formal representation was lacking in the charitable service provider, while the participatory mechanisms were relevant; conversely, the neighborhood councils paid less attention to the participatory mechanisms and placed a particular emphasis on formal procedures to pursue substantive and symbolic representations.

In developing their framework, Guo and Musso (2007) highlighted features and bonds among the five representational dimensions. Substantive and symbolic representations are outcome measures of the organization's "representational legitimacy" (Guo and Musso, 2007, p. 311), while formal, descriptive, and participatory representations are capacity measures of the representational legitimacy that contributes to achieve substantive and symbolic representations. The authors called for more in-depth studies to clarify the extent to which formal, descriptive, and participatory arrangements can promote the capacity of NPOs to act (substantive representation) and stand (symbolic representation) for the interests of their communities.

Rossi *et al.* (2015) integrated this model detailing more in depth the broad categories suggested by Guo and Musso (2007) for describing capacity measures. In light of this, they identified new formal and descriptive mechanisms of representation that NPOs may adopt to achieve a more representative governance. Compared with prior literature, they enriched the governance mechanisms for representing communities' interests within boards and highlighted that a pivotal role in gaining representational legitimacy might be played by:

- other formal arrangements for selecting board members aside from elections (e.g., direct designation by stakeholders, lists of candidates proposed by stakeholders among whom the outgoing board of trustees chooses its new members, appointment by the outgoing board of trustees);

- the groups of stakeholders called to appoint the board members that, in accordance with Leardini *et al.* (2014), are distinguished in public sector entities, culture education and research, trade and professional associations, and civil society associations;

- and, finally, the residence of board members within the same territory in which the NPO operates.

 ISBN: 978-9963-711-37-6

Moving from Guo and Musso's (2007) study, Guo and Zhang (2013) provided a validation of their framework within the Chinese context. By investigating how formal, descriptive, and participatory arrangements are linked with substantive and symbolic representations, they confirmed a positive relationship between capacity and outcome measures, with the exception of formal representation. To better analyze these relationships, Guo and Zhang (2013) identified a set of measures for representational capacity dimensions. In particular, formal representation was identified by the presence of formal arrangements for board elections and recalls. Descriptive representation was analyzed by considering the composition of the board of directors and by surveying the perceptions of the executives on the congruence between leadership and constituent demographics. Finally, participatory representation was measured by asking respondents to evaluate the quality and extent of the communications between NPOs and their key organizational constituents. In so doing, Guo and Zhang (2013) confirmed the importance of operationalizing in a detailed and clear way the representational capacity measures for exploring their relationships with substantive and symbolic representations.

Moving from the frameworks presented by Guo and Musso (2007) and Rossi *et al.* (2015), the aim of our study is to develop a new model of stakeholder representation within governance, presenting an in-depth analysis of a case study with a high level of legitimacy and well-balanced representation in board composition in terms of the four stakeholder groups. Our model considers Rossi *et al.* (2015) for input dimensions (capacity measures) and Guo and Musso (2007) for output dimensions (outcome measures), investigating how governance mechanisms could affect the representational legitimacy in this particular context.

METHODOLOGY

With the aim to analyze features of representational dimensions in the particular context of IBFs, Sigma was selected according to their large asset dimensions and balanced representation of stakeholders in governance composition. To achieve the research objectives, we selected a particular case study (Patton, 2002) that could offer insights into participatory governance mechanisms and several stakeholder engagement tools. This large-sized IBF provides wide information on its 'representational mix' (Guo and Musso, 2007), where different groups of local stakeholders have different weights in appointing board members (Rossi *et al.*, 2015). Furthermore, in accordance with Suchman (2005), this foundation is hosted by a context that recognizes its high level of legitimacy.

The data collection was carried out from January to March 2014 through four semi-structured interviews with key informants of the organization (e.g., president, two members of the board, and an

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executive) that have a thorough knowledge of governance mechanisms that could affect the representational legitimacy of the foundation. Interviews had open-ended questions, lasted 45 minutes on average, and were audio-recorded, transcribed, and coded. To improve the reliability of our findings, we combined and compared information from different sources through a data triangulation approach (Eisenhardt, 1991) by integrating the interviews results with an analysis of the available documents (statute, code of ethics, board regulation, reports, other institutional documents) and the institutional web site.

SIGMA FEATURES OF COMMUNITY REPRESENTATION

Sigma is a large-sized foundation with the aim to support the social, cultural, and economic needs of the local community, focusing its attention on the specific territorial zone that hosted the organization, in particular, on five areas of interest: 1) research; 2) education; 3) art, cultural heritage, and environment; 4) healthcare sector; and 5) charity.

Since the first analysis of the documents, formal representation was highly granted by the statute's disposals regarding board composition. The "expiring board" chooses new members by selecting among a list of candidates proposed by local stakeholder groups and only three members are appointed directly from the expiring board. According to Rossi *et al.* (2015), no arrangements are proposed from the statute on the socio-demographic characteristics of the board members, while there is a specific article on the interest that these subjects must represent on the board. The 12 members remain in charge for five years and must be qualified to carry out their tasks in foundation management and hold professional knowledge and experience within the bank foundation's areas of action. Skills must be acquired through executive and control positions on boards or committees of private or public organizations or through the fulfilment of educational, research, or religious functions. In addition, experiences in entrepreneurship and consultancy are appreciated in the candidate's comparative evaluation.

In addition to the professional features of members, the descriptive dimension is also comprehensive of a specific statute's disposal in terms of stakeholders that must propose the range of candidates. In Sigma, the percentages of proposal defined by the statute are: 33.33% from public sector entities, 16.7% from trade and professional associations, 16.7% from civil society associations, 8.3% from culture, education and research, and 25% from the expiring board. Despite this specific disposal, looking into the actual composition of the board, it can be seen how these percentages are quite different, namely: 25% from public sector entities, 25% from trade and professional associations, 16.7% from civil society associations, 8.3% from culture, education and research, and 25% from the expiring board, involving

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professors, businesspeople, professionals and non-profits leaders. In this sense, on the one hand, people interviewed underlined the importance of maintaining a balance among different represented interests of the local community on the board with a well-balanced representation. On the other hand, these subjects stated that the composition is not a guarantee of the personal quality of each person appointed, because everyone is mirror of her/his own experiences, skills, and values. Finally, the statute establishes that all members of the board must be residents within the same territory in which the NPO operates.

The participatory representation can be considered in terms of annual meetings that total at least six per year, representing a high frequency compared to the average of 3.7% (Rossi *et al.*, 2015). In addition, great attention is dedicated to commissions and committees involving the local community both in the definition of Sigma's funding priority and in projecting actions in particular areas of interests.

This engagement of stakeholders can be carried out through a number of direct and indirect channels. In developing projects, Sigma usually organizes round tables and focus groups during the period of the entire process, involving experts of the topic of intervention and the beneficiaries of funds (substantive representation). Because of cut funds of public administration, NPOs try to satisfy part of the need not covered by the welfare system. In light of this and of the large variety of sectors of intervention, the respondents underlined the importance of local community engagement to understand the priority in terms of disbursements (substantive representation).

Ex post each project is also evaluated using a framework that provides a scale in terms of goals reached using the fund devolved by the foundation. This method is also helpful in the evaluation of long-term and complex strategies composed of several actions that involve numerous subjects from the local community. The implementation of this framework was also driven by the need to increase the transparency and consequently the trust in the foundation using an objective tool in the project evaluation (substantive representation).

Symbolic representation is clearly shown through one-way communication events. The primary one is an entire day dedicated to foundation activities and the presentation of the annual report disclosing the main actions of the previous year. During this meeting, the document is presented to the main local stakeholders of the community without asking for any feedback on the effectiveness or usefulness of this accounting tool.

Sigma also appears active by using social networks, such as Facebook, and one of the interviewees evidenced the role of the foundation website as an important and clear communication tool, easy to reach, and preferred by stakeholders.

ISBN: 978-9963-711-37-6

DISCUSSION AND CONCLUSIONS

Because of a lack of studies on governance mechanisms and representational legitimacy in NPOs, our research explores in which ways governance features have declined and how this could affect the representational legitimacy in the particular context of IBFs, in which the representation of the local community within boards is ensured by law. In doing so, we consider as a framework of analysis Rossi *et al.* (2015) for input dimensions and Guo and Musso (2007) for output dimensions.

From the case study of Sigma, it is possible to note that, despite a disposal by law of the representation of the local community on the board, it is up to single NPO to define the terms that determine this aspect. In our case study, the statute is an important formal tool that clearly states the rules to follow in appointing board members, considering a well-balanced coexistence of local stakeholders' claims. However, personal features, experiences, and values of new members are variables that can only be partially managed in appointing these subjects.

The case analysis suggests several improvements must be made in terms of governance mechanisms that enhance to reach or maintain the trust of the local community. Committees, commissions, round tables, and focus groups are organized as stakeholder engagement tools with the aim to act for the community in the transparent reading of their needs. On the contrary, the annual report is just a communication tool rather than an accountability mean, and lacking is the feedback from stakeholders regarding the foundation's performance. According to Moggi *et al.* (2015), reports and stakeholder engagement in reporting are not considered priorities for governance that employs media as a symbol of the foundation's legitimacy.

According to Guo and Musso (2007) and Guo and Zhang (2013), these results highlight that governance mechanisms could influence in different ways the legitimacy of NPOs in terms of their capabilities to respond to local community needs and the influence of local stakeholders in appointing board members. In accordance with Rossi *et al*. (2015), the case also showed how stakeholders have an impact on Sigma decisions through the employment of several engagement tools.

Insight from this research improves the understanding of governance representation mechanisms, describing the levers that can contribute to gaining trust and increasing the ability to act in the interest of the local community. These results will increase the capability of NPOs managers, practitioners and policy makers to shape the effective actions in meeting local community needs.

 ISBN: 978-9963-711-37-6

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 ISBN: 978-9963-711-37-6

TEACHING BUSINESS ETHICS FROM A CHRISTIAN SOCIAL ETHICS PERSPECTIVE - STUDENT PERCEPTIONS

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ABSTRACT

The highly competitive global business environment is increasingly devoid of ethical behaviour and tends to focus mainly on shareholders rather than all stakeholders. Business schools should seek to maximize the impact of ethics education on modern businesses so as to allow them to gain a sustainable competitive advantage. The perceptions and consciousness of management students concerning business ethics are generally flawed, as is evidenced by the often highly questionable unethical behaviour of many current business leaders. Do students reflect adequately on values and modes of thinking and acting ethically? What are the main issues in Business Ethics education? Is the ethical gnosis of students at business schools enhanced for a better business world which impacts positively on society?

The goal of this paper was to use an exploratory qualitative research study. It consisted of an interdisciplinary literature review and purposive sampling of fifty respondents who completed self-administered questionnaires on five point Likert Scales. These allowed the researcher to unpack perceptions as to the worth of Business Ethics education at a top African management school. This research will be used together with a survey of students currently engaged in a Business Ethics course in order to examine the likely impact of Business Ethics education on them personally and how likely ethics education is to influence their future business dealings. How credible is Business Ethics teaching perceived to be and is it valuable if at all? Are students as future managers and employees likely to be dependent and reliant on only material gains or will their Business Ethics education connect them to the world of business in a deeper sense?

Keywords: *Business Ethics, Christian Social Ethics, management, leadership, education, students, globalization*

ISBN: 978-9963-711-37-6

INTRODUCTION

In order to effectively teach business ethics necessitates a deep comprehension of what ethics entails on the part of both academics and students. While it is largely valid to argue that employees learn their values and build their ethical conceptual frameworks primarily at home, school and church, the reality of the work environment poses fundamental ethical challenges for employees at all levels of organizational hierarchy on a regular basis. When faced with a myriad of ethical dilemmas and moral mazes, the issue of doing the right thing becomes highly problematic and employees may battle to make and take decisions that are ethical in nature. This is particularly the case in organizations in which the ethos that pervades the workplace is devoid of a moral corporate culture. In such workplaces, some managers force employees to engage in unethical and highly questionable behaviour. This is despite such organizations purporting to adhere to strict codes of ethics and conduct. In organizations that are truly ethical, business conduct becomes more transparent and societal welfare is promoted. Where carefully crafted codes of ethics and conduct are employed in an honest fashion, and where organizations comply with corporate governance regulations and requirements, sustainability is more likely. Where ethical leadership is evident and leaders are also trusted and have integrity, success and sustainability are almost certain to follow.

It is the lack of ethical conduct which to a greater extent resulted in the global financial crises which have plagued global society in the last decade and which continue to pose a huge threat to economic stability. The often highly questionable actions of employees relating to ethical issues, has undoubtedly created a huge lack of trust on the part of many stakeholders and resulted in businesses losing reputations that were, in many cases, painstakingly created by them over many years in the service of society.

It is thus important for business school per se, to tackle business ethics as an important area of study and provide especially future business leaders with a solid foundation for understanding how it is that they can only succeed in business by adopting ethical strategies, processes and indeed day-to-day issues. The sustainability of an organization is thus largely dependent on the ethical stance that it adopts and the extent to which ethics is ingrained into its operational DNA. Consequently, business school in particular, are focusing more on promoting ethical business practices through the incorporation of ethics and values based education in their course offerings. The lack of congruence between the notions of wealth accumulation at all costs, and the enhanced bottom-line, and honest modalities of operation in business which focus on a triple-bottom-line approach, makes life difficult for students about to embark on careers in the business world. Business ethics is not a new concept. Indeed in ancient civilizations such as Classical Greece in about 350 BC, the notion of arête, loosely

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translated to mean excellence, was taught by Aristotle (384 – 322 BC). In Aristotle's view, ethics was a highly practical rather than theoretical study. He maintained that one should strive to become good and wrote various treatises on ethics, including the mega-work, Nicomachean Ethics (Burger, 2008).

Aristotle taught his students, including Alexander the Great, that virtue includes the proper function (*ergon*) of a thing. He also articulated the notion that humans have a purpose which is specific to them. this purpose must be an activity of the *psychē* (usually translated as soul) in accordance with reason (logos). Aristotle also identified this most advantageous activity of the soul to be the aspiration of all human conscious action, *eudaimonia*, generally translated as "happiness" or "well-being". If humans wish to be happy in their lives they require a good character (*ēthikē*) and must also possess virtue (*aretē*) in their dealings with others. *Aretē* is generally translated as being moral, ethical and virtuous (Bartlett and Collins, 2011).

He discussed with his students how commerce in general should be conducted in an honorable manner and taught on wealth accumulation, the use of money and its value for society. He frowned upon usury as indeed did Adam Smith, who in his Wealth of Nations, had a great deal to say about business ethics.

Societies in the global arena are trying to address many issues related to ethics and the law. Organizations are also desirous of complying with regulatory issues so as to better serve the public interest. However, many negative issues still arise. In a study conducted by Pomeroy (2007) in the United States of America, seventy three percent of employees claimed they had been witness to unethical conduct in the workplace. A wide range of misdemeanors exist in business including inter alia time theft, where employees abuse work time for personal issues, using company resources for private use, theft of equipment at work, fear to blow the whistle on transgressors of ethical conduct codes, deception by false marketing etc. (Luna-Arocas and Tang, 2004).

There are unfortunately many daily examples of unethical conduct in business operations globally, in which especially business 'leaders' have abused their authority and for example, stolen billions of dollars. It is imperative that especially the senior managers set an ethical tone for their business as this tends to create an ethical ambience and also clarifies roles and tends to engender advances towards ethical decision-making. When business leaders create a culture that considers all stakeholders and value a team orientation and are transparent in their dealings in particularly their internal communications, they set the groundwork for improved financial performance (Maignan et al, 2011).Various major international corporations state that their business can only be sustainable and successful through their ethical behaviour (Veiga, 2004). The result is that organizations by and large strive to create an ethical culture which espouses the values and norms that are accepted as appropriate

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behavior on their part. In this regard, senior managers have a huge role to play as they serve as role-models and create shared values while simultaneously promoting ethical decision-making.

According to other recent research, if leaders are seen to be conscientious, and also to the liking of stakeholders, especially their employees, they are invariably linked to the notion of ethical leadership which bodes well for sustainability (Kalshoven, Den Hartog, & De Hoogh, 2011). Academics such as Carroll (2004) and Vitell (2003) have also carefully considered the state of global business ethics. They have painstakingly argued about the many challenges that business ethics is facing and is likely to face faces in the years ahead. Vitell, for example, has scrutinized a wide range of conceptual and empirical works with the objective of promoting research in the consumer ethics domain. Carroll's (2004) research has tended to focus on a range of ethical issues that face stakeholders of organizations globally. Unfortunately it is evident that numerous business leaders adopt a strategy which is market orientated and they concern themselves only with shareholders and customers. They consequently fail to understand the critical importance of all stakeholders and this often leads to disaster and generally unsustainable business operations. According to Tarí (2011), it is essential to determine what stakeholders require in terms of ethics, social responsibility and quality management. Stakeholder concerns and interests must be identified by organizations so that the latter are able to effectively respond to them. With these ideas in mind, there is no doubt that business ethics has assumed a very important role in the global business conscience (Freyne, 2009; Gilmartin, 2008)."Leading businesses no longer debate the legitimacy of the role and importance of ethics, rather, they are forging ahead, finding new ways to put ethics into practice" (Krehmeyer, 2007).

Research into business ethics as such gained momentum during the1960s and 1970s, and business ethics has been a principal issue in Church rationality on business issues in general for most of the last 1900s (Bowie 2000). De George (1987) has sketched the initial development of the business ethics field and maintains that business ethics has undergone five distinct stages of development from the 1960s up to the1990s. Since that time there have been numerous other quantitative and qualitative research studies. Business ethics is now clearly in the spotlight as many organizations across the globe, both big and small, now recognize the importance of ethics in the workplace and in business conduct. It is now more common than ever to find organizations with officially trained "ethics officers" and with elaborate "codes of conduct/ethics" which are expected to be observed by all employees.

Christian Social Ethics is a useful means of promoting a Christian cultural value-based education, since it is eminently suited to the needs of contemporary business leadership education. The Christian Churches have often articulated that capitalism is problematic in that it promotes materialism and excesses in society and that this often leads to the exploitation of the working classes (Pope Leo XIII,

 ISBN: 978-9963-711-37-6

1891).In this context, Christian Social Ethics which has been operational for centuries, is a useful approach in seeking to resolve the dilemma between maximization of profits and an emphasis on shareholders as the only stakeholders of worth, and ethical business practices which are aligned with a total stakeholder approach. It is evident in what is offered in many courses viewed on the internet that many lecturers serving in business schools have restricted experience in dealing with business ethics as a subject of great worth to society in general (Sims & Sims, 1991). This is where Christian Social Ethics can present a structure to aid in the educational offerings of business schools.

The Church has been intensely interested in the social questions such as concern for stakeholders because of the religious and moral aspects involved. It supports the notion that the State as an institution has the obligation, right and responsibility to intervene on behalf of justice for employees and other stakeholders social well-being. Employers and their workforces should also create mutually beneficial associations to protect their rights. The Church also maintains that in terms of Christian Social Ethics, it is imperative that organizations move away from a purely market driven capitalistic model and embrace one that promotes human dignity and worth and which is clearly conscious of all stakeholders.

Business ethics as a discipline is currently assuming greater importance than ever before in the offerings of especially business schools (Freeman, 2000). Business Ethics is generally defined as the moral guiding principles which preside over the expected good behavior of individuals in their business conduct. When employees behave ethically what this means is that they are acting within certain moral boundaries. To behave ethically in business is in any event an important way of promoting the sustainability of an organization. According to Magner (1989: 31) an awareness of what ethics entails in business, prevents one from doing something unethical and makes one reconsider ones actions and thus helps promote ethical conduct.

Given the changing globalized world in which businesses operate, it is vital that the ethics discipline has increased in importance and is to all intents and purposes a fully-fledgedpart of business management education. A myriad of ethical theories, both ancient and modern, are used to promote ethical conduct in the workplace and the perception of business ethics as a course of value has grown immensely, It has to all intents and purposes become fully integrated into management education. The business issues that are impacted upon by ethical thinking and action are indeed often highly complex thus necessitating greater engagement by students with the discipline. Enderle (1996) asserts that business ethics is now perceived as a unique discipline.

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The global economic and financial crises since the turn of the millennium have obliged higher education institutions such as business schools, political leaders and captains of industry and also employees at all levels of organizations to carefully think about the ethical and moral values they embrace and how these can be consciously propagated in the capitalistic market economy. The idea is to create 'conscious' model of capitalism which considers stakeholder needs while still promoting organizational sustainability in triple bottom line approach which is cognizant of people, planet and profit. Consequently, renowned scholars such as Freeman et al. (2009) and Harris (2008) have made a concerted attempt to inculcate in business students, especially at MBA and MBL levels, the critical importance of a synergistic relationship between a business and the society in which it operates. Gentile (2010) has utilized research from both social psychology and decision-making processes to guide students and employees to more clearly appreciate the value of ethical conduct and honesty in business dealings.

QUALITY ISSUES AND TEACHING BUSINESS ETHICS

Teaching management students Business Ethics, promotes the maintenance of ethical conduct in dealings with a wide range of stakeholders and also to an extent, allows organizations to mitigate concerns relating to ethical problems which may adversely affect quality service provision. Such education also serves to protect consumers and improve service while minimizing costly litigation which negatively impacts the 'bottom-line'. Ethics courses provide future managers and employees with the tools for dealing with moral complexity in business which affects quality. In any event business decisions should have an ethical component. Quality issues impacted on by ethics education include the defining of appropriate behavior in business conduct, the establishment of organizational values, leadership and oversight matters, considering stakeholders, developing accountability and responsibility and especially in organizational auditing and improvement initiatives. The key features of quality business conduct include the principles of honesty, trust and integrity, openness, performance orientation, responsibility and accountability, mutual respect, and commitment to the organization. The control of quality in organizations is now all-pervading and prevalent, mainly as a result of the ever-increasing awareness of the high cost of a lack of quality which is concomitant to ethics. Quality is thus essentially a normative, prescriptive approach to the ways in which to transact with stakeholders. Quality, is not merely a necessary formal attribute of an organization, but also serves as the 'creed' of its employees. It is through the quality concept coupled with ethical practices, that quality contributes to the development of intangible resources which are inexorably linked to employees, including for example commitment, responsibility, expertise and trust. Quality is no longer only an operational practice, but is a non-negotiable strategic option which provides an organization

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with a strategic competitive advantage. When ethically focused it engenders a virtuous progression of organizational learning which enhances the immaterial resources of an organization. Quality initiatives in any business need to be viewed as coordinating ethical practice in employees and in the products and services provided so as to achieve organizational goals. The ethics codes in organizations invariably deal with the domain of moral judgments as to what is right and wrong in terms of employee behaviors. Quality driven ethics codes in organizations apply to business questions of what to do from an ethical perspective and how it should be done, concerning a product or service, and how the organization interacts with all its varied stakeholders.

ETHICAL THEORIES

Anthropological research by McDonald (1999) suggests that ethical philosophies and the values espoused by those in positions of authority have a huge impact on the ethical choices and behaviours of the employees they oversee. According to Lewis and Gilman (2005) ethics involves thinking systematically about morals and conduct and includes the making of moral choices and thus stating or doing right and wrong. Hursthouse (2010) views ethics as the conscience between what is moral and immoral and right and wrong. When one acts ethically this is usually considered behaviour that aligns with accepted moral codes and this is proper conduct. Gustafson (2001) views ethical behaviour as something that is based on the assumption that employees act in what is considered the right way in each and every situation and this is generally recognized and expected by both public servants and the public at large. Personal moral values are learned from one's religion, family and school, but these are often inadequate for effectively handling the ethical aspects of complex business dealings.

Boylan (2000), states that "Ethics is the science concerning the "right" and "wrong" of human action". He refers to judgments, which are usually apportioned to people or to actions according to some moral and ethical basis. Ethical theories may be either teleological or deontological. The most conspicuous examples of teleological and deontological ethical theory are notably utilitarianism and the ethical theory of Immanuel Kant. Aristotle's ethics approach is another important theory founded on the notion of virtue (Boatright, 2000). Philosophers now tend to divide ethical theories into three main areas namely meta-ethics, normative ethics and applied ethics. Meta-ethics deals with the nature of moral judgement and essentially unpacks at the origins and meaning of ethical principles. Normative ethics on the other hand is concerned with the content of moral judgements and the benchmark for what is deemed to be right or wrong. Applied ethics looks at controversial topics like for example war and animal rights. (http://www.bbc.co.uk/ethics/introduction/intro_1.shtml#h2) Teleological theories propose that the rightness of one's actions is determined exclusively by the amount of good consequences or the extent to which an outcome produces certain actions. This implies that all actions

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are justified on teleological theories by virtue of the end they tend to achieve, rather than some or other aspect of the actions themselves. Utilitarianism is reflected upon as being a teleological or consequentialist theory and maintains that an individual's obligation, or duty, in any situation is to perform the action that will result in the greatest possible balance of good over evil (Boatright, 2000). If a person realises that it would be morally good to do something then it would be highly irrational for that person not to do it. Business ethics thus provides future employers and employees with a moral map, a framework that they can use to navigate their way through complex ethical issues in the workplace.

Deontologists state that some actions are right not because of some benefit to oneself or others but because of the nature of these actions or the rules from which they follow. In this context, bribery and corruption are wrong irrespective of the consequences of these actions Thus, bribery is wrong, some say, by its very nature, regardless of the consequences" (Boatright, 2000). There are also arguments grounded on principles such as the Golden Rule ('do unto others as you would have them do unto you'). Boatright (2000) agrees: "Obligation, or duty, is the fundamental moral category in deontological theories, and goodness and other concepts are to be defined in terms of obligation, or duty".

Very often, the faculty in graduate business schools inadvertently teach their students to base their ethical decision-making solely on an 'ends justifies the means' economic point of view. From a cost-benefit analysis perspective, business decisions are evaluated in terms of their return to investors. However, "Companies usually calculate the anticipated costs and benefits only for themselves, whereas legislators, social planners, regulators, and other users of cost-benefit analysis generally ask what the costs and benefits are for everyone who is affected" (Boatright, 2000). A cost-benefit analysis in thus a non-moral approach and is used mainly as a means for making major investment decisions. Given the various approaches, it is vital for students to be taught how to apply ethics in business and that their decision-making be tuned in to ethical practices. Their personal values and those of the organization are easier to determine and align. Studying business ethics empowers students to identify ethical issues when they manifest themselves. They are also guided in decision-making processes and how to drive ethics in the workplace.

THE NEED TO TEACH BUSINESS ETHICS

It is essential that future leaders be able to make decisions within the internal and external environments of their organizations. Business does not operate in isolation but rather with many stakeholders that leaders must take into consideration. This is especially the case given that a bad ethical decision can adversely affect the whole of society. Business ethics basically interrogates whether

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or not certain businesses are acceptable in today's business environment. By teaching business ethics to future employers and employees, they are more able to recognize and effectively resolve ethical issues that may arise within the organization in which they work. When employees are unethical because of their inability to handle individual moral dilemmas their conduct invariably adversely affects the entire organization in some way or other. A person may be 'good' but if they are not adequately educated to meet ethical challenges that will arise, disaster will ensue. While some virtues are self-evident such as honesty, transparency and just action, when it comes to business strategy, these may prove to be elusive in what are often complex scenarios. The result is that a law may be broken.

Since personal values are vitally important to promote success in business, the fundamentally important issue for organizations is to recruit ethical employees that possess strong personal moral values and seek to further develop their ethical business approach. Organizations need to support employees ethical attitudes and reinforce ethical conduct. Ideally, the employees, especially the future leaders, should be coming to the workplace with a good idea of what ethics entails. In this regard it is imperative that employees come to understand how they in fact belong to the organization in which they are working (Ferrell & Ferrell, 2011). While it is true that an individual's ethics are inculcated from youth by, for example, parents, peers and churches, ethics can still be taught. From Classical Greece times, the ancient Greek philosophers understood to well what is required in leaders. Socrates for one, believed that virtue was a matter of understanding. When one comprehends what is good and what is evil, they are cautious, self-controlled, are brave and possess a spirit of justice. Aristotle on the other hand debated that while virtue has an intellectual component, it also encapsulates a virtue of character that is gradually developed by education. Hursthouse (2010) asserts that there is a very strong notion of moral motivation in Aristotle's approach, but he also stresses that the virtuous person is far better equipped to meet the demands of acting from a sense of moral and ethical duty.

Socrates debated the question of ethics and his stance was unequivocal. Ethics consists of knowing what we should do in any given situation. He was of the belief that such knowledge could be taught. In any event, according to his teachings the best way for people to live was to focus on the pursuit of virtue and doing the right thing at all times, rather than the pursuit, for example, of material wealth at all costs. He promoted the notion of a sense of community, as this was deemed to be the best way for human beings to grow together (Nichols, 1987).Recent research also suggests that a person's behaviour is greatly influenced by their moral perception and moral judgments and these are based on learning (Velasquez, et al., 1987).Consequently, as students expand their insight and understanding of the business ethics field during their studies, they are more likely to take an informed approach and have a rounded understanding of what ethics entails. They are also well placed to tackle the challenges that

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may manifest in the workplace in the form of ethical dilemmas and moral mazes they must face on a daily basis. To intentionally expose students to business ethics in the course of their studies and develop their basic problem-solving approaches concerning ethical issues, will undoubtedly influence their awareness of moral issues. It will also impact their judgement when it comes to making important decisions.

A descriptive approach may be utilised which describes how things are currently being done in business, or a normative approach which describes a more idealistic view of what ought to be happening in business. Ethics is not that straightforward for many students since different cultures approach certain matters in different ways. For example, in certain Asian and African nations, it is customary in business to offer a potential customer a 'gift' which would be frowned upon in many western nations. It is essential then to focus in education on business ethics on issues relating to diverse moral philosophies and to examine many case studies, thus looking at personal approaches to making ethical decisions in the workplace.

In this regards Forsyth's Taxonomy (1980) on ethics would be very useful for academics to employ. This includes:

(1) Situationism: which promotes a contextual analysis of morally questionable actions;

(2) Absolutism; which uses unchanged, universal moral principles to formulate moral judgments;

(3) Subjectivism: which argues that moral judgments should depend primarily on one's own personal values;

(4) Exceptionism: which concedes that exceptions must sometimes be made to moral absolutes. (Forsyth, 1980)

By understanding these different ethical perspectives, students can develop individual critical thinking skills and better understand how values and principles should be part and parcel of all ethical decision-making. Students as future leaders and employees must be able to use their personal moral compass to make careful ethical decisions. Tseng and Fan (2011), state that an organizational ethical climate influences employee attitudes toward ethics and also how they participate in activities. This is essential for students to note as they will be involved at some stage of their careers, as leaders, in co-creating codes of conduct/ethics with their employees. If they and their employees are involved in the creation of the code, they are more likely to observe it.

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Business ethics needs to address all possible ethical risks facing an organization and industry. Business schools need to provide future executives with ethics education that is of lasting value. It is also critical to collect feedback on business ethics education from the most important stakeholders—from MBL students themselves, which is what this research has sought to do. Business ethics courses need to teach students about the importance of codes of ethics and how to create these, compliance requirements issues, adherence to the laws and regulations and general conduct in business practices via case studies on topics such as, inter alia, environmental issues, cultural diversity, stakeholder engagement, corruption, developing an effective ethical organizational culture, workplace health and safety, employee education, sustainability issues, employee rights and marketing and recruitment of employees. What is thus sought are well rounded students who can traverse ethical conflicts, moral mazes and ethical dilemmas in the workplace. There is evidence, according to Treviño et al. (2004) that suggests that if an organization employs ethical employees, this in itself limits unethical conduct. This is ideal when the workplace culture is also ethical in orientation and where doing the right thing is exuded in the ambience of the workplace (Treviño, Brown, & Wall, 2004).

A CHRISTIAN SOCIAL ETHICS APPROACH

It is an indictment on certain academics at business schools that ethical values and business understanding are viewed as two distinct domains. Very often the business understanding includes profit maximization and ethical dilemmas while the ethical aspects such as honesty and moral action are viewed as a world apart. A Christian Social Ethics approach will serve to integrate these domains and guide a business to sustainability. In such an approach, theological and ethical reflection are linked to teachings of holy scriptures on matters such as employee moral duties and the often tricky relationships between employers and employees. This approach also highlights the notion that good will between people can only come about as the result of respecting the rights of others. Moral duty and the moral 'ought' as used in deontological ethics originate from religious reasoning and theological Christian Social Ethics , where God as the higher being, is the definitive source of morality. In terms of this notion, people have to obey God's commands. Clearly then moral duty and a moral 'ought' are apposite. In this approach, there is a great need to protect the environment while also affording employees their basic human and labour rights in terms of the laws and regulations in a society. Social and economic justice are paramount issues as the common good is sought. In addition to this, love and truth should pervade the workplace and organizations need to be partners of the state in seeking solutions to a myriad of social and economic issues. The welfare of all stakeholders is sought in a spirit of ,justice, sustainability and solidarity with all fellow human beings. Christian churches teaches that man is indeed a very unique creation and should have a special dignity as one of a larger global

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community. Man thus has a dual anthropological purpose to serve himself and seek the just welfare of humanity in a sustainable fashion. Many individuals frequently hold others to a higher standard of conduct and rationalize what they do or simply fail to see their own ethical lapses (Bazerman & Tenbrunsel, 2011). This is why a business course is important, as it highlights what is acceptable and not acceptable in business dealings.

Christian Social Ethics stresses that people should thus seek to understand and reflect ethically on all their actions in their processes and in their institutions. They should carefully weigh up their actions and the implications thereof and constantly strive to seek opportunities to uplift society. Business applying Christian Social Ethics should apply a moral system of values, norms and expectations in their strategies and integrate ethics in all their dealings. All employees and other stakeholders must be treated humanely and business leaders should be morally committed servants of society and manage their employees and all stakeholders with the utmost respect. The church can and does play an important role as an agent of promoting responsible business operation, not by suggesting policies, but rather by aiding leaders to set a moral compass. Such a compass can also be promoted by academics who provide a measure of competence and empower their students. Ethical leadership, supported by Christian Social Ethics, will empower employees from diverse backgrounds and with different individual ethical values to obtain a mutual comprehension of what ethical behavior is. They will thus be more able to establish an ethical organizational culture.

To guide students to appreciate these underlying forces in business ethics, changes are required in the way business ethics courses are taught in some institutions and also in the manner in which society embraces the development and implementation of business ethics in business matters. Efforts is required to bring about important pedagogical changes in both business schools and organizations in today's global business economy (Williams and Dewett, 2005).

PURPOSE OF THE STUDY

The primary purpose of this exploratory qualitative research study was to unpack the extent to which, and in what way a leading business school in South Africa offers Business Ethics as a course which is designed to enhance the critical thinking on ethics issues and ethics decision-making in general, for its graduates. A number of questions were unpacked in the research. Firstly, what ethics course was on offer in a Master of Business Leadership degree? Secondly, was the course an elective or a compulsory offering? Thirdly, what ethical knowledge and competencies are addressed in the ethics course? Fourthly, based on student responses, how likely is the impact of Business Ethics education to be on them and influence their future business dealings? Fifth, was the course deemed to be credible and the

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teaching perceived to be valuable if at all? Sixth, on inspection of responses to questionnaires are students as future managers and employees likely to be dependent and reliant on only material gains or will their Business Ethics education connect them to the world of business in a deeper sense? Seven, to what extent can Christian Social Ethics improve the Business Ethics course?

METHODOLOGY

The population in this study is the summation of students in the second year of an MBL course and which had an interest in the research issues from which inferences could be made. The population size was 437. The sample size for this study was however a total of 50 respondents. The selection criteria used was the purposive sampling targeted group. Purposive sampling was applied because the selected members were chosen for a specific purpose as they had specific insights on data that was being sought. The study ensured the content and length of the questionnaire was appropriate for the level of the respondent sample so that respondents were not inconvenienced with a tedious questionnaire. The time taken to fill the questionnaire was timed to not exceed 10 minutes. The questions in both the questionnaires were of a structured format to ensure research objectives were achieved.

The researcher ensured confidentiality and anonymity of the research instruments and responses. Self-administered questionnaires were completed by the respondents free of the supervision of the researcher. It allowed the respondents to complete the questionnaire at their own pace and without being influenced by the researcher in their responses. Wegner (1999) mentions that design of a questionnaire is are essential to ensure that relevant data to answer the research questions is extracted. Two sets of questionnaires were prepared which were to be administered to the fifty respondents. One questionnaire comprising ten items on a five-point Likert scale, related to the respondents indicating the importance to both them and society of Business Ethics. They were required to indicate their respondent type (see Appendix).

The second questionnaire also used a five-point Likert scale requiring strong agreement or disagreement with issues on whether the respondents would find what they had learned useful from a compulsory core Ethics module taken during the second year of a three year degree Master of Business Leadership (MBL). The programme was based on a combination of theoretical and applied content. The respondents had to have met prior admission requirements including at least three years' managerial experience so as to ensure they could contribute meaningfully to group discussions at the study schools. Respondents had to have done prescribed reading and recommended reading and contributed to group assignments and individual assignments and would write an examination later in the year.

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The questionnaires were distributed personally to respondents who volunteered to answer them. An elaborate explanation of the relevance of the study was provided. The researcher collected the questionnaires from the respondents once they were completed at the end of a lecture session.

According to Leedy and Ormond (2010) research disciplines involving human beings who have potential to think, feel and experience physical or psychological distress, therefore it is imperative to consider the ethical implications of the researcher intentions. The study took into account the right to privacy and disclosure policy, honesty and informed consent as well as protection from harm for the respondents. There were no financial enticements or other forms of inducements given to respondents to encourage participation. Participants not interested to take part were not forced to do so and were free to decline. Participants were informed about the general nature of the study which was to ascertain what could be improved in the course. The researcher made sure to communicate to the respondents that all results will be treated with confidentially and that they would remain anonymous.

The respondents could reflect broadly on the issues in the questionnaire and had the opportunity to make 'additional comments' as well. The response rate was 100% for both questionnaires and thus aided the reliability of the research as these were within the prescribed normative minimum of 50% (Leedy and Ormrod, 2010).

FINDINGS

Respondents	**Population**	**Sample size**	**Non - Response**	**Responses**	**Response rate**
Students on Ethics Course	437	50	0	50	100.0%

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Table 1. *Respondents Sample*

Respondents	Number in area
Government Employee	6
Private sector employee	14
Government department manager	6
Private sector manager	12
Entrepreneur	2
Chief Executive Officer (CEO)	1
Chief Financial Officer (CFO)	2
Other	7
Unemployed	0
Total respondents	50

Table 2. *Respondent type by occupation*

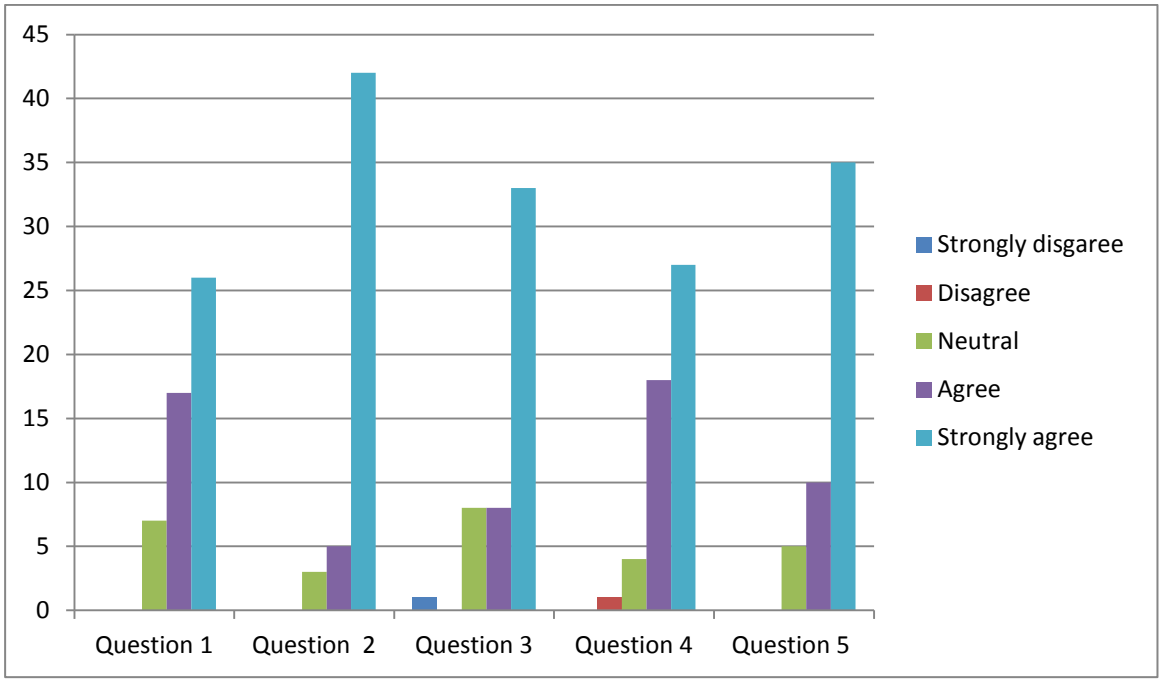

Figure 1. *Course knowledge: Business Ethics and its importance to you and society (first five issues)*

Q1 I have gained additional knowledge from the ethical theories and case studies presented, that will benefit me and my employer.

Q2 The course has enhanced my awareness of considering stakeholders as critical entities to business sustainability.

Q3 The course made me more aware of Whistle-Blowing as a vehicle to ethical action.

Q4 The course made me more aware of Corporate Citizenship as an essential requirement for business success.

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Q5 My ethical reasoning improved as a result of this course.

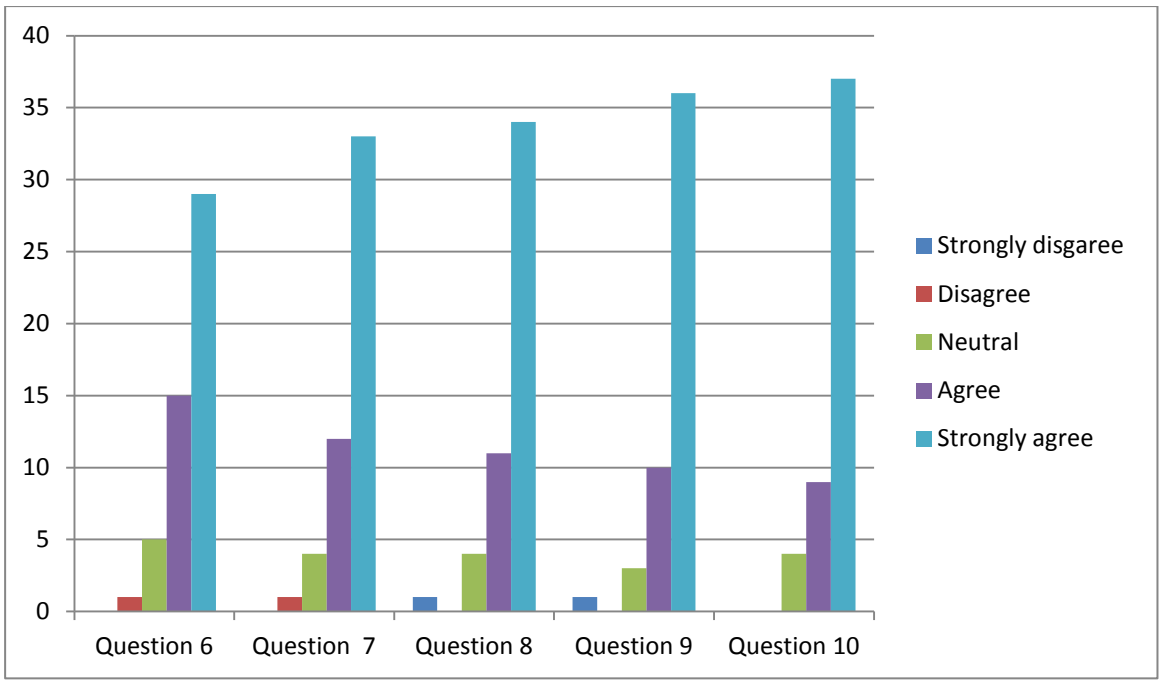

Figure 2. ***Questionnaire one: Course knowledge - Business Ethics and its importance to you and society (last five issues)***

Q6 Ethical dilemmas and moral mazes are a real problem in my workplace.

Q7 Corporate governance is an important tool in the drive to promote good ethics in business.

Q8 I will apply what I have learned on this course.

Q9 The triple-bottom-line is very important to me.

Q10 Business ethics is very important to me.

5 Point Likert Scale Survey responses	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
Research I conduct	0	2	6	15	27
Human Resource issues	0	0	2	18	30
Workplace safety issues	0	0	5	20	25
Marketing/Sales issues	0	1	6	15	28
Finance in business	0	1	7	12	30
Corruption issues	0	0	5	10	**35**
Environmental care issues	0	0	0	20	30
Globalisation matters	0	0	8	17	25
Employee education at work	0	0	5	20	25

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Promoting a better caring planet	0	0	2	17	31
Promoting sustainability of resources	0	0	3	15	32
Inculcating ethical behaviour	0	0	4	15	31
Making me think twice before doing something questionable	0	0	4	11	**35**
Reinforcing what I already know	0	0	3	20	27
Employee rights issues	0	0	4	16	30

Table 3. ***Questionnaire two: What I have learned from this Ethics module will be useful for/in…***

The research discovered and unveiled some interesting findings. On analysing the survey questionnaire responses and the additional comments of students, it became clear to the researcher that significant learning gains are made from the Business Ethics course offering at the institution in question. Many students felt that what they learned will have a far-reaching impact on their ethical stances at work. While many believe they are ethically inclined, some discovered they were not entirely ethical in their possible actions as per various case studies. The largest number of respondents, 70% (35), stated that the course made them very aware of corruption issues and also made them think twice about doing something which may have been unethical. The next largest number 64% (32) felt they learned a great deal from the course on the value of promoting the sustainability of available resources. Thirty one respondents (62%) felt that what they learned would promote a better caring planet and also inculcate ethical behaviour in them and thus in the workplace. Sixty percent (30) stated that they found the course useful for human resource issues, employee rights, environmental care and finance in business. Only 2% of respondents believed the course would not help with finance issues in the workplace or marketing and sales issues.

Students identified number of aspects of the course knowledge that were important to them as per questionnaires 1 and 2. They valued and enjoyed the range of case studies which dealt with ethical misdemeanours big and small and which related to a range of issues including corruption, employee education at work product safety, marketing/sales issues, quality service, globalisation matters, information dissemination, environmental care issues, promoting sustainability of resources, bribery, promoting a better caring planet, employee rights issues, whistle-blowing, workplace safety issues,

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finance in business, shareholder disclosures, personal research issues and also reinforcing of ethical attitudes. The latter was considered to be the most important issue.

The course presentations, case studies, videos and group work sessions stirred the consciousness of most of the respondents. Most of the group felt that they were allowed to internalise ethical values and make them part of their thinking and decision-making on ethical behaviour issues. A key concept that numerous students commented on is that they learned that they may have problems in striving to making the correct ethical decisions. This was based on the recognition that many conflicts of interest, for example, may be present in a given situation. According to the respondents, ethics should be an integral part of every management programme and cannot be taught in isolation from any of the other subjects on offer.

A limitation of the study was the small sample size of only fifty respondents which was also from only one institution. This undoubtedly restricted the researcher making broader generalisations on the outcome of the Business Ethics course. The data collected was also only based on student perceptions and it is not clear how they would in fact act in a real work situation should an ethical issue arise. This research study is important because it builds upon and contributes to the body of knowledge that currently exists on teaching of Business Ethics at postgraduate levels.

CONCLUSIONS

The conclusive view of the researcher is that given the huge ethical crimes in the contemporary global business environment, there is no doubt whatsoever that executive/leadership education must include business ethics education. The business ethics discipline directly affects how management is taught in business schools. It guides leaders in their decision-making processes and also helps them to critically evaluate their actions and failure to act and how what they do or fail to do impacts on society in general. Business ethics courses sensitize students to moral business conduct and moral judgement that impacts stakeholders and ultimately promotes moral action. The research makes an original contribution in that it demonstrates that business ethics is in fact more important than most business schools in South Africa tend to imagine it to be. It led to unique insights on what students believe it's worth to be for them in the context of their workplace, albeit from one institution, that will serve to enhance the course offering.

A comprehension of what organizational ethics entails is critical in the development of ethical leadership. Each employee's personal values and moral philosophy are only one aspect in the decision-making process that can lead to legal problems. Students need to understand how they should be applying the rules and principles of ethical behaviour in their work environments. They cannot simply

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consider themselves to ethical and they may not be able to deal with ethical dilemmas and moral mazes that arise in the workplace. Students are simply told to do the 'right thing' and strive to be ethical in whatever they undertake. However without some legal and ethics education, how can they possibly know what is right or wrong in a work situation? They need to fully understand what is at stake in a given situation and critically evaluate the ethical sensitivity issues. This should be followed by selecting decisions based on an ethical perspectives as well as legal considerations which are carefully thrashed out and motivated. The ethical decision is then made and its impact on the stakeholders is considered since it impacts upon sustainability.

Many students approached the researcher after the course and requested that they be allowed to undertake some ethics research in their third year. The research that students may undertake in their Research Report module, has the potential to make a significant contribution to ethics in the workplace as it provides a framework for the business ethics academic community to have an enhanced understanding of the most pressing ethical challenges plaguing our society today.

There is certainly a far greater interest in the relationship between business and society today than there was some decades ago and business ethics education is now a credible course. The positive comments on Corporate Social Responsibility aspects of the course in the additional comments section indicate that the respondents have a good understanding of the need for the Capitalistic market driven economy to become a 'Conscious Capitalism' which supports government in its drive to uplift society after years of deprivation on the part of the masses. Issues such as xenophobia and *Ubuntu* and cultural diversity promotion in the workplace were also evident in respondent comments.

The researcher, as the academic teaching Business Ethics clearly sees the need to focus on fine-tuning students' skills even further and teaching them how and why they need to avoid ethical hazards. Some respondents commented that the course was their best so far. While this is flattering, there is no doubt that through even more carefully designed learning modules and innovative teaching methods, the Business Ethics course can improve even more. It is also clear that the students are better equipped to handle ethics in the workplace than they would have been without the course. Their ethical decision-making skills have been enhanced. The group work discussions and feedback sessions on various case studies have also provided them with an in depth insight on issues at hand from a variety of cultural perspectives.

The researcher will employ a wider range of pedagogies and will in future course offerings include a combination of discussion, case studies, videos, lecture, and group work and students will also learn greater cultural diversity from the cultural backgrounds of their fellow students. This would also be

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very important for students emanating from other African nations and cultural groupings. Business ethics is an indispensable part of the curriculum of the business school and should be for all business schools grooming future business leaders. Courses such as Business Ethics, furnish students with vital ethical business tools that they should utilise in the increasingly unethical global business environment. Ethics education must be viewed as strategic leadership and organizational change education. The case study method used provides students with concrete examples of many ethical issues and dilemmas. It enables them develop greater ethical insight through engaging with fellow students and the lecturer and through the resultant analysis.

RECOMMENDATIONS

References Considering the rampant corruption in South African society, the researcher suggests that ethics education be the cornerstone of all business leadership education. It should also include action learning and more inter-domain examples. No business school can hope to remain competitive without creating greater value through business ethics offerings. Students must be confident in their ability to consider the classroom inputs in terms of their own experiences and to face up to new ideas with their own often flawed beliefs, either individually, or in their designated study school groups. The pervasive and deeply rooted ethical issues facing both corporate South Africa as well as the Government demand urgent action from business schools as they develop future leaders.

Christian Social Ethics could play a greater role in and thus have an influence on what is taught business ethics. The theories as well as social aspects could assist in providing even greater critical evaluation of the role of business in society. Such a discourse could also impact very positively on budding entrepreneurs who will in the near future become the backbone of the South African and regional economy. The role of business in Corporate Social Responsibility initiatives and the creation of policies and codes of conduct/ethics can all be enhanced by inclusion of Christian Social Ethics notions. The latter must be integrated into business ethics curricula followed by critique and deeper discussion on ethics issues. Business ethics has a role to play in developing and authentic South African community which promotes the human dignity of all who live in the country Christian Social Ethics also highlights human rights issues including labour issues (such as for example, fair wages and good work conditions), e-commerce, poverty, profits, free markets, social justice, diverse cultures, the use of science and technology, organizational learning and a sustainable society. A major emphasis is on humanity as a custodian of the natural environment and the desire of third-world nations to be involved in the globalised economy on a fair basis. The Church can provide the moral principles which should underpin the conceptual framework upon which business ethics is driven and offered.

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Christian Social Ethics creates normative points of reference for ethics education and can help business schools in seeking to apply them into a wider discussion of desirable societal outcomes. If students reflect on ethical issues and the institutions in which they function and the structures of these institutions, and if they embrace the opportunities to improve society, business ethics would have arrived at its destination. When students comprehend how business ethics decisions should be arrived at in an organization, and embrace their unique roles as leaders in this regard, and also as critical decision-makers, then there is hope for ethical business and society at large.

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APPENDIX

Questionnaire 1

5 Point Likert Scale Survey

Business Ethics Course Knowledge

The following questions ask you about Business Ethics and its importance to you and society. Circle the number that most closely indicates the extent to which the item is present in your current job:

Please specify by checking the Respondent Type/s that most closely matches your position

☐	**Government employee**	☐	**CEO**
☐	**Private sector employee**	☐	**CFO**
☐	**Government Department Manager**	☐	**Unemployed**
☐	**Private sector manager**	☐	**Other**
☐	**Entrepreneur**		

Circle the correct numeric response to each question

#	Question	Survey Scale: 1=Strongly Disagree 2=Disagree 3=Neutral 4=Agree 5=Strongly Agree				
1	I have gained additional knowlewdge from the ethical theories and case studies presented, that will benefit me and my employer.	**1**	**2**	**3**	**4**	**5**
2	The course has enhanced my awareness of considering stakeholders as critical entities to business sustainability.	**1**	**2**	**3**	**4**	**5**
3	The course made me more aware of Whiste-Blowing as a vehicle to ethical action.	**1**	**2**	**3**	**4**	**5**
4	The course made me more aware of Corporate Citizenship as an essential requirement for business success.	**1**	**2**	**3**	**4**	**5**
5	My ethical reasoning improved as a result of this course.	**1**	**2**	**3**	**4**	**5**
6	Ethical dilemmas and moral mazes are a real problem in my workplace.	**1**	**2**	**3**	**4**	**5**
7	Corporate governance is an important tool in the drive to promote good ethics in business.	**1**	**2**	**3**	**4**	**5**
8	I will apply what I have learned on this course.	**1**	**2**	**3**	**4**	**5**

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9	The triple-bottom-line is very important to me.	**1**	**2**	**3**	**4**	**5**
10	Business ethics is very important to me.	**1**	**2**	**3**	**4**	**5**

PLEASE COMPLETE SURVEY BY:	**23/4/2015**
RETURN TO:	**XXXXX**
THANK YOU!	

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Questionnaire 2

5 Point LikertScale Survey

What I have learned from this Ethics module will be useful for/in:

		N/A	Strongly Disagree			Strongly Agree	
	Question	**0**	**1**	**2**	**3**	**4**	**5**
1	**Research I conduct academically and elsewhere**						
2	**Human Resource issues**						
3	**Workplace safety issues**						
4	**Marketing/Sales issues**						
5	**Finance in business**						
6	**Corruption issues**						
7	**Environmental care issues**						
8	**Globalisation matters**						
9	**Employee education at work**						
10	**Promoting a better caring planet**						
11	**Promoting sustainability of resources**						
12	**Inculcating ethical behaviour**						
13	**Making me think twice before doing something questionable**						
14	**Re-inforcing me of what I already know**						
15	**Employee rights issues**						

ISBN: 978-9963-711-37-6

THE RELATIONSHIP BETWEEN CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE. AN EMPIRICAL ANALYSIS ON A SAMPLE OF ITALIAN LISTED FIRMS FIRMS

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ABSTRACT

This paper tries to examine the relationship between Corporate Social Responsibility (CSR) and some Corporate Financial Performance (CFP). CSR is measured by an index of corporate social responsibility disclosure while ROA, ROS and ROE are used to measure CFP. The CSR disclosure index gives information about the engagement of firm in corporate, CSR, and staff strategy, social, community, and political investment, environment, consumer, and supplier awareness, voluntary reports and certifications. We test our hypothesis on a sample of Italian listed firms, specifically, our sample is composed both by the 64 companies listed on the STAR market and by a sample of control, composed by the 20 listed companies with the higher capitalization, for a total of 84 corporations. We have hand-collected the data from the annual report and any other available document present in the institutional website of each corporation, for the 2012-2013 financial year. We use the Tobit Regression Model, whose analyses were performed using the statistical software SPSS© and Gretl©. The result of this study indicates that we cannot state that there is a positive relationship between CSR and CFP.

Keywords: *Corporate Social Responsibility (CSR), Corporate Social Disclosure (CSD), Corporate Financial Performance (CFP), New-Institutionalism, Legitimation.*

INTRODUCTION

Nowadays the *Corporate Social Responsibility* (CSR) is playing an increasingly significant role in business agendas and practices over the World. More and more enterprises are investing in CSR activities, also incrementing the related disclosure. The growing attention to *Corporate Social Disclosure* (CSD) leads academic to wonder if CSR is used with a real strategic meaning, able to improve financial performance or as a tool of public relation. To answer this question, academics have started to study the relationship between CSR and *Corporate Financial Performance* (CFP) (Aupperle et al., 1985; Samy et al., 2010). In particular, Milton Friedman's (1962) has examined the correlation between CSR and CFP. He states that "a corporation's social responsibility is to make a profit". Many other researchers have studied this

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relationship, but no definitive consensus exists (Roman et al., 1999; Orlitzky et al.2003). In this scenario, this research aims to test the relationship between CSR and CFP on the Italian market, trying to individuate relevant factors that could (or not) influence it. This paper is structured as follows: after introduction, it proposes a brief review literature about CSR and CFP. In particular, it underlines the relationship between socially responsible behavior and corporate financial performance, in order to explain the logical nexus we want to test between them. Later, it shows a research model, presenting the variables involved in this study. Then, it develops the empirical analysis and, finally, it concludes with a discussion of its findings and proposes further improvements for other research.

THEORETICAL FRAMEWORK

The evolution of CSR concept

In the last decades, many scholars have studied CSR under several theoretical frameworks. In doing that, its definition has became quite ambiguous, due to the lack of a unique and broadly accepted definition. Early writings on CSR often refer it barely as social responsibility than, more properly, as CSR. In particular many authors focus their attention on the social responsibility of the businessman instead of the corporation (Bowen, 1953; Davis, 1960). The relation between corporation and society is firstly introduced by Walton (1967), who goes beyond the figure of the businessman, focusing attention on the corporation. Other authors consider CSR as the actions that go beyond the economic, technical, and legal requirements for the firm (Davis, 1973) or focus on the role of the stakeholders (Hopkins, 1998). In 1979 Carroll introduces the so-called 'four-part definition' for CSR, that he summarized in 1991 as follow: "The CSR should strive to make profit, obey the law, be ethical, and be a good corporate citizen" (p. 43). Obviously, not each single Author considers CSR in a positive perspective. The most prominent criticism comes from Milton Friedman (1962) who considers social responsibility solely as a way to make money for the stakeholders of the corporations.

Growing the attention on the CSR topic, explosively the demand for CSR ratings increased. Therefore, in latest years a relevant number of organizations supplied CSR ratings for investors and consumers and scholars use them to support their analysis. The main rating agencies are KLD, Innovest, Core Rating, ERIS, and SIRI, whose CSR-indexes are FTSE 4 Good, Domini 400 S.I., and Dow Jones Sustainability Index (Marquez & Fombrun, 2005). Other Authors use *ad hoc* CSR indexes (Aupperle et al., 1985; Gjolberg, 2009; Lanis & Richardson, 2012). This method gives out a contingency approach and permits a flexible declination of the CSR index on the specific behalf of the research.

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CSR and financial performance

The relationship between CSR and financial performance has been studied across the world, presenting mixed results. The empirical research's results on this relationship have never been in agreement. Some studies find positive correlation (Samy et al., 2010), some a negative link (Johnsen & Gjoelberg, 2009), others no correlation at all (Teoh et al., 1999) or inconsistent relation (McWilliams & Siegel, 2000). However, a literature review conduct by the University of Iowa, reviewing all 52 prior studies about the relationship between CSR and firm performance, finds that "most of the time, more responsible corporations also had solid financial results" (Lawrence & Weber, 2008, p. 56). Nelling and Webb (2009) explore and find that the relationship between CSR and CFP is as 'virtuous circle' since "doing socially good' will contribute to healthy financial performance or firm with superior financial performance will devote more resource for social obligation.

Researchers have used various indicators to measure CFP, which can be reduced to two macro groups: researchers typically used accounting-based measures (Sun, 2012; Cochran & Wood, 1984) and market or stock based measure (Waddock & Graves, 1997; Russo & Fouts, 1997). The accounting-based approach derives the value of the firms from a company's competitive effectiveness and a competitive internal efficiency as well as optimal utilization of assets. Net income, return on assets (ROA), and return on equity (ROE) are some examples used in this approach (Waddock & Graves, 1997; Russo & Fouts, 1997). The market-based approach derives the market value of a company from the stock price, all of which is used to measure CFP. Market-based measurement includes stock performance, market return, price per share, and other market-based measures. Orlitzky et. al (2003) reported that CSP appears to be more highly correlated with accounting-based measures of CFP than market-based indicators. Some researchers use individual indicator, such as ROA (Tang et al. 2011), accounting profit (McWilliams and Siegel, 2000). However, most researchers adopt more than one indicator to reflect CFP (e.g. Pan et al., 2014). According to Fu & Jia (2012), ROA is the most common index, followed by ROE, ROS, and Market Value/Book Value.

RESEARCH DESIGN

Hypotheses

To test our hypotheses, we use three different groups of variables: (1) *CFP_ROA, CFP_ROE,* and *CFP_ROS,* as proxies for *Corporate Financial Performance* (*CFP*); (2) *CSRDISC* and its decomposition in *CSR1*, *CSR2*, *CSR3*, *CSR4*, *CSR5*, *CSR6* and *CSR7*, in order to measure the involvement of corporations in corporate social responsibility issues; (3) Several control variables, describing other characteristics of

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the firm. On this basis, we decide to use in our analysis a proxy for CFP, composed by 3 accounting-based measures. Therefore, we develop the following hypotheses:

Hp_a: There is a positive relation between the overall CSRDISC index and CFP	*Hp_b: There is a positive relation between the 7 decomposition of CSRDISC and CFP*

In particular, we decide to measure CFP with the following indicators: *ROA, ROS,* and *ROE*. So, we decompose the hypoteses in the following sub-hypotheses:

Hp_a decomposition	**Hp_b decomposition**
Hp_{a1}: There is a positive relation between the overall CSRDISC and ROA	*Hp_{b1}: There is a positive relation between the 7 decomposition of CSRDISC and ROA*
Hp_{a2}: There is a positive relation between the overall CSRDISC and ROS	*Hp_{2b}: There is a positive relation between the 7 decomposition of CSRDISC and ROS*
Hp_{a3}: There is a positive relation between the overall CSRDISC and ROE	*Hp_{2c}: There is a positive relation between the 7 decomposition of CSRDISC and ROE*

Independent variable

The independent variable for our empirical analysis is a proxy for CSR. The use of information disclosed by corporations as a proxy for CSR activity has received mixed support in literature (Bowman & Haire, 1976; de Villiers & van Staden, 2011). A research by Clarkson et al. (2008) provides robust empirical evidence that there is "a positive association between environmental performance and the level of discretionary disclosures in environmental and social reports or related web disclosures" (p. 325). For this reason, we decide to adopt a proxy for CSR, starting from the broad-based CSR disclosure index (*CSRDISC*) developed by Lanis & Richardson (2012), modifying it where necessary, in order to adapt the model to Italian regulative framework and, on the other, to the most common issue of the Italian reports. We hand-collect the annual and other voluntary disclosure reports of the sample's corporations. We select and pick up information, recording 69 individual activity items (as shown in Table 1) and group them into 7 categories, each one representing a CSR variable: *CSR1: Corporate and CSR strategy items (11 items); CSR2: Staff strategy items (24 items); CSR3: Social investment items (5 items); CSR4: Environment items (9 items); CSR5: Customer and supplier items (7 items); CSR6: Community and political involvement items (6 items); CSR7: Voluntary reports and certification items (7 items).* Each category consists of a dichotomic variable, giving a score of '1' where the CSR information is provided in the analyzed reporting and '0' otherwise. The 7 CSR variables and the overall *CSRDISC* variable were measured grouping the dichotomic responses on a percentage basis. The score was carried out by the authors and crosschecked to seek for errors. Not many errors were detected and they were changed.

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Table 1 – Categories of CSR disclosure items

Item	Categories of CSR disclosure items	Item	Categories of CSR disclosure items
	1 - Corporate and CSR strategy items		***3 - Social Investment items***
1	Corporate mission	36	Social commitment statement
2	Code of ethics	37	Value of social investment and charitable work
3	Code of conduct	38	Assistance to charities and NGO's
4	CSR strategy statement	39	Community sponsorship (financial support)
5	Record of complains	40	Staff volunteering
6	Relationship with clients		***4 - Environment Items***
7	Impact on work practice	41	Environmental protection statement
8	Impact on suppliers	42	Does the firm recognize environmental protection objectives?
9	Corporate governance statement	43	Do they measure their performance against the objectives?
10	Shareholder agreements	44	Greenhouse gas emission policy
11	CSR section	45	Energy consumption
	2 - Staff strategy items	46	Water consumption
12	Staff training	47	Utilization of recycled material
13	Staff career development	48	Ink recycling
14	Staff diversity	49	Waste management
15	Staff protection (safety and security)		***5 - Consumer and supplier items***
16	Compliance with labor standard	50	Internal control's system
17	Employees' ownership	51	Value added statement
18	Staff communication	52	Product safety statement
19	General staff appointment policy	53	R&D statement
20	Executive appointment policy	54	Improvement in customer service
21	Major event for the year	55	Distribution of marketing network for finished products
22	Breakdown of employees by geographical	56	Consumer award/rating received
23	Breakdown of employees by line of business		***6 - Community and political involvement items***
24	Breakdown of employees by level of qualification	57	Participation in government social campaign
25	Breakdown of employees by ethnic origin	58	Community programs (health and education)
26	Breakdown of employees by placement	59	KPIs linked to CSR (social, community, and environment)
27	Breakdown of employees by ages	60	Assigned specific responsibility
28	Breakdown of employees by seniority	61	Policies on lobbying and political donation
29	Discussion of employees' welfare	62	Charity/pro-bono work
30	Information on accident at workplace		***7 - Voluntary reports and certification items***
31	Monitoring of staff and employees work relation policy	63	Social report
32	Implement of employees mission statement	64	Environmental report
33	Human right	65	Sustainability report
34	Women occupation	66	ISO 14001:2004
35	Equal opportunities	67	ISO 9001:2008
		68	OHSAS 18001:2008
		69	Other certifications

Dependent variable

The dependent variable for our study is the *Corporate Financial Performance* (*CFP*). Following the previous research (Orlitzky et al. 2003; Sun, 2012), we decide to adopt a proxy for CFP, using the following variables: *ROA (Return on assets), ROS (Return on sales), and ROE (Return on equity). ROA*, measured as operating profits divided by total assets, is used because is the most common index (Fu & Jia, 2012). Another indicator to measure *CFP* is, in our study, *ROS*, calculated as operating profit divided by sales' revenue (Tsoutsoura, 2004; Raza et al., 2012). Finally, we use *ROE*, measured as net income divided by shareholder's equity (Waddock & Graves, 1997; Pan et al., 2014).

Control variables

We pool in our model several control variables, hand-collecting data from the reports available on website of corporations. Therefore, according to various studies (Barnea & Rubin, 2010; McWilliams & Siegel, 2000; Bear et al., 2010) we consider the following control variables: *SIZE: giving information on the dimensions of the corporation; INDSEC: indicating the industrial sector where the corporation operates; CEODUAL: measuring the CEO duality; TURN: indicating the turnover of employees in the last 3 years*. We use firm's size (*SIZE*), measured as the natural log of total assets, to control for size effects. We made no sign prediction for the SIZE dummy because the prevalent literature shows contradictory findings (Lee, 2009; Niresh & Velnampy, 2014). To determine the industry-sector (*INDSEC*) dummy variables we use the classification provided in the official website of the Italian Stock Exchange. Thus, we include 10 *INDSEC* dummy variables: oil & natural gas (IN_OG), chemical and raw materials (IN_CRM), industry

 ISBN: 978-9963-711-37-6

(IN_I), consumer goods (IN_CG), health care (IN_HC), consumer service (IN_CS), telecommunications (IN_TEL), public services (IN_PS), finance (IN_F), and technology (IN_TEC). No sign prediction are made for the *INDSEC* dummies. CEO duality (*CEODUAL*) is included to control for cases where the CEO and chairperson's positions are combined (Loebbecke et al., 1989). It is measured as a dummy variable that is 1 in the case of CEO-duality (President of the Board of Directors is the same person of the CEO) and 0 otherwise. Following the logic that the separation of the chairman and the CEO will enable the firm to have greater corporate transparency and responsibility, we expect that firms with CEO duality will have a lower financial performance. Finally, we add the turnover of employees (*TURN*), calculated as the perceptual variation of employees over the past 3 years. We expect that firms with higher financial performance have lower range of turnover.

Sample description

We test our hypothesis on companies listed on the STAR market (Segment Titles with High Requirements). This segment is an index of the Italian MTA market dedicated to medium-sized companies with market capitalization between 40 million and 1 billion euros and currently houses 69 companies, representing 31% of the companies listed on the Italian Stock Exchange, who commit themselves to respect the requirements of excellence in terms of: *Transparency in Corporate Communications; High liquidity of the title*; and *Corporate Governance in line with international standards*. To better validate our hypothesis we use a control sample, composed by the 20 listed companies with a high capitalization. Overall, our initial sample consisted of 89 companies listed on the Italian stock market. However, the corporations with missing data (5 corporations) are excluded. Therefore, the final sample is composed by 84 corporations. We collect the information from the documents (financial statement, social, environmental, corporate governance, and sustainability report, etc.) available on the websites of corporations for the 2012 financial year, which is the latest and most complete financial year aviable for data collection when the study was carried out.

Econometric model

We adopt a Tobit Regression Model (Tobit, 1958), censoring latent variables for value above and below the 0-1 range. To measure the association between *CSRDISC* and *CFP*, we write our basic regression model as follow:

$$(1)\quad CFPs_i = \beta_0 + \beta_1 CSRDISC_i + \beta_2 SIZE_i + \beta_3 CEODUAL_i + \beta_4 TURN_i + \beta_5 IN_OG_i + \beta_6 IN_CRM_i + \beta_7 IN_I_i + \beta_8 IN_CG_i + \beta_9 IN_HC_i + \beta_{10} IN_CS_i + \beta_{11} IN_TEL_i + \beta_{12} IN_PS_i + \beta_{13} IN_F_i + \beta_{14} IN_TEC_i + u_i$$

In a second step, we better investigate the relation existing between CFPs and CSR, decomposing in the regression the *CSRDISC* in the 7 individuated elements, as follow:

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(2) $CFPs_i = \beta_0 + \beta_1 CSR1_i + \beta_2 CSR2_i + \beta_3 CSR3_i + \beta_4 CSR4_i + \beta_5 CSR5_i + \beta_6 CSR6_i + \beta_7 CSR7_i + \beta_8 SIZE_i + \beta_9 CEODUAL_i + \beta_{10} TURN_i + \beta_{11} IN_OG_i + \beta_{12} IN_CRM_i + \beta_{13} IN_I_i + \beta_{14} IN_CG_i + \beta_{15} IN_HC_i + \beta_{16} IN_CS_i + \beta_{17} IN_TEL_i + \beta_{18} IN_PS_i + \beta_{19} IN_F_i + \beta_{20} IN_TEC_i + u_i$

In both the models $CFPs_i$ is the CFP_ROA_i, CFP_ROS_i or CFP_ROE_i and u_i is the idiosyncratic error term.

EMPIRICAL RESULTS

Descriptive analysis

Some descriptive statistics for the sample are shown in Table 2.

Table 2- Descriptive Statistics

Variables	*mean*	*median*	*minimum*	*maximum*	*std.dev.*	*skewness*	*kurtosis*
CFP_ROA	0,0396	0,044632	-0,2967	0,2546	0,06904	-1,105	6,584
CFP_ROS	0,0445	0,065000	-1,79	0,56	0,32904	-3,952	21,047
CFP_ROE	0,0161	0,055000	-3,98	1,65	0,49449	-6,053	53,714
CSRDISC	0,2469	0,23188	0	0,5942	0,12298	0,442	0,155
CSR1	0,4372	0,45455	0	0,8182	0,19730	-0,191	-0,823
CSR2	0,2123	0,20833	0	0,5417	0,13515	0,594	-0,196
CSR3	0,076	0	0	0,6	0,1486	2,137	4,208
CSR4	0,2830	0,33333	0	0,7778	0,23737	0,172	-1,422
CSR5	0,2738	0,28571	0	0,7143	0,16626	0,354	-0,038
CSR6	0,0615	0	0	0,5000	0,11794	1,838	2,446
CSR7	0,2738	0,28571	0	0,8571	0,26906	0,467	-1,091
SIZE	20,6741	19,941	16,0824	27,4398	2,43635	0,865	0,136
CEODUAL	0,35	0	0	1	0,478	0,663	-1,599
TURN	0,0648	0,019532	-0,4237	1,6800	0,25540	3,679	20,941
IN_OG	0,0238	0	0	1	0,15337	6,247	37,024
IN_CRM	0,0833	0	0	1	0,27805	3,015	7,0909
IN_I	0,3095	0	0	1	0,46507	0,824	-1,3210
IN_CG	0,1071	0	0	1	0,31115	2,540	4,4533
IN_HC	0,0119	0	0	1	0,10911	9,001	79,012
IN_CS	0,1071	0	0	1	0,31115	2,540	4,4533
IN_TEL	0,1310	0	0	1	0,33937	2,188	2,7870
IN_PS	0,0238	0	0	1	0,15337	6,247	37,024
IN_F	0,0714	0	0	1	0,25909	3,328	9,0769
IN_TEC	0,1310	0	0	1	0,33937	2,188	2,7870

In particular, $CSRDISC_i$ in *average* measures 0,25 (*median*=0,23), predicting quantitatively poor disclosure policies by the corporations in our sample, with a *minimum* of 0 (that means no information provided) and a *maximum* of 0,59 (meaning that the corporation providing the largest number of information gives a few more than half of data we select). The decomposition of *CSRDISC* into its 7 elements shows that most of information is provided for *CSR1* (*mean*=0,43; *median*=0,45) and poorest information is provided in *CSR3* (*mean*=0,08; *median*=0; *min*=0; *max*=0,60) and *CSR6* (*mean*=0,06; *median*=0; *min*=0; *max*=0,50).

Econometric analysis

The results of Pearson correlation are presented in Table 3. This analysis shows that only *CFP_ROS* is positively statistically related with *CSRDISC* and *CSR2* ($p < 0,05$, in both cases) while the others are no significatively correlated. These results indicate, in the first case, that the higher is the level of CSR disclosure, the higher is the level of the financial performance. We also find, for *CFP_ROS*, significant positive correlation with *SIZE* ($p<0,05$, in line with predicted sign) and negative significant relation

ISBN: 978-9963-711-37-6

with IN_CRM (p<0,05, no sign prediction was made), and for *CFP_ROE* significant positive correlation with *TURN* (p<0,01, no sign prediction was made).

Table 3 also reports the correlation between the explanatory variable. According to Hair et al. (2006), when the value of the correlation coefficient for a pair of explanatory variables lies between ±0.25 and ±0.75, this indicates a moderate level of collinearity between the two variables. The results show that only moderate level of collinearity exists between the explanatory variable used in this study. For this reason, we statistically test the absence of collinearity. The (unreported) results confirm that no VIFs exceeded 3 for any of our explanatory variables, so multi-collinearity is non problematic in our regression model.

Table 3 – Correlations

	CFP ROA	CFP ROS	CFP ROE	CSR DISC	CSR1	CSR2	CSR3	CSR4	CSR5	CSR6	CSR7	SIZE	CEO DUAL	TURN	IN_ OG	IN_ CRM	IN_ I	IN_ CG	IN_ H	IN_ CS	IN_ TEL	IN_ PS	IN_ F	IN_ TEC
CFP_ROA	1	,538**	,286**	,122	,148	,049	,126	,000	,207	,106	,080	,162	-,063	,204	-,007	-,181	,092	,169	,033	-,012	-,059	-,156	-,005	,004
CFP_ROS		1	,150	,245*	,189	,246*	,048	,157	,195	,104	,108	,222*	-,129	,143	,000	-,235*	,040	,100	-,008	-,015	-,011	,096	,023	,013
CFP_ROE			1	-,085	-,070	-,014	-,003	-,165	,045	,050	-,137	,140	-,180	,307**	,003	,054	-,089	,014	-,008	-,032	,013	,008	,019	,064
CSRDISC				1	,735**	,818**	,527**	,769**	,538**	,594**	,615**	,481**	-,054	-,244*	,268*	,034	-,180	-,024	,013	,149	-,064	,157	-,012	-,018
CSR1					1	,448**	,285**	,506**	,399**	,250*	,362**	,437**	-,214	-,287**	,159	-,193	-,024	,066	,111	,084	-,097	,050	-,061	,067
CSR2						1	,345**	,469**	,471**	,515**	,293**	,305**	,095	-,136	,286**	-,022	-,243*	-,010	,065	,097	-,033	,286**	,063	-,022
CSR3							1	,414**	,316**	,531**	,195	,515**	-,103	-,093	,131	,136	-,206	-,074	-,057	,343**	-,057	,025	,045	-,105
CSR4								1	,154	,431**	,521**	,439**	-,058	-,192	,144	,085	-,112	-,035	-,132	,146	-,034	-,004	-,006	,000
CSR5									1	,272*	,134	,325**	-,013	-,100	,146	,096	-,108	-,042	,103	-,042	-,064	,146	,060	-,003
CSR6										1	,258*	,214	-,025	,000	,140	,087	-,205	-,018	-,058	,256*	,047	,029	-,014	-,103
CSR7											1	,155	-,035	-,217*	,174	,174	-,011	-,067	-,054	,036	-,039	,049	-,136	-,039
SIZE												1	-,441**	-,066	,253*	,026	-,220*	-,138	,008	,352**	-,276*	,062	,054	,174
CEODUAL													1	-,082	-,113	-,038	,164	-,171	-,080	-,171	,163	,051	,188	-,133
TURN														1	,005	,269*	-,173	,116	-,017	-,125	,034	-,015	,039	-,030
IN_OG															1	-,047	-,105	-,054	-,017	-,054	-,061	-,024	-,043	-,061
IN_CRM																1	-,202	-,104	-,033	-,104	-,117	-,047	-,084	-,117
IN_I																	1	-,232*	-,073	-,232*	-,260*	-,105	-,186	-,260*
IN_CG																		1	-,038	-,120	-,134	-,054	-,096	-,134
IN_HC																			1	-,038	-,043	-,017	-,030	-,043
IN_CS																				1	-,134	-,054	-,096	-,134
IN_TEL																					1	-,061	-,108	-,151
IN_PS																						1	-,043	-,061
IN_F																							1	-,108
IN_TEC																								1

=84 for all variables.

* and ** indicate significance at the 0,05 and 0,01 levels, respectively (two-tailed).

We verify the presence of hetheroskedasticity pooling the regressions (1) and (2) with OLS Regression Model and adopting the White test (*LM-stat.*(*CFP_ROA*): χ^2 >33,58, *p-value*=0,01; *LM-stat.*(*CFP_ROS*): χ^2 >26,54, *p-value*=0,05; *LM-stat.*(*CFP_ROE*): χ^2 > 18,80, *p-value*=0,28).

The use of OLS Regression gives few meaningful (unreported) results. Hence, following Lanis & Richardson (2012) we adopt the Tobit Regression Model. We pool dependent variables (first *CFP_ROA, CFP_ROS,* and *CFP_ROE*) with *CSRDISC* and control variables (regression 1) and then explode the *CSRDISC* into its 7 components (regression 2). Results for the regressions are exposed in Table 4 and Table 5.

In the first regression model, we find no statistically meaningful results in the relation between *CSRDISC* and financial performance. However, we also find some significant relation between the control variables and *CSP*. In particular, *CFP_ROA* is positively associated with *TURN* (β=0,07; *p-value*=0,01); *CFP_ROS* is positively connected with *SIZE* (β=0,02; *p-value*=0,00) and *TURN* (β=0,11; *p-value*=0,06) while is negatively related with *IN_OG* (β=-0,29; *p-value*=0,00), *IN_CRM* (β=-0,24; *p-value*=0,00), *IN_I* (β=-0,14; *p-value*=0,00), *IN_HC* (β=-0,21; *p-value*=0,09), *IN_CS* (β=-0,21; *p-value*=0,00),

ISBN: 978-9963-711-37-6

IN_TEL (*β*=-0,14; *p-value*=0,01), and *IN_F* (*β*=-0,18; *p-value*=0,00); *CFP_ROE* is positively connected with *SIZE* (*β*=0,04; *p-value*=0,00) and *TURN* (*β*=0,28; *p-value*=0,00) while is negatively associated with *IN_TEL* (*β*=-0,15; *p-value*=0,03). *IN_TEC* has been omitted for perfect collinearity.

Table 4 - Tobit Regression Model (1)

Variables	Predicted signal	CFP_ROA		CFP_ROS		CFP_ROE	
		Coeff.	Pvalue	Coeff.	Pvalue	Coeff.	Pvalue
const		-0,0598033	0,4322	-0,305199	0,0885*	-0,761720	0,0006***
CSRDISC	+	0,0891171	0,1374	0,0608234	0,6661	-0,240548	0,1698
SIZE	?	0,00344225	0,3386	0,0247635	0,0034***	0,0413871	8,32e-05***
CEODUAL	-	0,00239995	0,8725	-0,008138	0,8171	0,0165281	0,7017
TURN	-	0,0650256	0,0101**	0,110731	0,0645*	0,277723	0,0001***
IN_OG	?	-0,0339075	0,4131	-0,294895	0,0024***	-0,198201	0,1241
IN_CRM	?	-0,0136279	0,6146	-0,242859	0,0002***	0,0140428	0,8530
IN_I	?	0,0225541	0,2560	-0,140427	0,0023***	0,0553457	0,3126
IN_CG	?	0,0338708	0,1714	-0,073478	0,2060	-0,004109	0,9537
IN_HC	?	0,0233160	0,6659	-0,209755	0,0973*	-0,815636	0,9956
IN_CS	?	-0,0144282	0,5541	-0,211329	0,0002***	-0,154665	0,0277**
IN_TEL	?	0,00269395	0,9110	-0,141529	0,0118**	-0,007341	0,9151
IN_PS	?	-0,0577729	0,2042	-0,008494	0,9285	-0,063925	0,5903
IN_F	?	-0,0065833	0,8114	-0,178608	0,0057***	-0,056888	0,4704

*, **, and *** indicate significance at the .10, .05, and .01 levels, respectively.

In second regression model, where the CSR index is decomposed into its 7 parts, we find more meaningful results. In particular *CFP_ROA* has no statistically significante relations with the CSRDISC decoposition; *CFP_ROS* is positive correlated with *CSR2* (*β*=0,41; *p-value*=0,00); *CFP_ROE* is negatively connected with *CSR3* (*β*=-0,48; *p-value*=0,00) and *CSR4* (*β*=-0,22; *p-value*=0,02). Even in this second regression model we find that some control variables are statistically relatioted with *CFP*. Specifically, *CFP_ROA* is positively associated with *TURN* (*β*=0,06; *p-value*=0,01); *CFP_ROS* is positively connected with *SIZE* (*β*=0,03; *p-value*=0,00) while is negatively associated with *IN_OG* (*β*=-0,36; *p-value*=0,00), *IN_CRM* (*β*=-0,21; *p-value*=0,00), *IN_I* (*β*=-0,12; *p-value*=0,00), *IN_HC* (*β*=-0,24; *p-value*=0,05), *IN_CS* (*β*=-0,23; *p-value*=0,00), *IN_TEL* (*β*=-0,12; *p-value*=0,02), and *IN_F* (*β*=-0,18; *p-value*=0,00); *CFP_ROE* is positively linked with *SIZE* (*β*=0,06; *p-value*=0,00) and *TURN* (*β*=0,25; *p-value*=0,00) while is negavitely related with *IN_OG* (*β*=-0,24; *p-value*=0,05) and *IN_CS* (*β*=-0,15; *p-value*=0,03). Even in this second regression *IN_TEC* has been omitted for perfect collinearity.

Table 5 - Tobit Regression Model (2)

Variables	Predicted signal	CFP_ROA		CFP_ROS		CFP_ROE	
		Coeff.	Pvalue	Coeff.	Pvalue	Coeff.	Pvalue
const		-0,089198	0,2842	-0,466354	0,0143**	-1,17502	1,19e-06***
CSR1	+	-0,008738	0,8324	-0,099224	0,2888	-0,0202332	0,8606
CSR2	+	0,0295035	0,6441	0,412222	0,0044***	-0,0029259	0,9868
CSR3	+	0,0258262	0,6260	-0,129374	0,2821	-0,481558	0,0016***
CSR4	+	-0,058591	0,1092	-0,106577	0,1996	-0,226231	0,0263**
CSR5	+	0,0610130	0,1567	-0,105303	0,2800	-0,0092294	0,9390
CSR6	+	0,0592451	0,3750	0,154491	0,3039	0,355401	0,0653*
CSR7	+	0,0433725	0,1018	-0,012462	0,8354	0,0602023	0,4160
SIZE	?	0,0050748	0,2034	0,034209	0,0002***	0,0607611	1,61e-07***
CEODUAL	-	0,0030275	0,8401	-0,021333	0,5296	0,0377959	0,3592
TURN	-	0,0629388	0,0115**	0,069853	0,2152	0,253286	0,0002***
IN_OG	?	-0,048486	0,2328	-0,355543	0,0001***	-0,248451	0,0481**
IN_CRM	?	-0,025130	0,3723	-0,207959	0,0011***	0,0668375	0,3770
IN_I	?	0,0223882	0,2446	-0,116986	0,0064***	0,0806671	0,1109
IN_CG	?	0,0361918	0,1305	-0,059619	0,2696	0,0362991	0,5782
IN_HC	?	0,0065805	0,9015	-0,238847	0,0464**	-0,782469	0,9949
IN_CS	?	-0,019502	0,4348	-0,231250	4,50e-05***	-0,151277	0,0332**
IN_TEL	?	0,0012889	0,9562	-0,124545	0,0177**	0,0248745	0,6987
IN_PS	?	-0,071093	0,1130	-0,081026	0,3719	-0,0927964	0,4132
IN_F	?	-0,008958	0,7367	-0,183200	0,0023***	-0,0242214	0,7379

*, **, and *** indicate significance at the .10, .05, and .01 levels, respectively.

ISBN: 978-9963-711-37-6

DISCUSSION

In order to investigate the relation between *Corporate Financial Performance* and *Corporate Social Responsibility*, we find quite contradictory results. The first regression model shows no significance relation between *CSRDISC* and *CFP*. Thus, we cannot state that Hp_{a1}, Hp_{a2}, and Hp_{a3} are confirmed. We can only say that *CFP_ROA* and *CFP_ROS* are positively, albeit not significantly, related to *CSRDISC*, while *CFP_ROE* present a negative coefficient. In addition, the signals predictions for the control variables show different results. *SIZE* is positively correlated with *CFP*. Specifically, *CFP_ROS* and *CFP_ROE* are positively and significantly associated (p<0,01, in both cases). *CEODUAL*'s sign prediction is not confirmed becouse no one has a significant relevance. Furthermore, *TURN*'s predicted sign is not confirmed by our analysis. We expected that the higher is the employees' turnover, the lower will be the financial performance of the firm. The results show a positive β instead. In particular, for *CFP_ROA, CFP_ROS,* and *CFP_ROE* the results are significant (p<0,05, p<0,10, and p<0,01, respectively). This means that firms with higher degree of turnover have higher *CFP*. Finally, *INDSEC* shows different results. *CFP_ROS* is negatively related with *IN_OG, IN_CRM, IN_I, IN_HC, IN_CS, IN_TEL*, and *IN_F* while *CFP_ROE* is negatively associated with *IN_TEL*. However the statistically meanfingfull results present a negative relation, there are some sectors (see e.g. *IN_CRM* and *IN_I* in the *CFP_ROE* regression) that have positive, albeit not significative, association.

The second regression model present few more positive significant results. *CFP_ROS* is positively and strongly associates with 'Staff strategy items' (*CRS2*) (p<0,01). *CFP_ROE* presents more significant, but opposite from what we expect, results. It has negative significant relation with 'Social investment items' (*CRS3*) and 'Environment items' (*CSR4*) (p<0,01 and p<0,05, respectively). Lastly, *CFP_ROA* has no statistically significante relations with the CSRDISC decoposition. For these reasons, even in this second regression model, we cannot state that Hp_{b1}, Hp_{b2}, and Hp_{b3} are confirmed. The results for the control variables are also contradictory. *SIZE* is positively correlated with *CFP*. Specifically, *CFP_ROS* and *CFP_ROE* present positive and significant relation (p<0,01). *CEODUAL*'s sign prediction, even there, is not confirmed becouse no one has significative relevance. *TURN* is not confirmed even in the second analysis. We find a positive β for all the *CFP* variables, too. In particular, for *CFP_ROA* and *CFP_ROE* the results are significant (p<0,05 and p<0,01, respectively). The second model also revealed that *INDSEC* has different association. *CFP_ROS* is negatively related with *IN_OG, IN_CRM, IN_I, IN_HC, IN_CS, IN_TEL*, and *IN_F* and *CFP_ROE* is negatively associated with *IN_OG* and *IN_CS*. However the statistically meanfingfull results present a negative relation, there are some sectors (see e.g. *IN_CRM* and *IN_CG* in the *CFP_ROE* regression) that have positive, albeit not significative, association.

 ISBN: 978-9963-711-37-6

CONCLUSIONS

The results above mentioned make us think about the real importance of CSR disclosure in Italian firms. The marks of our analysis show that is not possible to assert that there is a causal link between the disclosure of CSR activities and better performance of corporations. This makes us wonder if the CSR has a strategic value in the decision-making process or is a mere public relationship tool. So, why CSR is a central issue in the firm's agenda?

In order to better understand this phenomenon, the neo-institutional theory could provide an explanation to this question. According to this theoretical framework the organizations are induced to incorporate behaviors and procedures defined by prevailing concepts of institutionalized organizational work. Organizations, acting in this way, could increase their legitimacy and their survival regardless the immediate effectiveness of the rules of conduct and acquired procedures (Meyer & Rowan, 2000). In this way, they demonstrate to act in an appropriate and adequate way for the purposes evaluated positively by community (Dowling & Pfeffer, 1975; Meyer & Rowan, 2000), in order to acquire legitimacy rather than technical efficiency. Therefore, we observe that could arise a trade-off between: the objectives of research of legitimacy and those of internal efficiency; the objective of meeting the demands of public, resulting in allocation of economic and financial resources, and the goal of cost management; demands for accountability and managerial pragmatism. In managerial studies these trade-off are resolved by downgrading the CSR in a mere strategic option to activate or not depending on the importance of a specific stakeholder. The neo-institutional theory offers a perspective, in our opinion, very interesting on the ability to meet simultaneously these strategic objectives: legitimacy and internal efficiency. It was observed that the respect of the institutional framework's rules/constraints could be purely formal, engaging, vice versa behaviors that in practice may not comply with them (March & Olsen, 1976). To describe these dynamics was used the cognitive construct of 'decoupling', where the adjustment to the institutional framework is mainly to get legitimacy rather than to change operational processes (Meyer & Rowan, 1977; Fiss & Zajac, 2006). According to Griffin e Weber (2006), decoupling could occur where the CSR takes a low strategic value in decision-making and can be degraded to a simple topic in the later stages of the process of external communication, where reputation is more realistically created and managed. Thus, the commitment to CSR activities is reduced to mere 'window-dressing', causing cognitive dissonance between the actual investment in CSR and messages communicated to the public. In this way, decoupling describe the gap between the 'organization's façade' – that is the talk – and its real assets – namely, the action that tends to the effective implementation of the principles of CSR in internal processes (Meyer & Rowan, 1977). As Christensen and Langer (2009) note with reference to the communication of CSR: "Many of us tend to focus and insist on the differences between what

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organizations say and what they do" (p. 144). That is to say that the CSR disclosure is 'cheap', while the action and the effects that are produced in terms of value creation for shareholders is what really matters.

These reflections, according to the neo-institutional approach, represent the starting point of futher researchs we are currently developing. In fact, to better verify them, we want improve our work, extending the sample to the whole firms trading on the Italian stock market (N≈220) and measuring the variables over time (at least 3 financial years).

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 ISBN: 978-9963-711-37-6

INVESTMENT POLICY AND ECONOMIC PERFORMANCE: THE CASE OF ITALIAN LISTED COMPANIES

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ABSTRACT

This study focuses on the investment policy of companies listed on the Italian Stock Exchange in the period between 2007 and 2013.

In particular this research concentrates on the industrial and technological sectors, which have deep differences in terms of internal structure and business strategy. In fact industrial companies are likely to have a rigid structure, while the technological ones are more elastic and dynamic. This element directly influences the overall strategic focus, because technology requires firms to adapt more easily and quickly to the needs of consumers and to the aggressive policy of competitors. These views lead to different kinds of investments. In fact this research starts with the hypothesis that in the industrial sector tangible elements are much more relevant, while in the technological system intangibles are prevalent.

As a consequence, there emerged the curiosity to investigate if the specific type of investments have an impact on the economic performance, in terms of operating margin (EBIT).

This study bases its analysis on trends and relationships between tangibles, intangibles and operating income and they were tested empirically by analyzing the financial data extracted from consolidated balance sheets of all companies of the period between 2007 and 2013 provided by a database, called AIDA.

Using the Pearson correlation ratio, the authors aimed at finding evidence of a hypothetical correlation between tangible and intangible investments and EBIT, in order to verify if they are a direct or an indirect cause affecting the trend of the economic performance.

Keywords: *investments, tangible, intangible, assets, EBIT, listed companies, technological, industrial.*

INTRODUCTION

Intangible and tangible investments do not have the same importance from one industry to another. The choice of the business in which a company operates is the key that determines its organization and capital structure (Pisoni, Brusa et. al., 1996).

 ISBN: 978-9963-711-37-6

In particular, it means having a clear idea of the product or service to realize, of the market in which a firm wants to compete, of techniques and instruments to be used and of the way strategies are put into practice.

This is the reason why we have decided to focus on Italian listed companies belonging to the industrial and technological sectors, in fact we want to compare and contrast two different situations and understand their investment policy and the related impact on the economic performance.

By starting with the main hypothesis that industrial companies invest more in tangible assets and technological ones in intangibles, our first aim is to study the trend of the two types of investments in the period between 2007 and 2013 in order to monitor if the economic crisis affected these two sectors.

In addition, our research concentrates on the economic margin, related to the core activities of the companies considered.

The third step is to combine these two elements, investments and operating income (EBIT, Earnings Before Interests and Taxes), in order to evaluate if there is a correlation between the two. In particular, this purpose can be demonstrated by the Pearson correlation ratio.

As a consequence the final part of this empirical research is based on the study of the impact of the specific investment policy on the operating income.

The remainder of this study is organized as follows. In Paragraph 1, we provide the theoretical background of the topic presented. The methodology and the definition of the sample of companies is described in Paragraph 2. In this section, we also include the presentation of the research questions and of the phases of analysis. Our results are presented in Paragraph 3 and conclusions in the last part of the research.

1. LITERATURE

The discipline of Business Administration defines the company as a system, composed of many elements which are interrelated (Santesso, 2010; Pisoni, Brusa et al., 1995; Ferrero, 1987). It is a unique system because every single company is an independent entity, with its own internal structure (Amit and Schoemaker, 1993).

As we mentioned in the foreword, defining the specific business in which every firm operates means developing distinctive competences and creating a strategy that allows the company to be competitive on the market (Myers, 2013; Franco and Bourne, 2004).

Several authors based their research on studying the capital structure of companies in order to monitor their impact in terms of competitiveness, value and performance (Lombardi, Manfredi et.al., 2014; Mezentceva and Mezentceva, 2014; Bobillo, Rodriguez-Sanz and Tejerina-Gaite, 2006; Hall, 2001; Dierickx and Cool, 1989).

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Other studies decided to concentrate on intangible assets and on the related benefit for a company investing in them (Denicolai, Zucchella and Strange, 2014; Cohen and Vlismas, 2013; Chiucchi, 2013; Heiens, Leach and McGrath, 2007; Casta, Escaffre and Ramond, 2005; Hand and Lev, 2004; Megna and Mueller, 1991; Grabowski and Mueller, 1978). Some researchers decided to analyze the different role of tangible and intangible assets as resources (Galbreath, 2005) and some others concentrated on one sector in particular and to monitor the impact of a specific investment policy (Makris, 2008).

Our analysis fits into this framework but the purposes are different. In fact it is aimed at comparing and contrasting two different situations: the first one represented by technological companies, oriented to an intangible investment policy, and the second one represented by industrial firms, which mostly own tangible assets.

After this first phase, our study goes deeply into the evaluation of the impact of these investments on the economic performance. In this case the economic performance is represented by the operating income (EBIT, Earning Before Interests and Taxes), which is the margin deriving from the company core business activities.

As a consequence our research represents a sort of extension of previous studies above-mentioned because firstly we concentrate on two important sectors in Italy and secondly this study covers a very long period, from 2007 to 2013.

Moreover we also concentrate on tangibles and by making this comparison between the two sectors and consequently between two different kinds of investment policies, we want to monitor the economic results of companies pursuing one policy or another.

Thanks to this analysis and the results obtained, we may consider the opportunities of growth and development of these companies included in the sample. We may notice the differences emerging after deciding to make a particular investment.

2. METHODOLOGY

2.1 The sample and methods

This analysis focuses on two different groups of companies listed on the Italian Stock Exchange.

In particular, we have chosen those listed on the sectoral index called FTSE All-share Industrials, and those listed in another sectoral index called FTSE All-share Technology. The first index includes firms operating in the industrial field, while the second one refer to companies working in the technological sector.

We have decided to concentrate on these two groups because they are extremely different in their structure and in the policy of investments. This difference may help us analyse the trend of the related

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investments over the period between 2007 and 2013. Moreover these typical characteristics can help us study if the dynamic of investments can influence the economic performance of these firms.

Data were extracted from AIDA, which is a database containing comprehensive information on companies in Italy.

We used the consolidated balance sheets of all companies and we focused on information about tangible and intangible assets and EBIT (Earnings Before Interest and Taxes).

We want to specify that data provided in our figures all refer to the mean of the single element analyzed for the specific sector.

AIDA provided data of 90 companies out of 93. We had to exclude three firms: Stmicroelectronics, belonging to the technological sector, Cerved Information Solutions and Gruppo Ceramiche Ricchetti, both industrial companies.

Table 1 shows all the Italian limited companies linked to the technological field.

Table 1	Technological companies
	Be
	Best Union Company
	Cad it
	Dada
	Eems
	Ei Towers
	Engineering
	Esprinet
	Eurotech
	Exprivia
	Fullsix
	It Way
	NoemaLife
	Olidata
	Reply
	Sesa
	Tiscali
	Txt

Table 1. *Italian companies listed on the technological sectoral index*

Table 2 shows all the firms of the sample, related to the industrial sector.

Table 2	Industrial companies	
	Ambienthesis	Finmeccanica
	Ansaldo Sts	Gefran
	Astaldi	Ima
	Astm	Interpoump
	Atlantia	Irce
	Autostrade Meridionali	Italcementi

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	Bastogi	Italmobiliare
	Beghelli	Nice
	Biancamano	Panariagroup
	Biesse	Poligrafica
	Bolzoni	Premuda
	Buzzi Unicem	Prima Industrie
	Carraro	Prysmian
	Cembre	Reno De Medici
	Cementir Holding	Sabaf
	Cir	Saes Getters
	Cnh Industrial	Salini Impregilo
	Cofide	Save
	D'amico	Servizi Italia
	Danieli & C.	Sias
	Datalogic	Sintesi
	Delclima	Tesmec
	El.En.	Trevi Fin Industriale
	Fidia	Vianini Industria
	Fiera Milano	Vianini Lavori
	Fincantieri	Zignago Vetro

Table 2. *Italian companies listed on the industrial sectoral index*

2.2 Research questions and phases of analysis

The present research is based on the following main hypothesis: companies listed on the sectoral index called FTSE All-share Industrials, invested more in tangible assets, while those listed in the sectoral index called FTSE All-share Technology, focused their business on intangibles.

To reach the goals of this study, we need to formulate two research questions:

- RQ1: what are the trends of the specific type of investments in the industrial and in the technological sectors? And what about the EBIT?

- RQ2: Is there a correlation between the specific investment policy followed by each sector, and the related operating income?

The research methodology follows three phases:

a) Phase 1: Definition of the items monitored. As we analyse the annual financial reporting of a group of Italian listed companies, we refer to the IAS-IFRS principles (Dezzani, F., Biancone, P.P. and Busso, D., 2014), and in particular to IAS 1, *Presentation of Financial Statement*, IAS 16, *Property, Plant and Equipment*, IAS 38, *Intangible Assets,* and IAS 40, *Investment Property;*

 ISBN: 978-9963-711-37-6

b) Phase 2: Empirical analysis and findings. It involves an analysis of the information derived from the sample. The research methodology only uses the information provided in the consolidated financial statements because it is sufficient to answer the research questions.

With reference to *RQ1*, we firstly want to demonstrate that the main hypothesis is true. As a consequence, we have to consider the mean of the investments of the specific sector in order to understand what kind of policy is followed by the two groups. Secondly, we monitor the trend of the investments and the EBIT between 2007 and 2013 to underline which group suffered less from the economic crisis. Then we compare the two situations in order to introduce the second research question.

With reference to *RQ2*, for each group of companies, we firstly calculate the Pearson correlation ratio between the tangible investments and EBIT, as regards the industrial field, and between the intangibles and the operating income, for the technological companies. Thanks to this ratio, we can analyse the impact of investments on the overall operating result in order to evaluate the effects of a specific investment policy. The analysis of the correlation between tangible assets and EBIT on one hand, and intangibles and EBIT on the other aims at discovering if there is a strict link between them and, if it is confirmed, how strongly the two are connected.

As mentioned above, the Pearson correlation ratio (p) is used to identify a positive or negative correlation between the specific investments and the EBIT. For this, it is necessary to underline the following conditions:

- if $p > 0$ there is a direct correlation;
- if $p = 0$ there is no correlation;
- if $p < 0$ there is a indirect correlation;
- if $0 < p < 0.3$ the correlation is weak;
- if $0.3 < p < 0.7$ the correlation is moderate;
- if $p > 0.7$ the correlation is strong.

c) Phase 3: Conclusions and limitations of the research.

3. FINDINGS

First of all, before analyzing the data obtained, we want to give further details and definitions.

IAS 38 states that an *intangible asset* is an identifiable non-monetary asset without physical substance. Intangible assets are initially measured at cost, subsequently measured at cost or using the revaluation model, and amortised on a systematic basis over their useful lives, unless the asset has an indefinite useful life, in which case it is not amortised.

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The three critical attributes of an intangible asset are:

- identifiability;
- control: power to obtain benefits from the asset;
- future economic benefits, in terms of revenues or fewer future costs.

As regards tangible assets, AIDA provides overall information concerning both investment property and property, plants and equipment. Unfortunately, there is no distinction between the two categories.

Phase 2 concerns the stages of our research and the related comments.

Starting with the RQ 1, figure 1 underlines what kind of investments were made by technological companies during the period between 2007 and 2013. The data refer to the mean of the sector for each year.

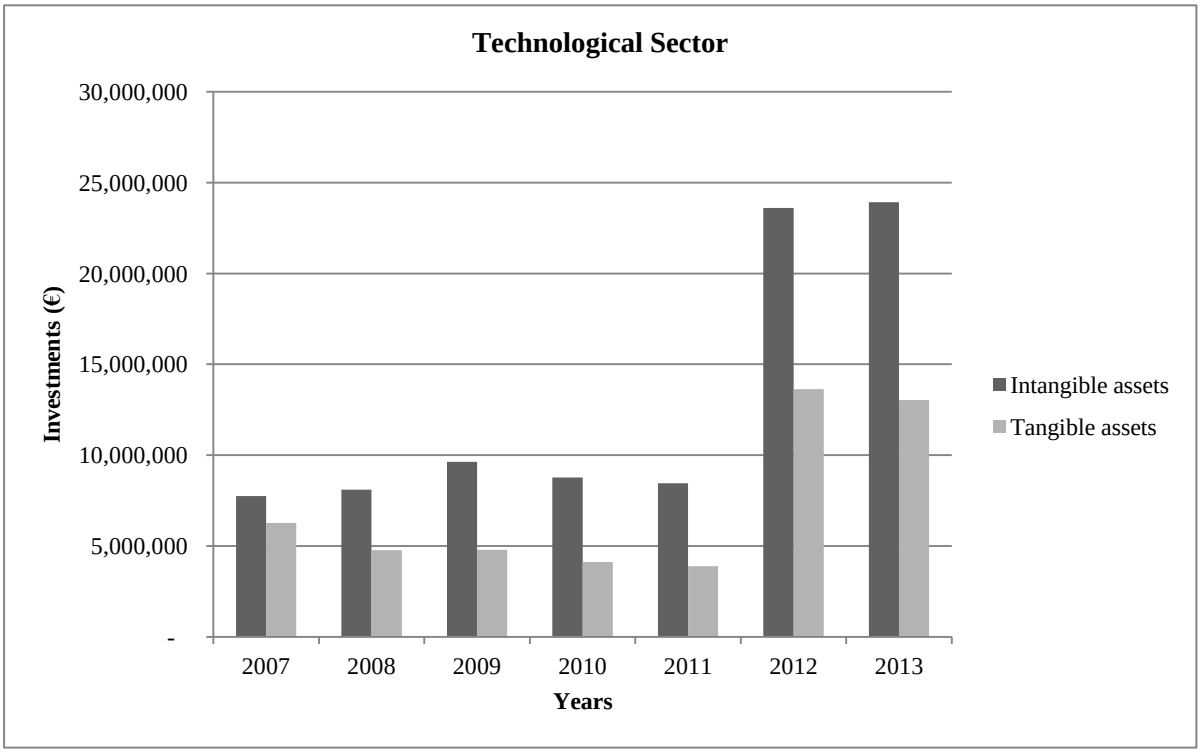

Figure 1. *Investments in Italian companies listed on the Technology sectoral Index*

Figure 2 instead shows what kind of investments were made by industrial companies during the same period. The data refer to the mean of the sector for each year.

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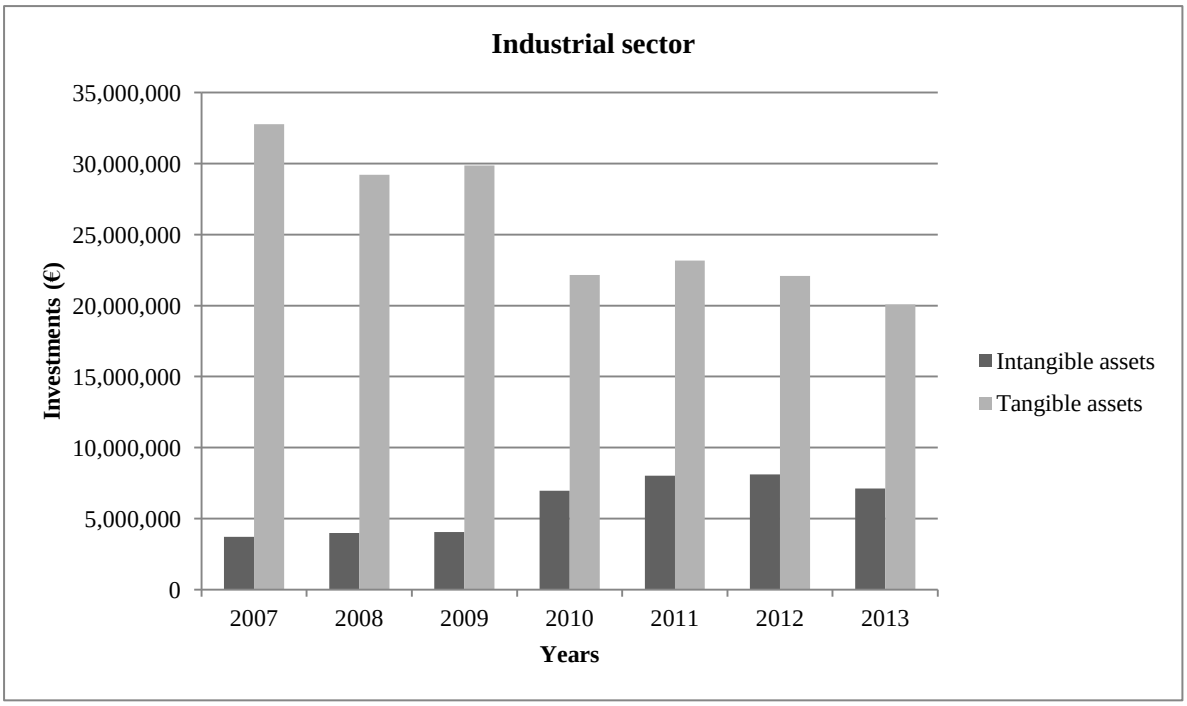

Figure 2. *Investments in Italian companies listed on the Industry sectoral Index*

The two figures demonstrate that the initial main hypothesis is true. In fact companies listed in the Italian Stock Exchange and belonging to the technological sector invest the majority of their capital in intangible assets, while listed firms related to the Industry index have the tendency to invest in tangible assets.

After individuating the specific policy of investments, we want to focus on the trend of these elements and on the operating income in order to understand first of all if they have the same evolution during the period analyzed.

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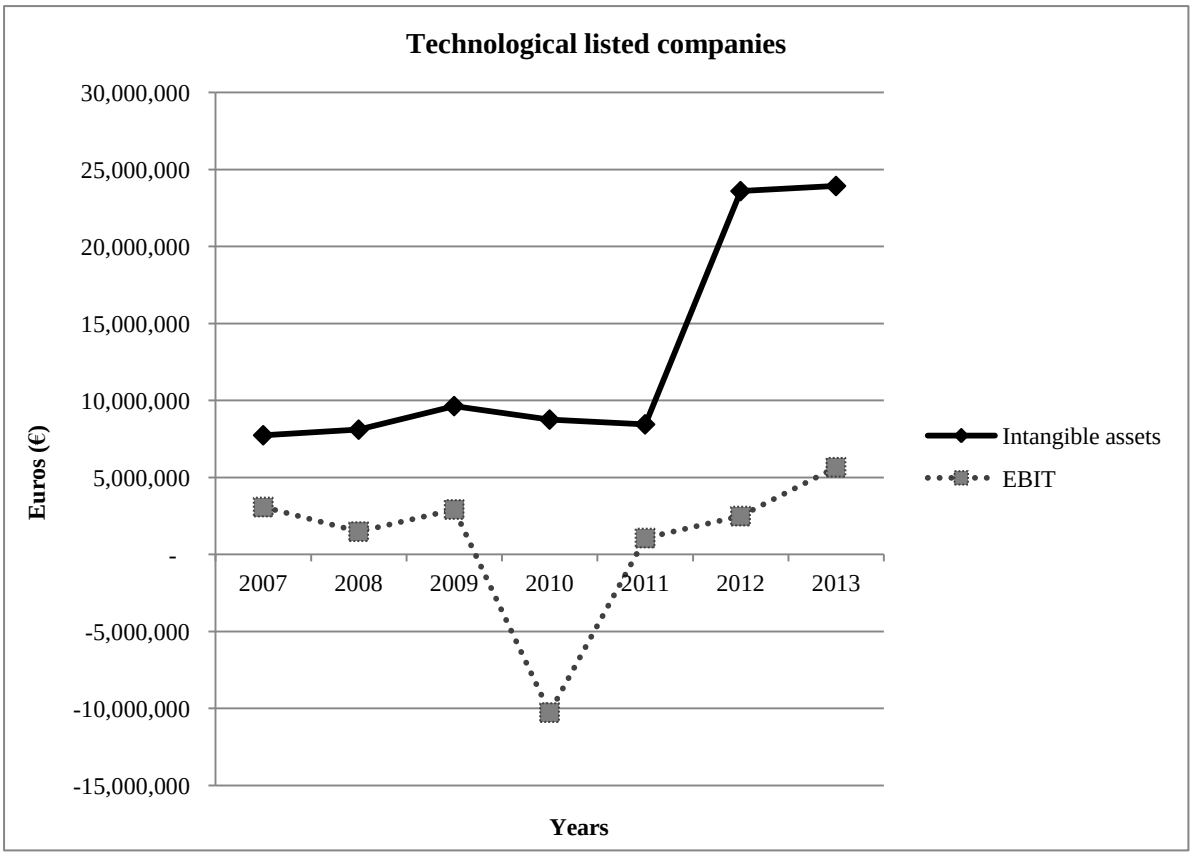

Figure 3. *The trend of intangible assets and EBIT of companies listed on the Italian Stock Exchange*

Figure 4 instead shows the trend of tangible assets and EBIT during the period between 2007 and 2013 of firms listed on the Italian FTSE All-Share Industrials.

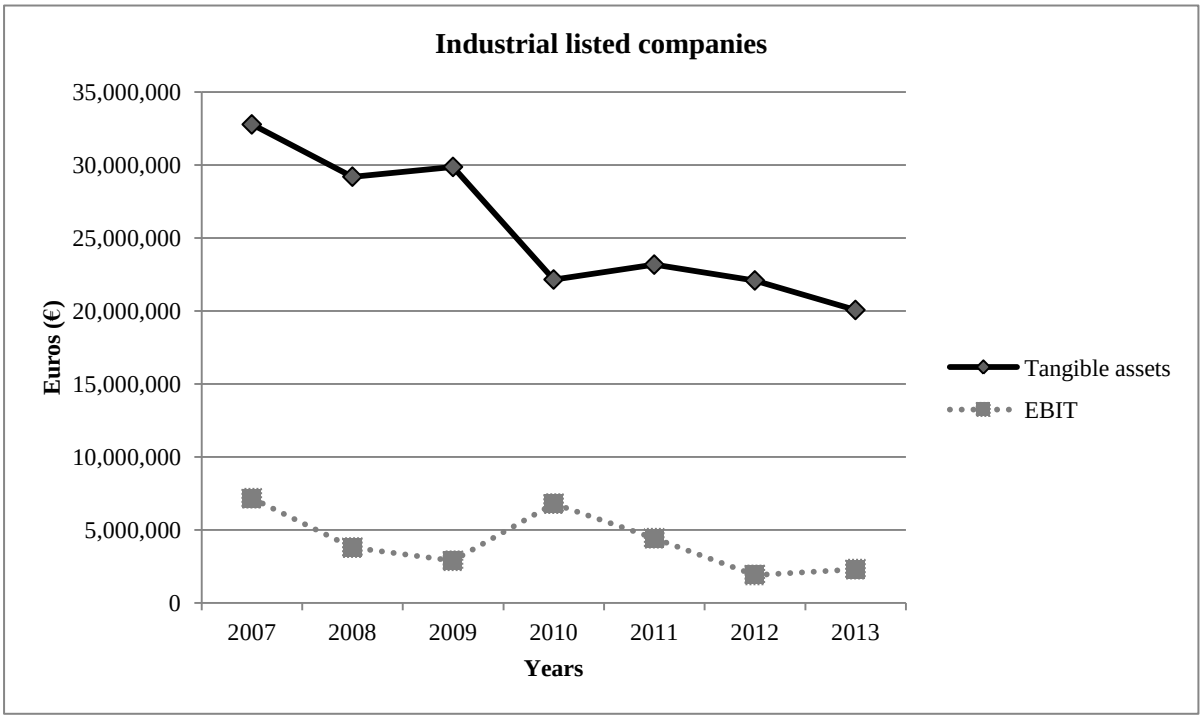

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Figure 4. The trend of tangible assets and EBIT of companies listed on the Italian Stock Exchange

As we can see in the two figures, EBIT seems to follow the trend of investments in the technological sector. In graph 3, the only year in which the two items considered diverge is 2010. In fact in technological companies, if the amount of intangible investments remained stable, the operating income decreased considerably.

On the contrary, in industrial companies tangible assets and the operating income do not have the same trend, except in the first two years. In fact, in 2010 tangible assets declined significantly while the operating earnings rose. Moreover in the period between 2010 and 2013 there was the opposite tendency: the investments slightly increased in 2011 and in the last years they decreased, while EBIT first went down and then it recovered slowly.

After a brief comment on the graphs, it is needed to calculate mathematically if there is a correlation between specific investments and EBIT in order to give a statistical explanation to the figures above. We decided to use the Pearson correlation ratio (p) for each sector in the period between 2007 and 2013.

Table 3 shows the ratio in the technological field and the data used are related to the eighteen listed companies of the sectoral index FTSE All-share Technology.

Table 3	The Pearson correlation ratio between intangible investments and EBIT in the technological sector							
		EBIT 2007	EBIT 2008	EBIT 2009	EBIT 2010	EBIT 2011	EBIT 2012	EBIT 2013
	Intangibles 2007	0,16596						
	Intangibles 2008		0,38029					
	Intangibles 2009			0,56367				
	Intangibles 2010				0,27570			
	Intangibles 2011					0,53191		
	Intangibles 2012						0,51307	
	Intangibles 2013							0,66109

Table 3. *The correlation between intangibles and the operating income of the listed companies of the technological sample*

The present table confirms the previous comment on the related two trends of the technological companies. There was a slight correlation in 2010, but also in 2007. In this last case, the result was probably influenced by previous economic strategies, that we do not consider in this analysis. In the other years instead we can notice a moderate correlation, which grew in the last three years.

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Table 4, instead, shows the results coming from the combination of tangible assets and the operating earnings of the listed firms, belonging to the sample related to the FTSE All-Share Industrials.

Table 4	The Pearson correlation ratio between tangible investments and EBIT in the industrial sector							
		EBIT 2007	EBIT 2008	EBIT 2009	EBIT 2010	EBIT 2011	EBIT 2012	EBIT 2013
	Tangibles 2007	0,37904						
	Tangibles 2008		0,20474					
	Tangibles 2009			0,22288				
	Tangibles 2010				0,35711			
	Tangibles 2011					0,23780		
	Tangibles 2012						0,15531	
	Tangibles 2013							0,23805

Table 4. *The correlation between tangibles and the operating income of the listed companies of the industrial sample*

Even in this case, the Pearson correlation ratio of each year confirms what we have just commented before. In the industrial field there is no correlation between the investment policy in tangible property and the operating income. Tangible assets did not have a strong impact on the economic result, referring to the core competencies of the sample monitored for the research.

In conclusion, thanks to these data and analysis, we might affirm that in the Italian companies listed on the FTSE All-Share Index intangibles had an impact on the operating margin and consequently on the economic performance, whilst in the companies related to the FTSE All-Share Industrials there was no correlation between tangible investments and EBIT.

Trying to give an explanation to this phenomenon, the operating income can be influenced not only by operating investments, but also by revenues and annual costs (Pisoni and Devalle, 2013; Bragg, 2007; Gibson, 2008).

As a consequence, it is possible that property, plants and equipment may influence indirectly the operating margin through the amount of sales of products or services and the correlated revenues or through a specific cost policy. In this case direct effects are on the output of the specific company. Tangibles are instruments through which, according to the Business Administration theories, the process of industrial transformation "input-output" can be set up (Potito et. al., 2014; Aryasri, 2008).

In addition there is the problem that the data of tangible investments, provided by AIDA, do not distinguish the amount of tangibles classified as property, plants and equipment, which can be used in the production, or as investment property, not related to the core business.

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On the contrary, intangibles seem to have a direct impact on the economic result because they can be very valuable for a firm and can be crucial to its long-term success or failure.

4. CONCLUSIONS

Our research with its results confirms what many previous studies stated before: intangibles have achieved a growing importance since the 1990s (Kaplan and Norton, 2004). Nowadays focusing investments on intangible assets means creating a distinctive and sustainable value and being much more competitive on the market because corporate intellectual property, such as patents, trademarks, copyrights, business methodologies, goodwill and brand recognition can directly drive global sales year after year (Amin and Hasan, 2014; Warren, 2000; Zahra, 1999; Winter, 1987; Porter, 1985). In addition sometimes customers do not focus on the product or service, but on the brand: the more popular the brand, the more successful the company. The impact can either lead a company to success or failure.

Thanks to our study we have realized that even in Italy companies belonging to the industrial sector did not have the same good economic performance of the technological ones, nor the same perspective of growth and development. It is much more difficult to create value in a long-term period with only tangible investments. As a consequence, if industrial companies enhance and align intangible assets, they would probably improve their overall performance, satisfying customers' needs and the shareholders' interest in the company.

This last element can help us introduce all the limits of this research. First of all, this study represents the first step of a far deeper analysis that can consider other variables, financial indicators and margins. In addition, the same analysis can be extended to all Italian listed companies, not only to the industrial and technological ones.

It could be interesting to compare and contrast the Italian situation with the one of other European countries, such as France and Germany.

Moreover, as we mentioned before, the database used to extract the financial data of the companies of the sample (AIDA) did not provide information for all the companies.

Another limit is represented by the fact that, as regards tangible assets, AIDA did not give further information about the specific classification of this item. We could not divide property, plants and equipment from investment property. Consequently, we used the comprehensive data without considering which part regards operating investments.

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 ISBN: 978-9963-711-37-6

BANKS' GROSS LOANS LISTED ON THE ITALIAN STOCK EXCHANGE

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ABSTRACT

This study focuses on the groups of banks listed on the Italian Stock Exchange.

In particular, we have chosen those listed on the sectoral index called FTSE Banks.

In this group of banks, we focused on the analysis of the Gross loans and the related Reserves for impaired loans in the period between 2005 and 2013. Moreover this study can help us understand the context and the main business in which banks operate.

Data were extracted from a database, called Bankscope, which is a database containing comprehensive information on financial companies (banks and insurance companies) in Italy.

The aim of this study is to monitor the role of Net loans for banks in terms of impact on total assets and, consequently, the trend of the reserves for impaired loans. Then in this research we would investigate also the correlation between the credits and their related Reserves of impaired loans. The Pearson correlation ratio is used in order to find a correlation between the two quantities.

Our research reveals that reserves for impaired loans will be one of the most strategic items of bank balance sheets.

Under these provisions, administrators will influence the income statement of the bank.

Our findings raise important issues on one hand on necessary policy supervision of the banking system and on the other a concern regarding gross loans with a steady increase in impaired loans and ultimately the possibility of mergers between banks for more efficiency policy risk.

Key-words: gross loans, assets, reserves, impairment, banks, Italian Stock Exchange

INTRODUCTION

Banks, like any other business, have been changing continuously with the surrounding environment. In fact, there are several inputs coming from the surrounding environment, such as production factors, constraints and conditions that, through a process of transformation, generate a series of outputs (Ferrero, 1987). Along with insurance, financial intermediaries, banks are part of the so-called

 ISBN: 978-9963-711-37-6

"financial system" (Giovando and Venuti, 2014). The financial system connects the entire economic system through the financial reports (Onado, 2000).

The financial statements of banks presents peculiarities of composition, exposure and content that make it suitable for the specific type of business (Bocchino, 2013).

Indeed the bank balance follows an order of presentation of the items, essentially based on a policy of decreasing liquidity, with cash and cash equivalents reported as the first entry (Giovando and Venuti 2014).

Our research focuses on the analysis of loans. In fact the loans are an essential item of the balance sheet of banks, as being one of the most representative items heavily influencing both stability and profitability of this system.

Periodically, the loans are subjected to verification for possible quality deterioration (impairment), which is understood as a possible loss of value. The reasons and the circumstances in which that may lead to an impairment of the financial asset are indicated by IAS 39 (Busso, 2014).

The procedure of "impairment" requires, therefore, in accordance with the provisions laid down by the supervisory board and in line with the IAS / IFRS, to divide the credits into two large groups: exposures (the so-called "non-performing loans") and those who have not brought individually to objective evidence of impairment (performing loans or "performing").

In this connection there is a specific provision for doubtful accounts in order to show a true and fair view of the same.

Finally, to define the adjustment and the associated loss of value, we proceed by deleting the receivables for which the impairment is considered complete and definitive or devaluing (individually or collectively, depending on the method applied) claims for which it is made necessary rectification.

For these reasons, we want to analyze the amount of loans to customers and their allowances for doubtful accounts of a sample of banks listed on the stock market. The sample chosen is that of all the banks listed on the Italian stock market in the period between 2005 and 2013.

For this reason we have formulated two different hypotheses and in order to analyze the results we used the Pearson correlation ratio.

Finally we explain our conclusions. This research differs from previous studies proposed in the literature in terms of empirical analysis. First of all, the current sample is particularly representative as it includes all the companies of the bank sector, listed on the Italian stock market. In addition, the study was conducted on a part of the financial statements of the banks of the sample and analyzed over a very long period of time.

This analysis allowed us to see the changes in balance sheet items considered and let us follow the evolution that occurred in the external environment in that period. Moreover, in those years there was

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a deep global crisis that has particularly affected the financial sector and consequently those companies operating in our market.

There are some limits in this research: first of all we should underline that it is the first phase of a far deeper analysis on the banking system. Moreover Bankscope, the database from which we took the data, did not provide all the information required. This is the reason why we decided to use the mean of each item.

1. LITERATURE

Many studies have been conducted to study the bank in its entirety (Koch, T. and S. MacDonald, 2007; Ossola, 2005; Giovando, 1999; Giovando, 1996). Over the years many scholars have studied the bank account (Bocchino et al 2013; Ossola, 2005) and his performance (Barros et al 2007; Berger, Allen N., 2005; Boubakri et al., 2005) and its financial analysis (Hartvigsen, G., 1992). Some researchers have analyzed the performance of the banks belonging to individual countries (Faisal et al 2015; J. Iqbal, and Raza, G., 2009; Ali, A. and Ansari, I, 2007; Barros Ferreira, and Williams, J., 2007). Recent studies have analyzed the bank in terms of international accounting standards (Dezzani et al 2014) and other specific studies are focused on a thorough analysis of the assets and liabilities of the balance transfer.

In addition other researchers have recently analyzed the impacts of the new capital requirements under Basel III on bank lending rates and loan growth. As a result higher capital requirements, raising the marginal cost of bank funding, have been leading to higher rates (Cosimano, et al., 2011; Elliott, 2009; Laeven, L. and F. Valencia, 2008).

Some studies address the banking entities have faced this moment of global crisis (Crowley, 2015; Costa N.M. and Aaron T., 2013; Avdjie et al 2012;Caprio et al, 2011). Many studies have focused on this period of financial crisis, highlighting the crucial role played by the liquidity risk in the stability of a bank, and more generally in the financial system. Some have tried to locate the perimeter within which identify the financial risk and study of methods for good management, in accordance with the requirements of the Basel (Álvarez, Víctor Adrián, and Adrián Fernando Rossignolo 2015; Angelini, et al. 2011,).

A major study found that the systemically important banks Eurozone during the period 2007 and 2013 are well capitalized with respect to market risks, but what about the risks undercapitalized credit and counterparty (Kahlert et al, 2015).

The accumulation of reserves in the banking system of the United States during the financial crisis has increased concerns that the policies of the Federal Reserve may have failed to stimulate the flow of credit to the economy: banks, apparently, are accumulating funds instead of loan out (Keister and McAndrews, 2009).

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Although credit risk is an important factor that financial institutions must cope with the determinants of bank problem, loans have been little studied.

A smaller proportion of studies focused on loans in the bank balance. In particular some scholars employ Granger-causality techniques to test four hypotheses regarding the relationships among loan quality, cost efficiency, and bank capital (Berger and De Young (1997). Other studies analyzed the trade-off between (loan portfolio) focus and diversification using a unique data set that is able to identify individual bank loan exposures to different industries, to different sectors, and to different geographical regions (Acharya et al, 2003). Some studies have analyzed the types of loans to customers and the different types of credit between different regions (Salas and Saurina, 2002).

Important studies has deepened as loan growth affect the riskiness of individual banks in many countries (Foos et al, 2010; Bushman and Williams 2012). The study notes that the loan growth leads to an increase in provisions for credit losses over the next three years, to a decrease in interest income related, and lower capital ratios. Further analysis shows that lending growth has also a negative impact on net interest income risk-adjusted. All this leads to the conclusion that the growth of loans is an important driver of the riskiness of banks.

However, none of these types of analysis was performed to Italian banking firms in the period considered. More specifically, our research considers the period between 2005 and 2013, a very long period that allows to overcome the cyclical trends in the short term, on a large sample of Italian banks, generating incremental results than existing literature from an empirical point of view. Consequently, the results provide a "snapshot" of the economic situation of the banks.

2. METHODOLOGY

The following paragraphs describe the sample and the methodology followed to conduct our research.

2.1 The sample and methods

This analysis focuses on the groups of banks listed on the Italian Stock Exchange.

In particular, we have chosen those listed on the sectoral index called FTSE Banks.

In this group of banks, we focused on the analysis of the Gross loans and the related Reserves for impaired loans in the period between 2005 and 2013. Moreover this study can help us understand the context and the main business in which banks operate.

Data were extracted from Bankscope, which is a database containing comprehensive information on financial companies (banks and insurance companies) in Italy.

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We used the consolidated balance sheets of all companies and we focused on information about Gross loans, Reserves for impaired loans and Total Assets of the balance sheet of the groups of banks companies.

We want to specify that data provided in our figures all refer to the mean of the single element analyzed for the specific sector.

Table 1 shows all the Italian banks of the sample analyzed.

Table 1	Banks
	Banca Finnat Euramerica SpA
	Banca popolare dell'Etruria e del Lazio Soc. coop.
	Banca Popolare di Milano SCaRL
	Banca Popolare di Sondrio Societa Cooperativa per Azioni
	Banca popolare dell'Emilia Romagna
	Banca Profilo SpA
	Banco di Desio e della Brianza SpA-Banco Desio
	Banco di Sardegna SpA
	Banco Popolare - Società Cooperativa-Banco Popolare
	Banca Carige SpA
	Credito Emiliano SpA-CREDEM
	Banca Piccolo Credito Valtellinese-Credito Valtellinese Soc Coop
	FinecoBank Banca FinEco SpA-Banca FinEco SpA
	Intesa Sanpaolo SpA
	Mediobanca SpA-MEDIOBANCA - Banca di Credito Finanziario Società per Azioni
	Banca Monte dei Paschi di Siena SpA-Gruppo Monte dei Paschi di Siena
	Unione di Banche Italiane Scpa-UBI Banca
	UniCredit SpA

Table 1. *Italian banks listed on the bank sectoral index of the Italian Stock Exchange*

2.2 Research questions and phases of analysis

The present research is based on the following main hypothesis: the assets of banks listed on the sectoral index called FTSE banks are mainly represented by loans.

 ISBN: 978-9963-711-37-6

To reach the goals of this study, we need to formulate two research questions:

- *RQ1*: What is the role of Net loans for banks in terms of impact on total assets? And, consequently, what is the trend of the reserves for impaired loans?

- *RQ2*: Is there a correlation between the credits and their related Reserves of impaired loans?

The research methodology follows *three phases*:

a) *Phase 1*: Definition of the items monitored. As we analyse the annual financial reporting of a group of Italian listed companies, we refer to the IAS-IFRS principles (Dezzani et al, 2014), and in particular to IAS 1, *Presentation of Financial Statement*.

b) *Phase 2*: Empirical analysis and findings. It involves an analysis of the information derived from the sample. The research methodology only uses the information provided in the consolidated financial statements because it is sufficient to answer the research questions.

With reference to *RQ1*, we firstly want to demonstrate that the amount of net loans is particularly significant in bank balance sheets. Afterwards we want to monitor their evolution and make a comparison with the percentage of Reserves of impaired loans to the total gross loans in the period considered.

With reference to *RQ2*, we firstly calculate the Pearson correlation ratio between the Gross Loans and Reserves for impaired loans. Thanks to this ratio, we can analyse the impact of gross loans on the reserves for impaired loans in order to evaluate the effects of a specific gross loans policy.

As mentioned above, the Pearson correlation ratio (p) is used to identify a positive or negative correlation between the gross loans and the reserves for impaired loans. For this, it is necessary to underline the following conditions:

- if $p > 0$ there is a direct correlation;
- if $p = 0$ there is no correlation;
- if $p < 0$ there is a indirect correlation;
- if $0 < p < 0.3$ the correlation is weak;
- if $0.3 < p < 0.7$ the correlation is moderate;
- if $p > 0.7$ the correlation is strong.

c) *Phase 3*: Conclusions and limitations of the research.

3. FINDINGS

First of all, before analyzing the data obtained, we want to give further details and definitions.

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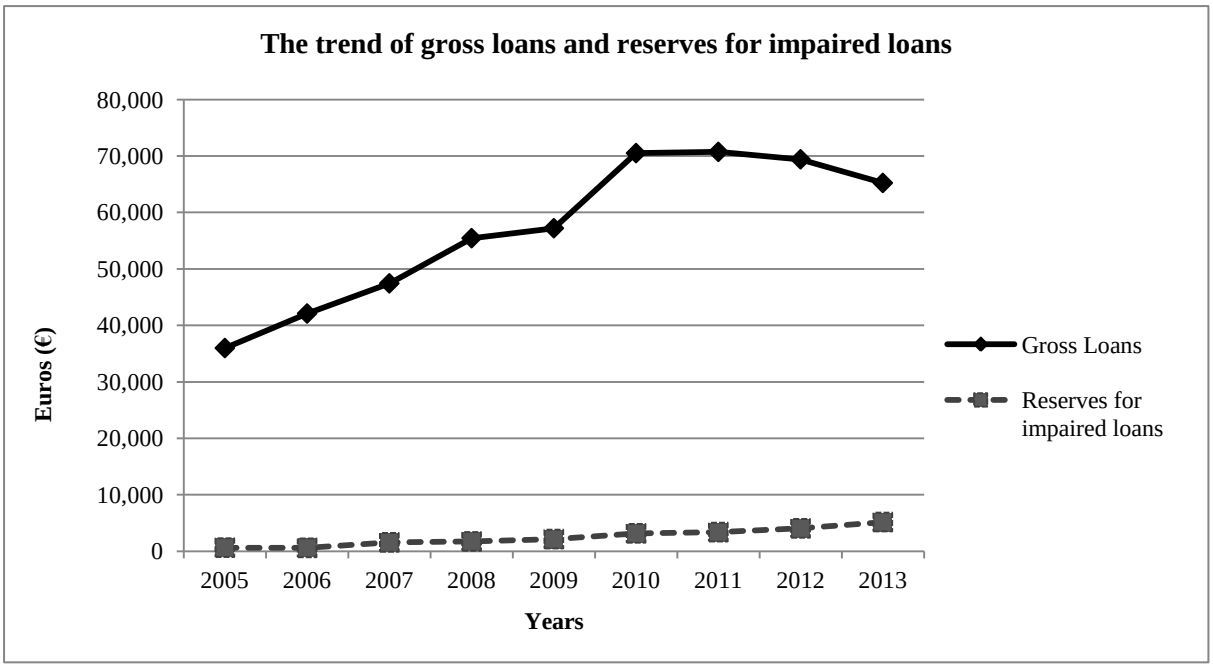

The gross loans includes loans, finance leases, factoring transactions, debt securities, the variation margins with clearing in front of derivative transactions and operating receivables associated with the provision of financial services.

The gross loans are initially recognized at fair value which corresponds to the amount disbursed, or subscription price, plus any transaction costs and revenues directly attributable.

At the end of each accounting an assessment is made of the loss of value of the entire loan portfolio.

The amount of the loss is recognized in the income statement.

The evaluation of the impairment loss on the entire loan portfolio is made taking into account these distinctions:

- Non-performing loans (non-performing): this category includes the suffering, substandard loans, restructured loans, loans past due / overdue (Past due), as defined by the applicable regulatory reporting;
- Performing loans (or performing): as for non-performing loans (Excluding past due) assessment, analytically attributed to each individual position, is performed, for loans that exceed the threshold of significance, determining the expected cash flows and the relative timing of receipts.

Phase 2 concerns the stages of our research and the related comments.

Starting with the *RQ 1*, Figure 1 emphasizes the weight of net loans to total assets of bank balance sheets in the period between 2005 and 2013. The data refer to the average of the sample for each year.

Figure 4. *The impact of net loans to total assets*

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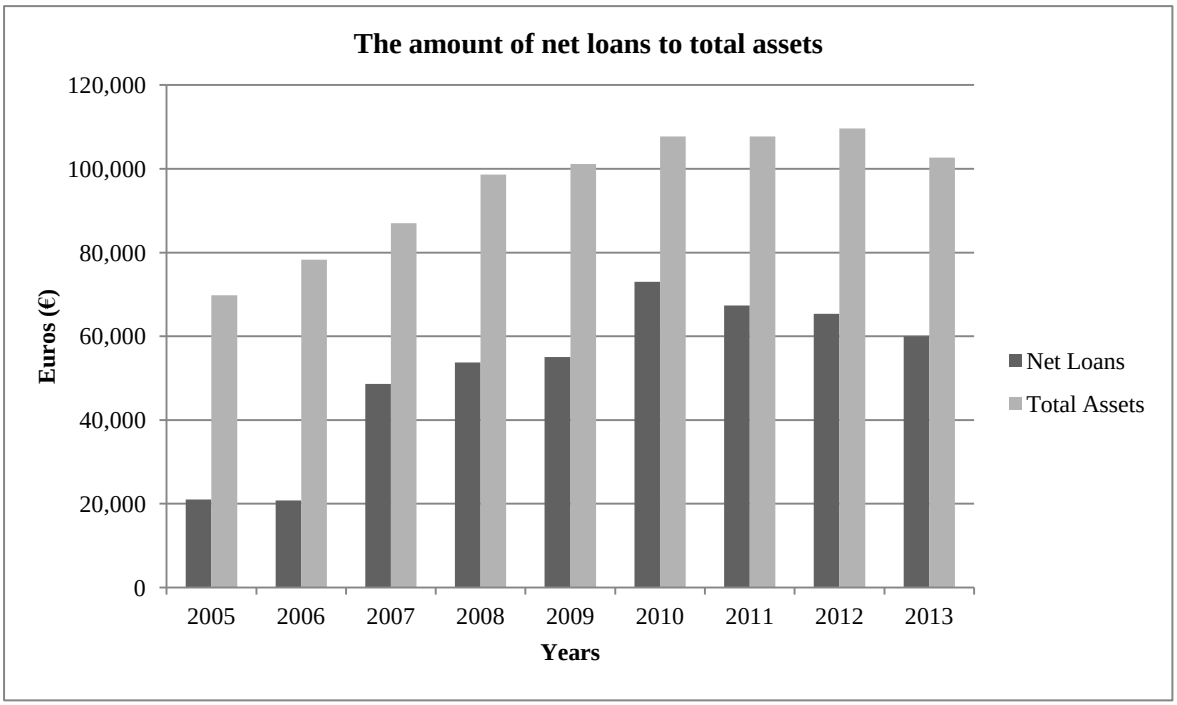
The figure confirms our main hypothesis, therefore, in the sample of banking firms considered, it can



be noted that the gross loans were a significant part of the total assets.

Moreover there was a direct correlation between the two. In fact when gross loans went up, total assets increased too.

Obviously, the trend of total assets was also influenced by other items such as financial assets, classified as AFS (Available for Sale) or HFT (Held for Trading).

Moreover, despite the crisis in the period between 2007 and 2009, the sample of Italian banks increased its gross loans, in opposition contrary to what happened on the sample of American banks (Keister and McAndrews, 2009).

Figure 2 instead shows the trend of gross loans and reserves for impaired loans during the same period. The data refer to the mean of the sector for each year.

The trend of gross loans and reserves for impaired loans

The two figures demonstrate that the initial main hypothesis is true. In addition, it is important to understand the relationship in the balance sheets of banks between credits and the reserves.

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This graph lets us introduce the answer to RQ2. In fact, by analyzing their evolution, we can affirm that the two items were interrelated in the period considered.

We can notice that the reserves gradually increased between 2005 and 2013, while credits did not have the same plain growth. In 2009 the development stopped and then started increasing again, but in 2011 the amount of gross loans began decreasing.

It is therefore clear that in a period of crisis, such as the one that we have been through, banks have increased their reserves for impaired loans and have decided to reduce their risks.

Table 2 shows the percentage of impaired loans to gross loans, referring to the sample analyzed. As we can see, the amount of reserves has increased over the years. In fact it passed from 2.6% in 2005 to 6.4% in 2013.

In particular, in 2008 there was a peak, clearly determined by the general situation of crisis of that year.

Table 2	The percentage of reserves for impaired loans to gross loans									
		2005	2006	2007	2008	2009	2010	2011	2012	2013
	Reserves of impaired loans	2,6%	2,5%	3,3%	4,4%	3,1%	3,4%	3,9%	4,9%	6,4%

Table 2. *The percentage of reserves for impaired loans to gross loans of the banks of the sample*

As mentioned in the previous paragraph, in order to demonstrate the hypothetical correlation between gross loans and their related reserves, we decided to use the Pearson correlation ratio (p) in the period between 2005 and 2013.

Table 3 shows the results deriving from the correlation between gross loans and reserves for impaired loans.

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Table 3	The Pearson correlation ratio between gross loans and reserves for impaired loans									
		Reserves for impaired loans								
			2005	2006	2007	2008	2009	2010	2011	2012	2013
		2005	0,94								
		2006		0,93							
		2007			0,96						
	Gross Loans	2008				0,98					
		2009					0,99				
		2010						0,99			
		2011							0,98		
		2012								0,99	
		2013									0,98

Table 3. *The correlation ratio between gross loans and reserves for impaired loans of the banks of the sample*

The present table confirms there is a strong correlation between the two variables. Every year the correlation overcomes 0.9, rising from 0.94 in 2005 to 0.98 in 2013.

Even in this case, the Pearson correlation ratio of each year confirms what we have just commented before.

On one hand the average of the allocations increases over the years and on the other the correlation is very strong.

4. CONCLUSIONS

Our research and its results confirm what many previous studies have stated before: the gross loans are an essential item of the balance sheet reaching in some years a percentage on average more than 50 percent of total assets (Keister and McAndrews, 2012).

Nowadays the balance sheet of banks is formed mainly by that item. But precisely for these reasons reserves for impaired loans have had an increasing importance.

Indeed provisions to reserves for impaired loans reveals that they will be one of the most strategic items of bank balance sheets.

Under these provisions, administrators will influence the income statement of the bank.

Our findings raise important bank supervisory policy issues: the use of bank level variables as early warning indicators.

ISBN: 978-9963-711-37-6

Thanks to our study, we realized that in Italy in the period between 2005 and 2013 the gross loans of the group of banks considered increased. Moreover the related reserves for impaired loans had the same trend.

As a consequence the crisis of recent years has generated strong concerns regarding gross loans.

This system thus brought to an increase of provisions to reserves for impaired loans.

We have also noticed that the Pearson correlation ratio underlines that the growth of gross loans is strongly correlated to the increase reserves for impaired loans.

The overall situation has also an impact on the topic of bank mergers. Business combination would bring benefits in terms of aggregate credit risk and its management.

What we have analyzed also let us introduce all the limitations of this research. First of all, this study represents the first step of a much deeper analysis that can consider other variables, financial indicators and margins. Moreover, the same analysis can be extended to all European listed banks.

It might be interesting to compare and contrast the Italian situation with that of other European countries, such as England, France and Germany.

Also, it may be useful to understand the impact of the annual provision to reserves for impaired loans on the operating result. This might help better understand the balance sheets of banks throughout this period and how performance in the sector have been influenced by the policy linked to these provisions.

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 ISBN: 978-9963-711-37-6

VALUE CO-CREATION AND VALUE CO-DESTRUCTION IN THE PATIENT-PROVIDER RELATIONSHIP. THE CONTRIBUTION OF THE "HEALTH LITERACY" PERSPECTIVE

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ABSTRACT

Patient empowerment, patient engagement, patient involvement, and patient-centered care are popular buzzwords in the fields of health policy and health care management. However, in spite of their topicality, still little is known about the issues which concern the involvement of patients as co-producers of health care services and co-creators of value. Besides, most of the scholars are inclined to focus their attention on the intrinsic value-added ascribed to health care co-production, thus overlooking the possibility of value co-destruction which is associated with the engagement of patients in the provision of health care. This paper is aimed at conceptually exploring the ideas of value co-creation and value co-destruction in the health care service system, pointing out a link between the "health literacy" concept and the co-production of health care services. This topic is approached according to a theoretical perspective, with the eventual purposes of shedding light on two important determinants of value co-destruction and inspiring further efforts of research. In particular, value co-destruction is conceived as a two-way street, where both health care providers and patients are involved. Indeed, both of them could accidentally or intentionally contribute in the process of value destruction, undermining the positive outcomes which are usually ascribed to patient engagement. Individual health literacy and organizational health literacy are understood as two crucial tools to enhance the involvement of patients as co-creators of value and reduce the risks of value co-destruction. Adopting this point of view, conceptual and practical implications are drawn, which pave the way for further developments.

Keywords: *Health literacy; Organizational health literacy; Co-production; Value co-creation; Value co-destruction*

INTRODUCTION: THE OPTIMISTIC IDEA OF PATIENT ENGAGEMENT

Patient engagement and patient involvement are generally understood as both crucial policy goals and key managerial priorities to enhance the quality of health services and to improve the

 ISBN: 978-9963-711-37-6

sustainability of the health care system (Durand, et al., 2014; Coulter, 2006). Moreover, the process of patient empowerment is assumed to be imperative to revisit the traditional bio-medical approach to care. Actually, it promotes the reconceptualization of the patient as a co-producer of value, rather than as a consumer of health care services who relies on the support of health care professionals to deal with health-related problems (Fumagalli, et al., 2015). Even though patient engagement is generally described by scholars and practitioners as a multi-faceted concept, which assumes a lot of challenging definitions (Gallivan, et al., 2012), it could be ultimately understood as a process of activation, by virtue of which the patients develop an increasing awareness of the actions they have to take "*to obtain the greatest benefit from the health care services available to them*" (Gruman, et al., 2010, p. 351).

Such an interpretation of patient engagement is consistent with the assumption that health care professionals are only one part of the health care service system. Actually, patients themselves are deeply involved in all the types of activities which concern the protection and the promotion of the health status, thus playing the role of critical "*co-producers of health*" (Coulter, 2012, p. 80). From this point of view – and in line with what Grönroos (2008) has argued dealing with services in general – the process nature of health care provision is emphasized. Consequently, health care professionals are called to perform two complementary functions dealing with the patients. On the one hand, they operate as enablers who have to facilitate the activation of the patients in the provision of health services with the eventual purpose of achieving patient-centered care (Michie, et al., 2003). On the other hand, they serve as catalysts, encouraging the willingness of patients to be involved in the process of health care provision (Thompson & McCabe, 2012).

To the knowledge of the Author, still little is known about the effects of patient engagement on health outcomes, as well as on cost savings. However, several scholars agree in claiming that the involvement of patients in the provision of health care services allows the achievement of significant results, including: the establishment of a safer healthcare environment (Sharp, et al., 2014), the enhancement of the relationships between the health care professionals and the patients (Roseman, et al., 2013), the improvement of the patients' preference for collaborative decision making (Durand, et al., 2014), the encouragement of patients' self-management of care (Simmons, et al., 2014; Jordan, et al., 2008), and – last but not least – the advancement of patients' satisfaction (Manary, et al., 2013).

In spite of the prevailing optimism about the effects associated with the engagement of users as active partners of providers, in the field of service marketing Plé and Cáceres (2010) have argued that the enhanced interaction between them may also result in a process of value co-destruction, which in turn paves the way for a decline of the well-being of those who are directly or indirectly involved in the relationship. Going more into details, co-destruction of value is likely to happen when users and providers participate in the process of service provision adopting different perspectives, bringing

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incongruent inputs, and aiming at the achievement of diverging ends (Smith, 2013). In other words, co-destruction of value implies a misuse of the available resources by the providers, the users, or both of them, which could be either accidental or intentional. In the former case, users and providers are not aware that the clash of their interests and/or activities undermines the service value. Alternatively, in the latter case they deliberately struggle to achieve personal advantages.

The risk of value co-destruction is especially high when the provision of health care services is concerned. In fact, the patients usually lack the knowledge, the skills, the experience, and the understanding to be effectively involved in a co-creating partnership with the health care professionals (Teunissen, et al., 2013). In addition, most of the patients are unwilling to be engaged in the provision of health care, due to the condition of physical and psychological weakness which is associated with the illness (Palumbo, 2014). Lastly, patient engagement could produce ethical tensions, since it leads to increased inequity in the access to health care services (Thomson, et al., 2005). At the same time, health care professionals may play a significant role in co-destroying value when they are urged to embrace a patient-centered approach to care. In particular, they could be interested in limiting the involvement of patients in the process of health care provision, in order to avoid their potential loss of control on clinical decisions (Owens & Cribb, 2012). Indeed, most of health care professionals are still loyal to a purely bio-medical approach to care, which is illness-centered and neglects the patients' contribution in the creation of value (Wood, 2012).

This paper is aimed at conceptually exploring the idea of value co-destruction in the provision of health care in the light of a mainly theoretical perspective. For this purpose, a conceptual association between value co-creation, value co-destruction, and health literacy is suggested. It is assumed that the enhancement of individual and organizational health literacy is crucial to implement patient engagement and to achieve health care co-production. Otherwise, when appropriate levels of individual and organizational health literacy are lacking, the involvement of patients in the provision of health care may result in value co-destruction, which negatively affects the well-being of both the users and the providers of health services.

The article is organized as follows. The next section depicts the health literacy concept and distinguish individual from organizational health literacy. Besides, it points out the role played by both individual and organizational health literacy in enhancing the involvement of patients in the provision of health care. Drawing from these considerations, the third section includes a theoretical framework, which depicts how limited individual and organizational health literacy pave the way for value co-destruction in the health care setting. The fourth section discusses several practical implications: in particular, it identifies the interventions which could help to avoid value co-destruction and to encourages the engagement of patients in the provision of care. In the concluding section some

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stimulating insights are worked out, which inspire further conceptual and practical developments.

HEALTH LITERACY AS A REQUISITE FOR HEALTH CARE CO-PRODUCTION

Health literacy is mainly understood as a purely individual trait. In fact, the health literacy concept was originally conceived in terms of "*functional health literacy*" (Parker et al., 1995), which indicates the basic personal abilities to collect and comprehend written and verbal health information (literacy) and to process the numerical data included in the latter (numeracy). Nutbeam (2008) expanded this restricted definition, claiming that health literacy includes both interactive and critical skills. The former consist of the capacity to build familiar and comfortable relationships with the health care professionals, which allow to improve the quality of patient-provider communications and – consequently – to enhance the interpersonal exchange of information. On the other hand, critical competencies include the ability to identify and appreciate the different alternatives available for the purposes of health protection and promotion, which in turn enhances the achievable health outcomes due to increased effectiveness and appropriateness of care.

Blending these perspectives, health literacy has been ultimately depicted as "*the degree to which individuals have the capacity to obtain, process, and understand basic health information and services needed to make appropriate health decisions*" (Baker, 2006, p.878). In the light of this definition, it is evident that individual health literacy is a crucial requisite to engage the patients in a co-creating partnership with the health care professionals, thus encouraging the co-production of health care services. In fact, the scientific literature has widely shown that the individual health literacy skills predict: the patients' predisposition to the self-management of care (Macabasco-O'Connell, et al., 2011), the adoption of health seeking behaviors (Bourne, et al., 2010), the proper knowledge of the disease (Gazmararian, et al., 2003), the readiness to use preventive services (Scott, et al., 2002), and the appropriate understanding of health information (Chugh, et al., 2009). Therefore, limited individual health literacy hinders the enactment of collaborative relationships between the health care professionals and the patients. People living with poor health literacy skills are unwilling to be engaged in a co-creating partnership with the providers of care, delegating to the latter most of the decisions which concern the protection and the promotion of the health status.

Both scholars and practitioners have paid an increasing attention to the issues associated with individual health literacy. Alternatively, organizational health literacy is a widely overlooked topic (Parker & Hernandez, 2012), whose effects on patient engagement and on the achievement of enhanced health outcomes is poorly discussed (Palumbo & Annarumma, 2014). This circumstance is quite surprising, since the health care organizations host most of the interactions between health care providers and patients, thus serving as the main context for the implementation of health care co-

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production. From this point of view, organizational health literacy could be conceived as the ability of health care organizations to "*make it easier for people to navigate, understand, and use information and services to take care of their health*" (Brach, et al., 2014, p. 213). Sticking to this definition, organizational health literacy implies an evolution in the role of health care organizations from relievers – that is to say self-reliant and specialized solvers of ill health status – to enablers – that is to say facilitators of patient activation and involvement in the provision of care.

Brach and Colleagues (2012) suggested ten attributes which are considered to affect the health literacy of health care organizations, thus emphasizing the complexity of the organizational health literacy concept. Going more into details, health literate health care organizations are assumed: 1) to contemplate health literacy into organizational planning and quality improvement; 2) to encourage a leadership which recognizes the importance of health literacy to organizational mission and values; 3) to engage the served population in the design of both information and health services in a perspective of continuous health literacy improvement; 4) to create proper organizational conditions to overcome the stigma associated with limited health literacy; 5) to improve the ability of health care professionals to handle health literacy issues; 6) to consider the needs of individual living with poor health literacy at all points of contact between patients and providers; 7) to provide patients with easy access to health information; 8) to design and distribute easy to understand written, audio, and visual materials, which are tailored to the needs of poor health literate individuals; 9) to improve inter-organizational relationships with the purpose of enhancing the capacity to address health literacy in high-risk situations; and 10) to clearly communicate to poor literate patients the mechanism of health care services' co-payment.

In line with this theoretical framework, Willis and Co-Authors (2014, p. 518) argued that three different types of interventions are key to enhance organizational health literacy: 1) government and policy actions; 2) organizational/practitioner actions; and 3) partnership actions. The first category falls outside the purposes of this article, since it does not concern the immediate interaction between patients and health care providers, while focusing on the interdependencies between the health literacy concept, the health system, the educational system, and other relevant social and cultural systems. Otherwise, both organizational actions and partnership actions are imperative to facilitate the establishment of a co-creating environment within health care organizations. In particular, the former involve: the development of a shared organizational vision about health literacy, the inclusion of a specific health literacy concern in the main policies of the organization, the identification of health literacy champions to foster the organizational commitment to meet the needs of poor health literate patients, and the engagement of health care professionals in the initiatives aimed at the enhancement of organizational health literacy through improved educational initiatives and the reconceptualization

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of the traditional bio-medical approach to care. On the other hand, partnership actions include the establishment of collaborative and cooperative relationships between the entities which operate within the health system, to encourage a systemic effort toward health literacy and improve the access to community-based health literacy resources.

Drawing from these considerations, it could be argued that health care co-production is a two-way street. On the one hand, it deeply relies on the willingness and ability of patients to be engaged in the provision of health care as active partners of regular providers; on the other hand, co-production of care requires favourable organizational conditions, which are vital to the establishment of a co-creating environment in traditional health care settings. When either individual health literacy, organizational health literacy, or both of them are missing, the ambition to involve the patient in the process of health care provision is undermined. Actually, in these circumstances the relationship between the health care providers and the patients is biased, paving the way for value co-destruction rather than value co-creation.

Value co-creation and co-destruction in health care provision

The risk of value co-destruction is especially significant within the health care service system, where the process of service provision is the result of the interaction of agents who bring different perspectives when dealing with health-related phenomena. In fact, patients adopt a first person perspective, since they immediately perceive the fall of the psychic and physical well-being associated with the illness. Alternatively, health care professionals are likely to endorse a third person perspective, appreciating health issues in technical and reductionist terms. Therefore, patients and health care professionals may express diverging ends and conflicting beliefs, which in turn hinder the establishment of a co-creating partnership.

When conflicts between them arise and disagreements are not properly handled, patients and health care providers are likely to co-destroy value, undermining both the effectiveness and the appropriateness of care. Drawing from the conceptual framework arranged by Plé and Cáceres (2010), patients and health care providers are understood as two complementary service systems, which interact and share material and non-material resources for the purpose of service provision. Obviously, the misuse of available resources by either patients, health care providers, or both of them undermines value co-creation, paving the way for the achievement of deficient health outcomes and impoverished well-being. According to what has been shown above, inadequate individual and organizational health literacy are important determinants of resource misuse, engendering a process of value co-destruction.

Patients living with marginal health literacy skills are likely to not properly use their own resources, as well as the assets of health care organizations, thus deeply affecting the appropriateness of health

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care. In fact, inadequate functional health literacy jeopardizes the patients' understanding of diagnoses and treatments suggested by health care professionals. As a consequence, it hampers medication adherence, undermines patients' compliance, and discourages the convenient utilization of health care resources (with regards to these particular issues, see among the others: Franzen, et al., 2014; von Wagner, et al., 2007; Institute of Medicine, 2004; Williams, et al., 1995). Besides, poor interactive health literacy prevents the opportunity to fill the cognitive gaps which are produced by inadequate functional skills by leveraging on the establishment of clear relationships with health care providers. In fact, impaired interactional health literacy restrains the individual ability to extract meaningful health information from the multiple communications they establish with health care providers or other sources of health information, thus frustrating the individual ability to navigate the health system (Devraj, et al., 2015; Dalrymple, et al., 2004). Lastly, limited critical health literacy involves patients' poor awareness about health-related phenomena, concurring to reinforce their unwillingness to participate in critical dialogue with health care professionals and to become involved in decision making for health in line with a patient-centered model of care (Heijmans, et al., 2015; Sykes, et al., 2013).

In sum, limited individual health literacy sets the condition for a biased relationship between health care providers and patients. In these circumstances, the involvement of the patient in the provision of health care paves the way for unexpected consequences, including the exacerbation of the patients' health conditions and the related increase in the demand for care. Actually, poor health literate patients are not able to navigate the health system, thus being exposed to higher risks of inappropriateness. Therefore, the process of value co-destruction engendered by limited individual health literacy does not solely concern the fall in the individual well-being. It also implies increased health care costs, with subsequent drawbacks on the sustainability of the health care system. This process of value co-destruction is mainly accidental, since it is produced by the impaired capacity of patients to handle complex health related phenomena and to adequately interact with the providers of care (for the sake of the argument, see Robertson and Colleagues, 2014). Besides, several scholars have argued that the engagement of patients with poor health literacy skills increases their dependency from the support of providers, turning out to be counter-productive (Schulz & Nakamoto, 2013).

However, in most of the cases value co-destruction in the health care service system is produced by inadequate organizational health literacy. In fact, health care organizations are usually unable to establish an environment which empowers patients and enables them to operate as co-producers of health, since the traditional bio-medical model of care is still prevailing. It emphasizes the role played by providers in dealing with the biological determinants of health, thus overlooking the contribution of patients in the success of health care provision. Poor health literate health care organizations neglect

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that the patients need the establishment of a friendly and comfortable environment to be effectively involved in the provision of health care. As a consequence, when the enhancement of organizational health literacy is missing, patient engagement turns out to be harmful for both patients and health care professionals. On the one hand, the former may suffer from an increased dependence on the latter, since health care professionals maintain their control on health information, while patients are not able to handle the complex issues which arise in the health care setting. On the other hand, organizational and time constraints hinder a patient-centered approach to care by health care providers, who maintain a bio-medical slant (Légaré & Witteman, 2013).

The poorer the levels of organizational health literacy, the higher the risks of value co-destruction in the health care service system. Limited organizational health literacy implies the arrangement of a hostile environment, where information are not easy to understand and inadequate attention is paid to the information needs of people living with low functional, interactional, and critical health literacy skills. From this point of view, poor organizational health literacy could be understood an intentional determinant of value co-destruction in the health care service system. Actually, the lack of organizational efforts aimed at enhancing the capacity of patients to properly handle the available health resources and at encouraging health care professionals to engage patients in the provision of health care is the result of a voluntary managerial approach, which favours the traditional bio-medical model of care and prevents the transition toward the empowerment of patients as critical co-producers of health.

Figure 1 provides a graphical synthesis of what has been discussed above. Health care co-production entails a revisited relationship between health care professionals and patients, which emphasizes the role played by both of them in the success of health care provision and in the achievement of the desired health outcomes. It rejects the still prevailing bio-medical approach to care, which maintains that health care professionals are the sole relevant agents in the process of health care design and delivery, identifying the patients as mere consumers of health care who are not able to affect the way the service provision is implemented. Quite the opposite, patients are assumed to have a lot of dormant assets, which are generally disregarded in the health care setting. Hence, the lack of co-production implies the inability to benefit from these sleeping resources, negatively affecting value creation.

The engagement of patients in the provision of health care is eventually aimed at activating these sleeping resources, allowing them to participate in the decisions and initiatives which concern health protection and promotion in a perspective of enhanced value co-creation. However, in most of the cases the attention is focused on the institutional conditions which paves the way for patients' empowerment, while the practical requisites of patient involvement are neglected. As it could be

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figured out from the above discourse, individual and organizational health literacy are two key determinants of patients engagement. On the one hand, individual health literacy affects the ability of the patients to collect, process, and understand health information, thus influencing their capacity to navigate the health system. On the other hand, organizational health literacy could be understood as an enabling factor: it involves the establishment of a favourable environment to patient involvement, inciting recipients of care to actively take part in the process of value co-creation.

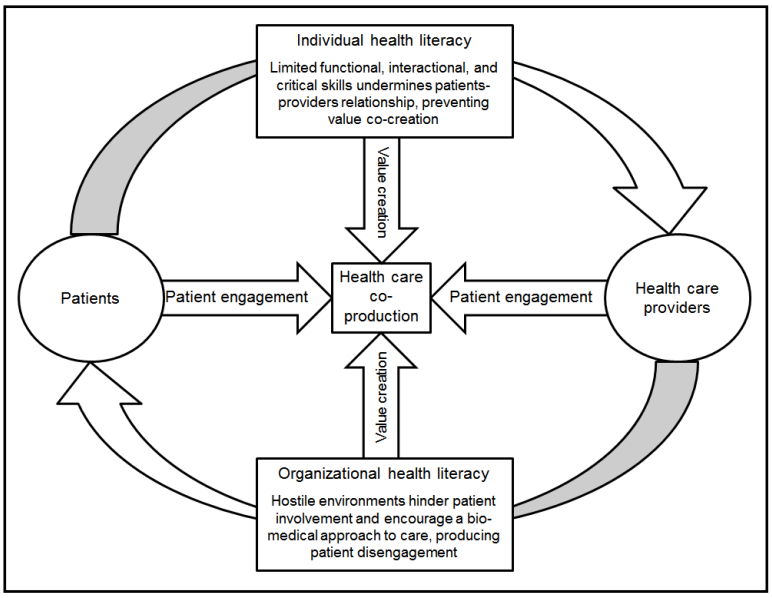

Figure 1. *The process of health care co-production.*

Inadequate individual health literacy undermines value co-creation and produces poor self-management of care and low self-efficacy perception, which in turn frustrate the establishment of collaborative relationships between the patients and the providers of care. Besides, a poor health literate health care setting impairs the ability of the patients to handle complex health-related phenomena and produces increased risks of misuse of the available resources. Therefore, limited individual and organizational health literacy set the conditions for value co-destruction in the health care setting. On the one hand, marginal individual health literacy prevents the ability of the patients to effectively communicate with the health care professionals and to achieve self-management of care. On the other hand, inadequate organizational health literacy hinders a co-creating partnership between the patients and the providers of care, even when the latter have adequate functional, interactive, and critical skills. In fact, it implies the establishment of a hostile environment, which discourages patient engagement. Besides, the mix of adequate organizational health literacy and poor individual health literacy may be harmful: it paves the way for significant risks of resources misuse, due to the inadequate understanding of health information by poor health literate patients.

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AVOIDING VALUE CO-DESTRUCTION IN HEALTH CARE SETTINGS

Individual and organizational health literacy are conjoined twins: both of them are required to realize patient engagement and to enhance the value which is generated through the involvement of users in the design and delivery of health care services. As it could be argued from the theoretical framework which has been depicted in the previous section, the disregard of either individual health literacy, organizational health literacy, or both of them in promoting the establishment of a co-creating partnership between the patients and the providers of health care produces momentous drawbacks. It impairs the contribution of patients in the process of health care provision and incites health care professionals to reiterate the traditional bio-medical approach to care, which is illness-centered and considers patients as mere consumers of health care services. As a consequence, it could be assumed that the lack of efforts aimed at addressing individual and organizational health literacy paves the way for value co-destruction, undermining the well-being of the entities involved in the provision of care and jeopardizing the sustainability of the health care system.

In spite of these considerations, scholars and practitioners are used to deal with individual and organizational health literacy as unrelated issues, thus neglecting the significant interdependencies which exist among them. Therefore, still little is known about the overall impacts of inadequate health literacy on both the health outcomes and the sustainability of the health care system. As well, most of the evidences which support the effectiveness of the interventions aimed at improving individual health literacy may be considered unreliable, since they do not appreciate the role played by organizational health literacy in affecting, on the one hand, the engagement of the patients in the provision of health care and, on the other hand, the willingness of health care professionals to perform as enablers of the patients' sleeping resources, thus dismissing their traditional role of healers and illness relievers.

To achieve enhanced conditions of value co-creation within the health care service system, individual health literacy and organizational health literacy should be jointly managed and harmonized each other. With regards to individual health literacy, the ability of patients to understand health information and to properly navigate the health system is crucial to the effective establishment of a co-creating partnership in the health care setting. In fact, poor health literate patients are not able to deal with complex health-related phenomena, are not willing to set up a fair and unbiased relationship with the health care professionals, and are not proficient in discriminating between the *pros* and *cons* of different health treatments available. Hence, specific interventions aimed at educating patients in health-related issues and enhancing their self-efficacy perception are imperative to encourage patient involvement and to realize the value-added which is apparently associated with the co-production of health care. In these words, the patient-provider relationship turns out to be a contact between two

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experts, where both of them contribute in the success of the health care provision.

Notwithstanding, the improvement of individual health literacy could be trivial if not supported by the advancement of organizational health literacy. Actually, when the importance of health literacy to organizational mission and values is overlooked and health literacy concerns are not contemplated into organizational plans and goals, health care professionals are not incited to promote patient engagement in the provision of care, thus preserving their loyalty to the traditional bio-medical approach to care. Therefore, within poor health literate health care organizations, the functional, interactive, and critical health literacy skills of patients are sterilized. Although health literate patients are able to participate in the process of value creation, they are restrained to do so due to a hostile environment, which fosters a "fix-it" approach to care and hinders the involvement of patients in the provision of health services. When these circumstances prevail, there is a high risk that value is co-destroyed: the disengagement of the patients implies impaired medication adherence and increased disagreements with the health care providers, which in turn engender the misuse of the available resources and the achievement of meager health outcomes.

From this point of view, the enhancement of organizational health literacy is a crucial part of the initiatives aimed at the engagement of patients, requiring both strategic and managerial changes. First of all, health literacy should be contemplated within organizational planning, being conceived as one of the main strategic concerns of health care organizations. As well, appropriate measures to check the levels of organizational health literacy should be arranged and monitored, informing corrective actions when patients are found to be not able to navigate the health care service system, because of the complexity of health information and the hostility of the health environment. Particular attention should be also paid to the encouragement of inter-organizational relationships within the health care system, with the purpose of improving the access of both patients and health care professionals to community-based health literacy resources, which in turn allow to reduce the risks of misuse of available assets. Last but not least, the sensitivity to health literacy of health care professionals should be aroused, making them more willing to engage and empower the patients.

CONCLUSION AND FURTHER DEVELOPMENTS

Dealing with health care co-production, individual and organizational health literacy are the two faces of the same coin. Both of them affect the relationship between the patients and the providers of care, setting the conditions for the establishment of a co-creating partnership in the health care environment. Nonetheless, dealing with patient engagement, the scientific and the professional literatures have widely overlooked the role played by organizational health literacy, mainly focusing on the individual ability of patients to collect, process, and understand health information in order to

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properly navigate the health care system. In addition, even though the awareness of the scholarship about the characteristics and the effects of organizational health literacy is currently arising, still little is known about its impacts on patient empowerment and health care co-production.

The theoretical framework suggested by this paper is aimed at nourishing the debate about this important issue, conceiving individual and organizational health literacy as conjoined twins and emphasizing the interdependencies between them. They are assumed to be crucial to the implementation of health care co-production. The missing of either individual or organizational health literacy paves the way for a biased relationship between the health care providers and the patents, thus preventing the establishment of a co-creating partnership and engendering increased risks of value co-destruction. Further conceptual and empirical developments are needed to figure out the complex interdependencies existing between individual health literacy, organizational health literacy, and health care co-production, clarifying how they interact enhancing value co-creation or provoking value co-destruction.

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 ISBN: 978-9963-711-37-6

WILL NEW TECHNOLOGIES CHANGE THE SHOPPING EXPERIENCE AS SOCIAL ACTIVITY?

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ABSTRACT

This paper focuses on the effect of the disruptive innovations held by the advanced technologies introduced into the points of sale. In particular, it investigates the new sense of sociality elicited by the integration of advanced technologies and social networks, with emphasis on the sense of sociality and on the quality of social interactions while shopping. The study is based on a quantitative analysis involving 331 young consumers, investigated through the Structural Equation Model. Findings show the extent to which these technological innovations are able to replace the traditional face-to-face interactions (including consumer-to-consumer and consumer-to-vendor ones).

Keywords: *retailing, consumer behaviour, social experience, shopping experience, technology management.*

INTRODUCTION

In recent years, a huge number of advanced systems have been introduced into the physical points of sale for improving retail process (Pantano, 2014). These innovative technologies provide novel, interactive, and entertaining interfaces for displaying products and advertisements (i.e. promotions, manufacturing process, location, etc.), enhancing self-services (i.e. especially grocery stores introduced automatic cash desks to shorten lines), etc., by changing the way for asking and accessing information, achieving and delivering services (i.e. automatic payment based on consumer's own mobile), creating value, purchasing products, etc. (Demirkan and Spohrer, 2014). These innovations might also have a disruptive aspect in terms of consumer-to-consumer and consumer-to-vendor relationships. In fact, they might change/replace/substitute the role of the vendor, since they do not require any direct employees' assistance. Similarly, the growing interest in social networks as informative source shows the extent to which consumers are willing to gather information without physical contacts with others (Godes and Mayzlin, 2004; Pantano and Migliarese, 2014).

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Hence, the advanced systems offer a new computer (technology)-mediated retail environment, which integrates interpersonal interactions (consumer-to-consumer and consumer-to-vendor interactions) and machine-based interactions (human-to-computer interactions). Since frontline salespersons determine the first impression consumers have of the retailer (in terms of both brand and firm) in consumers' mind and the consumers start relationships with vendors for achieving benefits (social, psychological, economic and others emerging from the customized relationship) while reducing the risk involved in the purchase process, the sense of sociality involved in the in-store shopping experience might change due to the new benefits, impressions and functionalities provided by these technologies. Although past studies underlined the ability of vendors to persuade people to buy, and the difficulty for a technology to perform adaptive selling like a (real) salesperson (Sharma, 2001; Pantano and Migliarese, 2014), the current systems offer new consumer-to-vendor computer-mediated interactive relationships, where the vendor may be replaced by a virtual system with the main functionality of recommending products on the basis of past purchases and accessed information.

For these reasons, we believe that it is an apt time to revisit the sense of sociality involved in shopping experience for a nuanced study of how the sense of sociality involved in the traditional shopping experience can be dramatically modified by these technologies, with emphasis on the social interactions between consumers and (physical) vendor and consumers and other (physical) consumers. Hence, the aim of this research is to investigate to what extent computer-mediated relationships may replace the traditional human interactions in the physical points of sale, by focusing on a quantitative analysis involving 331 youth (between 20 and 30 years old).

THEORETICAL BACKGROUND

While analysing in-store consumers' behaviour, attention should be paid also to social interactions. Past studies recognized the interpersonal interactions between clients and vendors as determinant of clients' satisfaction, loyalty and subsequent purchasing behaviour (Yang, 2013; Drollinger & Comer, 2013). Hence, consumer-to-vendor relationships play a critical role for the successful of sales, by forcing scholars and practitioners to investigate the ripple effects of advanced technologies on these relationships.

Some preliminary researches in this direction investigated how the self-service systems mediate the traditional communication between consumer and seller (Williams et al., 2012), by showing to what extent building (strong) relationships with consumers becomes more difficult if consumers exploit the self-service technologies, with negative consequences for the quantity and frequency of interpersonal contacts with vendors (Tang et al., 2001; Pantano and Migliarese, 2014). Hence, consumers' preference

 ISBN: 978-9963-711-37-6

to ask physical vendors to ask support might affect their attitude towards the usage of advanced technologies, which may substitute some tasks usually executed by humans (Yang, 2013; Drollinger & Comer, 2013; Pantano and Migliarese, 2014). Thus, if consumers choose technology as supporting tool for shopping, they may perceive as useless the presence of a real vendor.

For these reasons, we hypothesize:

H1: Consumer's relationship with (real) vendor influences his/her attitude towards the usage of a certain technology as supporting tool while shopping.

Moreover, consumers' shopping experience has been largely recognized as an activity that strongly includes the social dimension, by considering all the social interactions (i.e. with both sales personnel and other shoppers) (Gilboa and Vilnai-Yavetz, 2013; Kim and Kim, 2012). The social factors involved in the shopping activity are some of the most important elements related to the in-store store experience (Kourouthanassis et al., 2007; Kim and Kim, 2012). For this reason, one key aspect of the points of sale lays on their ability to offer also a social experience (Gilboa and Vilnai-Yavetz, 2013). The social dimension related to the face-to-face interactions with others, according to Maslow's (1954) definition of the social need of belonging that includes the desire to be accepted by others and meet others' expectations, explains the need to interact with others during the purchase decision. In fact, during the shopping activity, the consumer might buy items for being accepted by the social reference group, where the purchasing of a good consists of the acquisition of a status or a certain identity (Reinstaller and Sanditov, 2005). Thus, he/she is prompted to ask suggestions and opinions for making a better choice, concerning both the technical characteristics of the products and the related social value (Reinstaller and Sanditov, 2005; Li, 2013). The request for recommendations might consist of face-to-face questions, which includes the physical presence of other consumers (e.g. friends/relatives/partners/etc.) in the store, or it might exploit the digital media, which includes an interaction mediated by Internet (i.e. request via social media like Facebook). The ability of vendors to satisfy consumers' requests, suggest product, and support their buying decision might limit their need to be supported by others while shopping (including their need of friends' physical presence).

Therefore, we hypothesize:

H2: Consumer's relationship with (real) vendor influences his/her need of friends' (physical) presence

H3: Consumer's need of friends' (physical) presence affects their attitude towards the usage of advanced technologies while shopping

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In this scenario, word-of-mouth (WOM) communication plays an important role for generating awareness and interest towards a certain product, as well as for supporting the subsequent effective purchase (Litvin et al., 2008; Lim and Chung, 2011). WOM is an informal and low cost way of communication, largely used by consumers for achieving and sharing information, as well as for communicating past experiences (Lim and Chung, 2011; Hornik et al., 2015). Thus, it can be seen as a form of information search, which may take place while consumers search for information from others before choosing (Gilly et al., 1998). Information emerging from this interaction adds new knowledge to what consumer already believes on certain features of products and services (Lim and Chung, 2011). Hence, opinions of others impact the individual decision-making process, negatively or positively, by reducing or increasing the perceived credibility of the product/firm according these judgements (Hornik et al., 2015). Managers may exploit this kind of communication for understanding the products/firm's success from the related word-of-mouth that it generated (Godes and Mayzlin, 20014). While WOM takes place between individuals with a sort of pre-existing personal relationship, the electronic channels and social networks overcome this limit by offering a free and always available space where people can interact each other without a previous relationship, access to others' past experience concerning a certain product or firm, ask for information and recommendations, etc., by developing a new form of WOM mediated by the electronic channel, the electronic WOM (or eWOM) (Litvin et al., 2008; Di Pietro et al., 2012). From a marketing perspective, eWOM allows firms to disseminate products, interact with consumers and understand market trends, acceptance and popularity. This acquires importance due to the consumers' perception of eWOM messages as trustworthy sources (Tran et al., 2012). In the choice of unknown product this element is even more evident, when consumers feel motivated to ask suggestions through social networks, like Facebook, for reducing the risks involved in the purchasing process. For this reason, previous authors consider the function of eWOM as a sort of informational social influence (Di Pietro et al., 2012).

The reason for extensive usage of social networks, like Facebook, might also place on the need of social interactions (relationships-oriented motivation) (Cao et al., 2013). Since eWOM keeps in touch past and potential consumers, by advising them and influencing their purchasing decision, with impact on product sales (Di Pietro et al., 2012), and the ways people are linked each other through social networks are several (i.e. for maintaining existing social ties, to be part of an interest group, etc.), eWOM includes accepting suggestions and opinions (either negative or positive) from also individual(s) who may not have been met before without further investigations.

The relationships with vendor may further discourage consumers to ask more information through Internet, by considering the ones provided by the salesperson as enough for the choice. Similarly, the

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large exploitation of online advices (eWOM) might affect consumers' attitude in using advanced technologies from the store for achieving suggestions and information from friends.

Therefore, we hypothesize:

H4: Consumer's relationship with (real) vendor influences his/her need to use eWOM for achieving more information and suggestions

H5: Consumers' need to use eWOM for achieving more information and suggestions has a direct influence on their attitude towards attitude towards the usage of advanced technologies while shopping

Consumers need to perceive the collected information as trustworthy to take them into account while choosing. For this reason, trust has attracted researchers' attention and has been frequently integrated into the Technology Acceptance Model (Davis, 1989) as predictor of consumers' acceptance of a certain technology (Pavlou and Fygernson, 2006; Perea y Monsuwé et al., 2004). In fact, trust plays a critical role under conditions of uncertainty and risk, such as during the purchasing of not familiar (or unknown) products (Perea y Monsuwé et al., 2004; Park et al., 2012). In traditional (offline) stores, the most important source of trust is the vendor, by including his/her experience, expertise, honesty, benevolence, confidence, and communication skills (Perea y Monsuwé et al., 2004). The value of trust is fundamental for the stability and duration of consumer-vendor relationships. Although previous studies stated trust as a generalized expectancy from an individual to another (Perea y Monsuwé et al., 2004), in technology-mediated environments where the salesperson is replaced by a system the trust in technology acquires critical importance for the commercial transaction to be successful. In fact, if the technology is trustworthy, consumers may are not willing to ask others' support while choosing.

For these reasons, we hypothesize:

H6: Trust in the technology affects consumers' need to use eWOM for achieving more information and suggestions

H7: Trust in the technology has a direct impact on consumer's relationship with (real) vendor

H8: Trust in the technology influences consumer's need of friends' (physical) presence while shopping in the store

H9: Trust in the technology affects consumers' attitude towards the usage of a certain technology as supporting tool while shopping.

In spite of the huge amount of studies on the role of eWOM and trust for influencing consumer's decision-making process (Bhattacharya and Saha, 2004; Di Pietro et al., 2012; Rafiq et al., 2013), there is

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still a limited number of research on the combined role of these factors (relationship with vendors, eWOM, need of friend's presence, trust in technology and attitude) into the emerging technology-enriched retail environment. Thus, this new environment raises new questions that need to be addressed: (i) to what extent do these technologies reduce the face-to-face interactions (both consumer-to-vendor and consumer-to consumer ones)? and (ii) to what extent do the identified factors push this replacing?

The aim of the paper is to provide new insights for answering to these incipient critical issues.

RESEARCH METHODOLOGY

Research model

The variables arising from the literature analysis are the relationship with vendors, electronic word-of-mouth communication (eWOM), need of friends' (physical) presence while shopping, trust in technology, and attitude (towards the use of technologies emerging from integration of social networks within physical points of sale); while the hypothesized research model is presented in Figure 1:

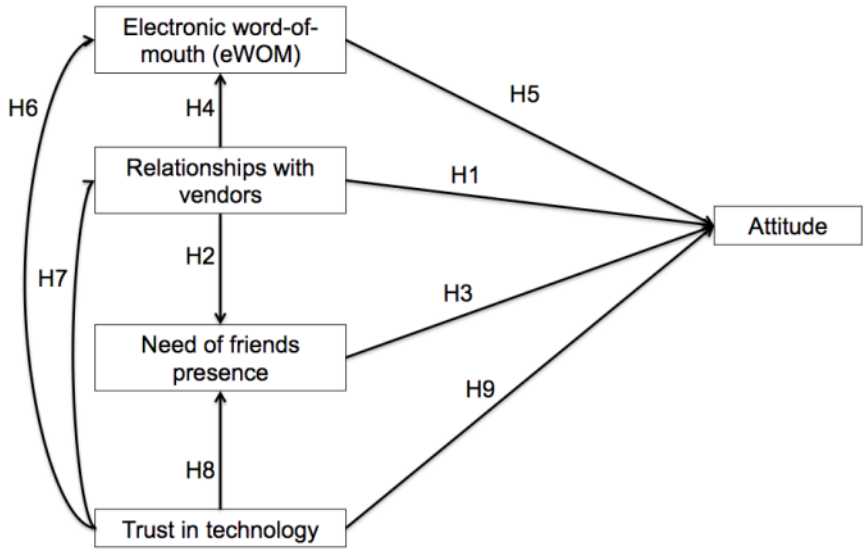

Figure 5. *Research model.*

Sample and procedure

A questionnaire was developed based upon the literature review. The final questionnaire includes 19 items, 14 items on relationships with vendors, electronic word-of-mouth (e-recommendations by friends), (physical) need of friend' s presence while shopping, trust in technologies, such as social networks and Facebook, and attitude towards the use of new communication technology emerging from integration between social networks and physical points of sale, which were measured through a

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five-point Likert scale (from 1= strongly disagree to 5= strongly agree); and 5 items on consumers' demographics including gender, ownership of a smartphone (including iPhone, etc.), experience on Facebook, frequency of connecting to Facebook, and frequency of connection to Facebook from the (physical) point of sale.

The current research involves the structural equation model (SEM) for testing the research the hypothesized relaitonships through a confirmatory analytical technique, while both hypotheses test and the factor analysis are valuated in the same analysis through the LISREL statistical software for the covariance-based SEM.

A total of 331 respondents have been recruited in few stores in Southern Italy between December 2014 and February 2015, when they were invited to fill the questionnaire. These participants were volunteers and were between 20 and 30 years old.

Table 1 shows the sample characteristics.

Measure	Item	Percentage
Gender	Male	30%
	Female	70%
Ownership of smartphone	Yes	70%
	No	30%
Experience on Facebook	Less than 1 month	6%
	Till 1 year	7%
	From 1 to 3 years	26%
	More than 3 years	60%
	missing	*1%*
Frequency of connecting to Facebook	Never	7%
	Once per week	7%
	2-3 times per week	16%
	At least once per day	70%
Frequency of connecting to Facebook from a (physical) point of sale	Never	70%
	At least once	18%
	Often	9%
	Always	2%
	missing	*1%*

Table 4. *Sample characteristics.*

Although the majority of respondents has a smartphone (70%) and has huge experience on Facebook (26% has a profile from more than 1 year and the 60% from more than 3 years, while the 16% connects

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to the social networks 2-3 times per week and the 70% at least once per day), the majority of respondents (70%) never connected to a social network from a physical point of sale (only 18% connected at least once from the store, 9% connected often, while 2% connected always). Hence, consumers make a large use of Facebook, but not actually from the point of sale. A justification might lay in their still limited usage of Internet for asking suggestions to friends in real-time (whereas it is largely used for asking opinions from home).

Main findings

Each variable has been investigated through the Cronbach's α statistical analysis. Since each measure overcomes the suggested value (Cronbach and Shavelson, 2004), the proposed model achieved acceptable construct reliabilities (Table 2).

Constructs	Cronbach's α
relationship with vendors	.820
electronic word-of-mouth communication (eWOM)	.809
(physical) need of friends' presence while shopping	.811
trust in technology	.778
attitude	.847

Table 5. *Cronbach's α values for the constructs of the research model.*

The statistical validity of the constructs and their relationships have been further investigated by evaluating the fit indexes assessing the quality of the results. In particular, the following goodness-of-fit statistics values emerge from the analysis: x^2/degrees of freedom= 1.21, p=.00, GFI (goodness-of-fit-index)=.963, AGFI (adjusted goodness-of-fit-index)=.941, NFI (normed fit index)=.962, CFI (comparative fit index)=.992, and RMSEA (root mean square error of approximation)= .026. Since each fitness measure overcomes the ones suggested by literature (Bagozzi and Yi, 1988), the model yields a suitable fit. Subsequently, the hypotheses test has been performed through the analysis of the path coefficient, t-value and R^2 value. The results support all the hypothesized relationships among the research variables, as summarized in Figure 2. Also these findings confirm the good fit of the model.

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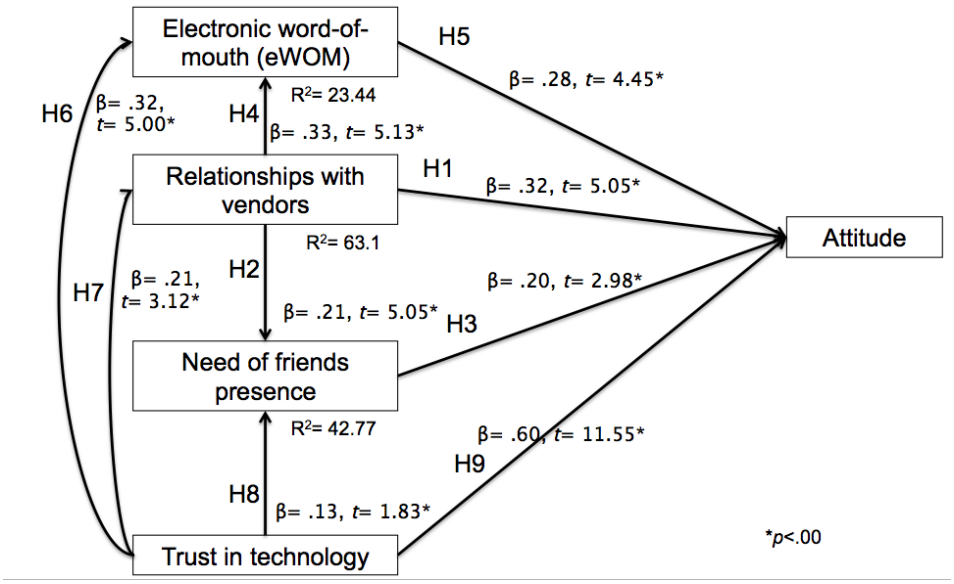

Figure 6. *Structural equation analysis results.*

An important trait of our model concerns the main role of trust in technology and the subsequent consumers' attitude towards the usage of the system. While the results show also the moderating role of relationships with vendors on attitude and eWOM, and of eWOM on the trust in technology; the trust in technology has only a limited impact on the need of friends' (physical) presence while shopping. As a consequence, the relationships with the vendor are able to influence both the usage of technology and the need of being with friends while shopping for achieving more information and opinion before purchasing.

Hypothesized relationships	Path coefficient *	t-value*	Test result
H1 Relationships with vendor→ Attitude	.32	5.05	Supported
H2 Relationships with vendor→ Need of friends presence	.21	5.05	Supported
H3 Need of friends presence → Attitude	.20	2.98	Supported
H4 Relationships with vendor→ eWOM	.33	5.13	Supported
H5 eWOM → Attitude	.28	4.45	Supported
H6 Trust in technology→ eWOM	.32	5.00	Supported
H7 Trust in technology → Relationships with vendor	.21	3.12	Supported
H8 Trust in technology → Need of friend presence	.13	2.83	Supported
H9 Trust in technology → Attitude	.60	11.55	Supported

Table 6. *Tested hypotheses results (p<.00).*

DISCUSSION AND IMPLICATIONS

Our findings underline the validity of the hypothesized model and of the involved relationships among variables. In particular, it investigates the role of consumers' relationships with vendors and friends while shopping, while new technologies mediate the traditional human interactions. It extends the previous studies on the effects of advanced technologies on consumer-vendor relationships (Sharma,

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2001; Tang et al., 2001; Williams et al., 2012; Pantano and Migliarese, 2014), by considering simultaneously all the social relationships (including consumer-to-consumer interactions).

In particular, results underline the role of the relationships with vendor, and the trust in technology on the need of friends' (physical) presence while shopping, as it permits potential clients to achieve suggestions and recommendations able to support their purchasing decision. Hypothesis H1, which states a causal positive relationship between the interaction with vendor and the attitude towards the usage of this new technology is strongly supported, with a standardized coefficient of .32 and t-value = 5.05, while the high value of R^2 indicates that at least 0.631 of variance is explained, by excluding the presence other latent variables. Similarly H2 and H4, which assume a positive causal relationship between interaction with vendor and need of friends' (physical) presence while shopping, and on eWOM are supported with a standardized coefficient of .21 and t-value=5.05, and .33 and t-value= 5.13 respectively. The need of (physical) friends' presence while shopping has also a direct impact on the attitude, with a standardized path coefficient of .20 and t-value= 2.98, while R^2 =42.77 explains most of the variance and excludes the presence of other external variables. EWOM has also a direct impact on the attitude (H5), with path coefficient of .28 and t-value= 4.45. This construct is further supported by the value R^2, which explains the 23.44% of the variance. Similarly, H6, H7, H8 and H9, which assume a direct casual relationships between trust in technology and eWOM (H6), and relationship with vendor (H7), and need of friend' presence (H8), and attitude (H9), are supported with a standardized coefficient of .31 and t-value= 5.00, .21 and t-value= 3.12, .13 and t-value= 2.83, and .60 and t-value=11.55 respectively, while while R^2 =26.59.

The results show the greatest impact of the trust in technology on the attitude towards its usage, in accordance with past studies (Pavlou and Fygernson, 2006; Perea y Monsuwé et al., 2004; Ha and Stoel, 2009), whereas the trust in technology has only a limited impact on the need of friends' physical presence while shopping.

Findings show the extent to which these technologies might replace the traditional face-to-face interaction between consumers and vendor, and consumers and other consumers. Shopping is a complex, collaborative and social activity (Gilboa and Vilnai-Yavetz, 2013), by requiring a strong effort in consumers' decision making-process. Hence, new technologies based on the integration of social networks into the physical points of sale affect consumers' interaction with both vendors and friends, by giving consumers the possibility to be in touch with all friends and asking their opinion concerning the possible purchase in real-time without a direct face-to-face assistance. In this way, they do not need to ask for vendors' opinions. Similarly, they do not need the physical presence of friends for suggestions. Although the number of consumers who actually access social networks for asking

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suggestions directly from the point of sale is still limited (70% never connected to a social network from a physical point of sale, 18% connected at least once, 9% connected often, while 2% connected always), the usage of social network from home is high, as well as the diffusion of smartphone among youth. Hence, the spread of free Internet access from stores would provide consumers the possibility to exploit eWOM directly from the store, by substituting the support of physical vendor of physical friends. As a consequence, the trend is to shift the face-to-face interactions to a computer-mediated interaction, where consumers interact each other through mobile devices without the direct vendor assistance. In this emerging scenario, the technological innovations tend to limit the influence of the real vendor in the decision-making process, who is not allowed to longer influence the purchase of certain products. Furthermore, consumers will diffuse the products throughout the social networks directly from the point of sale by increasing their popularity, with negative consequences, if consumers will share negative comments (Hornik et al., 2015), which the retailer will be not able to immediately check and manage properly.

The consequences for the sense of sociality involved in shopping experience lay in the human-computer interaction, which will link the shopping to social networks, eWOM and computer-mediated communication, by shifting this activity to the virtual scenario.

CONCLUSIONS AND FUTURE WORKS

The present study shows the effects of advanced technologies introduction on the in-store shopping experience as a social activity. In particular, findings underline the moderating role of the relationship with vendors, electronic word-of-mouth communication (eWOM), trust in technology emerging in the new computer-mediated (technology-enriched) retail environment in the consumers attitude towards the usage of new technologies for asking suggestions and recommendations while shopping.

Our results show how the sense of sociality, usually part of the shopping experience, changes due to the introduction of particular innovative technologies. In fact, these systems modify the relationships with both vendors and other clients, by shifting the traditionally face-to-face interaction to the online channel, as consequences of the extensive usage of self-service technologies. Hence, vendors need to increase their selling ability for maintaining their role in the transactions and avoiding the risk of being totally replaced by a technology or becoming only a sort of e-intermediary. To achieve this goal, they would enhance their capability to achieve, collect and manage consumers' information useful for the development of novel and customized selling strategies or successful novel services.

Furthermore, our research shows the extent to which consumers still need the physical presence of friends (other consumers) while shopping, but also the possibility to substitute this real presence with a

 ISBN: 978-9963-711-37-6

virtual one provided by social networks. In fact, asking suggestions is part of their shopping experience and it is usually perceived as a social experience, but the social interactions shift in the digital context. As it appears in our findings, although the substitution of physical interactions (with vendors and other consumers) is realisable because of the increasing using of social networks for asking suggestions from anywhere, consumers' preference for physical vendors' suggestions and friends support continues being part of the shopping, but it could be soon replaced by the virtual scenario.

Although this study offers interesting insights, there are some limitations that should be taken into account. The first one is related to a particular part of population considered as sample (individuals between 20 and 30 years old), which may partially reduce the general validity of the research. Future studies may also focus on the effects of different demographics (in addition to the gender and age factors, such as the education or monthly income), as well as on the exploitation of TAM (Davis, 1989) and on the investigation of consumers' response towards the actual use of the technology.

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 ISBN: 978-9963-711-37-6

THE GREEN AND SMART FURNITURE (GSF) RESEARCH PROJECT: A BEST PRACTICE IN INTEGRATED R&D-BASED INNOVATION

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ABSTRACT

The present paper describes the Green and Smart (GSF) project developed by the Laboratory of Applied Marketing, Management and Economic of the Wood and Furniture Design and Technology Department of TEI of Thessaly Greece. The project was implemented under the lens of open innovation and industry-university approach and following the theoretical principles of new product development management. The emerging innovation and the way of its achievement is suggested to constitute best practice at sectoral level and a basis for theoretical research on the specificities of academia-based innovation and its application by low-tech industries to relevant global markets. A novelty of the project was the fact that whether projects of its kind result in a physical innovative object or touch upon purely theoretical areas such as hypotheses based on field research or existing case studies, GSF combined the two approaches by producing physical innovation and at the same time by studying the phenomenon by its own evolving case study.

Keywords: *Green and Smart Furniture, open innovation, industry-university relationships, new product development management, low-tech industries, furniture industry, entrance furniture.*

1. INTRODUCTION

Furniture manufacturing constitutes a significant sector in the E.U. with a strong presence globally, mainly because of the high quality standards in technical and aesthetical level (UEA, 2005). European Union is still one of the biggest manufacturers, traders and consumers of wooden products in the world (European Commission, 2013). During the period 2000-2007, furniture industry has known significant growth; however, the crisis of 2008 and a series of global rearrangements of the sectoral players with Asian producers to take the lead and big players to change the rules of the game. Furthermore, the continuing severe crisis in Greece intensifies the rather negative and risky efforts of Greek furniture manufacturers to survive.

 ISBN: 978-9963-711-37-6

A number of studies (Petrakis et al., 2015; Trigkas et al., 2014, Kumar et al., 2013; Gibson and Naquin, 2013; Castellacci, 2008; Cooke and Wills, 1999;) indicate innovation and differentiation together with the development of extroversion as the only ways for these firms to stay active in the national and global markets. Companies need to develop specific capabilities and sense emerging opportunities which can be market or technology driven.

An emerging field for innovation regards the growing concern related to the environmental consequences either in regard of production and transportation or raw materials and the use and disposal of produced goods during their lifecycle (Fankhauser et al., 2013; Costantini and Mazzanti, 2012; Papadopoulos et al., 2010; Lin et al., 2011; Van Kleef et al., 2007; Humphrey and Schmitz, 2001). Furthermore, technological advances and ICT applications offer the potential of novel concepts regarding comfort, usability and even production (Ollo-López and Muneta, 2012; Wu and Zhong, 2009) On the other hand, markets and consumers provide opportunities for differentiation and the creation of niche and sub-niche markets (Trigkas et al., 2014). Therefore, furniture firms cannot afford to stay introvert and traditional; on the contrary the survivors will be the ones that will de-learn old habits and invest in knowledge, market and technology sensing as well as in co-operation with knowledge providers.

The GSF research project was based on this very gap and opportunity; i.e. the intersection of ecology, ICT and the tacit and existing needs of a specific consumers' group, i.e. aging population. Research focused on the development and market introduction of technologically supported care service solutions to foster the elderly's self-determined living in their homes.

The present paper describes the GSF project under the lens of open innovation and industry-university approach and following the theoretical principles of new product development management. The emerging innovation and the way of its achievement may constitute best practice at sectoral level and a basis for theoretical research on the specificities of academia-based innovation and its application by low-tech industries to relevant global markets.

2. BACKGROUND OF THE RESEARCH PROJECT

2.1. The furniture sector in Greece

The furniture sector is mature, highly fragmented and labor intensive with many firms operating in a 'craft' production mode to cover domestic demand, while exports are rather insignificant. Changes were rather slow till the end of the previous century; combined with the prosperity of the sector till 2007, an illusion of stability did not allow Greek Furniture firms to prepare and confront the oncoming multilevel crisis. Well protected and stable, the industry faced during 90s the increase of imports. Yet, furniture production recorded an average annual growth of 6.8% in nominal terms, thanks to the

 ISBN: 978-9963-711-37-6

positive economic activity in Greece in recent years. However, after 2008 the sector was dramatically hit by the crisis, while it had already become vulnerable due to decreasing production in absolute numbers, as well as the increasing number of mainly trendy products from Italy[1] and Spain, cheaper products from Turkey, China and India and different approaches such as of IKEA.

Moderately paced changes at technologies, products, market development and competition combined to pressures for environmental sustainability by EU regulations, government and groups had spurred both product and process innovation with no great success however. Greek firms were mainly followers with production methods restructuring based on advanced CIM systems. Unfortunately, even in this area, the Greek furniture sector has no reputation being overwhelmed by Italian, Spanish or Scandinavian design. Easier transport, competitors with lower prices (economies of scale), faster deliveries (advanced logistics) and established design threat to share the Greek market pie while export numbers show major weaknesses of Greek producers. Nowadays, environment is far from stable, especially when considering the Greek economic recession and its effects on furniture as durable goods and the collapse of building activity.

2.2. Innovation and Furniture Product Development for Aging Users

Aging populations are a major challenge for industries and firms, since they offer opportunities in regard of technical and social innovation and the emergence of niche markets. Innovative approach of the specific target group can turn apparent crises into opportunities (Kohlbacher & Herstatt, 2008) exploiting expectations and demands (Clark, Ogawa, Kondo, & Matsukura, 2010). Furniture industry may adopt other industrial knowledge such as gero(n)technologies and information communication and technologies (ICT) and blend it with design in order to create novel and differentiated product categories (Filippetti, 2011; Gregor, 2009; Goodacre, McCreadie, Flanagan, & Lansley, 2007; Candi, 2006). The E.U. is also giving special attention in the development of smart furniture for the third age through the funding of the WIDER project (2014), in order to give the opportunity to furniture industries across Europe to innovate and differentiate from the competition and to produce this kind of products.

The furniture industry can either adapt some of its existing products or create new ones to meet elderly people's changed sensory, perceptual, cognitive, and psychomotoric capabilities (Rogers and Fisk, 2010; Schäfer, Huxhold, &Lindenberger, 2006). Therefore, user-centered approaches can be transferred to furniture-centered ones enhancing the relationship between producers and users in the

[1] *Since 2001 Italy is however loosing share in favour of imports originating in China. Chinese made furniture destined for the Greek market registered in 2007 an increase of 78%, almost doubling its value, and an average annual growth rate of 55% between 2002 and 2007.*

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specific markets. Two major areas of innovation in furniture design in general have been recorded to be:

Green furniture: Eco-furniture or "green" furniture is broadly defined as a product of furniture designed to minimize the environmental impact during its whole life-cycle (Albino *et al*., 2009; Baumann *et al.*, 2002) and thus; as furniture with characteristics of environmental compatibility, taking into consideration all the stages in furniture life-cycle (Alhola 2008; Progetto Life, 2005). According to recent research (Sakai et al. 2004, Mantanis and Ntalos, 2007, Mantanis, 2007) normal home furniture and structural material of timber usually emit toxic and damaging gases and influence more or less human health. *Formaldehyde* emission, emissions of organic solvents, biocide, volatile organic compounds (VOC's), adhesive substances etc can cause serious diseases, such as genetic abnormalities and cancer. Several measures have tried to eliminate the negative features of wood-based products. Moreover, an emerging stream of research focuses on environmental friendliness of wood-based products and their production. For example, The 'Life Environmental Eco-friendly furniture project', launched in Italy during 2001, aspired to develop furniture prototypes regarding environmental protection at all the stages of a furniture life cycle (Progetto Life, 2005). However, to the best of our knowledge, eco-design has not been directly related to the specific group of aging population.

Smart furniture: Smart or intelligent furniture is a quite novel approach to furniture innovation moving from transformable pieces of furniture to interactive furniture (Tokuda *et al*., 2003; Zongdeng and Wenjin, 2010). Utilizing ICT solutions, a smart furniture product has the capability to alter a conventional space into an intelligent spot that includes computing systems (Ito *et al*., 2003). For example, Ubiquitous Computing (UmpiComp) environments (Wuliji, 2009) have been developed to apply computing systems to our everyday living environment, making them at the same time"invisible" to the user (Weiser, 1993). There is a growing number of ICT-based smart furniture such as the *Dietary-Aware Dining Table,* developed by a research team of the National University of Taiwan (Chang *et al*., 2006) or the *Drift Table* and the *Key Table* developed during the project for *residential technologies of Equator IRC* (Gaver *et al*., 2004; Boucher *et al*., 2006). Contrary to eco-furniture, smart furniture for elderly is a fast emerging field in both academic and practical level (Guennoun, and El-Khatib, 2009).

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2.3. Project concept and objectives

The aim of the research project under the name "GSF - Green and Smart Furniture " was the development of intelligent and purely ecological furniture that would provide a better experience of house life without overloading the users with technology and the pilot production of at least one of the product ideas and concepts.

 ISBN: 978-9963-711-37-6

Following the general principles of NPD management, the focus was on the improvement of in-house activities and operation regarding the furniture. The solution would turn to the utilization of modern technologies not only for the manufacturing and material and final product traceability, but also at the furniture's use. At the same time this very furniture should provide the sustenance or even the vivification of the natural way of life and manageability by all possible users (elderly, children, people with special needs etc.)

Besides the creation of a physical innovative, R&D based product, the project aspired to cover various areas at multiple levels, such as:

- The creation of a path to innovative niche markets and the cultivation of innovative and collaborative culture to the extremely traditional and introvert furniture industry in order to support the survival and recovery of the sector.
- The promotion of ecological innovation (eco-innovation) and its incorporation in the productive network of Greece as a main factor of growth and competitiveness.
- The encouragement of the networking to high tech industries and the shift to intelligent furniture (technological innovation)
- The further support of environmental protection and the rational management of forestal wealth (wooden furniture)

A core aim of the project was the provision of best practices and new innovative strategic directions for the traditional sector of furniture, considering the fact that the sector is in a severe decline, due to the economic crisis and it faces serious problems of survival.

The project was, to our best of knowledge, among the first worldwide to attempt the manufacture of a complete innovative furniture product which would be both smart and ecological. To our knowledge, efforts have focused in the exploitation of leading edge technologies in practical applications (home, office, class) parts of which are also the various pieces of furniture. A consequence of these research efforts is the treatment of furniture as dependent parts of "intelligent" multiuse spaces (smart home, Philips' Ambient Intelligence, Microsoft's eHome, HP's CoolTown Project, iHOME in Australia, MIT's House_n, SSLab smart classroom project etc) which answer the challenge of information technology systems development. This concept however overlooks the basic furniture design principles (ergonomics, aesthetics etc), disregards timber as an unfriendly material to adapt the multiple digital elements and is indifferent to the ecologic character of the products it creates.

In order to create a holistic best practice for the innovative process and in order to produce effective and applicable results, the WFDT team established collaborations with the Economic

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University of Athens, the University of Cyprus, the Department of Business Administration and the Department of Electrical Engineering (both of TEI of Thessaly), an ICT company and a furniture manufacturer.

The research team was further committed to follow the structured methodology of new product development as provided by Ulrich and Eppinger (2000) and transfer the knowledge of the integrated R&D-based, open-innovation process to stakeholders of the industry as a deliverable of the project. The project included six (6) Work packages and namely:

(i) the delineation of the GSF Product Development process, (ii) the determination of GSF market in Greece and its tendencies (Targeting and trend analysis), (iii) the design of eco-logical - GS furniture, (iv) the production Technology of eco-logical GS furniture, (v) economic analyses and (vi) promotion and communication of the innovative product .

It should be mentioned that the Economic University of Athens was involved mainly in the phase of the economic analyses, while the University of Cyprus and the Department of Business Administration collaborated with the core research team mainly in the first, second and last step.

(i) The delineation of the GSF Product Development process: The project was based on two pillars: the increasing number of environmentally sensitive consumers worldwide who constitute a very important target group and the knowledge pool of the Department of Wood and Furniture Design and Technology regarding ecology, such as the use of timber from sustainable managing forests, use of natural glues without chemical additives, use of natural dyes, use of timber from remains of treatment and cultivation of forests and recent empirical research in the Department's laboratories. However, the team contacted a thorough literature review regarding theoretical and empirical research on issues regarding ecological furniture, smart furniture, relevant market segmentation, legislation and regulation as well as all relevant research efforts in Universities and Research centers. Furthermore, literature review would direct the team towards the groups most likely to be chosen as target market.

Following Ulrich and Eppinger (2000), the research team prepared:

- The Design Brief which included the vision and the purposes of the project, its milestones, the stakeholders, the new product development planning (time planning and processes), the establishment of the target group, criteria, limitations and hypotheses, product lists and timetables
- A delineation of the market research of consumers for their intention to buy eco-smart furniture, and furniture manufacturers regarding their intention to manufacture and promote innovative furniture, since such a strategy is not to be taken for granted.

ISBN: 978-9963-711-37-6

(ii) The determination of GSF-market in Greece and its tendencies: The literature review and initial stakeholders; meetings indicated vulnerable groups such as children and elderly people. A second round confirmed the choice of aging populations. Consumer-centered research was then contacted to produce knowledge on the development of products and services that deliver real benefits to elderly people, form their preference profiles, thereby to build an understanding of their specific requirements, needs and desires, which would allow the creation of a framework to work within (Papadopoulos et al., 2014). Traditional research has perceived aging consumers as passive recipients (von Hippel, 1988) that belong to the pre-ICT generation. However, aging consumers can be healthy and active seniors relatively secure financially, ICT-lovers and independent. This aged user sub-group, known as “silver users” or the "silver market" (Herstatt, et al., 2011) is further eco-sensible and aware of design.

The market research provided a framework and the empirical evidence to the team member to recommend types of innovation, to indicate strengths and weaknesses and (later) to propose ways to diffuse the innovation in national and global aging markets. This resulted in best practice recommendations for furniture manufacturers including potential benefits from the challenges of aged markets.

(iii) Design of eco-logical - GS Furniture: Addressing the existing and tacit needs and requirements that were derived by the market research and the meetings with the Department’s designers required complementary competencies. For this reason, in this phase of the project, the Department’s research team combined their expertise and knowledge with the ICT and automation company, the department of electrical engineering and the furniture manufacturer. Thus, the GSF project combined competencies from wood technology, ICT technology, furniture technology, design, electronics, NPD and innovation management, marketing, and all necessary research methodologies to design and later produce the innovative eco-smart piece of furniture.

Designers gave a number of ideas in sketches. Braining-storming and several controls for the satisfaction of the core criteria lead to the final choice of three different pieces of furniture with distinctive characteristics that seemed to satisfy the majority of the initial targets of the team. The three pieces were then presented in 2-D and 3-D designs as analytical as they could be. Another round of meetings with all stakeholders led to the final selection of a main entrance furniture which would also serve as an information provider.

The contribution of the stakeholders was once again of critical importance. The experts of the ICT Company co-operated with the designers to solve difficulties of turning common furniture pieces in sources of interaction. Indicatively, the mirror was turned to a face recognizer and a provider of information; i.e. regarding the weather it would remind the person who used it to take the umbrella

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for the rain or for the sun. The first version of the innovative furniture was further designed to provide store rooms and relevant information on position of small objects such as keys, glasses, wallet and purse and pills and to remind the user to take them if needed. The product provided further the potential to add or remove parts, it could adapt to specific individual needs and it could also co-operate with other smart devices in a smart environment; i.e. inform on security issues. Furthermore, the research team worked together with the furniture company members on novel eco-based materials such as natural wood, recycled or recyclable materials that would better suit the object and could be manufactured in energy and water-saving ways. At the same time the ICT company members had to indicate eco-based material and the best ways to incorporate the electronic staff in the furniture; i.e. to make it invisible.

(iv) The production Technology of eco-smart GS furniture: Once again expertise and knowledge of all three parts was needed to produce the pilot furniture product. There were certain difficulties in the challenge of implementing intelligence solutions in a sustainable furniture system; this actually included material, design *and* production. The team managed to overcome difficulties with a significant number of try-and-error efforts at all three laboratories. It should be mentioned that it was a highly iterative process since many of the initial suggestions had to be reconsidered due to limitations mainly imposed by the combination of intelligence and ecology issues. The assembly of the parts was realized in the firm's plant to simulate real conditions of manufacturing. Test of functionality however took place in different places. Quality controls took place in the WFDT Department's laboratories with the assistance of the ICT Company as well.

The relevant know-how was then written down as a basis for the preparation of a manufacturing handbook for mass production or mass customization production. However, this phase is not yet possible, since there was only one prototype manufactured, while a pilot production is still pending. Yet, the general framework of the production technology and assembly has been delineated, while there is a range of natural wood species and eco-based supplementary material selected to be included in the relevant handbook of eco-smart furniture manufacturing suggestions.

The final technical and manufacturing drawing plans were submitted to Industry Property Organization (IPO) to be granted a certificate of registration as industrial designs and be patented.

(v) Economic analyses: Innovative activities face at least two types of uncertainty: technological and market. Technological uncertainty refers to the uncertainty of transforming a research idea into a technically viable industrial project. In the GSF case this obstacle was overcome by the fruitful application of open innovation including major partners to areas relevant to the research problem imposed. Market uncertainty, on the other hand, refers to the existence of potential buyers of the innovation; besides the market research this is rarely guaranteed at the moment of an R&D project

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choice (Hall et al., 2010). This uncertainty is often the most difficult to overcome, and impact in major ways the commercial performance of the innovation.

Economic analyses were a major working package of the Laboratory of Applied Marketing, Business and Economics of WFDT Department supported by the other stakeholders too, in regard of specificities such as costs of electronic and wages. The aim was the estimation of the manufacturing and production costs per unit, potential profits and prices and the economic evaluation of the related investments, based on the inputs and outputs and the expected cash flows of the products life cycle. The objectives were based on the development and application of modern cost accounting methods specially designed for innovative products and through the analysis of the inflow efficiency for the manufacturing of the specific product. The team would also provide a business plan for the specific innovative activity.

(vi) Promotion and communication of the innovative product: Nowadays, with an impressive number of new products conceived every year, it is quite difficult to break into the market and turn a novelty into a consumer staple convincing people that they are in need of something that did not exist before. Moreover, promotion methods have to focus on your target group but have an appeal in other consumer groups as well. It then becomes a matter of making aging consumers think out of the box; this implies find adequate promotions methods, the perfect words or aspiring traditional forms.

The research team worked on the issue, keeping in mind that, in such cases, "you have to build consumer understanding from nothing" (Gannon, 2011).

The prepared marketing plan a) stressed the benefits of the innovative product; b) delineated the main target groups and other potential users; c) discussed the messages to send to the market and ways to communicate them (e.g. media) d) estimated the percentage of target market groups that would adopt the innovative product in Greece in the context of the severe crisis. The final report included suggestions for branding since it plays a significant role in the success of new products.

2.4. Project evaluation

The touchable result was the manufacture of the first European ecological and at the same time intelligent furniture product supported by its handbook of production guidelines.

The overall results justified the initial vision of the research team as well as the selection of the collaborative partners. More specifically, the project resulted in: a) the acquisition of specific know-how on the ecological and the intelligent furniture, b) the dissemination of know-how in the furniture enterprises at the region of Thessaly, c) the creation of a database of all relative legislation on ecological furniture, d) the creation of a model Product Mission Statement available to the furniture manufacturers in Greece who seek differentiation e) information on aging

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populations which constitute a significant target group for furniture manufacturers at global level, f) records on determining factors (in favour of and/or constraints) for the ecological furniture market growth g) an integrated design study of ecological-smart furniture, h) patented industrial design of a specific model furniture, i) codified experience and learning material for excelling designing skills and capabilities, R&D collaboration, networking and NPD in the furniture education, training and industry in general, g) a marketing and branding plan which can be used as prototype guides for novel furniture products which aspire to create a niche market or even to share the existing markets.

However, the GSF project appeared to have established conditions for evolvement of innovative culture in the furniture manufacturers of the Region. It was the first to introduce networking and collaborative NPD among stakeholders of different industries in the sector at regional level and, to our best of knowledge, at national level too. It also encouraged the development of relations between low-tech firms, the Academic Community and high-tech counterparts as well.

3. DISCUSSION

The competitive international environment and the need for highly differentiated and innovative products in the furniture industry impose the focus of furniture enterprises in the development of collaborative research and the familiarization with open innovation. This is, however, not that easy as theorists still believe. The majority of furniture manufacturers in Greece - but in Europe as well – are small and micro-companies with relatively low educational level, familiar in working with consumers that live in their neighbourhood area and reproducing common pieces of furniture. Furthermore, a theoretical approach has normally very low, if any, appeal on them. The practical application of open-innovation and R&D-based theory may challenge at least the open-minded entrepreneurs to reconsider their strategy and engage new approaches to NPD, product life-cycle and potential markets. This appears to be an imperative for the Greek furniture industry's enterprises particularly after the recent economic crisis which plagues the Greek entrepreneurial world in general and the furniture manufacturers more specifically.

The GSF project may constitute an exemplary integrated NPD process since it offers both codified and tacit knowledge and experience together with the launching of the innovative furniture product. The project resulted in a series of innovations regarding strategy, knowledge-based innovation processes, networking, technology and know-how transfer and ecology and ICT issues. Actually, it can be claimed that the specific research project has built a framework for the planning, design, development and production of a Green and Smart furniture providing to all interested a well-organized process which includes the creation of new needs and desires that result in niche markets,

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the role of legislative and qualitative requirements and ways to combine them in order to produce novelty. It furthermore, facilitated first contacts of the mature furniture industry in the Region of Thessaly with high-tech such as ICT and automation providers not for the sake of production processes and the machinery counterpart but for the creation of high-tech furniture end-products. This is an innovation approach for the sector at national level.

The use of electronic and other high technology applications, the certified ecological materials, the creation and the patenting of innovative designs, the interaction and integration of research and production, the briefing of sector stakeholders and the creation of suitable marketing plans created an innovative environment for the enterprises of the regional industry. This environment now exists and can offer the chances to firms to face the above mentioned challenges through a cognitive process of innovative product design and development at both Greek and European level, having an integrated approach from the entrepreneurial –manufacturing view as well as the viewpoint of consumers. This can enhance relevant investments such as mechanical equipment, job creation, market revitalization and personnel training, strengthening the local economy, supporting exports and the support of income of sectoral workers.

It should be an omission not to mention benefits for consumers; advanced furniture products based on ecological approaches advance the wellbeing, secure health issues and support the tendency of aging populations to live independently. The project further indicated that actually the idea and product development for aging users can be a very complex task, since little is known about the specific characteristics this target group. There were certain areas that needed to be approached from multiple angles; this was achieved by the collaboration of the diverse teams that bared knowledge from different perspectives and allowed the answers to common research questions.

An indirect but very important impact of the GSF project is also the emergence of the issue for the protection of forestal wealth through the use of raw material that will emanate from certified sustainable managing forests, contributing to the environmental protection. Therefore, it appears that five at least groups can potentially benefit from the project deliverables:

(i) Furniture Enterprises that focus on innovation and emphasize on green entrepreneurship.

(ii) Researchers on relevant issues such as innovation, technology of production, economy, marketing, business administration and relevant areas

(iii) Institutions that are committed to innovative approaches and strategies diffusion and Chambers of Commerce and Craft-based Industry

ISBN: 978-9963-711-37-6

(iv) All consumers with a special focus on aging users, since they will be the final receivers of the innovation benefits

(v) Ecologists can also benefit in terms of the increase of innovative product approaches in favor of the environment

CONCLUSIONS

This article provides some revealing insights into what a Greek research team in a traditional sector, operating in markets where innovation is a focal point of competition, has learned about partnering in the new products development process. To succeed in a rapidly changing environment, the project promoted collaborative research and the familiarization with open innovation. Furthermore, the implementation of the GSF project activities, show that the transition of knowledge is the factor throughout the product's development process that occurred most often. Gaining more knowledge about what actors from different disciplines need to know from each other's disciplines in order to collaborate effectively, could be another line of future research in the field.

The project has also revealed that NPD could be implemented under the framework of a project management procedure with a well-defined set of desired results, one clear dominant objective with cost, time, and performance elements and a sequence of interdependent tasks till the final utilization of a product. This model could be adopted as a *best practice*, by low tech industries, and the furniture sector in particular, regarding open innovations and launching of new products.

This best practice in the Greek furniture sector is based to the creation of new niche markets, essential for the survival and growth of the sector, in the present crisis of world market contributing in the progress of Greek furniture design, which now makes its infantile steps. The realization of the proposed project furthermore, strengthens the Green Entrepreneurship in the sector of timber and furniture with the use of high technology, evincing and supporting the complementarity of the modern enterprising environment. This may lead to mass production and enlargement of the basic (and not only) production frame of the sector's enterprises, strengthening their competitiveness through the production of products of high added value and friendly to the environment, supporting entrepreneurial competitiveness and sustainable manufacturing in the sector. The project suits the challenge of manufacturing products which comply with quality specifications in terms of consumers' health and safety and the certification of ecological products of high added value. Especially after the implementation of Joint Ministerial Decision no Z3 5430/22-4-09 in Greece which concerns the limits of emitted formaldehyde of the wood based products, the proposed project enables the sector's enterprises to conform to the legislation and through concrete results of the applied research, offer alternative products for the benefit of consumers.

 ISBN: 978-9963-711-37-6

A deeper knowledge about how the collaborative mechanisms and knowledge transition in NPD work regarding low tech sectors, could result by investigating a number of different case studies in the field. By having extensive knowledge about these phenomena, it is possible to create a series of best practices for knowledge integration within the NPD process, proposing a certain entrepreneurial and innovation strategy for the related firms.

AKNOWLEDGEMENTS

This research has been co-financed by the European Union (European Social Fund - ESF) and Greek national funds through the Operational Program "Education and Lifelong Learning" of the National Strategic Reference Framework (NSRF) - Research Funding Program: ARCHIMEDES III. Investing in knowledge society through the European Social Fund.

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 ISBN: 978-9963-711-37-6

THE VALUE CO-CREATION CHAIN: THE TRIPLE ROLE OF CONSUMER

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ABSTRACT

This paper is focused on the central role of consumer in the companies' value chain. In particular, digital consumer interaction could represent new opportunities for companies that can take advantage from the active role of the consumer in the creation of value. The contemporaneity of consumer and company roles in the value chain is gradually leading to a convergence of interests among parties. In fact, individuals and companies are increasingly connected through digital media and this allows a strong and constant exchange of inputs and outputs between parties, simultaneously before, during and after sale. Indeed, companies are enabled to promote, intermediate and intercept customer conversation, while, individuals are committed to the new social game and keeping companies under non-contractual observation. Through a netnographic analysis on 20 worldwide crowd-sourcing platforms, this study aims to explore the characteristics e-WOM (electronic-Word of Mouth) in individuals' conversations. Results show that the digital consumer acts in three different roles during his/her interaction online: as *Citizen* in his/her social care of peers (Social Benefit), *Customer* in looking for the better shopping deal (Functional Benefit) and *co-Creator* in developing new ideas for companies (co-Creation). We find 7 main co-creation precesses performed by consumers, and among these, co-advertising has the highest level of consumer involvement. We identify a co-responsibility between companies and customers that confirms the convergence of interests between parties. Thus, we support the existence of the overlapping of dialogue and purchase that can generate a positive loop between company and individuals.

Keywords*: e-WOM, co-value chain, citizens, customers, co-creator, social benefits, functional benefits, peer-to-peer communication, company-consumer communication, consumer behavior, convergence, collective responsibility, digital platforms, netnography.*

INTRODUCTION

Advances in information and communication technology (ICT) have redesigned the traditional supply chain in which production, distribution and consumption were linear steps. In the past, the three

 ISBN: 978-9963-711-37-6

phases of "proposition – sale – use" followed a clear logical and chronological sequence in time and space: companies made proposal – *value proposition* – while consumers purchased – *exchange value* – and used products and services – *value in use*. The revolution in ICT has redesigned the continuity of conversation remodeling the value process and reducing the distance between companies and individuals in a new co-value chain. In this context, the consumer is both directly and indirectly involved in the creation of value. Thota et al. (2012) analyze the increase in new types of technology platforms that lead to the growth in customizable content. The literature explores the electronic-Word of Mouth (eWOM) as a new pattern. In 1993, Moorman introduces eWOM as the "willingness to rely on an exchange partner in whom one has confidence". Ten years later Hennig-Thurau et al. (2004, p.39) describe eWOM as a more complex concept ascribable to "any positive or negative statement made by potential, actual, or former customers about a product or company, which is made available to a multitude of people and institutions". The consumer who takes part in collective conversation is talking as an individual -*me*- and/or as a community -*us*-. Chu and Kim (2011) suggest analyzing eWOM behaviors in depth with the goal of identifying particular influential individuals. Kilambi, Laroche and Richard (2013, p.49) emphasize the fact that "all members of a community know and understand themselves as a collective". In this perspective, the contribution of peer-to-peer communication in co-creation of value becomes important especially with respect to its viral-like advertising (Strutton et al., 2011).

Examining digital social interaction through a netnographic analysis on 4601 digital messages, we distinguish three different roles and benefits for the individual: the first is related to his/her being a citizen who interacts to advise peers and share experience (Social Benefit); the second is related to his/her role of consumer which enhances his/her shopping experience (Functional Benefit); the third is related to the individual's contribution in the co-creation of value (Economic Benefit or co-Creation of Value).

THEORETICAL BACKGROUND AND HYPOTHESES

As Cova and Dalli (2007, 2009) suggest, the new collective conversations can be epitomized by the concept of communities. In fact, within communities, individuals are inspired by linking value or gift logic and aim to defend society. Cova and Dalli ask whether this type of meta-market can be considered as an entity in itself, separate from the market and capable of protecting citizens from the risk of exploitation. From the same perspective, other authors focus on the concept of 'sharing', as a fundamental consumer behavior that is similar to gift giving (Bergquist and Ljiungberg, 2001; Belk, R. 2010). Starting from the idea of new-shared collective conversation, a new type of convergence comes

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into being. Market and society do not coincide, companies and customer act as counterparts playing different roles but their interests are converging. New concepts like reciprocity and social trust enter the marketing dictionary (Feldman, 1981; Fisher, 1986; Uzoamak, 1999; Paulin, 2006; Buttgen, 2008; Mathwick, Wiertz, and de Ruyter, 2008; Jeong and Lee, 2013). In many cases, consumer action in the co-value chain can generate a new loop between company and consumer responsibilities, and consumers can commit to this new social "game" of being customer and citizen at work. Thus, we can distinguish the Citizen as the consumer who acts socially in digital interactions, to provide advice and recommendations to their peers, and the Customer as the consumer who uses e-WOM to improve his/her shopping expedition.

From a different point of view, the *Service Dominant Logic* analyzes the role of consumer as an integral part of the value chain. In this literature framework, the consumer is always the protagonist in creating value (Vargo and Lusch, 2004). In 2008, Grönroos stated: "…accepting value in use as a foundational value creation concept, customers are the value creators (…) the supplier can become a co-creator of value with its customers" (p.298). Thus, the value is interactively co-created by companies and consumers, rather than merely exchanged (Leavy, 2004; Grönroos, 2013; Grönroos and Voima, 2013). Recently, Gummesson (2011) suggests substituting the old B2B or B2C acronyms with the new A2A (actors to actors, interacting in many-to-many networks) to capture better his/her central role in companies' value chain. Furthermore, as stated by Arnould, Price and Malshe (2006) the new consumer is not only involved in co-creation of value but exhibits a new sense of moral responsibility. In practice, when a consumer digitally interacts with another peer (e-WOM) he/she expresses a mixture of narcissism and altruism in order to feel an integral part of a community, but he/she also provides insights for companies at the same time. In fact, in "co-creation perspective, suppliers and customers are, conversely, no longer on opposite sides, but interact with each other for the development of new business opportunities" (Galvagno and Dalli, 2014, p.643). In this context, consumers take the connotation of working customers actively involved in creating value in the market. Chase (1978) distinguishes services according to the extent of physical presence of the customer in the system. Mills and Morris (1986) base their classification system on the extent of interaction, a more useful way to characterize participation-intensive services than the extent of simple customer contact (Jo Bitner et al., 1997; Payne 2008). More recently, Buttgen (2008) tests a model implying different phases of co-production; Michel et al. (2008) identify three different roles for the working consumer and three different techniques used by suppliers to encourage consumer involvement. Recently Etgar M. (2008) and Maglio et al. (2008) propose a descriptive model of the consumer co-production process.

In line with the triple role of the consumer, we identify a new co-value chain in which peer-to-peer communications show three different roles played by those individuals: the Citizen, the Customer and

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the co-Creator.

Hypothesis 1: Conversations enable the Actors (companies and individuals) to exchange multiple inputs and outputs simultaneously before, during and after the sale. This means that the traditional divide between value creation – *R&D, production and advertising* - and value distribution and consumption – *sale, use and post use*- is blurring. Thus, we hypothesize that in conversation there exists a contemporaneity of value inputs that leads to a convergence of interests between companies and customers.

Hypothesis 2: Because consumers share information about products and services, Co-advertising could be identified as the co-creation process with the highest level of consumer involvement. Since individuals' conversations are strongly influenced by the social desire to share personal experiences, knowledge and opinions about the companies or brands they interact with: Co-Advertising is the main input value.

Hypothesis 3: Actors conversations are focussed not only on customer benefits - *price, quality* and *time*- but also on citizen benefits - *identity, friends, and society.* This leads to a new equilibrium or convergence between the customer perspective - *logic of money* - and the citizen perspective -*logic of gift.* In fact, conversations are often focussed on collective or plural topics –*us/friends–us/society*. This requires the company to accept a new mechanism of social or collective control. In peer-to-peer conversation, there is a social component and consumers act as citizens, thus, the consumer acts not only as Customer (Logic of Money) to improve his/her shopping expedition, but also as Citizen (Logic of Gift) with a social mood.

METHODOLOGY

Conversation among participants were gathered from three sources: Facebook, Twitter and Google Blog were monitored in two phases: May-June 2012 and May-June 2013. In particular, we collected 600 texts referring to 20 platforms to reach a total of 12600 texts. From these we excluded:

- Impersonal descriptions which give no information about the user's experience;
- All messages from bloggers who belonged to the company;
- All messages which were too brief to decipher objectively.

This left us with 4601 texts and a total of over 250000 words in about 2000 pages of word scripts describing sentiment of consumers about the 20 online communities. To identify the web sentiment was conducted a Netnography on the 4601 texts belonged from the 20 crowd-sourcing platforms, like Innocentive, Quora, TripAdvisor, Amazon Turk, etc. The Netnographic Analysis as defined by

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Kozinets "provides information on the symbolism, meaning, and consumption patterns of online consumer groups… it is an online marketing research technique for providing consumer insight" (2002, p.1). We thus opt to use pure observational online ethnography to measure the normal flow of information that users exchange, without any kind intermediation from sources as used in Consumer Behaviour Analysis. Analyzing this "Social game" we intend to identify factors that affect online community usage like Usability and Sociability as defined by Preece (2001), or as we understand them in our perspective of market value, as well as social and functional benefits.

Initially, we tested open software for preliminary linguistic screening, like T-Lab, but the absence of a calibrated search engine for a web monitoring of very different case histories showed the limits of automatism. Therefore, we opted for a manual check of contents. Researchers were divided into 4 groups and a cross-linked system of control of words and phrases was used so that if observers in one group were not unanimous in interpreting a message it was submitted to a group of specialists.
For each of the 4601 texts, a deep semantic analysis was conducted.
The following examples briefly illustrate the workings of text mining and show how consumers' posts were decoded. The frequency of occurrence of the concepts is expressed as relative to a total of 100, but the original data-set, contains multiple frequencies. A simplified matrix of consumer inputs to the firm and related outputs is helpful to show the result of this first conceptual screening (Figure 2 and Figure 3).

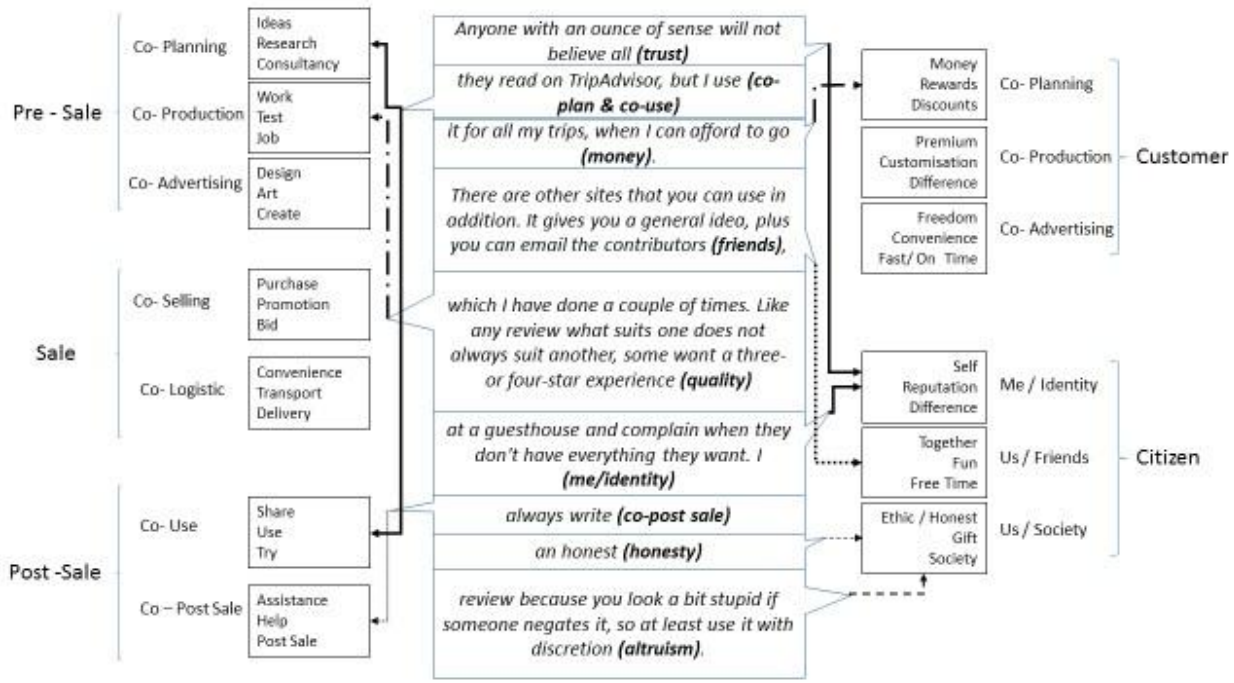

Table 1. *Example of the analysis conducted on TripAdvisor*

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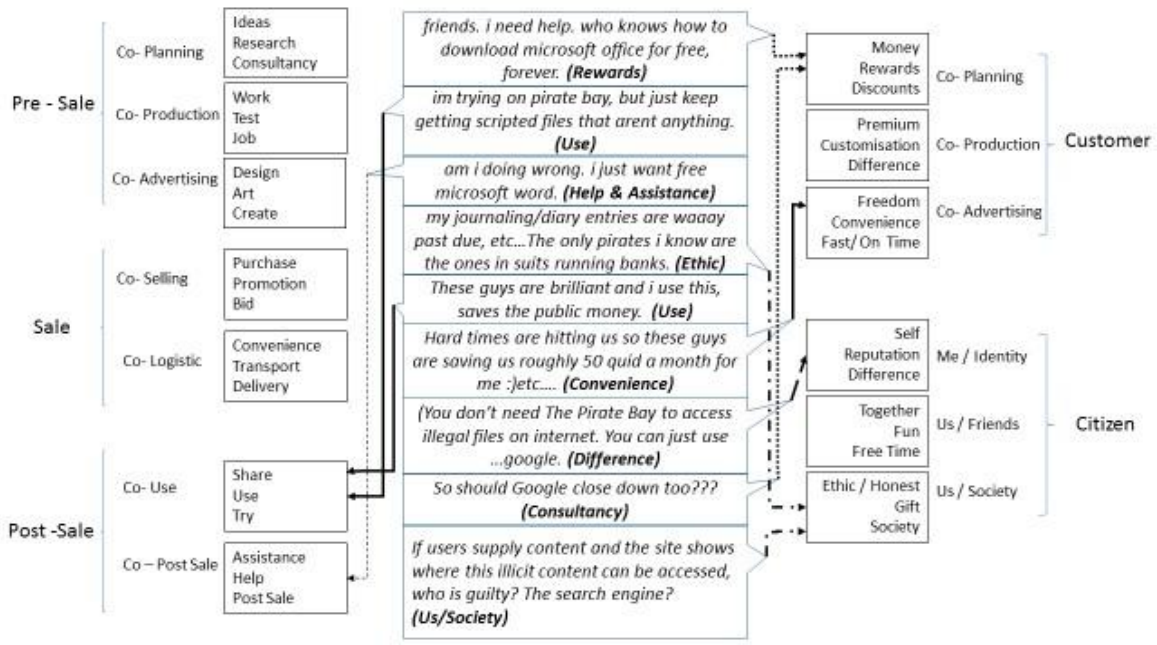

Table 2. *Example of the analysis conducted on Pirate Bay*

We divide the individual benefits into two categories: economic benefit and social benefit:

1) *functional benefits:* represent consumers' cognitive and affective perceptions of economic advantages like *price, quality* and *time saving*;

2) *social benefits:* classify consumers' personal (*me/identity)*, relational (*us/friends)* and social (*us/society)* sense during their conversations.

Both inputs and outputs were measured through semantic mining of the key words used in online conversations. We identify essentially three types of value input made by the consumer:

1) *value in co-proposition:* the consumer gives his/her opinion independently before sale and use (co-advertising, co-planning, and co-production);

2) *value in co-selling:* the consumer interacts when buying the good, collaborating in the sale and logistics;

3) *value in co-use*: the consumer interacts in use of the service and post-sales assistance.

There is a multiple relation between types of values inputs and outputs and these benefits are the result of more than one type of investment. For example, social benefit can accrue in all three phases of dialogue, before, during and after sales.

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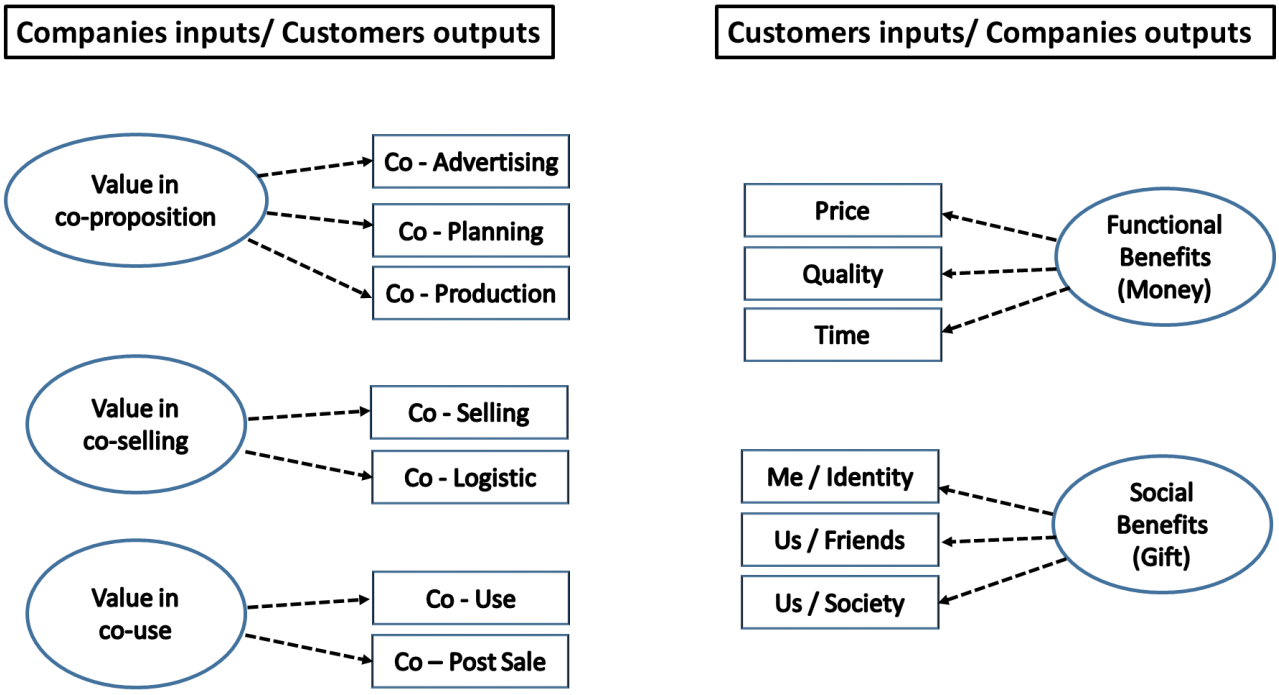

Table 3. *The Co-value Model*

RESULTS

Several case histories show consumers co-acting at the same time in more than one process (Figure 4). Thus, for example, eBay shows a greater exchange activity during the shopping, but shows also activities in pre-use and post-use. Vice versa, Innocentive, shows the largest number of posts on the previous phase of shopping, even if, it is active also in the later phases. The simultaneous contribution of consumers in the different stages of the value chain creates new opportunities not only for other peers, but also for companies that can capture advices, criticisms and information directly from consumers.

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	Co-Planning and Research	*Co-Production*	*Co-Advertising & Communication*	*Co- Selling*	*Co-Logistic*	*Co-Use*	*Co-Post Use*	*Price*	*Quality*	*Time*	*Me - Identity*	*Friends - Us*	*Society - Gift - Us*	Number of texts
CO-PLANNING (collective research & innovation)														
INNOCENTIVE - co-research & prize contest	41.0	27.5	23.2	1.1	4.8	2.4	-	24.0	3.5	1.7	5.9	13.9	51.0	408
CITY 2.0 - knowledge sharing	88.2	-	11.8	-	-	-	-	5.7	1.4	-	11.6	3.0	78.3	136
CO-PRODUCTION (collective contents & tasks)														
HUFFINGTON POST - user generated contents	10.0	51.2	28.7	-	3.7	6.2	-	3.3	53.3	2.2	13.3	10.6	17.2	166
AMAZON TURK - cloud labor/microtasks	-	100.0	-	-	-	-	-	43.7	15.1	21.1	-	-	20.1	57
QUORA - research tasks	10.0	40.0	30.0	-	-	20.0	-	-	53.1	14.3	14.3	4.1	14.3	92
CO-COMMUNICATION (collective creativity)														
KLOUT - social rating	-	-	50.0	25.0	-	25.0	-	2.1	23.7	9.9	28.1	13.5	22.7	176
THREADLESS - product customisation	21.0	-	75.0	2.2	-	1.8	-	13.1	3.0	11.3	21.8	18.8	32.2	271
MOUNTAIN DEW - product selection	18.6	20.7	39.5	4.2	16.9	-	-	4.8	37.1	2.1	14.6	6.0	35.4	342
CO-SELLING (collective or interactive shopping)														
EBAY - e-commerce	4.3	-	10.2	53.6	21.7	1.4	8.7	34.2	38.4	9.5	6.5	0.8	10.6	300
FAB - content markets	-	-	66.0	20.0	-	-	14.0	9.6	34.0	9.6	27.9	11.2	7.6	200
GROUPON - buying groups	6.7	-	-	40.0	13.3	20.0	20.0	31.4	41.4	3.1	7.9	15.2	1.0	162
CO-LOGISTIC (collective or interactive logistic)														
FACEBOOK PLACES - check-in	-	-	32.0	23.0	35.0	10.0	-	6.1	39.8	-	3.3	11.0	39.8	209
DOMINOS - delivery	9.0	-	-	-	42.0	19.0	30.0	8.3	56.0	15.6	6.9	7.3	6.0	300
NEXTDOOR - physical sharing	10.8	8.1	8.1	8.1	13.5	45.0	6.3	4.3	38.0	2.2	-	13.0	42.4	181
CO-USE (collective and peer-to-peer cooperation)														
WARCRAFT - game sharing	14.5	-	52.7	23.6	-	9.1	-	16.0	16.0	25.7	20.2	10.2	11.8	407
DROPBOX - joint application	7.0	-	47.3	2.8	-	40.0	2.8	20.1	64.4	0.8	5.3	6.1	3.4	200
AIRBNB - house sharing	19.6	2.2	19.6	38.7	-	20.0	-	37.3	27.0	5.0	2.1	20.3	8.3	266
CO-POST USE (collective & peer-to-peer cooperation)														
TRIPADVISOR - service rating	39.1	-	4.4	-	4.4	-	52.2	8.1	64.7	0.6	4.0	4.6	17.9	220
PINTEREST - social commerce	27.2	-	24.5	11.7	-	6.4	30.1	4.0	12.0	17.3	32.0	9.3	25.3	409
PIRATE BAY - downloading	-	-	40.0	-	-	30.0	30.0	16.3	38.4	1.2	8.1	5.8	30.2	99
Total /Average	16.4	12.5	28.2	12.7	7.8	12.8	9.7	14.6	33.0	7.7	11.7	9.2	23.8	4 601

Table 4. *Relative Frequency of concepts*

H1: *Contemporaneity of inputs and Convergence of interests* is confirmed.

The overview of consumers interactions (Figure 4) shows that *co-advertising* is the process with the highest level of consumer involvement (28.2%) followed by *co-planning* of goods and services (16.4%), *use* (12.8%), *co-selling* (12.7%), *co-production* (12.5%), *co-post-sales* (9.7%) and *co-logistic* (7.8%). It is important to analyse the relation between co-advertising and the individual benefit perception (Figure 5). *Co-advertising* proves to be closely correlated to *me/identity* with a Pearson correlation of r=0.695**. This relationship is explained by the individual wishing *"be original" and* the emotive involvement of individuals using their own creativity. Moreover, *co-advertising* appears closely correlated to *friend/us* with a Pearson correlation of r=0.539*. Finally, *co-advertising* evidences to be closely correlated to *time,* with a Pearson correlation of r=0.498*. This last functional benefit can be explained by the "time saving" benefit for individuals who are collecting information about the products, which they are going to purchase.

ISBN: 978-9963-711-37-6

		Price - Money - Reward	Quality - Customisation - Difference	**Time - Freedom - Convenience**	**Me identity - Reputation - Self esteem - Difference**	**Friends - Game - Fun - Emulation - Me too - All together - Us**	Society - Ethic - Moral - Altruism - Relation - Gift - Us
Co-Advertising & Communication	Pearson Corr.	0.052	-0.167	0.498 *	**0.695 ****	0.539 *	0.332
	Sig. (2-Tailed)	0.872	0.481	0.026	0.001	0.014	0.153

Note: **All correlations are significant at the p<0.01 level

* All correlations are significant at the p<0.05 level

Table 5. *Correlations between co-Advertising and types of content*

H2: *Co-Advertising Relevance* is confirmed.

In order to test the collective responsibility in digital interactions, we ranked the conversation on the basis of three variables of identity (*me*) relationships (*friends),* and society (*us).* The first five communities involving a strong element of identity -*me*- appear often well positioned in terms of relationship -*friends*- and society -*us*-. There are also intermediate situations like Groupon where consumers show interest in sharing purchase coupons with friends but do not find the game innovative enough to give distinction of self-identity. Overall, there are few communities where the consumer gives a low value to friendship (Amazon MTurk, eBay, City 2.0.). Moreover, values are very high in the "society" variables and reveal an increasing awareness of ethical implications of being continuously connected (Figure 6).

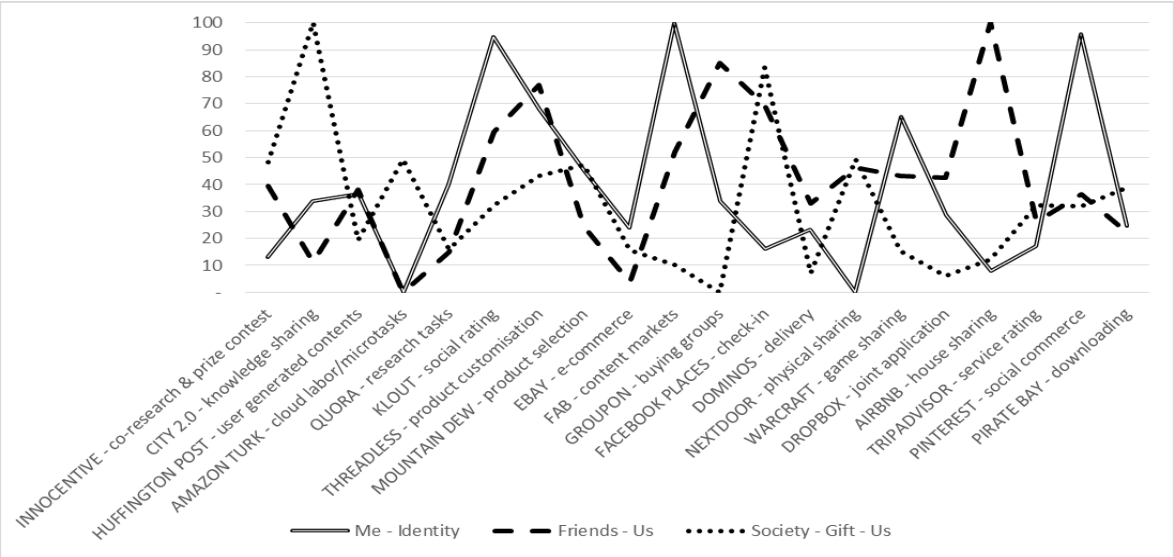

Table 6. *The percentage of identity -me-, relationship –friends - and society-us*

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The fact that the *social variables* were cited in almost the whole of the texts shows that the risks of consumer exploitation exist but are largely balanced out by consumer attention to the social content of services. What is significant is that consumer and citizen interests do not appear in inverted order: for example, it could be objected that communities like eBay and Groupon have a very small social dimension, but as a matter of fact, we found that dialogue is often about following the rules, and about the experiential and psychological dimension of use (Figure 7). These are frequent signals that the convergence of interests is not taken for granted, and many consumers comment on the need to be careful about their rewards. It is precisely this explicit mention of risks that comprises a defense mechanism against negative aspects of the convergence. From our point view, this is a new evidence of the convergence between the customer perspective -*logic of money*- and the citizen perspective -*logic of gift*-.

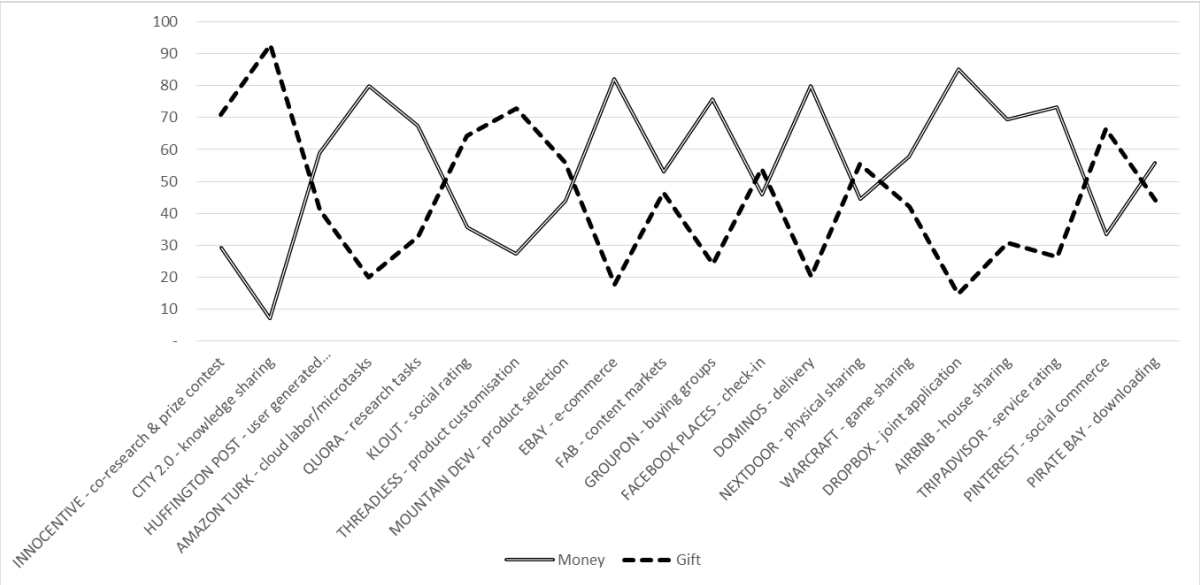

Table 7. *Platforms analysis according to their concept of Money and Gift*

H3: *Double role of Consumer as a Customer and a Citizen* is confirmed.

CONCLUSIONS

This paper employed empirical evidence to focus on the new positive *convergence* of customers and citizens at work. Findings show that there are three different roles that the consumer acts in digital conversations. The metrics of the Co-Value Model were used to measure and reinforce the basic idea of convergence between the customer perspective -f*unctional benefit*- and the citizen perspective –*social benefit*-. In particular, we found the Citizen who interacts to advise peers and share experience to improve benefits for the community; the Customer who enhances his/her shopping experience to

ISBN: 978-9963-711-37-6

improve his/her functional benefit; and the Co-creator that helps to improve companies' value chain. The model was applied to a large number of recent case histories focusing on the managerial implications of the new social game. The hypothesis of convergence was proven through the analysis of continuous conversation between customer and companies from 20 international crowd-sourcing platforms. The findings show that the continuous digital conversations between companies and individuals (customer and/or citizens) are changing the value creation process. Convergence is driven by a renewed social sensitivity, which is clearly influenced by collective responsibilities. In the new context, co-advertising is the co-creation process with the highest level of consumer involvement since individuals' conversations are strongly influenced by the social desire to share personal experiences, knowledge and opinions about the companies or brands they interact with. Consequently, companies are able to promote, mediate and intercept customers' conversations, but the only possibility allowed to individuals is to keep companies under non-contractual observation. The new overlap of dialogue and sale can generate a positive loop between companies and individuals' responsibility, and reduce the distance between market and society.

LIMITATIONS AND FURTHER RESEARCH

Our panel of 4601 texts was not geographically defined and this could represent a limitation of the results. Furthermore, although numerous studies show how socio-demographic characteristics influence the interaction between customers and companies, this study makes no cross-cultural analysis. In this perspective recent studies on peer-to-peer communication show that interaction varies according to the gender and origin of the user. Moreover, our analysis does not consider the factors of mediation and moderation existing in forums and reviews, especially online. An additional avenue for future research could be to test the new co-value model in different industries and cluster the role of digital conversations in various contexts. Moreover, it would be interesting to analyze the role of various tools used by customers during their conversation. In fact, new technologies, and in particular mobile devices, could lead to new form of dialogue and value co-creation. Finally, the semantic mining of words and texts could be conducted with more advanced techniques. This requires a fine tuning of professional software in line with recent developments in the field.

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 ISBN: 978-9963-711-37-6

DYNAMIC ENTREPRENEURSHIP - A QUANTIFIABLE FRAMEWORK

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ABSTRACT

Measuring dynamic variables has long been a challenge to management science. In this paper, we specifically address the issue of quantifying dynamic change in the entrepreneurship field by defining a framework that not only focuses the dynamic side of entrepreneurial action but also deploys necessary tools and concepts to measure the dynamic evolution of an entrepreneurial venture. Drawing on the modulation time response model (Apter, 2001; Pereira, 2010) and several other references from strategic management and strategic entrepreneurship literature, we seek to establish an operational yet solid framework for both dynamic and strategic entrepreneurship.

Keywords: *Dynamic, Entrepreneurship, Measure, Quantify*

INTRODUCTION

Entrepreneurship is a significant field of study within management science. Over the past 30 years, a relevant number of periodicals focusing entrepreneurship related subjects has risen in the scientific landscape with an increasing number of academic contributions for the study of this phenomena made available every month. Some of those are now among the most cited periodical publications, even when compared with journals from the other scientific fields of management, representing today a 'fully mature research subject'. At the same time, entrepreneurship scholars have several different background types, ranging from corporate finance to social psychology, from economics of development to industrial organization and, of course, from pure entrepreneurial experience. With this variety of approaches, entrepreneurship research papers cover all types of research questions and methodological possibilities leaving each day less room for possible uncovered research gaps. Nonetheless, we have noticed that evaluating and quantifying entrepreneurial action, especially when it comes to dynamic studies, remain scarce in the context of entrepreneurship. Thus the momentum for this paper.

STRATEGIC ADAPTATION

Context

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In his seminal work, Porter (1991) reviewed the progress of strategic management towards establishing 'a truly dynamic theory'. The so called 'longitudinal problem', the dynamic challenge of any entrepreneur, remains the understanding of the (organizational) process by which an entrepreneurial venture achieves its goals throughout time. Porter later developed the debate on the course of action an entrepreneur should undertake to carry on strategic activity in the long run (Porter, 1996) leading to the enhancement of the discussion on strategic flexibility and, by extension, on strategic adaptation.

Strategic Flexibility

Since the early 1980's, strategic flexibility has been characterized as the possibility of (intentionally) introducing strategic change in order to alter firm / corporate / entrepreneurial outcome (*e.g.*, Nadkarni and Narayanan, 2007). Harrigan (1980) stressed the importance of exit barriers for inflexible behaviors. Later, Sanchez (1995) restricted this concept narrowing it down to product development within a debate that is still today very present in entrepreneurship theory: company *versus* product level of analysis. Worren *et al.* (2002) carried on the some approach. In a different perspective, Goodstein *et al.* (1996) investigated the interrelationships between professional interests inside an organization and maintaining strategic flexibility. But if strategic flexibility may be the competitive 'cunning stunt' to outperform competition and better take advantage of market gaps, how much change can a firm / corporation / venture endure before diminishing critical capabilities (such as identity)? In other words, what are the limits to strategic flexibility, to strategic adaptation, and to strategic change?

Change and Fit

Assuming that strategic flexibility is an interesting but rather dangerous competitive positioning, entrepreneurs must however understand as quickly as possible in what extent one should take this course of action. In their research on strategic fit, Zajac *et al.* (2000) came up with a normative approach to strategic change as something that is purely guided by environmental stimuli, with fully predicted outcome. Moreover, 'the timing, direction, and magnitude of strategic changes can be logically predicted based on differences in specific environmental forces and organizational resources'. In this sense, there are little room for ploy or surprise, which is consistent with the classic view that environment basically defines the conditions for entrepreneurial competitive conduct (*e.g.* Ansoff, 1984).

Strategic Entrepreneurship

The late 20th century brought changes to the global economy that dramatically affected the way organisations position themselves – market liberalization, globalisation of economies and markets, changes in consumption patterns, and the lifecycle of products becoming increasingly shorter, among other aspects that contribute to a greater uncertainty. Janszen (2000) labels the present era as the 'Age

 ISBN: 978-9963-711-37-6

of Innovation' which emerged after three different stages that occurred in the 20th Century: First, the age of efficiency, in the 50s and 60s; then, the age of quality in the 70s and 80s; and finally, the age of flexibility in the 80s and 90s. In spite of this, innovation has long been regarded as the lead growth engine of organisations (Trott, 2012).

In this overall context of uncertainty, a proactive attitude is necessary to reach constant organizational improvement. To a large extent, this depends on anticipating the needs of a highly competitive and demanding market. Dobni (2006) claims that 'innovative firms are more successful over the long term. Innovative organizations understand the relationship between strategy and innovation, and discover the configurations that are best suited to their environments. This attitude allows them to constantly realign to changes in the competitive context'. Innovation 'is generally accepted as being the golden route to building a growing and prosperous company' (Janszen, 2000).

Although implementing an innovation culture within an organisation is a complex issue, companies that succeed in being innovative have the ability to generate substantial wealth for shareholders and to differentiate from competitors (Anthony et al., 2008), thereby creating value for consumers and strengthening their 'loyalty' towards the company (Janszen, 2000).

Ketchen et al. (2007) consider that wealth creation depends on managing a virtuous combination of strategy and entrepreneurship. Ireland & Webb (2007) argue that exploring both strands will efficiently allow organisations to benefit from existing competitive advantages and also to identify those that may arise in the future. Therefore, the great challenge that modern organisations face is to achieve the paradigm designated by Ketchen et al. (2007) as Strategic Entrepreneurship – 'pursuit superior performance via simultaneous opportunity-seeking and advantage-seeking activities'.

DYNAMIC FLEXIBILITY

There seems then to be a clear *rationale* for strategic adaptation and isomorphic behavior *vis-à-vis* the market. We may now split this approach into two different types of problems: (i) the complexity-variety problem and, (ii) the time-resource problem (Pereira, 2010).

The complexity-variety problem

Also referred in the literature as the 'Ashby Law' (Ashby, 1956), the complexity-variety problem is the challenge of taking advantage of opportunities by deploying the right product into the market. By 'right product', I mean the item customers are willing to have for their own, pay for, because ultimately it produces some type of strategic fit with the market. As such, the complexity-variety problem is a very predictable game: either the entrepreneur is able to generate the right offer to the market, and wins it, or the entrepreneur is unable to put together the appropriate response, and he looses it.

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As most companies do, following standard management procedures (like many required by venture capital funds as part of their control systems) obliges entrepreneurs to prepare in advance their market moves, usually within the product roadmap process, a critical yet standard routine for any entrepreneurial venture. This is very important for purposes of internal discussion and financial risk assessment. As a result, entrepreneurs tend to resolve the complexity-variety problem by generating physical stocks of products, also called 'solutions', a source of static flexibility.

The time-resource problem

Trying to fill in the market gaps by preparing advanced responses in complexity-variety may only be possible if entrepreneurs are significantly innovation-driven and very competent in the exercise of anticipating market needs, which is somehow rare among adaptive entrepreneurial ventures.

Whenever entrepreneurial ventures (can only) play the adaptive strategy, or whenever the market is too dynamic to be dealt with a long run approach, entrepreneurs must rely on their ability of reacting fast each time the competitive landscape changes (Doz and Kosonen, 2007). In other words, entrepreneurs must develop dynamic flexibility capabilities to outperform competition in time-to-market of non pre-released solutions.

Dynamic flexibility is a type of capability that can be found among the set of 'dynamic capabilities of the firm', especially those dealing with 'high-speed markets' (Eisenhardt and Martin, 2000) where adaptive strategies seem to be more effective, sometimes the only possible way out for (small or novice) entrepreneurial ventures. In my view, dynamic flexibility is the ultimate strategic resource of dynamic entrepreneurship, an entrepreneurial orientation based on being fast by having the necessary organizational resources to react promptly to market challenges even under weak signs of change.

MODELLING DYNAMIC ENTREPRENEURSHIP

Classic approach

The way entrepreneurial ventures are usually modelled, according to classic financial theory (*e.g.*, Brealey *et al.*, 2013), is by considering 'time' a fixed constraint, usually defined in a yearly basis. Income, the money volume generated by a venture during that year period, would be $\Delta G = P \times T$, $T > 0$, whereby:

ΔG – Goal variation, in terms of Income level, between the beginning and the end of a given time frame (usually, one fiscal year)

P – Profit generation Pace, resulting from the difference between economic flows (revenues and costs) used during a given time frame (usually, one fiscal year)

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T – Relevant time (frame), usually one fiscal year, during which revenue and cost flows will generate a certain Goal (measured by a certain Income level)

Dynamic approach

Abbel (1978) defined 'window of opportunity' as the relevant time frame for product offer to achieve optimal meeting conditions with customer's demand. It means that 'time' must never be considered a fixed parameter in the entrepreneurial reasoning. Actually, the basic entrepreneurial approach of 'opportunity-oriented behavior' leads us to a new perspective when modelling entrepreneurship.
This can be done, regardless of the variations in the window of opportunity, by considering that the required complexity-variety will not change (ΔG = constant) once is defined by the venture.

With this change, 'time' becomes 'response time', better, 'time-to-market', a very good variable for modelling purposes:

$$T = \frac{\Delta G}{P}\ ,\ T > 0$$

whereby:

ΔG – Fixed Goal, measured by a certain expected income level, resulting from the deployment of a certain complexity-variety considered suitable according to demand expectations

P – Venture development pace, variable, depending on necessary time-to-market, measured by economic flows required to generate a given G

T – Response Time, or time-to-market, variable, depending on changes in P

As a result of 'time' becoming a variable, the relationship established between the other two parameters turns out to be reverse, no longer direct, and the behavior of the entrepreneurial venture thus oriented is a non-linear one, with hyperbolic representation.

This means, for example, that the time-to-market (T) of a given product (G) will decrease in the reverse proportion of the venture's pace (P).

Dynamic Flexibility will then be equal to the acceleration allowed by the hyperbole, measured by the difference between our current situation point and the point corresponding to the expected situation, variable, according to market stimuli.

Dynamic deviations

Any changes in the venture's pace will generate a slope line change in the hyperbole, *i.e.*, a time to market acceleration or break down. This (i) will generate volume/goal deviations, and (ii) allows for

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deviation decomposition once all resources in the venture are connected through (the variable) time (to market).

Model deviations can be decomposed in three key elements: (i) those related with executive decisions, taken by team leaders/directors (ii) those associated with decision implementation, taken by operational resources and (iii) those connected with the interaction between the former two elements.

This is a very interesting feature of this model because each point on the line corresponds to a different (venture) dynamic situation reflecting the action of each resource while in the classic approach there is only one line for all resources representing the action of all resources combined.

At the same time, these deviations are dynamic, *i.e.*, they reflect venture's time-to-market variations, measurable through its positioning on both hyperbole branches.

In a hierarchized organization, such as any entrepreneurial venture, the desired performance of any operational resource, to make sure that its goals are achieved, is as follows:

$zp = qp$ (forecasted pace) $\times$ Tp (forecasted time to market)

In case of any changes in its pace or functioning rhythm, qp becomes qr, then zr will be produced in Tr.

In the framework of dynamic flexibility, the operational resource may only act on the pace by changing the functioning rhythm qp to qr for a constant T (time of response).

Like this, the deviation in volume from which the operational resource is responsible for, is:

$(qr - qp) \times Tp$ for Tp – this deviation is called eq

$(qr - qp) \times Tr$ for Tr – this deviation is called eq'

(Tp – forecasted time to market and Tr – actual time to market are both under someone above the operational resource, called Team Leader or Operational Director).

The operational director is the responsible for the team's performance, therefore he is responsible for both Tp and Tr.

$(Tr - Tp) \times qp$ (for qp) – this deviation is called eQ'

$(Tr - Tp) \times qr$ (for qr) – this deviation is called eQ

The interaction between each operational resource and its team generates a deviation inducted by the joint action of the operational resources and their Director, which is produced by the intersection of their respective actions, reflecting their interactions:

$(qr - qp) \times (Tr - Tp)$ – this deviation is called eK

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In this context, the global deviation representing the philosophy of this model of Dynamic Entrepreneurship, has the following detail:

e = Deviation (of an operational resource integrated in a team)

= its own action $(qr - qp) \times Tp$

+ team's or Operational Director's action $(Tr - Tp) \times qp$

+ interaction between both $(qr - qp) \times (Tr - Tp)$;

or:

$e = eq + eQ' + eK$

where:

eq – Operational resource's deviation, disregarding the team's action

eQ' – Team's deviation, disregarding each resource's action

eK – Interaction, or integration deviation, between each resource and its team

$eq' = eq + eK$

$eQ = eQ' + eK$

The sign and the value of the integration deviation eK express the coordination quality. In many ventures it means the personality and the role of the entrepreneur himself.

Changes in the hyperbole's functioning point throughout the ascending branch - breaking down area - generate increasing higher deviations $e \wedge eQ'$ when compared to eq, due, in one hand, to the temporal sensitivity of that branch and, on the other hand, to the fact that resources and team/director are subject to different mathematical laws.

In case of action convergence – both team/director and resource either accelerate or break down – the absolute values of the deviations $eQ' \wedge eq$ will not overcome the value of the global deviation e.

In case of action divergence, when the ensemble team/director accelerate while the operational resource breaks down, or *vice-versa*, the value of the deviation eQ' or the deviation eq overcome the value of the global deviation e. Simultaneously, the coordination deviation eK becomes negative and increases in value.

Some of the functional integration is actually 'parasite', once the coordination between the venture's resources is not used to increase performance but only to minimize action divergences. The 'parasite' deviation means that the coordination was not successful.

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Team or Director accelerating or breaking down correspond to a change in the time necessary for the venture to achieve a given goal.

As for the operational resource, breaking down means a decrease in its action pace. Accelerating act the other way around.

The systemic logic predicates that operational resources and team/director work together to the fulfillment of a common purpose. Whenever their actions go in opposite senses, the values of the partial deviations due to the influence of the team and to the influence of the coordination increase (in a non-linear way). Deviations $eQ' \wedge eK$ are extremely sensitive to any lack of coordination action between resources within the venture.

The deviation eK is positive is the ascending branch of the hyperbole – breaking down area – and negative in the descending branch – accelerating area.

It increases, in absolute value, whenever discoordination, or disintegration, between venture elements increases as well as whenever time to market increases.

Within this line of reasoning, we acknowledge that in the breaking down area of the hyperbole $eq < eq'$ and in the accelerating area $eq > eq'$ taking into account the result of the coordination deviation.

At the hyperbole vertex, the point separating the ascending and descending branches, $eQ' = 0$, $eK = 0 \wedge e = eq$ once there is no difference between the forecasted and the actual response time (or time-to-market).

This is the only situation where the deviation calculated in the dynamic perspective equals the deviation calculated in the classic perspective.

When the discoordination is perfect, *i.e.*, $eQ' = -eq \vee eq = -eQ'$, the venture is in a dynamic break-even point, meaning, $e = eK$; $\frac{eq}{eQ'} = -1$.

Obviously, this is the worse-case scenario.

Correcting Dynamic Deviations

As seen above, eK deviation is related with the fact that venture resources act/work together. This deviation analysis is particularly useful once it allows to follow up two different situations: (i) Both resource and team accelerate or break down, but with different intensity, and (ii) Discoordination between resource and team – one breaks down while the other accelerates. Because the hyperbole can only express the global outcome of the ensemble.

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On the other hand, by separating these situations it is possible to split responsibilities between each member of the team, through their respective $eQ' \wedge eq$ deviations.

In reality, however, actions of these two elements take place simultaneously. This means that deviation correction by each resource must occur not only by symmetric action (such as $-eQ'$ or $-eq$) but also through the inertia generated by the discoordination itself.

Thus, correcting $eQ' = -eQ$ and correcting $eq = -eq'$.

Only in a scenario of perfect coordination between elements ($eK = 0$) it is possible to correct a deviation only through the element that created it.

Venture's Dynamic Deviation Calculation

So far, we have been analyzing the simplified situation of a structure made by only two hierarchic levels. However, the development of a venture usually generates the proliferation of hierarchic levels, each level corresponding one specific response time and, consequently, one different hyperbole.

Deviation generation follows a bottom-up logic, which is the opposite of the top-down logic used in goal definition.

Each Director representing a certain hierarchic level's team is simultaneously director of that level and operational resource of the level above. Consequently, in any given venture, only the highest hierarchic level is always Director and only the lowest is always resource.

The global deviation $e = eQ' + eq + eK$ of any given venture must always include all partial deviations of all hierarchic levels. Nevertheless, this process is not just the simple addition of each level's deviations. This modulation requires adjusting the different response times of each resource. Those increase as we move up towards the top of the venture's structure.

If we take the following venture structure:

Entrepreneur = 1st hierarchic level = I

R&D Director = 2nd hierarchic level = II

Sales Director = 2nd hierarchic level = II'

Resource 1 = 3rd hierarchic level = III

Resource 2 = 3rd hierarchic level = III'

The global deviation of this venture will be:

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$$e_{\text{Venture}} = (eQ'_{\text{II}} + eq_{\text{II}} + eK_{\text{II}}) \times \frac{\Delta TI}{\Delta TII} + (eQ'_{\text{II}'} + eq_{\text{II}'} + eK_{\text{II}'}) \times \frac{\Delta TI}{\Delta TII'}$$

$$e_{\text{R\&D Director}} = (eQ'_{\text{III}} + eq_{\text{III}} + eK_{\text{III}}) \times \frac{\Delta TII}{\Delta TIII} + (eQ'_{\text{III}'} + eq_{\text{III}'} + eK_{\text{III}'}) \times \frac{\Delta TII}{\Delta TIII'}$$

$$e_{\text{Resource 1}} = eQ'_{(\text{III} + \text{III}')} + eq_{(\text{III} + \text{III}')} + eK_{(\text{III} + \text{III}')}$$

$$e_{\text{III}} = eQ'_{\text{III}} + eq_{\text{III}} + eK_{\text{III}}$$

$$e_{\text{III}'} = eQ'_{\text{III}'} + eq_{\text{III}'} + eK_{\text{III}'}$$

Managing Venture's Dynamic Flexibility

Based on the above analysis, we may conclude that in the variable time, or dynamic perspective, a venture's management is made, whenever there are deviations, through the reestablishment of the desired course of action.

Therefore, the dynamic potential of a venture depends on the possibility of varying or modulating its response time (or time-to-market). In other words, it depends on its dynamic flexibility.

This capability is limited by a T_{min} which is dependent on its actual situation in terms of structure, production capacity, resource flexibility, information systems, etc.

In an *ex-ante* analysis, dynamic flexibility could be based on positioning the point of the forecasted activity of the venture – the vertex – in a slow combination of pace and time when compared with its maximum possibilities (P_{max} , T_{min}). Thus, the construction of flexibility slows down the time to market.

This could be done through the sub-employment or even the unemployment of certain resources, human or material, available at the moment of activity programing.

This (potential) dynamic flexibility could be presented as the difference between maximum production capacity and actual production capacity used by the venture.

CONCLUSION

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This paper had the purpose of developing both the theoretical and the practical frmework of a dynamic approach on entrepreneurship.

Using fundamental strategic management and strategic entrepreneurship concepts, we have defined the entrepreneurial challenge as one of adaptative nature, forcing entrepreneurial ventures to respond to market opportunities not only in terms of variety-complexity but also within the window of opportunity.

As a consequence, entrepreneurial ventures must develop strategic flexibility, based on capabilities of dynamic adaptation, to avoid the risks of relying mainly on static flexibility, or stocks.

The logical corollary is that Dynamic Flexibility is a key feature for strategic (adaptation) fit, thus the need for measuring, quantifying, and modelling this variable.

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 ISBN: 978-9963-711-37-6

PREVALENCE OF 'FACE CONCEPT' AMONG SOUTH ASIAN CONSUMERS- A COMPARATIVE STUDY OF UNFOLDING THE FACETS IN DECISION MAKING PROCESS OF BUYING BEAUTY PRODUCTS

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ABSTRACT

The focus of this paper is to explore the level of importance of the term 'face concept', consumers transfer in their purchase decision of beauty products. The authors intend to study differences in the consumption behaviour of highly collectivists Bangladeshi consumers' compare to the highly individualistic UK consumers. Concept of face is acknowledged in every culture. However, the term 'face' is characterised differently according to one's cultural setting; for example, 'face' represents the interpersonal relationship between the individual and groups in Asian society. On the other hand, from a European perspective face may represent stronger personal self and assertion. In this paper we tend to identify the contributing factors to 'face concept' of Bangladeshi female consumers in their pre, actual and post-purchase behaviour of cosmetics products compared to the British female consumers.

A structured questionnaire survey was conducted among female Bengali consumers in the capital city of Dhaka in Bangladesh and female British consumers in Southwest London in the United Kingdom. We have compared the degree of face concept and its impact on decision making process of female consumers in the UK and the Bangladesh by using factor analysis. Five factors were extracted from factor analysis: 'thoughts in cosmetics', 'brand link to social recognition and prestige', 'skin colour link to authority in society', 'group conformity' and 'personal-self'. Among all the five factors the only factor labelled differently for British consumers is the 'brand link to personal satisfaction'. It was noticed in the labelling process of the five factors that the extracted components were not exactly the same for both Bangladesh and the United Kingdom.

Keywords: *National culture, Consumer behaviour, Face concept, collectivistic/ Individualistic culture, group conformity, decision-making process, cosmetics purchase*

 ISBN: 978-9963-711-37-6

INTRODUCTION

In cross-cultural research, concept of face has been studied largely in East Asian context. However there has been very little study relating to 'face' and consumption behaviour in South Asian context. Although the concept of face is acknowledged in every culture, the term 'face' is characterised differently according to one's cultural setting; for example, in Asian Society 'face' represents the interpersonal relationship between the individual and groups. In China 'lien' (moral integrity) and 'mien-tsu' (prestige and reputation based on personal effort) are the depictions of face (Yau, 1994). There have been several studies addressing face and face-related issues (Brown and Levingstone, 1987; Holtgraves, 1997; Kim 1994; Leung and Chan et al., 2003; Schutte and Ciarlante, 1998) on negotiation, decision-making and conflict management; however how face influences consumption remains unclear, and its conceptualisation requires further clarification and investigation (Li and Su, 2007). The concept of face is also important in western society, in the conduct of inter-personal relationships and in cultural development, but perhaps is less obvious and more subtle, appearing to be not important when actually it is (Hofstede, 2001).

This paper seeks to identify how 'concept of face' influences the attitudes of consumers towards the purchase of cosmetics in a cross-country environment. This paper intends to explore the following two objectives:

- To investigate the nature and influence of 'concept of face' among Bangladeshi consumers in their purchase decision of buying beauty products.
- To identify the key factors underpinning the precedence of 'concept of face' in consumption behavior between East (Bangladesh) and the West (UK, amongst the white British woment).

LITERATURE REVIEW

The aim of this literature review is to investigate the cultural elements and to identify the key factors impacting consumers' preference to choose and purchase beauty products at different stages of their buying decision.

Bangladesh considers to be one of the 20 Markets of the future that will offer the most opportunities for consumer goods companies globally. The country is one of the fastest growing and most promising economies in Asia-Pacific (Euromonitor International, 2012). Euromonitor 2012 also reported that, growing disposable income and an expanding urban middle class also bolstered sales of non-essential items. As a result, categories such as beauty and personal care products (CAGR 15%

 ISBN: 978-9963-711-37-6

over 2009-2013), home care (CAGR 12%) and tissue and hygiene (CAGR 20%) also performed strongly. This research intends to outline the underlying factors in decision making process of buying cosmetics from a cross-cultural point of view.

DIMENSIONS OF CULTURE

Geert Hofstede's cultural dimensions are widely used in international cross-cultural studies, the dimensions model is based on quantitative research and provides scores for 75 countries. Hofstede's (1984, p. 78) cultural dimensions approach is characterised as a national culture in terms of its average pattern of beliefs and values. Consequently, countries are divided on the basis of their scores on the five dimensions into cultural areas, and in some cases it is possible to find historical reasons for the cultural differentiation between the areas. Hofstede's (1980, 1984) Cultural Dimensions Model differentiates cultures according to:

- Power distance (PDI)
- Individualism/ Collectivism (IDV)
- Uncertainty Avoidance (UAI)
- Masculinity/ Femininity, and (MAS)
- Long Term Orientation versus Short Term Orientation (LTO)
- Indulgence versus Restaint (IND)

Although Hofstede initially proposed the four main cultural dimensions, he later has added another two dimensions, Long term vs short term Orientation, initially known as Confusian dynamism, that describes the time horizon and attach greater importance to the future. The second one is called Indulgence versus Restaint (IND), the extent to which member of a society try to control their desires and impulses.

To briefly define, power distance is the societal acceptance of hierarchy; uncertainty is the cultural tolerance of ambiguity; individualism-collectivism is the societal predilection for inter-dependence; and masculinity is the culture's desire for sex-role differentiation (Milner, Fodness and Speece, 1993). Since this phenomenal beginning, Hofstede (1982; 1983a, b, c; 1984a, b, c; 1985; 1987) and others (e.g., Mooij, 2003; England, 1983; Hortum and Muller, 1989; Jensen, White, and Singh, 1990; Kim, Park, and Suzuki, 1990; Lebas and Weigenstein, 1986) have validated and expounded on his initial insights.

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Although Hofstede (1980, 1984) proposes five cultural dimensions, the researchers intend to focus on three dimensions, Individualism versus Collectivism (IDV), Power Distance (PDI) and Uncertainty Avoidance (UAI), to identify the relevance of cultural dimensions to consumer purchase behaviour in a cross-national environment. Mooij (2003) stated that dimensions of national culture provide excellent variables that can be employed to analyse cross-cultural consumer behaviour. Mooij further suggested that together with national wealth Hofstede's cultural dimensions can explain more than half of the differences in consumption and consumer behavior.

INDIVIDUALISM/COLLECTIVISM (IDV)

The individualism and collectivism dimension at the culture level relates to how one values the individuals relative to the group (Gregory and Munch, 1996). Hofstede (2001, p.210) states: "The relationship between the individual and the collectivity in human society is not only a matter of ways of living together, it is intimately linked with societal norms (in the sense of value systems of major groups of the population)". In an individualistic culture, the "I" consciousness is central, which articulates private opinion and self-actualisation. Conversely, in a collectivistic society, the "we" term incorporates the identity and harmony with in-group members, and that it is important not to lose 'face' (Mooij, 2003, p.34).

POWER DISTANCE INDEX (PDI)

According to Hofstede (2001), power distance is the extent to which less powerful members of the society accept and expect that power is distributed unequally. Hofstede argues that this inequality is usually formalised in boss-subordinate relationships. The power distance index was derived from the country's mean score or percentage on three survey questions (Hofstede, 2001), which related to the perceptions of subordinates, fear of disagreeing with the superior and of the superior's actual decision-making style, and with the decision-making styles that subordinates preferred in their bosses. From the survey it has been found that the 'power distance norm' as a value system is held by the majority of a country's middle class group. Hofstede (2001) argues that the correlation of the PDI with geographic, economic and demographic country indicators and consideration of historical factors leads to a suggested casual chain for the origins of national differences.

UNCERTAINTY AVOIDANCE INDEX (UAI)

Hofstede identifies the degree of uncertainty avoidance in different social contexts. As uncertainty is a basic fact of human life we try to cope with it through the rules of technology, law and religion

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(Hofstede, 2001). Uncertainty avoidance is "the extent to which members of a culture feel threatened by uncertain and or unknown situations" (p. 161). Hofstede (2001) suggests that uncertainty avoidance should not be confused with risk avoidance (p. 161). In strong uncertainty avoidance cultures people believe that rules and formalities shape living patterns. On the other hand weak uncertainty avoidance cultures feel that there should be as few rules as possible (Hofstede, 2001).

EVALUATION OF HOFSTEDE'S CULTURAL DIMENSIONS

Although Hofstede's cultural dimensions have been criticised on methodological issues and conceptual matters, his work has been applied extensively in the field of business culture. Some Social scientists (e.g., Sampson, 1997; Smith 1978; Waterman, 1981) have disagreed on if individualism or collectivism is a desirable characteristics of humans, however they have talked past one another as they referred to very different things with terms such as 'Individualism' and collectivism (Hui and Triandis, 1986). Research efforts based on comparisons between cultural groups at the country level should consider the limitations associated with extending culture-level correlations to individual-level behaviour. Hofstede's culture-level measurements are based on the sums of individual characteristics and may have limitations when extended to individual behaviour (e.g., beliefs, evaluations and intentions). Many refer to this phenomenon as an ecological fallacy (Gregory and Munch 1996). Beyond these shortcomings, however, Hofstede's research on work-related values in a cross-cultural context does seem applicable to consumptive behaviour in a cross-cultural context (Milner, Fodness and Speece, 1993). Schwartz (1996) suggests that in order to better understand how differences between individuals' beliefs, evaluations and intentions are related to individual differences in value priorities, that researchers examine the individual-level value types that underlie the individualism-collectivism construct.

CONSUMER BEHAVIOUR AND CULTURE

According to Zaltman (1983, p.5), "Consumer behaviours are acts, processes, and social relationships exhibited by individuals, groups, and organisations in the obtainment, use and consequent experience of products, services and other resources". "The behaviour that consumers display in searching for, purchasing, using evaluating and disposing of products and services that they expect will satisfy their needs" (Schiffman and Kanuk, 2004, p. 8). Usunier and Lee (2005) explain consumer behaviour theory from a variety of perspectives concerning cultural consumer behaviour theory such as a global perspective, an imported perspective, an ethnic consumption perspective and a cultural meaning perspective.

 ISBN: 978-9963-711-37-6

Bodley (1994) states that culture involves at least three components: what people think, what they do, and the material products they produce. Hofstede (1980, p.19) defines culture as the interactive aggregate of common characteristics that influence a group's response to its environment. Hofstede (2005) also describes culture as the collective mental programming that distinguishes the member of one group or category of people from others. Usunier (2000) explains the impacts of cultural differences on selected aspects of perception, motivation, learning and memory, age, self-concept and group influences, social class, sex roles, attitude changes, decision making, and purchase and post purchase behaviour.

Despite the multiplicity of cultures in Asia, there are many characteristics that are more or less common across many Asian cultures (Schutte and Ciarlante, 1998).

FUNDAMENTAL DIVERSITY BETWEEN BENGALIS AND THE BRITISH

Schutte and Ciarlante (1998) argue that in order to describe Asian consumer behaviour accurately we must follow two premises: first, consumer behaviour is strongly influenced by culture and second, Asian culture is distinctly different from Western culture. Therefore, tt is essential to establish the basic societal and cultural background in which behaviour takes place in order to bring to light the differences in consumer behaviour between the UK and Bangladesh. From the study of cultural dimensions it is clear that Bangladesh belongs to the culture-type that is described as collectivistic whereas the UK belongs to the culture-type described as individualistic. Bangladesh also falls in the category of high PDI and high UAI society; on the other hand UK is characterized as low PDI and low UAI society.

Hofstede's dimensions' raw scores (Figure 1) confirm the differences in culture between Bangladesh and the United Kingdom.

ISBN: 978-9963-711-37-6

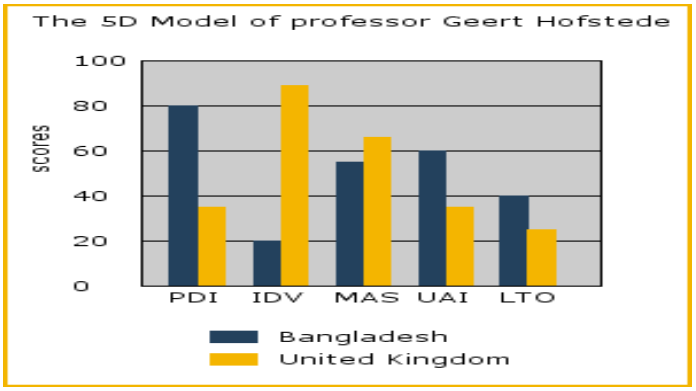

Figure-1: *Differences in culture between Bangladesh and the UK (Hofstede, 2014)*

THE CONCEPT OF FACE IN BENGALI CULTURE

Face represents as an important role in the way a culture pursue its values which can be varied according to different country perspective. In a collectivistic society face is regarded as the medium of expression of respect, moral integrity, personal image, wealth, social status, prestige, level of education and the conformity to society's traditional values. In Asian culture the terms "gain face" or "face-saving" indicate that someone has good social reputation within the community and is reliable, dependable and safe to build up a relationship with. On the other hand losing face is referred to as an act of aggression (Yau, 1994). Chinese individuals who are collectivistic in nature are mindful about the need to maintain a high degree of moral control, at least publicly, and carefully assess the possible effects of their actions on others before embarking upon a course of action (Schutte and Ciarlante, 1998). It has been argued that people in collectivistic cultures are conscious about not losing face; rather they endeavour to gain face for the family through the accumulation of wealth, prestige, status power and so on (Schutte and Ciarlante, 1998).

The concept of face is relatively similar among the Asian cultures in terms of family relationship, status priority, and conformity etc. As a part of Asia, Bangladesh shares the concept of face in the way as do China, India, Thailand, and Indonesia among others, however, to what extent, may vary. In Bengali society 'Mukh' (face) represents a social mirror in which a person can be observed by his or her performance, relationships and the acceptance within society, as well as level of conformity, and is able to earn admiration as a result. For a collectivistic society, to gain face 'mukh rakha', or to lose face 'mukh harano' form the essence of life for Bengalis because of the control the community has over the individuals. To gain face in Bengali culture can be characterised by being honest and educated, and of high rank or social class which consequently provides power and authority in society. Loss of face symbolises embarrassment, and shame in Bengali society. As a collectivistic society, it is imperative

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for Bengalis to project the right image as being classy, up-market and prestigious by securing the term 'face-saving' where Bengalis rank high in a power distance society. According to Hofstede (1984), in high power distance societies, differences in power are expected to translate into visible differences in status.

In contrast, the existing concept of face in Bengali culture is likely to be absent in British culture because of its individualistic nature. Just as the collectivistic nature of the culture makes Bengalis attached to the family and conform to group decisions which is ignored in British culture, preservation of face and loss of face are related to the perception of the individual self in Britain. As Chiappini and Harris (1997) state: "In an individualistic culture individuals are free to choose the image they project to others". Thus the gain of face is not influenced by the desire of society or conformity; rather it is very much independent and controlled by individual aspirations. According to Hofstede (1984), in high power distance societies, differences in power are expected to translate into visible differences in status.

From the literature review it was established that there are several key factors linked to the 'concept of face' in Asian culture, such as the status priority and the acquisition of branded goods, kinship and family relationship, attitudes to skin colour, and concept of self. Most importantly, the extent of the authority of these factors on the decision making process is dependent on how a society practices its cultural values. For example, in a collectivistic culture with a high power distance society the need for achievement and affiliation is the basis of power. As a collectivistic culture the high level of interdependence among Bengali individuals corresponds with lesser personal attachment to material objects and a greater attachment to human beings. Indeed the conspicuous consumption may seem to clash with traditional characteristics of Asian culture such as pragmatism, collectivism and modesty in self-presentation; however, the explanation lies in the fact that the luxury products symbolise status and face-giving in the Asian culture (Schutte and Ciarlante, 1998).

RESEARCH METHODOLOGY:

As mentioned earlier, this paper seeks to identify how 'concept of face' influences the attitudes of consumers towards the purchase of cosmetics in a cross-country environment. A questionnaire survey method was selected for data collection. A two country comparison was performed in order to acquire a comprehensive understanding of the perceptions of concept of face.

Over 300 questionnaires were posted in Bangladesh using personal contacts and viral messaging. Approximately 1,500 were posted in the UK by using Royal Mailservice. From Bangladesh, 150 fully

 ISBN: 978-9963-711-37-6

completed questionnaires were returned and 142 from the UK, providing a total viable sample of 292 questionnaires.

Sampling:

In order to determine a valid sampling frame or a mailing list, The Royal Mail UK's Address Management Software was used to select the target population in the Hampshire area. In Bangladesh a valid Postal Address Book was used to select the target audience. As the mailing list contains millions of addresses, systematic sampling was considered applicable in order to avoid extra costs and time in comparison to simple random sampling.

RESEARCH HYPOTHESIS

A research Hypothesis was formulated to test that, '*female Bengali consumers are more influenced by the concept of face-saving than their female counterparts in the UK.* Several variables and scales were constructed to test the hypothesis.

MEASUREMENT AND SCALING PROCEDURE

According to Malhotra (1999) scaling involves creating a continuum on which measured objects are located. In a collectivistic society face is regarded as the medium of expression of respect, moral integrity, personal image, wealth, social status, prestige, level of education and the conformity to society's traditional values. The 18 statements of face were asked in the questionnaire survey. In order to meet research objective, which aim to explore the perceptions of face concept and its influences on the decision making process of buying cosmetics, the variables and scales were constructed using with 5-scale Likert measurement (1= strongly agree, 2=agree, 3= neither agree nor disagree, 4= disagree and 5 =strongly disagree). The attitudes towards face concept were simplified and reduced into composite variables by the factor analysis technique.

FACTOR ANALYSIS

There are two primary functions of factor analysis – one is to identify underlying constructs in the data and the second is simply to reduce the number of variables. Factor analysis procedures attempt to retain as much of the information as possible and make the remaining variables meaningful and easy to work with (Field, 2009).According to Hamilton (1992), factor analysis provides a basis for combining variables, (p.263). Bryman and Cramer (2005) describe that factor analysis is primarily concerned with "describing the variation or variance which is shared by the scores of people on three

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or more variables" (p.327). Hair et al. (2010) suggest that, in order to examine the underlying pattern or relationship for a large number of variables and determine if the information can be condensed or summarised in smaller set of factors or components, a factor analysis can be utilised (p.233). A factor analysis explains underlying meanings and the correlation among a set of variables (Malhotra and Birks, 2009).

KAISER-MEYER-OLKIN MEASURE OF SAMPLING ADEQUACY (KMO)

The alternative and in fact most popular method of examining the correlation is the Kaiser-Meyer-Olkin measure of sampling adequacy (KMO), developed by Kaiser in 1970. The KMO can be calculated for individual and multiple variables and represents the ratio of the squared correlation between variables (Field, 2009). The KMO statistics vary between 0 to 1. A value of 0 indicates that the sum of the partial correlation is large relative to the sum of correlation, indicating distribution in the pattern of correlations (thus, the factor analysis is likely to be inappropriate). A value close to 1 indicates that patterns of correlation are relatively compact and so factor analysis yields distinct and reliable factors (Kaiser, 1974). Hutcheson and Sofroniou (1999) recommend accepting that values of KMO greater than 0.5 are barely acceptable, values between 0.5 and 0.7are mediocre, values between 0.7 and 0.8 are good, values between 0.8 and 0.9 are great and values above 0.9 are excellent.

a,b **KMO and Bartlett's Test**		a Bangladesh	b UK
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.743	.772
Bartlett's Test of Sphericity	Approx. Chi-Square	1503.950	.947.876
	Df	153	153
	Sig.	.000	.000

Table-1: *KMO and Bartlett's test on the Statement of Attitudes*

a. Only cases for which Nationality = Bangladeshi are used in the analysis phase.

b. Only cases for which Nationality = British are used in the analysis phase.

A principal component analysis (PCA) was conducted on the 18 items with varimax. Table-1 shows that the overall value of KMO for the set of 18 variables was .743 for Bangladesh and .772 for the UK which shows that the correlation is quite large and verifies the sampling adequacy for the analysis. The approximate chi-square test was 1503 (Bangladesh) with degrees of freedom of 153, which is significant at the level of .05 levels. Bartlett's test sphericity for Bangladesh is X^2 (153) = 1503 and for UK X^2 (153) =.948. A significant test tells us that R matrix (correlation matrix) is not an identity matrix and therefore there are some relationships between variables. The result for Bartlett's Test of

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Sphericity for both countries was highly significant, *P*<.001, and therefore factor analysis is appropriate on the set of variables.

RELIABILITY

The Cronbach's reliability coefficient alphas for the Bangladesh sample fall between .776 and .888 (Table-2); on the other hand, those for the UK sample are between .721 and .858 (Table-3). The reliability tests of both samples suggest that the reliability is adequate and acceptable. A 5-point Likert scale was developed to measure the constructs in all five factors (1= strongly agree, 2=agree, 3= neither agree nor disagree, 4= disagree, 5=strongly disagree).

SELECTION OF ROTATION PROCEDURE

By using the rotation, the relationship between the variables becomes much clearer and the interpretability of factors can be improved through rotation. Rotation maximises the loading of each variable on one of the extracted factors whilst minimising the loading on all other factors (Field, 2009).

NAMING THE FACTOR LOADINGS

Variables with higher loadings are considered more important and have greater influence on the name or label selected to represent a factor (Hair et al., 2010). The ability to assign some meaning to the factors, or to interpret the nature of the variables becomes an extremely important consideration in determining the number of factors to extract (Hair et al., 2010). The process of naming the factors involves substantive interpretation of the pattern of factor loadings for variables, including their signs. Hair et al. (2010) suggested that before interpretation, a minimum acceptable level of significance for factor loading must be selected. The factor solution was derived from component analysis with Varimax rotation. The cut off point was set somewhat low - factor loadings ±.5 or above in order to illustrate the factor interpretation process with as many significant loadings as possible.

ROTATED COMPONENT MATRIX - BANGLADESH

From Table 2 below we can see that five discrete factors have emerged from the set of variables and each one has an underlying meaning concerning the attitudes towards face concept. Factor 1 represents that there are four components that have high factor loadings (shown in bold type), factor 2 represents five components, factors 3 and 4 represent three components and factor 5 represents two components. In order to name the factors it is necessary to recognise the significant loadings; and the

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variables with higher loadings influence to a greater extent the name or label selected to represent a factor (Hair et al., 2010).

Components	**Rotated Component Matrix[a,b]**					**Mean for individual item**
	Component					
	1	**2**	**3**	**4**	**5**	
CHOSINGCOS	**.875**					1.69
THOUGHTINCOS	**.841**					1.80
IMPORTCOS	**.801**					1.92
UNSUITPUROFCOS	**.791**					1.79
BRANDSOCIALRECOG		**.773**				2.34
BRANDSOPH		**.724**				2.19
BRANDFASHION		**.659**				2.14
IMPORTREF		**.645**				2.97
IMPORTREF		**.634**				2.93
BRANDPERSONSAT						1.70
FAIRSKIN			**.952**			2.27
FAIRSKIN			**.943**			2.32
FAIRSKIN			**.628**			2.40
GROUPCONFO				**.845**		2.31
GROUPCONFO				**.839**		2.43
GROUPCONFO				**.693**		2.29
PERSONALSELF					**.801**	1.61
PERSONALSELF					**.769**	1.57
Reliability measurement (Value of Cronbach's coefficient)	.888	.776	.841	.792	.832	
Variance%	29.708%	16.355%	10.007%	7.866%	6.726%	

Table-2: *Rotated component matrix for Bangladesh by five factor solution*

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalisation.

a. Rotation converged in 7 iterations.

b. Only cases for which Nationality = Bangladeshi are used in the analysis phase

ROTATED COMPONENT MATRIX – UK

The Table-3 below represents the rotated components matrix for the United Kingdom by four factor solution. Five factors have been extracted from the 18 statements of attitudes. The sample size of 142 (usable questions) is shown in Table 3. The factor loadings greater than ±.50 were considered statistically significant. From Table 3 it can be seen that for factor 1 there are four components with high factor loadings; for factor 2 - three components, for factor 3 - four components, and two components for both factors 4 and 5.

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Rotated Component Matrix a,b						**Mean for individual item**
	Component					
	1	**2**	**3**	**4**	**5**	
BRANDPERSONSAT	**.828**					3.14
BRANDSOCIALRECOG	**.797**					3.66
BRANDSOPH	**.674**					3.36
BRANDFASHION)	**.624**					2.14
UNSUITPUROFCOS						2.54
TANNEDSKIN		**.878**				3.93
TANNEDSKIN		**.866**				3.56
TANNEDSKIN		**.709**				3.98
GROUPCONFO						4.19
GROUPCONFO			**.859**			4.30
IMPORTREF			**.757**			4.09
GROUPCONFO			**.718**			4.38
IMPORTREF			**.602**			4.27
THOUGHTINCOS				**.846**		3.08
CHOSINGCOS				**.789**		3.33
IMPORTCOS						3.61
PERSONALSELF					**.915**	1.93
PERSONALSELF					**.904**	1.87
Reliability measurement (Value of Cronbach's Alpha)	.858	.833	.811	.721	.852	
Variance %	33.440%	13.265%	9.763%	7.349%	5.789%	

Table-3: *Rotated component matrix for UK by five factor solution*

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization,

a. Rotation converged in 6 iterations.

b. Only cases for which Nationality = British are used in the analysis phase.

Countries	**City**	**Factor 1**	**Factor 2**	**Factor 3**	**Factor 4**	**Factor 5**
Bangladesh	Dhaka	Thoughts in cosmetics purchase	Brand link to social recognition and prestige	Skin colour link to authority in society	Group conformity	Personal-self
United Kingdom	Hampshire	Brand link to personal satisfaction	Skin colour link to authority in society	Group conformity	Thoughts in cosmetics	Personal-self

Table-4: *The labels of five extracted factors within the two countries*

In Table 4 above there are five factors related to face consumption: thoughts in cosmetics, brand link to social recognition and prestige, skin colour link to authority in society, group conformity and personal-self, which have been identifed for both Bangladesh and the UK. For Bangladesh, Factor 1 represents 'thoughts in cosmetics' whereas for the UK it represents 'brand link to status'. Factor 2 for

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Bangladesh emerged as 'brand link to social recognition' whereas 'skin colour link to authority' emerged as the second factor for the UK. 'Skin colour link to authority' was the third factor for Bangladesh, while for the UK 'group conformity' was the third factor. 'Group conformity' appeared as the fourth factor for Bangladesh while for the UK 'thoughts in cosmetics' emerged. Factor 5, 'personal-self' has emerged for both countries.

It has been argued that female Bengali consumers are more influenced by the concept of face than their female counterparts in the UK. On the factor 'process of thoughts in cosmetics' Bengalis females scored m=1.801, whereas British females scored m=3.354, which represents a significant difference, t= 7.8394, $P<.001$. The second factor, 'brand link to social recognition', indicates that Bengali females m=1.376 more strongly relate brands to their social face (i.e., social recognition, sense of being sophisticated and fashionable and social recognition of the choice of purchase) than British females m=3.394, (t=11.2539, $P< 0.001$) which therefore represents a significant difference. The third factor, 'skin colour link to authority in society', represents that Bengali consumers (m= 2.320) are more likely to consider fair or lighter skin as associated with prestige and authority in society than the way British consumers negatively associates (m= 3.882) tanned skin with prestige and authority in society, t=7.6032, p<.001. The fourth factor 'group conformity' indicates that the purchase decision of female Bengali females (m= 2.355) are strongly influenced by the family members' and peers' opinions whereas British females (m=4.310) are strongly opposed to the group conformity influence in their purchase decision which shows a significant difference t=9.2609, $P< 0.001$, between the two groups.

On the fifth factor, 'personal-self', both Bengali (m=1.610) and British females (m=1.855) scored low which indicates that there is no significance difference, (t=1.5924, p>.05, ns) between the two nations in terms of the influence of personal-self on purchase decision.

Results of hypothesis testing:

The results in Table 5 represent all four factors (apart from 'personal-self' which scored high among both nationalities) showed significant differences between Bangladesh and the UK. Therefore, based on this evidence, the first hypothesis *'Female Bengali consumers are more influenced by the concept of face-saving than their female counterparts in the UK'* is accepted.

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Construct	Bangladesh (n=150) (Mean)	United Kingdom (n=142) (Mean)	*t* value	*p* value
1. Process/thoughts in cosmetics	1.801	3.254	7.8394	0.000
2. Brand link to social recognition	1.376	3.398	11.2539	0.000
3. Skin colour link to authority	2.320	3.882	7.6032	0.000
4. Group conformity	2.345	4.410	9.2609	0.000
5. Personal self	1.610	1.855	1.5924	0.112

Table-5: *Results of hypothesis testing*

CONCLUSION

The 'concept of face' is an important value in a high collectivistic society in which people's thinking process, shopping behaviour, brand perceptions and overall lifestyle are strongly connected with the notions of having respect for others, gaining face in society by achievement and power, greater importance of considering the opinions of important referent others (IROs) and judging the 'self' through IROs which are tremendously involved in the process of controlling people's behaviour in society. International and multinational companies with an intention to enter, operate and market their products in Bangladeshi market, when endeavouring to understand Bengalis' behaviour from cultural point of view for a sustainable business and to segment their target customers with the right approach, should seriously consider the propensity of 'face-saving' and its enormous impact within Bengali society.

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 ISBN: 978-9963-711-37-6

FROM A HOBBY TO AN INTERNATIONAL BUSINESS MINIMAL CORK CASE STUDY

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ABSTRACT

This paper aims to study the company Minimal Cork and its path from a hobby into an international business. Beginning as personal interest - in developing minimalist home decor products handmade with cork and other recycled materials, it became a business appreciated overseas. In this paper this path will be exposed with the main goal of supplying the required information for the development of future strategies aiming the business development. The analysis of the company will be focused on the entrepreneurial traits of its management team through a close look into its actions, including the decision-making process, creation and production processes, marketing strategies and main problems the company faces. The concepts involving the knowledge acquisition process and the entrepreneurial traits will be considered in this study since they play a crucial role in this company's activities and evolution.

Keywords: *hobby; business plan; strategic drift; entrepreneurial traits; case study*

INTRODUCTION

The foundation of a company is the first main step in the process of becoming a successful enterprise and making the best decisions in an initial phase is the best way towards that. The establishment of a company requires, first of all, an idea. This idea will be the ground for the development of an entire business so it must be well defined and planned in order to support its development and all the phases it will have to pass through - the best and worst of them. Hingston (1993) supports the idea that a new business should start by the formulation of a business plan with the main goal of serving as a guide through the process and keep the company in its initial trail even if it has to adapt to circumstances along the way. However, as we will see later, at the conception phase the majority of small companies do not have a business plan, i.e. circa 80 percent of the companies studied by Nayak and Greenfield (1994). This factor is the result of the different founders' background, motivations, aspirations, goals and available resources. The need for external financial aid is one of the main reasons why small companies do a business plan – they need to in order to be granted a credit. But what happens when companies do not need financial aid? When all decisions depend on the founder or CEO how does the

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company behave? These are the main questions that will be discussed in this paper and in order to do that we will take into consideration the case of the Portuguese company Minimal Cork.

Minimal Cork is a Portuguese company founded in 2013 by architect António Brito. Counting over 200 projects in Angola, Brazil, Mozambique and Portugal, the founder - and only owner of Minimal Cork, started this project as a hobby, never thinking it could become an international business. As seen before the motivations for the business establishment play an important role in the company's future, and so do the entrepreneurial traits of the founder or CEO - in this case study the founder is also the CEO. What influence do the top managers have in the company's behavior? Is it possible to separate the management team behavior from the company performance? These are some of the questions that will be discussed in the study of Minimal Cork and hopefully it will enable the understanding of the relationship between the entrepreneur and the company's development.

LITERATURE REVIEW

The main purpose of this section will be the clarification of the elements that will be incorporated in the case study analysis. In order to understand the company's creation and development it is crucial to dedicate some time understanding its origins and organizational characteristics, focusing on the entrepreneurial traits and motivations of the founder that will influence the path from a hobby into a business.

Nowadays, the development of new technologies such as the internet and new communication systems promote the improvement of work conditions and allowed the existence of more flexible career and employment paths, leading to the creation of new business and work models (*Hill et al.*, 1998). These technological and work improvements encouraged the creation of new business models enabling employees to use their out of office hours to dedicate themselves to other activities, being called part-time entrepreneurs (Folta *et al*. 2010). This concept already considers the transition of an activity from a hobby into a business, even if it is not a full-time activity. Folta *et al.* (2010) during the analysis of Swedish entrepreneurs established the existence of three groups of part-time entrepreneurs: those who start their venture to supplement their wage income; the ones that start their venture to gain nonmonetary benefits; and those who regard their part-time venture as a step towards full-time entrepreneurship. This classification considers the entrepreneur's motivations and goals for the activity while still in an early stage of the business creation. A part-time entrepreneur can be a way to analyze the market opportunities before committing at a higher level, adjusting the business to the customers' needs and testing the different possible paths with a low risk involved. According with the entrepreneur's intentions the business path will differ since each person will have a different input in the business and consequently lead the company into a specific route. This trajectory will be affected by

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the entrepreneur's traits, motivations and goals and one way to perceive them is through the analysis of their business plan for the company's creation, if made in order to structure its organization.

According to Andersson (2000), Schumpeter distinguishes entrepreneur and decision-maker in order to differentiate each role played in the process. The entrepreneur is the individual that behaves in an entrepreneurial way presenting new ideas for products, processes or organizational matters. On the other side, the decision-maker is the one responsible for the decision-making process playing a role that must be mostly rational in order to lead the company into a sustainable path. The main difference between both roles is the emotional involvement that characterizes the entrepreneur – creating is a passion, and thinking rationally can be a liability for the creation process but is certainty crucial for the business development. Schumpeter also considers the entrepreneurs' motivations for internationalization, the decision-making process and the opportunity exploration as important factors in the development of the adopted strategies (Zahraa, Korrib & Yu, 2005). The entrepreneurs' traits will define the company's path, especially when the entrepreneur is responsible for the decision-making process, so when facing a strategic decision the entrepreneur will not follow a consistent path due to the lack of planning – leading to a possible strategic drift.

In 2000, while analyzing entrepreneurs' motivations, context and preferences, Svante Andersson concluded that there are three types of entrepreneurs each one will differently influence the strategy chosen, the company's performance and the industry it belongs to. Each entrepreneur's intentions and persistency in following certain strategies are crucial in the internationalization process (Andersson, 2000) and consequently, the company's success will depend on each type of entrepreneur traits. In table 1 it is possible to observe each type of entrepreneur and the matching characteristic behavior. The three types – technical, marketing and structural, are characterized according their vision over the internationalization process, the elements focused, sought markets, approach adopted, preferred entry modes and speed of internationalization. Technical entrepreneurs will focus their attention in the improvement and creation of products and processes in order to guarantee the company's differentiation giving low importance to the current market needs but predicting their future demands. The second type is the marketing entrepreneur that is focused in satisfying the market's needs and looking for the expansion of the business abroad. External relationships are highly appreciated since they represent opportunities to be notice in a bigger scope. The last type is the structural entrepreneur being the one that believes in the internal improvement in order to succeed in the external relationships. Taking risks is something very difficult and as a consequence these entrepreneurs are quiet, adopting an observational position of the market while internally preparing to operate in it.

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Table 1 – Type of entrepreneurs

Type of entrepreneur	Focus	Type of market	Attitude	Entry mode	Speed
Technical	Product and processes development	Emergent	Reactive – demand dependent	Exportations and licensing	Does not look for external markets to enter, it's a consequence of its activity development
Marketing	Fill market gaps Distribution channels and brands	Emergent	Pro-active – seeks international partnerships and respects networks 'value	*Joint ventures* and *greenfield*	Rapid entry in external markets
Structural	Organizational structure	Mature	Reactive – it is not directly related to operational issues – implements organizational strategies	Mergers and acquisitions in order to have control over the organizational structure	Internationalization as a natural consequence of the company's evolution

Source Constructed by the authors based on Andersson's (2000) analysis.

The entrepreneur classification suggested by Andersson (2000) has been studied and developed and many other categories have been identified since then. The entrepreneurs' categorization allows academics and practitioners to study entrepreneurs' behavior and their different influence in the company strategy definition and implementation. Hurst (1995) explained that the innovation and vision aspects in new companies are crucial factors in its foundation, but in the business development they begin to be dependent of the knowledge acquisition and capability to learn and the adaptation to emergent strategies. These factors will be highly associated with the entrepreneurs' vision since it represents and defines the companies' actions along the way (Thomson, 1999).

Combining the motivations exposed by Folta *et al* (2010) with Andersson's type of entrepreneurs, it is possible to observe a conflict between classifications. While talking about nonmonetary gains where the individual aims to reach personal satisfaction, it is not possible to describe him or her as a marketing entrepreneur since this category involves market research and the elaboration of a business plan, something unusual among individuals looking for nonmonetary gains.

This is a pertinent study since it leads us to another important research led by Hambrick and Mason (1984, p.193): the Upper Echelons Perspective "The theory states that organizational outcomes-strategic choices and performance levels - are partially predicted by managerial background characteristics". Hambrick and Manson's (1984) research is focused on the personal biases, experiences and values of top managers in the understanding of a company's organizational behavior. The authors also stated that it is more assertive to analyze the top managers' team in the company's behavior study rather than the CEO as an individual (Hambrick, 2005). This research establishes a direct relationship between the top management team and the company's decisions influencing the company's behavior. The

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entrepreneurial traits of an individual and the company's behavior – as it was possible to verify – are two aspects related. The traits besides influencing the formulation of a business plan will also define the company's path and its performance in the market as it is influence by the entrepreneur and/or decision-maker.

In 1993 (p.30), Hingston stated that "one of the first steps in starting a new business should be the preparation of a Business Plan". However, in a study conducted by Paul Greenbank (2000) the decision-making process in micro-enterprises was analyzed and he concluded that owner-managers of small businesses do not plan ahead their company's development. A large percentage of the studied companies, circa 80%, did formalized a business plan and the ones that had justified the planning has requirements to have access to financial aids, for example credit institutions and/or business angels (Nayak and Greenfield, 1994). Similar circumstances were verified in terms of market knowledge acquisition, where "most start-ups relied upon information they had collected informally over a number of years" (Greenbank, 2000, p.207). It is believed that there is a correlation between the business planning and a successful performance by the company, besides the mixed results obtained by Castrogiovanni (1996) while studying this relationship (Greenbank, 2001). The importance of the business plan is related to the knowledge acquisition process, one of the main processes in a business development included in the main internationalization theories and models – the Uppsala Model (Johanson and Vahlne, 1977) and the Network Theory (Johanson and Mattsson, 1988).

However, defined as "the process by which the entrepreneur, in exploiting an opportunity, creates a vision of the future and develops the necessary objectives, resources, and procedures to achieve that vision" (Sexton and Bowman-Upton, 1990, p.118) a business plan does not belong to many small companies milestones in its foundation phase. This factor is the result of each entrepreneur's background, motivations and aspirations for the business. Although Cooper (1986) defends that the planning of a business allows entrepreneurs to gain new knowledge – through market research, it does not compensate the prior low knowledge about it. It is necessary to gather information before the business creation in order to make the right questions and find the most suitable answers for that specific business (Dencker *et al*., 2007). The formulation of a business plan will allow the founder to establish the main issues to deal with and the company's main objectives, but it does not grant an insightful view of the business world. Roudini and Osman (2012, p.127) indicated that "at the inception of the venture, entrepreneurial capabilities can be crucial to success, while these capabilities become less important and relevant as the venture matures" these capabilities are related to the role entrepreneurs play in the business development and the main traits identified. To understand these matters in a practical way it will be presented the case study of a micro-enterprise – Minimal Cork.

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METHODOLOGY

The information used in this paper's case study was collected through interviews to Minimal Cork's owner and through the exchange of emails during the course of this paper development. The main acquired information can be characterized as secondary data since the information obtain was already available in the literature and existent similar case studies. Dealing with a case study the data used can also be categorized as secondary internal data – the information obtained through internal observation of the company's daily routines (Malhora & Birks, 2007).

The main purpose of this case study is to provide the necessary information to Minimal Cork and similar companies for the development of their business plans and sustainable strategies for companies' development. This is a case that must be studied considering is unusual origins – starting as a hobby, and it's unlikely journey towards internationalization.

CASE STUDY: MINIMAL CORK

Inspired by the use of cork in architectural projects, and his special taste for minimalist products and alternative designs, António Brito started to create home decor products for his own fulfillment. Experiencing a decrease in his day job as an architect he began to create and produce handmade cork products such as lamps, placemats, bottle protections and others. Its success among friends and family led to the thought of founding a company dedicated to the creation and production of cork products and other recycled materials. Allying cork (a very Portuguese raw material) with an innovative design and environmental sustainability the project began to gain form and in 2013 Minimal Cork was created.

At its inception Minimal Cork was just a way to turn a hobby into a legal activity – there was no need to develop a business plan, especially due to the fact that it is a self-financed project not requiring external credit. Being a one-man-company the decision-making process is simple and unstructured. The decisions are based on the perceptions of António Brito about each activity, partnership, sale and supply deal – it is an unstructured business. The creative process is defined as a marketing push strategy – the products placed in the market without any previous research and knowledge of the customers' preferences and receptivity. Creating these products is an intuitive process for António Brito and there is no concern for what the market needs since they are all innovative ideas – but who will by those products? There is the idea that if they are good and innovative products the rest of the process is easy: place them in the market and let the product sell itself. This process had results, in an early stage, however the early success of the company drove António Brito to continue its business in an unstructured way reaching a point where it is not possible, or sustainable, to evolve. This characteristic lead to one of the main problems Minimal Cork currently faces - the strategic drift, raised from the lack of a business plan.

 ISBN: 978-9963-711-37-6

Before the case analysis - and for the comprehension of Minimal Cork's main objectives, it is important to look at its mission, vision and objectives. The definition of goals, and means to reach them, is considered one of the first steps into the business plan creation – and these were the only aspects already defined by António Brito:

Mission: *"The production of minimalistic designer items that allows our customers to experience innovation and eco-friendly products through the use of one of the most traditional raw materials – cork".*

Vision: *"Making a difference through the potential use of cork in new sectors, becoming a reference in international markets for the innovation and sustainability associated with the products".*

Values: *"Environmental concern, focus on customers' needs, center on creativity, diversity and innovation are the principles that guide Minimal Cork in the pursuit of the desired results".*

The established concepts constitute a foundation for the business plan development allowing the definition of objectives and the identification of potential strategies to adopt but first, in order to succeed abroad the company needs consistency in its activities and internal organization.

Firstly, in order to create an internationalization marketing plan Minimal Cork needs to develop a business plan to serve as the basis for its internationalization objectives. Without a structured strategy in the domestic market it is difficult to operate overseas where the competition is much stronger and the rapid adaptation to new circumstances is a must. As previously established by Andersson (2000) the company's future will be highly influenced by the entrepreneurial traits of the decision-maker. In this case study the entrepreneurial traits of António Brito will be considered since he is the responsible both for the creation and production processes and for the organizational structure of the company.

The development of handmade products with designer author and unique raw materials made clear for the owner that these were premium products and its target market was a niche market. Even exhibiting the products in local markets there the need to place them in an appropriate market was evident considering the competition existent in the sector where few large players have the majority of the market share (e.g. IKEA, Zara Home). In order to expand the business the company decided to associate itself with Faculty of Economics – Oporto University accepting an intern to help the process. However, to be able to work on the internationalization of a company it is required to have a structured strategy to sustain the expansion process. This was a starting point for the company since it would allow the acquisition of management and strategic knowledge – representing the professionalization of the company, since until that point the company's members were from creative backgrounds with low strategic experience in terms of launching an innovative company. However, the acquisition of strategic

ISBN: 978-9963-711-37-6

management does not mean operational improvements if those same resources are not acquired. The formulation of a business plan was a priority and until then not knowing its important role in a business development the company was lost in unstructured decisions and adrift in the market. The products were created and produced without any defined destiny, no price policy, distribution channels or even a notion of the target. This uncertainty and lack of results led to the thought that the Portuguese market was not the right one for these products. Since they were so good but there were no sales in Portugal, it was logic to think that it was a market problem, so the solution was to go abroad and enter international markets. Not having the knowledge to make those changes, by the acceptance of external help provided by the university, Minimal Cork showed the willing to improve and that is one of the main motivational characteristics that can lead to a change in the company's performance and future development.

Minimal Cork faces the competition of well established companies that represent a large percentage of the market share, namely IKEA and Zara Home. These companies offer simple and cheap solutions competing in the market through cost penetration strategies. Considering the dimension of the main players it is required that micro-enterprises focus their businesses targeting niche markets. Due to its strategic drift Minimal Cork is not able to identify its target, having so far a broad range of customers. Through the use of virtual networks as Facebook and its website, the company managed to implement online marketing campaigns, however, not having a specific target the costs were high and the return non-existent. The creative enthusiasm of the founder and lack of management experience led the company to invest in the wrong strategies as a result of non-existent planning and eager for fast results – the result of the emotional relationship of the founder with the project. Being a company created without any external founds it is strategically independent which in this case constitutes a weakness for the company that does not have a balance between the emotional and the rational sides – crucial in the decision-making process.

DISCUSSION

As Hambrick and Mason's (1984) upper echelons theory suggests the company will behave as a representation of its top management members in this case as the founder member that having creativity as he's main characteristic does not help in the decision-making process, opting to follow the fastest way into the company's goals and does not consider its repercussions and sustainable development. In order to proceed with the business and evolve into international markets it is crucial to focus firstly in the internal organization of processes and resources to be able to support a sustainable business and enable the company to adapt itself when facing international competitors. Only through the definition of a business plan it is possible to keep focus and develop a business with Minimal

 ISBN: 978-9963-711-37-6

Cork's potential. The entrepreneurial traits should not be considered as a liability for the company development, it must become one of the company's competitive advantages, but in order to do that entrepreneurs must be willing to adapt and constantly learn from and with the market (Thompson, 1999). The formulation of a business plan should not be optional in the creation of a new business since the incubation phase of a new venture can be a success but from there many of the adversities the company will face will not be predicted and the existence of a business plan, as defended by Greenbank (2001) will give managers the right tools to proceed with the making of the best decision possible.

CONCLUSIONS

This case study represents many micro-enterprises that find their way in the domestic market without a planned strategy and realize its potential to grow but not knowing how to operate in the domestic market consider to expand their business abroad. However, there is a current misconception in small companies where it is believed that if the business it is not growing in the domestic market entering external markets is the solution – it is not. In order to be able to operate abroad a company must be able to face the domestic competition and know how to show its differentiation factors in the market. Being different and innovative does not mean that once in the market the concept will spread, it is required many strategic actions in order to be recognized by the customers and gain other companies respect and loyalty – both suppliers and resellers. Not having the direct influence of external entities – as credit institutions, Minimal Cork has total control over the decision-making process which can be an advantage if the top management team has experience in the business, and that is not the case. Independency in this company is faced as a disadvantage not pressuring the company to plan its actions ahead – allied with the management emotional connection, constitute the main factors responsible for the company's strategic drift. Dependent on the founder's decisions the company is more vulnerable to the market variations – accentuated in the international market, and although it has potential to grow in and outside frontiers it needs to balance the emotional and rational sides while making decisions that will affect the company's future, either in a short or long period of time.

The analysis of this case study enables the reader to understand the strategic issues that small companies face at an early stage and the influence its characteristics have it its development such as its origin, entrepreneurial background, motivations, aspirations and goals. The creation of businesses is a phenomenon that has been growing in the last years as a solution to the high unemployment rates in Portugal. However, it is important to somehow, obtain management knowledge to sustain that business since its creation is easy and encouraged by public entities – meaning more companies in the market and a higher need to differentiate and be able to face such competition.

 ISBN: 978-9963-711-37-6

Hopefully this case study will encourage further research involving the origin of small companies and its effect on the companies' development. It is important to understand the correlation between these two aspects and develop strategies to help small companies born from someone's passion and talent into businesses with high potential. It is important that more companies grow an emotional side in the decision-making process but the ability to maintain the rational side is not request, is mandatory for its success.

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 ISBN: 978-9963-711-37-6

THE INTERNETALISATION PHENOMENON AS AN ANSWER TO THE LIABILITIES OF THE UPPSALA MODEL AND THE NETWORK THEORY: MINIMAL CORK'S CASE STUDY

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ABSTRACT

This study will enable a close look into the development of micro-enterprises that use virtual technologies as a tool in the internationalization process. It consists of a single case study in which the company – Minimal Cork – will be analyzed and the concepts connected with the main internationalization models will be reviewed. It is analyzed the internationalization path enabled by the Internet will be analyzed considering the liability of foreignness and resource scarcity, the liability of newness, smallness, and outsidership. The main internationalization liabilities, knowledge acquisition and Internetalisation will also be connected. At the same time Internet enables companies to be known, allowing ignorant internationalization, it also incentives the development of organizational and social networks that now seem to be able to be replaced by virtual networks, allowing international information flow. Thus, it is possible to understand Internet as a tool in the internationalization process, impacting the overcoming knowledge acquisition liabilities.

Keywords: *Foreignness, Newness, Smallness, Outsidership, Knowledge, Internetalisation*

INTRODUCTION

The internationalization process that companies go through in their way towards becoming global entities has been studied by scholars and specialists all over the globe in order to identify the steps to follow, resources to use and barriers to overcome. In the same way that theories and models of internationalization were presented over the years, they also have been criticized, showing in which ways they fail to translate reality and issues associated with their application/studies. These concerns were identified sideways with the development of the main internationalization theories: Uppsala Model (Johanson and Vahlne, 1977) and Network Theory (Johanson and Mattsson, 1988). In one hand, there is the gradual internationalization process (Uppsala Model) that has as main liabilities the foreignness, newness, and smallness characteristics of a company and on the other hand the Network Theory, which deals with the liability of outsidership. These concepts will be subject of further

 ISBN: 978-9963-711-37-6

discussion allied with the Internetalisation phenomenon as an answer to the issues related with the referred liabilities. In their case study, Arenius, Sasi and Gabrielsson (2006, p.288), concluded that "Internet can simplify the internationalization path and the marketing organization structure necessary for conducting international business", helping companies to decrease the effects of the company's characteristics in an early stage, issues that are essentially related with the acquisition and retention of knowledge. The Internet as a tool is already part of companies' strategies especially in the companies defined by Rennie (1993) and Oviatt and McDougall (1944), named Born Global (BG) and International New Ventures (INV). Nowadays, knowledge is considered to have a large influence on overcoming internationalization liabilities, but does it have a crucial role in the internationalization process? Is it possible for a company to operate abroad without knowledge of foreign markets?

This paper uses the case study of the company Minimal Cork and describes in detail the path followed to become an international entity, focusing on the main tool used by the company – the Internet. Having the opportunity to study the company from the inside, there will be a detailed description of the process, as well as of the marketing strategies implemented.

LITERATURE REVIEW

Uppsala Model

In 1975, Johanson and Wiedersheim-Paul presented the internationalization theory, being responsible for the first steps given in this subject. The company's organizational behavior was studied and they concluded that companies were extremely cautious in their internationalization process in order to ensure the decision-making process was the most appropriate in each circumstance (Johanson & Weidersheim-Paul, 1975). In their theory they also refer the importance of beginning the process in markets that are psychologically close, which translates into markets where the information and communication systems are similar to the market that the company usually operates in (Johanson & Vahlne, 1977).

Johanson and Vahlne published, in 1977, their empirical work, which complemented the internationalization theory developed in 1975 by Johanson and Wiedersheim-Paul. This published work presented the since then called the Uppsala Model, where they explain the gradual process that the studied companies went through in order to become globally active companies, the integration and the use of market's knowledge and operations with external markets to the expansion of their activity across borders (Johanson & Vahlne, 1977). In the internationalization model, Johanson and Vahlne (1977) determined that one company in order to become an international company needed to follow a gradual path and that meant going through a learning experience (first-hand knowledge) that would

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actually guarantee its presence abroad, establishing that this would be the best way to overcome the liabilities inherent to the internationalization process.

Liabilities of foreignness, newness and smallness

The psychic distance between the domestic market and external markets is influenced by the knowledge detained by each company. This distance, the perception of how similar or different the conditions in the new host market are to those in existing markets (Sinkovics *et al.*, 2013), can be a barrier in the process of understanding the operational characteristics of the market and due to that restrain, the entrance in that specific market can represent a difficulty – this constraint has been defined in 1976 by Hymer as the *liability of foreignness*. This concept translates the constraints that companies have upon when attempting to enter a new market, since they are foreign companies and in order to overcome this liability they need to emphasize their exclusive competitive advantages. This is a long-term process that requires the reinforcement of the domestic position to then allow the company to acquire the necessary knowledge of the external markets and begin its international activity.

In addition to the *liability of foreignness*, in 1965, Stinchcombe stated that "newborn organizations generally suffer from the low average quality of performance because they initially lack experience" (Abatecola, Cafferata, & Poggesi, 2012, p.403) claiming that this concept can be applied universally despite time, place and type of organization (Bruderl & Schussler, 1990) this defining the *liability of newness* concept. In a similar way to what is described in the *liability of foreignness*, this liability deals with the fact that newborn companies struggle getting access to market's knowledge, whereas in the *liability of foreignness*, Hymer identifies the difficulties that established companies find when entering a new market, while the *liability of newness* considers the company's age as a restriction its knowledge acquisition.

In 1983, Freeman, Carrol and Hannan, defying Stinchcombe's construct stated, "*liability of newness* might be a *liability of smallness*." Questioning if the difficulties of new companies were in fact related to its age, Freeman *et al.* (1983) studied empirically the size aspect in the company's success establishing the *liability of smallness.* This liability contemplates the size of the company at the moment of its constitution in order to understand the risk peaks and length of its *newness* considering the amount of initial resources available, e.g. the number of employees (Bruderl & Schussler, 1990). The *liability of smallness* clarifies why bigger companies' business tend to last longer than smaller ones. It is due to their access to materials, financial and human resources that they have the chance to survive the harsh competition when facing international markets and have the necessary means to develop themselves and adapt to the market environment.

The liabilities associated with the Uppsala Model rely on the premise that each company has to follow a gradual internationalization path in which with the right resources and market knowledge they can

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successfully conquer international markets. Altogether, the *liability of foreignness*, *newness* and *smallness* deals with the difficulties to access, experience and process/retain, respectively, the necessary knowledge that would allow the company to be successful in the internationalization process.

Network Theory

Johanson and Mattsson (1988), challenging Johanson and Vahlne (1977) established that one of the main factors that influences the internationalization process is the company's network. The network is considered "a tool that provides a basis that allows the exploration of the interaction between the company's internationalization, the network internationalization and the knowledge internationalization" (Hadley & Wilson, 2003, p. 714). This approach, based on the existent networks brings to the discussion the importance of second-hand knowledge – the knowledge acquired through shared experiences inside the network, generating a flow of information and knowledge between the different members in the network (Silva *et al.*, 2012), i.e. it is the knowledge "derived through other firms' experiences or observing the actions of the other actors" (p.144).

Inside each network, the developed activities will allow each company to create and develop new business relationships, in terms of upstream and downstream relations in the company supply chain. In 1988, Johanson and Mattsson highlighted that the position obtained by the company in the network will define its success in the internationalization process, being this a process that depends on the behavior of each company that is present in the network (Johanson & Vahlne, 2009). In this theory the interdependency among entities is clear, since it gives the company access to the needed resources for its production and becomes the place to release the final products. Thus, this process makes the company dependent on the existent network with its success relying on the position of the company within the network (Johanson & Vahlne, 2009).

Considering the uprising importance of the networks in the internationalization process, when revisiting their theory, Johanson and Vahlne (2009) added the influence of relationships in the process of operating abroad to their model. "Johanson and Mattsson's (1988) model includes a dynamic element by focusing on network relationships. It uses social exchange theory to explain how firms develop networks organically" (Chetty & Holm, 2000, p.79). Upon reviewing the model they encompassed the importance of the network in the learning and internationalization processes, admitting that in some cases several of the previously identified steps in the internationalization process do not apply, depending on the company and management style (Silva *et al.*, 2012).

Liability of Outsidership

Studying the existent relationships in the networks, Johanson and Vahlne (2009), concluded that the disadvantages inherent to the internationalization process are mainly focused on the relations inside the network, in the variables related with the chosen market. As a result, they reviewed the Uppsala

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Model taking into consideration the important role of networks in the internationalization process and reformulated the concept associated with the inherent difficulties "From *Liability of Foreignness* to *Liability of Outsidership*", name of the paper where their Reviewed Uppsala Model was published.

The *liability of outsidership* consists of the idea that psychic distance is no longer the main determinant of success, not even the destiny market individualities, but the characteristics of the network the company and the position the company is confined to (Johanson & Vahlne, 2009). Therefore, the knowledge acquisition of the market relies on the position of the company within its network, becoming after all a difficulty in the access to knowledge resembling the *liability of foreignness* previously acknowledged.

International market's knowledge comes from different types of experience - direct or indirect - including aspects such as the entry modes and its specifications, and the main activity and strategic alliances. These changes happened due to the dynamic nature of the business world and the identification of new variables that emerged along the development of international organizational strategies not yet existent or relevant in 1977 (Johanson & Vahlne, 2009). Thus, with the use of second-hand knowledge, companies can internationalize shortly after their creation.

Born Global/International New Ventures

The company that begins its international operations in an early stage of its creation, even before establishing themselves in the domestic country was defined by Rennie (1993) and Oviatt and McDougall (1994) as Born Global (BG) and International New Ventures (INV), respectively. The international vision and global mission drive these companies when it comes to the planning of their production, operations, target markets and marketing strategies (Luostarinen & Gabrielsson, 2006). They are known for their quick entry in global markets and have a specific behavior in terms of their entry modes in international markets and level of influence of their network in the choosing of the target markets and through all the internationalization process (Coviello & Munro, 1997). Similarly to what the Network Theory suggests, in the study of Born Global companies it also is considered the network they belong to and the relationships between them (Coviello & Munro, 1997). These relationships are crucial to the companies since, as studied by Oviatt and McDougall (1994), while still in the incubation stage International New Ventures seek to develop their competitive advantages using the resources in external markets and placing their final products in international markets, the opposite of what the traditional internationalization process suggests, on which it is defended that a gradual process based on the knowledge acquired in the domestic market should be followed (Oviatt & McDougall, 2005).

The dynamic nature of the business world was highly affected by the technological advances related with the improvement of communication and information systems, being crucial in the process of knowledge sharing, contributing to the improvement of industrial processes, organizational

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management, increase of productivity, and others. The knowledge sharing stated in the Network Theory (Coviello & Munro, 1997; Chetty & Holm, 2000; Hadley & Wilson, 2003; Johanson & Vahlne, 2009) allied with the technologic advances and the motivation to explore international markets became tools that combine human, capital and financial resources, considered the most important elements to ponder in the internationalization process, which are now involved in a more competitive and dynamic environment – consequences of globalization, that is, "the practice of economic agents (business enterprises, banks, and finance companies) working in different countries and serving the world market without a prevailing national base" (Gaburro & O'Boyle, 2003, p.97).

Nowadays, the dynamic environment that characterizes the international markets seeks to attract companies' investment through economic, legal and tax inducements, constituting one of the main reasons for the creation of companies that shortly after being created attempt to find international markets to operate in. In terms of the speed of internationalization, Knight and Cavusgil (2004), mentioned that the level of knowledge required by each internationalization opportunity and the know-how and network characteristics obligatory to the entrepreneur are crucial aspects to the company's success abroad. For that reason, the influence of knowledge acquisition will be debated in order to allow the comprehension of its role in the internationalization process.

In the Uppsala Model it is explicit that the lack of knowledge is the main obstacle to the internationalization process, however it could be overcome through the company's learning experience (Forsgren & Hagström, 2007), placing emphasis in the role of experiential knowledge "the importance of experiential knowledge as a foundation for making steady progress towards internationalization" (Bennett, 1997, p.328). After acquiring the necessary knowledge about the targeted market the company will balance the risks of investing abroad. Conversely, the Network Theory, being focused on all knowledge existent in the network, pays special attention to the internationalization knowledge (Forsgren & Hagström, 2007). In both theories, in order to overcome the difficulties associated with the acquisition of either technological, market or internationalization knowledge, Bennett (1997) stated the following: "the internet has the potential to provide a virtual presence in the foreign market and also to provide information-processing capabilities so as to gain foreign market knowledge" (Sinkovics *et al.*, 2013, p.133).

Considering the existent literature about Born Global and International New Ventures, it is possible to find that besides the importance of the new communication and information technologies and the speed of internationalization, it also mentions the importance of global niche markets (Moen, 2002). International niche markets are defined by its segmentation process, target definition and the company's positioning, which translates into focusing on small and extremely specific market segments (Toften & Hammervoll, 2009). As an example of the adoption of this strategy, we can take into

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consideration Born Global companies that "aggressively pursue international success develop[ing] differentiated offerings and target[ing] them at niche markets overseas. This approach is appropriate for maximizing market shares and other performance goals in a competitive international marketplace typically dominated by larger, resource-endowed firms" (Knight & Cavusgil, 2004, p.131). Following this strategy allows for small companies to overcome the barriers associated with its size – *liability of smallness,* and one of the tools they use to do that is the Internet.

Internetalisation

Practitioners and academics have been studying the influence of the virtual world in the internationalization process namely, the influence of the Internet. Through the use of virtual worlds companies can have access to market knowledge and weigh the advantages and disadvantages associated with it (Hassouneh & Brengman, 2011). In the international business context, Glavas and Matthews (2012) verified that there is a relationship between international entrepreneurship and Internet capabilities. Due to the globalization, the development of new technologies allied with companies' motivation to become international entities, a new concept emerged – the *internetalisation*. Bell, Deans, Ibbotson, and Sinkovics (2001) defined that as "the deliberate use of ICT for internationalization purposes is termed *internetalisation*" (Pezderka & Sinkovics, 2011, p.409).

Internet must be considered as a way to enter foreign markets, the establishment and success in those markets depends on the strategies adopted by the company (Chrysostome & Rosson, 2009). Strategically speaking, the internetalisation process is seen as a reflex of the organizational changes that have been taking place in the business world, as a consequence of the evolution in the technological world (Buttriss & Wilkinson, 2014). Nevertheless, associated Internet's advantages there are also some disadvantages to be considered in the decision-making process and while choosing the tools to adopt.

Chrysostome and Rosson (2009) presented some of the advantages and disadvantages inherent to the Internet utilization as an internationalization tool. More than a tool, the Internet is an ally concerning information acquisition for the market choice and finding the appropriate partners. Though, when considering the information collected it is crucial to have in mind the related risks because even though it is a vast source of information not all of it is reliable, which means that it must be accompanied by other information sources. Is must be used as a starting point to establish international contacts and information about global sales, among other objective data, but not has a decision-making groundwork (Chrysostome and Rosson, 2009).

The main advantage identified by Chrysostome and Rosson (2009) is the boost that Internet has in the internationalization process. In addition to allowing a quick start of the process, it also reduces the internationalization costs, entry in different markets at the same time and building a network where

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foreign companies are included (Chrysostome & Rosson, 2009; Glavas & Matthews, 2012). On the other hand, the Internet usage does not allow the acquisition of first-hand knowledge of the targeted markets. The taken decision will be based on the information available that is extensive and doubtful, not being this enough to adapt the company to the local environment (Chrysostome and Rosson, 2009). In addition, this tool requires an extra use of resources (engineers, software developers and digital experts) and capital to invest in online campaigns. Linked to Internet usage is also the fierce competition which arises with the global presence and, consequently, the company has to assure the right resources to survive in that market (Chrysostome and Rosson, 2009).

Aiming to focus on the advantages of the Internet usage and mitigate the disadvantages, Buttriss and Wilkinson (2014) highlighted that the company must guarantee a stable and trustful network, enhancing the adoption of sustainable and suitable strategies to complex and dynamic environments, like the international markets and virtual networks. To illustrate their vision upon the Internet role in the internationalization process, Buttriss and Wilkinson (2014) developed the Internetalisation Process Model. In the developed model they considered internal factors (firm and management characteristics) and external factors (connected relationships and network environment). From this analysis emerged the Internetalisation Process Model in which they identify two strands of using the internet throughout the process, the *inward* path, i.e. the use of internet in the resource acquisition (*eProcurement*); and the *outward* path, specifically in the manner that internet is used as a placement instrument – *e-commerce* (Buttriss & Wilkinson, 2014). Through this model, the role of the Internet in the internationalization process is more perceptible and therefore enables the understanding of the Internet as a tool for companies seeking to join international markets.

METHODOLOGY

The literature review of this paper establishes the necessary ground to explore the company Minimal Cork as a single case study. Yin (1991) established that the single-case study must be followed when the "investigator has access to a situation previously inaccessible to scientific observation. The case study is therefore worth conducting because the descriptive information alone will be revelatory" (Yin, 1991, p. 48).

The necessary information for the case study was obtained through interviews and informal discussions among creative and management members of the company. The strength of this case is the internal access to vital information and the differentiating factors that surround the company, i.e. the environment it belongs and how the company uses or not that factor as leverage in international markets.

 ISBN: 978-9963-711-37-6

CASE STUDY: MINIMAL CORK

António Brito, a Portuguese architect with a special taste for design and innovation, founded Minimal Cork during the spring of 2013. As a hobby, he started to create his own products using cork and recycled materials as main resources and using his architectural background as inspiration. His products became well-known among family and friends and with that arose the idea of creating a company dedicated to a very Portuguese raw material – cork, applied to a well establish sector – home decor. Being included in the home décor sector, Minimal Cork differentiates itself by the resources employed and its production system. All the products, in addition to being designed and created by António Brito, are also handmade by him.

Along with the creation of the company, its vision and mission were also well established, having in mind the production costs and the concept itself, these were products meant to be positioned as premium art pieces.

Mission: *The production of minimalistic designer items that allows our customers to experience innovation and eco-friendly products through the use of one of the most traditional raw materials – cork.*

Vision: *Making a difference through the potential use of cork in new sectors, becoming a reference in international markets for the innovation and sustainability associated with the products.*

Values: *Environmental concern, focus on customers' needs, center on creativity, diversity and innovation are the principles that guide Minimal Cork in the pursuit of the desired results.*

Minimal Cork started as a family business and was founded without the involvement of credit entities. Being able to found itself in terms of capital and equipment guarantees the financial independence of the company, which translates into full control over the strategic and financial decision-making process. As an autonomous project it turns out to be a very personal business and the involved strategies are affected by that factor.

The autonomy existent in Minimal Cork allows the exploration of different business areas, as well as product segmentation and it also, strategically, does not restrict its activities in any aspect. However, Minimal Cork is a very small company with no experience at all in the sector or in the international business world, which means that all of this independence could constitute a weakness as well. In terms of organizational structure and marketing strategies there is a lack of consistency. Being originated by a hobby, the company does not have a business plan and the marketing actions consist on simple tools, essentially the internet, to advertise the brand to its maximum. In terms of implementing a marketing concept, the company implements a product push strategy. This strategy consists in placing

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the products in the market without any previous study to analyze the acceptance of the product or if there is any kind of need to fulfill, it is only based on the creativity of an individual.

Minimal Cork's success relies on its differentiation aspect. The unique combinations of raw materials and innovative design concepts builds a brand that has a focus on people that have a special taste for designer products, eco-friendly materials and seek for a distinctive product that always has a story to tell. In an international environment these aspects constitute Minimal Cork's differential characteristics that target specific customers, these customers belong to a group named global niche markets.

The use of virtual networks to propagate its products turns Minimal Cork in a good case study considering the success obtained in a short period of time and using the Internet to sell abroad (mainly in London and small sales in Europe) and local network to establish itself in Porto (Portugal).

CASE DISCUSSION AND FINDINGS

The internationalization process has been studied for many years, as well as the liabilities associated with each internationalization model or theory. However, as time passes by it is essential for companies the adaptation of these theories to current reality enabling them to adjust their behavior and strategies in the process of operating overseas. Nowadays, the development of new and better communication and information technologies allows companies to connect to geographically and psychic distant markets, overcoming the liability of foreignness established by the Uppsala Model, and also the liabilities emerged by the Network Theory. Newness, smallness and outsidership are liabilities that can be disabled by the use of new technologies, especially the Internet.

Minimal Cork, being a new company, faced some difficulties during its incubation stage, in which remains. The internationalization of the company occurred in a natural way, as a reaction of its presence in virtual networks. Not being planned this way it enabled to overcome the internationalization liabilities. While focusing on their virtual presence the liability of foreignness and outsidership were not issues anymore. Once exposed to the world and differentiating themselves it is a process that does not require belonging to a network or knowing how foreign markets work. In terms of the liabilities of newness and smallness, they also did not disturb the process since Internet does not require many and extensive resources, being a simple tool to use allows the beginning of the process and the company entrance in the virtual world and, therefore its presence in international markets.

In the presented case study there is the example that more than a means to acquire knowledge, Internet can be a tool to spread a brand around the world. Instead of a proactive marketing strategy, it became a reactive strategy, i.e. just for showing itself to the world it enabled the company to get known by other companies and make them pursuit Minimal Cork for possible business partnerships (supply and placement companies). The use of the Internet by Minimal Cork can be described as an ignorant

 ISBN: 978-9963-711-37-6

adoption of a powerful tool of internationalization. Although, as previously established, there are advantages and disadvantages to be considered when thinking about following a strategy that involves such tool. Sinkovics *et al.*, (2013, p.148) established that "IT [Information Technology] resources should be complemented with both IT capabilities and non-IT resources and capabilities", i.e. by itself the Internet is not a tool that can allow the company's internationalization. It is a tool that facilitates the access to foreign markets, to gain knowledge about them and connect with foreign companies.

In the business environment, knowledge is seen as the information acquired by the company in order to succeed abroad. Nevertheless, it this possible to understand that knowledge in a virtual context is a two-sided concept. On one hand there is the acquisition of foreign markets' knowledge and on the other hand we have the company's exposure in international markets getting known around the world. Chrysostome and Rosson (2009) defended that the use of internet cannot replace the physical presence, it is expensive and implies the possession of many resources in order to survive international competition. Despite what Chrysostome and Rosson (2009) established, in this paper and through Minimal Cork's case study, it is possible to verify that internet supplies diverse tools that allow small companies to publicize themselves abroad. The easiness of creating a webpage, a Facebook account, Twitter and other virtual networks, provides companies with starting tools for their internationalization adventure.

CONCLUSION

This paper was dedicated the study, in practice, the influence that Internet has in the internationalization process, considering the liabilities presented by the two main internationalization models/theories – Uppsala Model and Network Theory. It also highlights that the limited knowledge of foreign markets could be a burden but not a crucial aspect in the process. The ability to publicize a brand or company in the virtual world can open the internationalization door and lead to new opportunities.

The internationalization process has been studied for a long time and over the years the role of knowledge has been one of the main subjects analyzed. This is an important factor considering its evolution since Uppsala Model and Network Theory until new until new theories and classification as Born Global/International New Ventures and Internetalisation. As previously seen, each theory is focused in a certain way of knowledge acquisition and consider differently that same knowledge. The Uppsala Model finds knowledge acquisition crucial for the internationalization process and considers that without a gradual process in which the company can have access to the required knowledge, it won't be able to enter foreign markets and establish its activity abroad. The use of Internet as a tool came to contradict the Uppsala model since it establishes it is possible to enter foreign markets

 ISBN: 978-9963-711-37-6

acquiring of knowledge in virtual networks, enabling a quicker process and denying the gradual internationalization process. On the other hand there is the Network Theory, where attention shift to organizational and social networks in the study of a company's course to foreign markets.

After all, it possible to establish that internationalization does not need to have a certain path, pace or environment, the crucial factor it to be known in the targeted markets, known by suppliers, possible partners and customers. Through the case study it is possible to recognize that the role knowledge in the internationalization process is important, but there are other aspects, as the used tools, to be considered because they will also determine the company success, allowing companies to internationalize without any or basic knowledge of foreign markets.

The author recommends further empirical research and a multi case study analysis in order to have a better understanding about the interdependency of internationalization liabilities, knowledge acquisition and internetalisation as a tool to overcome those same liabilities and gain foreign market knowledge. And as shown, Internet is one of those tools that must be studied and considered during the process due to the role it has nowadays in companies and customers' lives. The analysis of these concepts in a current business environment could bring academics and practitioners into an all-new era where virtual networks are the central piece in the internationalization process.

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 ISBN: 978-9963-711-37-6

GLOBAL CORPORATE GOVERNANCE: THE MAELSTROM OF INCREASED COMPLEXITY - IS IT POSSIBLE TO LEARN TO RIDE THE DRAGON?

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ABSTRACT

In the light of recent corporate scandals company failure is usually explained based on agency theory, leading to the conclusion that corporate boards and regulators must use agency theory to control management better.

The authors use institutional theory to problematize this advice. We identify the role of accounting as to give predictability, hence preventing company failure. But this predictability can be questioned; it implies stability. Albeit partly with circumstantial evidence, we question this stability with factors making the conditions for management decision-making volatile, as explained by antecedents, and leading to unmanageable entities. The implications of this volatility have consequences for corporate governance, and question the going-concern assumption, the basis of accounting.

Hence, from the dominant explanations that corrupt management, or management with different interests than the principal, leads to company failure, we evolve another chain of cause and effect: volatility, with company failure as a result. It is argued that traditional accounting rituals are unsuitable for many companies. The paper indicates a need for de-institutionalization and reconsidering of accounting practices, and particularly the fundamental assumption of going concern.

Keywords: *complexity, corporate governance, going-concern, management control, innovation, volatility.*

THE PROBLEM – COMPANY FAILURE

With a background in scandals, such as Enron, WorldComm, Vivendi, Adelphia, Tyco, Global Crossing, this article reflects on how and why uncertainty and complexity in the management of firms may create problems of management control that spills over on the potential of corporate governance. Twelve of the 20 largest bankruptcy filings in the U.S. history took place in 2001 and 2002. All 12

 ISBN: 978-9963-711-37-6

companies received an unqualified opinion on their most recent financial statements filed prior to the bankruptcy filing. (Carnegi & Connell, 2014; Uang *et al.*, 2006; Venuti, 2004). In response to the frustration with corrupt, or seemingly corrupt management, management cultures, or failing information systems, Palmer (2013:5) suggests that "...new emerging theory and research on organizational wrongdoing present a fundamentally different perspective. It views ***wrongdoing as a normal phenomenon***..." [our emphasis] Another explanation is that management fail to see the information necessary because of taboos: "Fear can blind us: it is often impossible for an organization to acknowledge the biggest risks it faces, including extinction..." (Schoemaker & Tetlock, 2012:7). Hence, we need to find methods to lift the fog of the taboos. A third approach recognizes that "Estimating a volatile future value is a fundamentally different task than making a forecast in stable market conditions." (Haran & Moore (2014:6-7), but proposes that this can be resolved by a method that gives better accuracy and greater flexibility for the decision maker. These largely "internal" perspectives on the causes of company failure identify the principal antecedences of company failure in structural issues within the company, rather than in managers themselves, which is often the popular explanation. The latter explanation has caused voices to be raised for further control of management. This paper discusses limits of current management control systems. Focus is on the boundaries of information limiting the control of management and the possibility of improving corporate governance. Critique against failures due to fraud are typically theoretically inspired by agency theory, in terms of opportunistic behaviour and strong incentives for moral hazard, while cultural aspects, such as institutional mechanisms are less common. Agency theory is based on pessimistic assumptions of management behaviour and actions (Ghoshal, 2005; Hirschman, 1970).

In this paper we question the thoughts that are hegemonic in the fields of accounting. One such institutionalized assumption connected to the most central change that may take place in an organization that ceases to exist, i.e. the going concern assumption is reflected on. The management control perspective of agency theory may contribute some knowledge for management control, with implications on corporate governance, but it is not sufficient. Management's decision processes are exposed to problems of adverse selection; such problems are here reflected on from the perspective of institutional theory. We argue that the problem of adverse selection, due to high information asymmetries, may be a central part of the explanations of corporate failure. We base this on arguments of institutionalized structures and information boundary spanning, causing problems for management control, and hence corporate governance. By adopting an institutional perspective, we challenge the rituals used in accounting, and the roles such rituals have in the institutionalization of behaviour for maintaining social cohesiveness. We argue that companies are sustained by the rules governing them, and by institutional mechanisms supporting conservative behaviour, rather than by

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real needs of management, whom they purport to serve in the management control. This paper draws on the discussion of accounting relevance of the current accounting assumptions for use in management control that results in consequences for corporate governance and ethical considerations.

METHODOLOGY

We problematize the explanations provided by the dominating theoretical paradigm, agency theory, with the help of institutional theory. Pertinent tendencies, shown by incidental evidence, question the very foundations for the possibility to manage present corporate entities. This is argued to have fundamental consequences for the going-concern assumption; the foundation for accounting.

LITERATURE REVIEW

The Going Concern Principle, as Part of the Accounting Rituals

The going-concern concept, considered as the accountant's firm model, is a central part of accounting rituals. Accounting started as the control of short-term (4 - 6 years) projects, such as ship-borne trading voyages to the Far East. The principle of the "going concern" was introduced in the Middle Ages, when trading trips became recurrent. Liquidation of assets after each voyage seemed costly and ineffective in cases where the same investors were involved. The principle of the going concern enabled continuity in business transactions (Sapori, 1970). For the company to survive in a long-term perspective, this principle implies that the company's operational payments need to be lower than cash generated (Coyle, 2000:125). The assumption of the going concern is fundamental to accrual accounting and has a direct connection to historical cost valuation (Venuti, 2004). This assumption justifies revenue recognition and matching principles, the allocation of costs over periods benefited, historical cost accounting, and the classification within the balance sheet (Fremgen, 1968:649). Yet what if this assumption no longer holds?

The basic concept of the going concern and its attached accounting rituals has been relatively unchallenged in accounting. The axiom is a cornerstone in accounting, where the myth of the going concern realms of the past and the present holds for estimating the future, and where also the present becomes contiguous with the future (Cooper *et al.*, 2001, Koh & Low, 2004; Sterling, 1968). However, there are shortcomings with the concept of the going concern, which need further elaboration. Such shortcomings are connected to environmental circumstances, behavioural implications by management, as well as auditors, due to their ability and willingness to disclose going concern opinions, and finally conceptual un-clarity in the definition of the going concern.

One weakness of the going concern concept derives from contemporary changes from stable business environments, with long product and business life cycles, to rapidly changing cycles in

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dynamic business environments. The going concern principle is as such considered as a functional model of businesses in stable environments, and has been central in the development of the industrial production. Edwards & Bell (1979:15) wrote: "*…lacking evidence to the contrary the business entity has an indefinite life; continuance rather than imminent liquidation is the reasonable expectation.*" (italics in the original). The business environment has changed, however, and over the last few decades new market conditions and technological advances have come to characterize the dynamic environment. Product life cycles are no longer be measured in 50 or 100 years, often not more than 3 to 5 years and some not more than a couple of months (as with mobile phones). Even underlying business models, technological platforms, etc. have shorter and shorter economic life-spans. (Schumpeter, 1947)

Weaknesses in going concern statements are connected to behavioural implications, due to company management. Venuti (2004) considers weaknesses in management disclosure and auditors an issue of going concern opinions. The future is genuinely unpredictable for management, when assessing the company's potential of future survival, due to changes in the environment. Decisions made are typically based on a limited number of variables that give logic and structure to our judgments and that simplify continuous recalculations of our guesses. (Kahneman & Tverskys, 1984; Simon, 1955) Disclosure of information on firm failure, where the going concern assumption is questioned, may become self-fulfilling and receive severe behavioural implications, causing actual company failure (Frost, 1997; Venuti, 2004). Managers appear to be particularly reluctant in voluntarily disclosing going concern information in financially distressed situations, causing biases in disclosed information that influence the quality of company information (Mutchler, 1985; Uang *et al.*, 2006). In line with this reasoning, managers have incentives to disclose trustworthy information to sustain company reputation (Healy & Palepu, 2001, Skinner, 1994; 1997), but also incentives not fully to disclose all information, due to reputational concerns (Balachandran & Nagarajan, 1987; Kothari *et al.*, 2005), and to preserve competitive advantages (Johansson & Malmström, 2013). Nevertheless, dysfunctional management disclosure behaviour has been suggested to be managed by robust corporate governance mechanisms, where the mechanisms aim to improve the quality of the going concern disclosure. Such considerations touch upon management's ***willingness*** to disclose information on the going concern, while management's ***ability*** to disclose such information is another side of the coin that has not been thoroughly addressed. The lack of mandatory management disclosure of the company's ability to carry on as a going-concern has been criticized (Venuti, 2004).

Weaknesses in going concern statements are connected to behavioural implications, due to auditors. Auditors' work with assessment and disclosure of going concern opinions is central in auditing, and as such among the trickiest parts of the auditors' work (Arnold *et al.*, 2001; Louwers *et al.*, 1999). The quality of auditors' going concern opinions and their ability and willingness to disclose

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such opinions, has been questioned; both for their disclosure of opinions for companies that do not fail, and for not disclosing opinions on failing companies (Citron & Taffler, 1992; Geiger & Raghunandan, 2002; Tagesson & Öhman, 2015) Management reluctance to disclose reliable information causes information asymmetries that spill over on auditors' ability to disclose reliable going concern opinions (Uang et al., 2006). Auditors' opinions are ambiguous and appear to differ in clarity and distinctness. Auditors disclose subtle signals on the going concern that may not be anticipated by all stakeholders, where ambiguous or implicit statements are used by auditors, as strategies to deal with the sensitive situation of causing liquidation through the disclosure as such (Arnedo *et al.*, 2008; Carcello & Neil, 2003; Tagesson & Öhman, 2015). Going concern expectations appear to be disclosed to late, both by company management and by auditors. Finally, weaknesses in going concern statements are connected to the conceptualization of the going concern concept. Un-clarity in its definition causes different interpretations and misunderstandings of the concept as such (Venuti, 2004). Words such as "significant" and "substantial", used in definitions, are ambiguous and may cause different interpretations. There are a number of key performance indicators that may be used for assessing potential going concern problems for companies and their business models; both company specific and industry specific indicators. Historical short-term and long-term information on financial and non-financial aspects are used for capturing historical trends, such as revenues, capital sources, and access to cash and funding. Information on the industry, competitors and the economy and how such factors impact the company's future potential are also included in the assessment. Such information may be difficult to access, but also to analyse and draw conclusions on.

Management Control and Accounting as Myths of Predictability

A cornerstone of accounting is to reduce uncertainty, through a casual understanding of action outcomes in an uncertain business environment, when prognosticating an uncertain future (Cooper *et al*., 2001). Management accounting is aimed at assisting management in the control of the business and in decision-making, i.e. aimed to be a part of the management control system (Cooper *et al*., 2001). The business becomes visible for management through the construction of selectively produced images, enabling measurement (Hines, 1988). The management control system and the underlying basis of accounting, encapsulate myths of predictability that enable the creation of images of the organization, the decision-making within the organization, and the future of that organization. (Cooper *et al*., 2001:143) In line with this reality, accounting practices serve cultural purposes of justification, based on mythical rituals, where organizations and members become unified, reaching a common focus of the future (Latour, 1987).

The rationality of accounting predictability may be challenged (Cooper *et al*., 2001), and we argue

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that this is in particular true in an era of turbulent change, where such profound limitations may cause severe risks of bankruptcy. Accounting involves dominant conceptions of reality that are shaped and reinforced by institutional mechanisms of management control, aimed to create shared logics and understanding of what are appropriate organizational structures and practices (Meyer & Rowan, 1977). An appropriate way of working and acting is established (Boxenbaum & Jonsson, 2008; DiMaggio & Powell, 1991; Greenwood & Hinings, 1996:1027; Meyer & Rowan, 1977; O'Neill *et al.*, 2015). Institutionalized thoughts and actions are rooted in rituals and routines, where the accounting rituals are used in decision-making – for instance in the assessment of measures as performance and for legitimation of decisions in front of stakeholders. (Cooper *et al*., 2001:143).

PERTINENT TENDENCIES

Complexity – Unmanageable and Unstable Entities

Capitalism has become more volatile as the compound result of several multi-collinear tendencies: Shorter Product Life Cycles, Wintelism, Changed Product Cost Structures, and Monopoly Rent. Some of these have only lately become manifest, and we can only give circumstantial evidence, as the validation of each of these comprise a research agenda in themselves.

Shorter Product Life Cycles

An element in the increasing complexity that faces management is found in the rapidly shortening life cycles of products. At the end of the 19th century the life cycles of products (services or experiences) were 50 - 100 years. Innovation was not a big issue. *Product life cycles have become much shorter. After the WWII, 20 years, and today only 3 years for many products.* Chesbrough (2007:24) states: *"In the computer industry during the early 1980s, for example, hard disk drives would typically ship for four to six years, after which a new and better product became available. By the late 1980s, the expected shipping life had fallen to two to three years. By the 1990s, it was just six to nine months*." – However, in mature industries that have not yet suffered from substitution competition, the life cycles are still long. To ***replace lost business*** to retain the same size of the company, the 1900 firm had to launch products that could replace 2% of its business each year. At the end of WWII, with an average life cycle was 20 years, products that could replace 5% of revenues had to be launched each year. 1985 the average life cycle was 7-8 years. Hence, 12,5% new products had to be successfully launched each year. Today, with an average life cycle of 3 years, one third of the business is ***up for auction every year***. With a failure rate of innovations of at least 100%, (Evanschinsky *et al.*, 2012; Van der Panne *et al.*, 2003), and a needed 10% yearly growth, it is clear that managers of highly successful companies do not necessarily know if the firm will exist at the end of the year! *Since innovation is risky, the firm might need a product development portfolio that is as large as the current turnover, or even more!* (Van der Panne *et al.*, 2003).

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Wintelism

To be able to develop new products in a short time, the shorter life cycles have made a new outsourcing model necessary."Wintelism" was introduced as a concept to describe a new phenomenon that emerged after an antitrust decision against IBM in 1980. IBM was forced to outsource its component manufacturing, in the hope of the authorities to create competition. Instead of the traditional outsourcing model, IBM chose only to specify the input and output of components, leaving the supplier to decide the necessary transformation. (Borrus & Zysman, 1997; Hart & Sangbae, 2002; Tan, 2002)

Less design work, faster design. As a consequence the buying firm does not need to "design" (innovate, product develop, construct) every detail of a product, only the "product architecture" at a "high" level of the product structure. This approach makes it is possible to ***develop in shorter time***, which is very important with shorter and shorter life cycles.

Increased competition among suppliers. Since the firm only has to specify the function of the component (input - output), it is possible to ***transfer*** the necessary ***information*** simply and inexpensively, e.g. by a web page, to many more suppliers, increasing the competition among suppliers. Often thousands of suppliers, rather than as before some ten, can be invited. It also becomes less expensive to ***evaluate*** the offerings of the suppliers. And the firm does not need to transfer detailed (and proprietary) knowledge to the supplier that has gained the bid – the supplier knows best how the component shall be produced.

The Unleashing of Creativity. The prospective suppliers can use their creativity to invent radically ***new solutions*** that either give a much lower price, or higher performance, or new features – cf. Moore's law and the development of the computer industry since 1980 (Mollick, 2006).

The consequences of Wintelism are that it has opened up globalization (see below) of component production, radically increased productivity, and permitted firms to cope with the shortening time-frame left for the development of new products and services.

Changing Product Cost Structures

The cost structure has changed as a consequence of the above- mentioned tendencies. Generally, during the short life span of products, it is hard to change production to make it more effective. Decisions need to a large extent be taken ***before*** the launch of the product. While a hundred years ago some 90% of costs were variable costs of production (direct labour, direct material, and various overhead costs in the manufacturing process), these are now typically 1-15% (2% for a music CD, 7% for a branded T-shirt; 10-15% for a mobile phone, or a personal computer). To maximize revenues in a shortened life span of products, firms are also forced to address target groups on a global scale. The effects of which are that the cost of marketing, as a share of the product's cost structure, has been

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increasing. The large cost elements are now ***fixed*** production costs and ***fixed*** marketing costs: the costs for developing the product architecture of the computer; it's operative system, some "basic" applications; the organization, and the evaluation of the value chain, are now together the lions share of the production costs. *These costs are incurred before any revenues are assured*. (Kurawarwala & Matsuo, 1996). Hence, a failure in the launch of a product has more profound effects, as the firm has to pay these costs upfront. Chesbrough (2007:23) states that an important factor spurring the process of open innovation is "*...**the rising cost of technology development...***" in many industries. [our emphasis]. He also gives examples from Intel and Proctor & Gamble, where these costs have increased 5 to 100 times over the last 20 years.

Monopoly Rent

Innovation makes it possible to reach Abnormal Earnings, AE, during the time that the innovation has not been imitated by competitors. Monopoly rent was used by Malthus (1798/1970), Ricardo (1817/1971), and Marx (1894/1981) to explain land rent. Marx (1894/1981) explained AE as the result of the re-distribution of profit in relation to the organic composition of capital. Schumpeter (1942; 1947) applied monopoly rent to innovation, to explain how a temporary monopoly gives the innovating firm a competitive advantage. "Schumpeter argued that those who succeed at innovating are rewarded by having temporary monopoly control over what they have created. This control, in turn, is the lever that allows innovators to gain an enhanced position in the market and related temporary profits of "economic rents" from their innovations." (von Hippel, 1988:43, 58). In the accounting literature AE is normally measured by the neo-classic Ohlson model (AbuGhazaleh *et al.*, 2012; Bernard, 1995; Feltham & Ohlson, 1995; Lo & Lys, 2000; Lundholm, 1995; Ohlson, 1995), which calculates the value of the firm as the net present value of future abnormal earnings. The Ohlson model updated the Gordon model (Gordon & Shapiro, 1956) with the Miller & Modigliani model (Miller & Modigliani, 1961). "Abnormal earnings bear on the difference between market and book values, that is, they bear on a firm's goodwill." Ohlson (1995:662). However, the very fact that the model recognizes abnormal earnings is a fundamental conflict within neo-classical theory, as it abstracts from the fundamental assumption of perfect markets. The Ohlson model is one of the most cited and respected models in the accounting literature, but it has one major flaw: although the Ohlson model is an empirically well-validated prediction model, it fails to explain ***why*** these abnormal earnings can exist. Classical economics gives such a fundamental explanation. The result of these abnormal earnings is rapid, unforeseen changes. In mid-2007 Nokia retained 60% of the profits in the mobile phone vendor market. Then Apple introduced the iPhone. Four years later, Apple had 75% of the profits and Nokia zero! In 2013 Nokia ceased as an independent mobile phone manufacturer (Asymco, 2011). From being the leading and dominant player it was forced out of the market in 6

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years. "…it can always be understood *ex post*; but it can practically never be understood *ex ante*…", Schumpeter (1947:150).

Organization researchers have long recognized "***pockets*" *of uncertainty*** in organizations (Argyris, 1993; Argyris & Schön, 1978; Cohen, March & Olsen, 1972; March & Olsen, 1976; Pettigrew, 1990; Senge 1990; Weick, 1979; as summarized by Gabriel, 1998). We propose that ***uncertainty has become generalized*** and that we now only find ***pockets of certainty***. In the accounting literature, such chaotic-ness has only been recognized lately and only in texts that have had marginal impact on "mainstream" accounting (Cooper *et al.*, 2001; Gabriel, 1998), or risk management (Power, 2009). Abu Ghazaleh *et al.* (2012) show that the goodwill of the companies listed at the London Stock-Exchange surpasses that of their equity. This means that if one questions them as going concerns, they are forced to liquidate!

"Critical" historians of accounting theory, like Richard (2014) and Breyer (2014), although on a definitely different theoretical basis, agree that the going concern principle is the basis for modern accounting theory. Historical cost accounting, based on the going concern principle, is characterized as the capitalist accounting methodology par preference. (Breyer, 2014) Richard (2014:22), on the other hand, characterizes modern accounting as "reckless". While we agree with much of Breyer's criticism of Richard for not studying the real economic basis of changes in accounting theory, Breyer (2014:7) falls into the same trap, by identifying the problems as "…its pathology as a disease of social control, a growing problem of managerialism, that is, [the] increasingly unaccountable management.", making him a proponent of agency theory. In contrast we hold that the problem is that ***the modern corporation has become unmanageable***. The going concern principle is not the very capitalist form of accounting, but the rational accounting in a historical period of relative stability in capitalism.

THEORETICAL FINDINGS

In today's complex and uncertain, global corporate operations, there is an increased need for management control, but that increased control is problematic, since it presumes that the main reason for corporate failure is dishonest CEOs and other senior executives, not that the reason for failure is their lack of control of the company! If the executives themselves cannot effectively control the company, the increased control of them might lead to the implosion of the whole system. In global corporations, with unrelated or loosely related businesses, this uncertainty gets multiplied, not weighted off. There is a clear risk that the priorities in corporate investment are wrong or short-sighted, when the corporation takes on diverse and unrelated activities (Philipson, 1980; Bettis & Prahalad, 1995; Grant, 1988; Lindqvist, 1979; Pehrsson, 2006; Prahalad & Bettis, 1986). With shortening life cycles we are ***entering chaos theory, not*** business ***administration***.

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And here we come to the crux of the matter. *Corporate financial officers, relying on obsolete accounting practices, are unable to understand, in any kind of timely fashion, what is really going on at the dynamic fringes of their empires.* They are thus compelled by the antiquated system, which they by tradition must employ, to manipulate the numbers to produce the sensible quarterly reports, demanded by law. Thus the accustomed practice is manipulation, not simply to provide data, so that manipulation becomes simply customary – merely a manner of doing business. Consequently, the ethical lines between normative practice and real ethical violations become obscured, if not blotted out entirely, in the minds of the practitioners. This reality leads to the kinds of financial scandals we have seen, and will continue to see, in our top organizations.

DISCUSSION AND CONCLUSIONS

The authors use institutional theory to problematize the dominant explanation that corrupt management, or management with different interests than the principal, leads to company failure. We identify the role of accounting as to give predictability, hence preventing company failure. But this predictability can be questioned; it implies stability. Albeit partly with circumstantial evidence, we question this stability and propose another chain of cause and effect: volatility, as explained by the antecedents of (1) shorter product life cycles, (2) Wintelism, (3) changed product cost structures, and (4) monopoly rent, lead to unmanageable entities, with company failure as a result. This volatility has consequences for corporate governance, and questions the going-concern assumption, the basis of accounting. It is argued that traditional accounting rituals are unsuitable for many companies.

We can conclude that concept of the going concern, as well as the disclosure and assessment of the concept, need to be critically reflected on, in terms of weaknesses and potential improvements. Since company management and audit opinions appear to fail to indicate going concern problems clearly and early and warn stakeholders, such as investors, we believe that accounting practices have to change radically (Tagesson & Öhman, 2015). Previous studies show that the long-term effects of reflected acting based on rituals result in limits of acting and thinking in organizations (Gramsci, 1929-1935/1971; Hedberg & Jönsson, 1978; Levitt, 1960). Management and auditors have information filters that need to be reflected on to be prepared for critical changes before entering into crises. There is a need for de-institutionalization and reconsidering of accounting practices and thus particularly the assumption of the going concern. Management and auditor reporting standards need to be adjusted to the current situation and conceptualization needs to become more specific (Arnedo *et al*. 2008; Tagesson & Öhman, 2015) The predictive ability of accounting may be challenged for enabling further improvement of accounting adjusted to contemporary business needs in an age of global

 ISBN: 978-9963-711-37-6

organizational chaos, not of global stability. (Cooper *et al*., 2001).

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OPEN INNOVATION IN SMES. AN EXPLORATORY ANALYSIS IN THE WINE SECTOR

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ABSTRACT

The study aims to deepen knowledge on the Open Innovation (OI) approach, examining the specific context of Small & Medium Enterprises (SMEs) in the Wine sector. The focus is on how Wine SMEs organize themselves to sustain OI and to answer the matters that influence in opening/closing the approach to innovation. The work performs an explorative qualitative analysis using the case-study methodology and analyzes an Italian firm named Arianna Occhipinti. Although this firm presents an increasing interest in actions related to OI, the findings show that so far it has not put in place a real declared strategy. The study highlights several barriers that hinder the adoption of OI model: cultural and organizational differences among involved partners; lack of knowledge, resources and competencies. These barriers drive Wine SMEs to abandon or delay OI strategies. The findings suggest that open innovation is a field of increasing interest for both academics and practitioners and we cannot yet speak of a veritable declared strategy. It appears more like a set of fragmented initiatives and, moreover, at a beginning stage with several barriers that hinder a significant improvement.

Keywords: *Open Innovation, Wine, SME, Low-tech sectors, Case-study, Entrepreneurship.*

INTRODUCTION

The traditional view of management studies has strong ties with the closed innovation paradigm, where the organization's research and development (R&D) activities are considered strictly internal processes that should be guarded from external influence. Under this model, ideas should be produced in-house and the only way to market them is through the originating firm (Chesbrough, 2006). Conversely, the OI paradigm (Chesbrough, 2003) proposes opening up the firm's innovation processes, enhancing and supporting suitable collaborations with external actors to create, develop and commercialize innovations (Chesbrough, Vanhaverbeke and West 2006) in an increasingly interactive

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environment, in which organizations should collaborate extensively, maximizing the efficiency of external knowledge exploration and exploitation (Chesbrough, 2003; Dahlander and Gann, 2010; Huizingh, 2011). The OI approach is mainly based on more porous and permeable firm boundaries, which allows organizations to employ both internal and external pathways to generate innovative ideas and to acquire knowledge from heterogeneous external sources. The aim is making the most out of the opportunities coming from collaborations with different parties outside the organizational boundaries (Chesbrough, 2003).

The focus on openness in studies of innovation is a relatively new area of research and it has been mainly dedicated to the analysis of large multinational companies in order to examine the main characteristics, the organizational challenges and the related benefits (Lee et al. 2010; Spithoven et al. 2010; Parida et al. 2012). Even though the investigation of innovation in SMEs is more recent (Bianchi et al., 2010), there is evidence of a strong correlation between Open Innovation and these types of firms (e.g., Roper et al. 2002; Baldwin and Gellatly 2003; Mansury and Love 2008).

The analysis of SMEs' innovativeness is particularly interesting because of the increasing importance and the contribution of SMEs to the global economy in promoting growth and employment opportunities (Bianchi et al., 2010; Chesbrough, 2010; OECD, 2000; European Union, 2003). There has been a widespread recognition that SMEs can achieve important advantages by "opening" their innovation strategies and investing in external network development (Freel 2000; Rogers 2004; Romijn and Albaladejo 2002).

In spite of the attention that small business literature has devoted to the link between networking and innovation, the issue of how SMEs should organize in order to limit the negative effects generated by networking and increase its benefits is still poorly investigated (Colombo et al., 2012) so that the debate appears to be relatively fluid. Earlier works on SMEs indicate that by nature, innovation in such firms has an external focus and is often strongly embedded in social and personal ties (Baum et al., 2000; Ceci and Iubatti, 2012; Edwards et al., 2005). Furthermore, external knowledge sourcing requires internal capabilities for managing innovation in order to integrate inflows of knowledge with internal innovation activities, successfully apply knowledge from internal and external sources, and direct innovation actions (Lichtenthaler, 2011; Robertson et al., 2012).

Take the empirical studies on OI, most of them have a prevalent focus on high-tech industries such as equipment, computers, ICT or pharmaceuticals (e.g. Christensen et al., 2005; Dittrich and Duysters, 2007; Fetterhoff and Voelkel, 2006), while empirical investigations on OI in SMEs operating in the agri-food industry are scarce in literature (Dries et al., 2014). However, several researchers (i.e., Enzing et al.,

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2011; Archibugi et al., 1991) indicate that a more open system of innovation is necessary for sectors like this, which normally rely even more on external resources than other industries. Inside the agri-food industry, the wine industry can be considered an interesting case for this research field, because several highlights emerge that make it very different in comparison with other sectors (Nosi, 2009). These mutations, involving the demand and supply side, the structure of the sector and the role of the actors, are reflected in profound changes in the wine business environment as well as in wine business activities (Ndou et al., 2012).

The aim of this paper is to examine the organizational challenges to apply OI in Wine SMEs. More specifically, the focus is on how Wine SMEs organize themselves to implement and benefit from this approach. We developed our research questions: Which are the matters that influence Wine SME in opening/closing its approach to innovation? How does Wine SMEs use and develop organizational practices to sustain OI?

This research is explorative in nature. First, it deepens the concept of OI in the specific field of Wine SMEs. It follows the description of the results derived from a qualitative approach applied to a case study (the Italian winery Arianna Occhipinti). The last part is devoted to the discussion of the results and the conclusions with the theoretical and managerial implications.

THEORETICAL BACKGROUND

The Wine SMEs implementing open innovation

In recent years, the interest in the relationship between OI and the wine sector is receiving attention from several stakeholders. EU policy is particularly sustaining cooperation among SMEs, and creating a favorable climate for sharing knowledge and developing capabilities among the plethora of Wine SMEs and related sectors (Bareghehet et al., 2012; Martinez, 2014). The global scenario of the last years shows a profound change in the wine industry affecting the competitive dynamics (Giuliani, 2007), the supply-chain relationships (Vagnani and Volpe, 2009), the mode of relationship with the territory (Mattiacci, 2004; Iazzi and Fait, 2008) and the behavior of purchasing and consumption (Orth et al., 2005). These transformations are based on the demand and supply as well as on the structure of the industry and the role of the actors. From high-tech vineyards and winery management to sales and distribution, the entire industry has seen significant and positive changes that have led to higher efficiency and productivity in wine grape growing and wine production. As stated by Aylward (2003, p. 2) "one factor contributing to the seismic shift in the international production, export and consumption of wine is the innovative way in which a number of New World producers have embraced a range of R&D practices, including improved viticultural and oenological techniques and

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management, high level training, knowledge transmission and technology transfer". Aylward (2003, p. 2) adds that "(…) in some New World industries, wine and wine grape production is becoming embedded within an environment of innovation", referring to the idea that the increased competitiveness is also due to the increasingly interactive relationship among wine stakeholders (suppliers, producers, industry organizations, R&D institutions and government agencies at local, regional and national levels) that allows for broader patterns of interaction for different levels and types of innovation across different economic 'spaces', regions and countries (Marceau et al., 2002). Dressler (2013) conducted a keyword search in the wine specific literature database "*vitis vea*", searching for scientific articles on innovation in the wine industry. He found three main research areas distributed as follows: 45% about oenology, 30% viticultural innovations, and the remaining 25% are on management. The latter involves three focal areas of innovation (cluster and network about 40%; product and marketing innovation about 30%; innovative organization and leadership about 12%). Stressing the results related to managerial aspects of innovation in the wine industry – product and marketing focused articles – the author highlights how the literature is product centric in the sense that it is mostly "oriented toward practitioners providing ideas or advice on how to realize specific product oriented wine innovations" (Dressler, 2013, p. 21).

Nosi (2014) conducted a review on all the papers presented at the International Conference of the Academy of Wine Business Research from the beginning (2003) up to 2014, with the main aim of making a state-of-art of the literature about wine management. Several interesting highlights emerged with reference to innovation. From Gilinsky et al. (2008), she highlighted the different places where innovations may take place and are: the vineyard (sustainable agriculture, organic or biodynamic, new varietals); the cellar (chips, sensory analysis, fermentation software), package (screw cap, silicon cork, glass top, other than glass and different sized bottles), operation (inventory software, recycling), and marketing (website, newsletter, wine club, wine events). Reading Durrieu's (2008) paper, she has confirmed how important are cooperative and intense interaction between wineries and other actors sited in the territory for supporting the spread of innovation. In this sense, "the launch of new products and services arises often from the interaction between the wine business and other activities carried out locally, such as tourism and events, as well as from collaborations between private organizations and public institutions in the same region" (Nosi, 2014, p. 8). Reviewing the recent literature, Dries, Pascucci, Török and Tóth (2014) have conceptualized the concept of OI in Wine SMEs as "the proportion of innovations generated in co-operation/collaboration with universities, research organizations, regional customers and/or suppliers, other agri-food companies, venture capitalists and industry/cluster associations or business assistance centers (open innovation) as opposed to innovations entirely generated within the company (closed innovation)" (p. 152-153). At the same time,

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they also support the thesis that the issue of OI is "particularly controversial in the wine sector, where innovative marketing strategies have to be combined with sometimes 'exclusive' and 'secret' recipes, which make the quality of the products unique" (p. 3). The core business of small firms of sectors like this is most of the time related to production and marketing of traditional products usually connected with the local and family grounded recipes and procedures. Therefore, for many wine SMEs cooperation and OI create risks for appropriability of valuable resources for the companies even though cooperation and OI can be seen as an approach for overcoming organizational and financial limitations.

METHODOLOGY

This study has an exploratory nature, aiming at investigating the OI model in Wine SMEs. This field is relatively new and represents an under researched phenomenon. We actually know very little on how SMEs, operating in low-tech sectors, open up their organizational boundaries, how this approach contributes to foster innovation processes characterized by the integration of external knowledge sources. Few hands-on constructs or theories can help us to clarify and develop a conceptual framework in this area. As a result, qualitative research can be considered best suitable to tackle these aspects and provide an in-depth insight into OI in Wine SMEs. Specifically, we employ a case study approach, defined as "an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used" (Yin 1994, p. 13). Although case study method does not aim to generalize to populations (statistical generalization), such as other different methods (i.e., experiments), it aim to generalize to theories (analytical generalization; Yin, 2013). In line with grounded theory (Mills et al., 2006), a case study research and a literature review were used as a useful and necessary platform for theory development. Reflective reasoning (Miles and Huberman, 1994) has characterized the research process and has led to theory building. According to grounded theory, our explorative analysis started with a well-defined process moving from basic description stimulating conceptual ordering and then theory development.

Research context

In the last twenty years the international and national scenario of the wine industry has been characterized by the following various changes. First, European countries, which have traditionally dominated the world wine industry (i.e., France, Italy and Spain), have increasingly faced intense competitive pressure and a decrease in wine consumption, while other countries, defined as new players (i.e., United States, Australia, South Africa, Chile and Argentina) have experienced a significant growth both in production and consumption. Second, consumers' preferences are changing

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and evolving from traditional consumption forms to various experiential dimensions (Pine and Gilmore, 2000), and are more and more influenced by complex psychological and social factors. Finally, quality has become a central aspect for wine consumers and wine producers, more and more oriented to identifying and developing continuous quality improvements through product and process innovativeness. In fact, wine producers, mainly small businesses, have hardly the necessity to define or to modify their internal innovation process to successfully introduce and develop new products, characterized by high value added, to the market, becoming one of the most important strategies for food companies (Karantininis et al., 2010).

Looking at the specific Italian context, several highlights emerge. In 2014, the total production of wine has been around 40 million hectolitres, marking a - 17% compared to 2013. While domestic consumption continues to decline, overseas sales, despite the difficult period, grow. The data register a further increase in both value and volume, mainly due to the expansion of bottled wine (both Dop that PGI). This data confirm how the wine sector is crucial for the Italian economy, accounting for 30% of all its exports (www.inumeridelvino.it). As maintained by Chiodo (2010, p. 47), the Italian wine system is characterized by some traits that can represent both strengths and weaknesses:

- a high differentiation (mainly in terms of variety of product);
- a strong homogeneity in geographical level, both as regards the articulation of the production system and the performance of the various regions;
- a highly fragmented production structure so that there are businesses - and geographical areas - able to successfully compete in international markets and others that fail to adequately promote their product with appropriate marketing distributive strategies.

In this context, Sicily has over 160,000 (ha) and produces the highest quantity of wine in Italy, an average of about 8.5 million hectolitres per year, compared with 7 million hl of Veneto and 3.5 millions of Piedmont (the other most important Italian regions regarding wine) (www.inumeridelvino.it). It also claims wineries that are among the most modern in Europe and their wines receive the highest awards in different Italian and international competition. The autochthony varieties, such as Nero D'Avola, Frappato of Vittoria, Nerello Mascalese, Grillo, Zibibbo, are known all over the world and appreciated for their unmistakable characteristics. In addition, Sicilian wine producers show a continuous commitment towards the improvement of production quality to compete with the market challenges of the global market, investing in better quality vineyards (introducing new grape varieties, zonation, precision viticulture) and by introducing modern technologies in harvesting and better grape quality.

With this in mind, our single case study, involving a Wine SME that takes the name of his founder named Arianna Occhipinti, is drawn from a Sicilian context, where the wine business represents one

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of the industries in which Sicily has retained a worldwide well-established reputation (Caniglia et al., 2008) thanks to the following variables: variety of grape wine cultivars, pedological climatic peculiarities, implementation of new techniques (i.e, pruning, fermentation, checks of winemaking, bottling, etc.) and production processes revisited. This case study is well suited to our research because this firm is well known for its orientation to experiment new products or to modify phases/methods of production, having the persuasion that is necessary "to acquire ideas and specialized knowledge to improve 'the mental geo-locator' that every wine producer must necessarily possess (by Arianna Occhipinti).

Data collection

The data were gathered using multiple sources of information (Yin, 2013) . Firstly, we performed field research through different rounds of in-depth interviews with entrepreneurs to explore specific aspects related to open innovation construct, such as the reasons for opening up its organizational boundaries, the difficulties linked principally to definition and development of processes of open innovation and, finally, the challenges related to open innovation approach and its possible influence on firm performance (i.e., generation of new products, customer satisfaction, sales growth). We carried out interviews with entrepreneur because in this he is a key informant and respondent for the reason that he has detailed information about firm's decisions, operations and conditions (Deshpande and Farley, 2004). The interviews were conducted in March 2015, and each interview lasted approximately 2 hours, following the traditional methodological prescriptions on data collection through personal interviews (Lee, 1999). Secondly, we conducted desk research to identify and acquire data that already existed in documents, internal reports, dossiers, articles in order to obtain a good understanding of the firm's innovation orientation and commitment. For validating our qualitative analysis, we presented the results to the original informants in order to obtain their feedback and corrections (Elliott, 1999).

RESULTS AND DISCUSSION

The entrepreneurial experience of Arianna Occhipinti begins in 2004 after studying oenology at the University in Milan and having travelled extensively in order to understand the geography redefined significantly by wine, to acquire new ideas and specialized knowledge globally distributed and to improve "the mental geo-locator" that every wine producer must possess. Titled the Natural Woman by the New York Times magazine (13 February 2013), Arianna Occhipinti started the wine activity with just a hectare of abandoned vineyard in her homeland, strongly underlining that "it is not necessary to start from something that has to be huge" (http://www.rivistastudio.com/editoriali/politica-societa/arianna-occhipinti/).

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Her company owns nowadays 10 hectares of agricultural land that accommodate sapling vineyards and 15 hectares of olive trees in the rural area of Vittoria, a region on the South-Eastern side of Sicily characterized primarily by DOCG (controlled designation of guaranteed origin) for the great wine Cerasuolo di Vittoria. Although world wine is more competitive, vulnerable, and in perpetual transformation, Arianna Occhipinti has carried out different relevant investments, strongly believing that the labour of agricultural producer "is not a simple game (…). An agricultural firm must have a managerial size, but economically convenient that puts it in a condition to produce better wine" (http://www.ilfattoquotidiano.it/2012/08/17/arianna-occhipinti/327606/). As highlighted in tab. 1, the Arianna Occhipinti firm counts from 6 to 10 employees, operates in BtoB and BtoC markets and exports over 70% of production.

Main characteristics	
Year of foundation	**2004**
Area of production	**Vittoria – South-Eastern side of Sicily**
Vineyard area (ha)	**10**
Oil area (ha)	**15**
Number of Wines'bottles	**120.000/130.000**
Employes	**from 6 to 10**
Turnover (000€) – 2013	**>300 ≤ 500**
Principal Wine types	**Albanello and Moscato d'Alessandria** **Frappato and Nero D'Avola** Frappato of Vittoria Nero D'Avola Frappato of Vittoria and Nero D'Avola Nero D'Avola (late harvest)
Oils	Nocellara of Belice Tonda Iblea

Table 1 – *Main characteristics of Arianna Occhipinti case study.*

With her innate talent and aim to go against the trend of the other regional wine producers and to initiate relevant processes of innovation concerning the different phases of wine production, Arianna Occhipinti has decided to develop an organic agriculture. It is focused on the rediscovery and exploitation of traditional local methods of wine production and differs primarily from modern techniques used in the viticulture context and more influenced by the current processes of industrialization. For example, organic agriculture, carried out by this entrepreneur, shows some distinctive factors, such as the absence of fertilization, tillage activities at the beginning of the summer season, the prediction of two sulphur treatments, the revitalized phases of fermentation, long maceration, and, finally, the lack of proper filtration. Certainly, these experiments underline the relevant role, the singular competences and principally the ethic of Arianna Occhipinti that demonstrates a strong orientation to the continuous improvement in terms of products and process innovation, exceeding the stereotypical view of agriculture in the South that is still unable to define and activate significant pathways of evolution. In fact, her personal characteristics and her enthusiastic

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temperament are directly linked to the inimitable desire to experiment and/or improve new products, to focus essentially on customer needs and preferences, and to find new useful ways to promote and commercialize her innovative outputs. Despite the presence of a dynamic and innovative entrepreneurial profile and a certain degree of openness, the interview has highlighted the fact that innovation processes are mainly internal and the approach of Open Innovation has still not a pervasive penetration into the strategies of the SME here investigated.

Our analysis allows the underlining of several aspects concerning how this small enterprise considers the Open Innovation concept. Firstly, it is opportune to point out that the concept of OI has little place in this firm. It happens also if Arianna Occhipinti recognizes that the increasing changes of competitive arena necessarily require organizational adaptations and, in this perspective, the opening up of the firm's boundaries could be a suitable solution for accelerating the internal innovation processes, acquiring complementary resources, reducing costs of development and, consequently, benefiting from innovative efforts. A certain "contamination" with different external knowledge sources is limited to the scouting/acquisition of new input and new ideas, necessary to develop products that meet the customer's needs and/or to modify phases of production in order to improve the levels of quality and productivity.

Other firms (small or large) that operate in Sicily or, more often, other firms that operate outside the region are able to generate their own ideas and furthermore they have extended internal R&D capabilities and competencies, useful to discover and develop new products or new technologies. Experts of oenology can provide interesting information about the effects of variables (i.e., climate) on viticulture and wine. Consumers can understand their shifts of preferences away from basic commodity wine to top quality wine.

For Arianna Occhipinti, external "contamination" is more and more an obligatory way because exchange and comparison with other firms/experts enables the exploration, evolvement and advancement in its competencies and capabilities, and, sometimes, experiment ideas existing and not developed. In this direction, interesting are the collaborative innovation forms, activated recently with local wine enterprises and oriented towards the identification of useful industry standards, exploring new techniques, carrying out suitable opportunities of reciprocal learning. However, the results of these collaborations are still poor, principally, because of the differences - cognitive, organizational and cultural - among involved partners that still persist. This implies that potential barriers to open innovation processes "may arise due to insufficient knowledge, cultures or modes of organization, or bureaucratic elements" (van de Vrande et al., 2009, p. 427).

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In spite of these problems, the entrepreneur prefers the mentioned stakeholders rather than the formal/informal collaboration with universities or research bodies, highlighting the relevant problem of not-invented-here (NIH) syndrome (Katz and Allen, 1982). Also, the lack of internal commitment that perceives the increasing power of the OI team as a threat to their survival and fear of the risk of dangerous spillovers in the project's results (Mayer, 2006). Certainly, these aspects represent other challenging barriers (i.e., Chesbrough and Crowther, 2006; van de Vrande et al., 2009) that discourage the adoption of OI practices and, more specifically, the possibility to activate forms of collaborations with these organizations oriented towards acquiring new knowledge and developing innovative outcomes.

Concerning other barriers to implement OI practices, it is interesting to highlight the thought of this entrepreneur. She affirmed that the activities and projects related to the implementation of OI strategies are often abandoned because, in general, small firms have to face several problems linked mainly to lack of knowledge (i.e., technological), resources (i.e., costs of innovation, time needed, human capital), competencies (i.e., specialized knowledge, expertise, not enough labour flexibility), motivation and commitment (i.e., strong resistance of employees to change), substantial investments (i.e., difficulties to obtain financial resources) and services (i.e., support to systematically explore internal and external creativity). In addition, the open innovation projects require an efficient coordination activity of internal resources and external network partners to foster and support innovation processes, to gain access to their knowledge and to achieve their synergies and energies, to address or take advantage of different market opportunities. Unfortunately, this coordination activity is poorly developed in the SMEs that often show little experience in terms of management of a large resource pool to define and implement complex innovation processes.

CONCLUSIONS AND IMPLICATIONS

Studies focused on OI in SMEs operating in low-tech sectors are a relatively young and emerging research field. This is particularly true in the wine sector.

This work offers a contribution to deepen the knowledge in this field and represents a first step in understanding the factors that urge Wine SMEs to move towards an OI approach and a new scientific contribution based on the analysis of the Italian context.

The findings suggest that OI is enjoying an increasing interest although the case has shown that we cannot yet speak of a veritable declared strategy. It appears more like a set of fragmented initiatives and, moreover, at a beginning stage with several barriers that hinder a significant improvement. About this last point, this study has revealed a coincidence between previous researches and findings so that the entrepreneur has confirmed that there are several barriers. Among them, it seems

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opportune to highlight the one related to the differences - cognitive, organizational and cultural - among involved partners in addition to the fact that the entrepreneur also stated that the best examples to which she refers often come from companies of other regions. This fact deserves a proper deepness if we consider that Sicily is among the most important Italian regions in the wine sector in that it is possible to argue that it has a large stock of wine knowledge and culture. Looking at the different external knowledge sources the case has revealed that the process of OI is limited to the scouting/acquisition of new input and new ideas, necessary to develop products that meet the customer's needs and/or to modify phases of production in order to improve the levels of quality and productivity. In other words, the presence of a certain unwillingness to open the doors of the cellar appears. This seems to confirm the thesis of Dries et al. (2014) who maintain that the implementation of OI in the wine sector is particularly controversial looking for examples to the marketing where strategies have to be joined with the 'exclusiveness and secrecy of the recipes, which make the quality of the products unique.

Findings also revealed a certain low level of the number of sources of knowledge so that the stakeholders listed by the interviewed are limited to other firms, experts and customers while the list might be certainly longer. In particular, the entrepreneur stated that there are no collaborations with Universities and research centres. The not-invented-here (NIH) syndrome (Katz and Allen, 1982) can represent a relevant problem and it deserves a deeper analysis to better understand the impediments that obstacle the collaboration.

From a theoretical point of view, our study contributes to innovation literature because it examines the concept of OI in the SMEs, operating in the Wine traditional sector, supporting the idea that a necessary emphasis on this approach within these entrepreneurial contexts would foster and accelerate their innovation processes. From a managerial point of view, our results highlight that managers have to define efficiently pathways and actions to opening up their organizational boundaries to acquire knowledge, competencies and capabilities from external environments, selecting useful collaboration forms with other entities to share information and costs and also trying to overcome barriers that hinder the implementation of the OI model in SMEs.

Despite the significance of the results, there are some limitations that pose further examinations to be addressed. First, our empirical analysis is on qualitative approach (in particular, single case study) and, consequently, our findings are not generalizable to the Wine SME population. Therefore, further research appears opportune to define and apply quantitative research methods, involving a larger sample and elaborating a specific sampling scale for demonstrating the relevance of OI in the SME context. In addition, our study highlights that several barriers (i.e., culture, commitment, resources, etc.) play a crucial role in the openness of SMEs operating in low-tech sectors, however, further

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research may investigate these aspects in a fine-grained manner and also the strategies could be defined by SMEs that permit these conditions/barriers to be overcome efficiently.

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 ISBN: 978-9963-711-37-6

A STUDY ON MARKETING MIX OF E-TAILING AND THEIR RELATIONSHIP WITH CONSUMER MOTIVES: AN INDIAN STUDY

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ABSTRACT

The aim of the present study is to develop an e- tailing mix model and research work tests their relationship with consumer motives. On the basis of review of published literature on e-commerce, e-marketing and e-tailing, a conceptual framework for the present research has been developed. The elements for e-tailing mix were explored and confirmed. A set of hypotheses concerning direct link among constructs are developed for their impact on consumer motives.

The research methodology employs a self administrated questionnaire survey of customers that generated 413 valid responses. The questionnaire was designed with 40 basic constructs containing customers' online shopping concerns out of review of literature, executive opinion and focus group and motives (3 constructs). The questionnaire has measures for each of the constructs, and respondents' characteristics as well. Measurement scales for the constructs satisfied the minimum requirements of Cronbach's alpha coefficient. The measurement models of the Structural Equation Modeling's constructs were evaluated using confirmatory factor analysis (CFA). They were accepted on the basis of measures of fit, the statistical significance and the signs of the coefficients. The research concludes with the estimates of relationship between consumer motives and the elements of e- tailing mix. The findings of this work may help the online retailers in strategizing themselves in a better manner.

Keywords: *e- tailing, e- tailing mix, consumer motives, SEM, EFA and CFA*

INTRODUCTION

Based on Avendus estimates, the Indian e-tailing market will grow to Rs 53,000 Crore ($9.64 billion) in 2015 and whereas as per BCG estimates, the overall retail market in India is estimated to grow to Rs 36 lakh Crore (US$ 65.45 billion) by 2015. With an online penetration of 1.4% in 2015, the e-tailing market will be Rs 50,900 Crore ($9.15 billion). Many researchers worldwide have tried to find out the

 ISBN: 978-9963-711-37-6

marketing mix for e-retailing because when the dot com companies busted in late 2000 it has been attributed that the marketing mix for the e-retail business was not properly defined and most of the companies have adopted the same old age marketing mix as suggested by McCarthy with little changes. Prominent among them were Dave Chafey, Allen & Fjemstad and Kirti Kalyanam, they all have suggested their frame works for e-marketing. The model proposed by Kirti Kalyanam, 2002 talked about 4P + 2P+2C+2S. Where 4Ps are Product, Price, Place and Promotion and additions P, C & S are being describes here. 2P – Personalization and Privacy, 2C – Customer Services and Community & 2S - Site Security and Sales Promotion. This model as proposed by Kalyanam may be opposed in India as Indian consumers are very sensitive towards the safety issues of their payment and products purchased electronically.

On the other hand, the consumer motives are internal impulses when stimulated, initiate some types of responses (Duncan, 2005). Consumer motives are known to be the drivers of behaviors that bring consumer to the purchase location (in the present study to e locations) (Kim& Jin, 2001).

The present research aims at studying the popular e-retailing website in Indian context to understand the elements of e-tailing mix and their relationship with consumer motives using structural equation modeling with the help of Analysis of Moment Software (AMOS 20.0).

REVIEW OF LITERATURE

The conventional retail channels would be completely wiped out when manufacturers would contact the consumers directly over the Internet and eradicate the need for redundant physical retailers or other intermediaries completely. (Laudon & Traver 2004) The real foundation for e- tailing can be described with the foundation building during 2000's, when the internet penetration increased steadily, the advancements on technology provided better interfaces to customers.

The most cited definition is the one provided by Turban et al. (2006) *'Retailing conducted online, over the internet.'* Many other researchers have explained that the concept of e- tailing is similar to B2C. Prominent among them are Doolin (2004); Rao (1999); Turban et al. (2004); White (2001), Wang (2002) who have proposed the definition of e-tailing as ''the selling of goods and services to the consumer market via the internet. e-tailing revenue can come from the sale of products and services, through subscriptions to website content, or through advertising" whereas dictionary.com defined e-tailing as, "the selling of goods and services on the Internet or through e-mail solicitation."

In the report, 'India Goes Digital' AVENDUS has projected that the Indian market will also evolve towards higher contribution from e-tailing in coming years. As per their estimates, e-tailing will catch up with online travel by 2015 with each of them contributing approximately $12 billion to the total ecommerce market in that year.

 ISBN: 978-9963-711-37-6

Potential factors that constitute the elements of e-tailing mix

A methodical review of the published literature has been carried out using key words like e-commerce, e- marketing, e- marketing mix, e- retail, e- retailing, e- tailing, B2C, B2B, C2C and marketing mix to find out what other researchers have contributed as regards to the marketing mix of e- space. Based on the review of literature it was found that Paucity (Lack/shortage) of Time, Privacy, Security concerns of the consignments, Social Networking website and co-ordinates, Navigation, Regulatory& Legislative Uncertainty(While purchasing from different country's website), Customer Service, Selection Freedom of products, Familiarity of websites, Response to Customer Needs, Ease of Vendor Contact, Attractive Display of products, Ease of Return, Ease of Refund, Transaction Cost, Shipping Cost, On time Delivery, Prompt reply to the queries as regards to purchase, Reliability(Impartiality) as regards to products delivered, Useful Information Contents, Eye Catching Homepage Design, Exchange of Products, Personalization, Discounts, Offers, Website Colors, Comparison of Products, Testing of products, Trouble Shooting, FAQs, Value Added Info On website, Processing Time efficiency while making payments, Processing Time efficiency while making payments, Affordability, Mode of Payment, Online Community on the website, Trust of website, Promotion of the website, Branding of the website, Accuracy of Contents, Language Options, Security of Payments, Human Assistance in the form of Online Chat and Call back Services and Customization of Product may constitute the potential factors for e tailing.

Consumer motives are internal impulses when stimulated initiate some types of response. (Duncan 2005). Consumer motives are known to be the drivers of behaviors that bring consumer to the purchase location (in the present study to e locations) (Kim& Jin, 2001). Motives are the drives, impulses, wishes or desires that initiate the sequence of activities known as behavior. Behind any purchasing action, there are several factors, which are playing an influential role where that makes the customer to perform the task. Pride and Ferrel, (2010) have referred motives as an internal energizing force that directs persons' activities towards satisfying needs or achieving goals. Buyers' actions are affected by a set of motives rather than by just one motive. Motives also affect the direction and intensity of behaviour. Motives can be explained as drives, impulses, wishes or desires that initiate the sequence of activities known as behaviour, Udell, (2001). Copeland (1925) proposed separating them into two categories, rational and emotional: These motives have their origin in human instincts and emotions and represent impulse or unreasoning promptings to action.

Based on previous studies, patronage buying motives into retail stores, malls, and other shopping centers are very diverse, including: personal motive, motive to socialize, seek experience motive, motivation for product, price, extrinsic and intrinsic motives, interior design, joy, and look for variations, utilitarian motives, hedonic motives, and others Groeppel- Klein, Thelen (1999), Jin and

ISBN: 978-9963-711-37-6

Kim (2003); Moschis, Curasi, et al . (2004). For example, studies on shopping center patronage buying motives done e.g. by Bodkin and God, 1997; Ruiz, 1999; Dennis et al, 2001, Nicholls,et al, 2000. An article by Prashanth Reddy "Do you recognize the 31 important types of buying motives of customers?" categorized all of them in three basic consumer motives namely, rational, emotional and patronizing motives, which the research has taken a base for this study.

Identified Research Gaps

The review of the reported literature explores the possibilities of un-touched issues related to the research domain. The followings are the issues that need immediate attention so that the body of knowledge related with e-tailing and consumer motives get enriched.

- The review of the published literature might not find any structured model of e-tailing mix, so to facilitate marketing professionals it needs to be modeled.
- Attention is needed to ascertain relationship among the elements of e- tailing mix and consumer motives that is an area of great potential and is unexplored in Indian context.

Based on above mentioned research gaps following research question emerges which needs attention to get addressed by the researcher.Can some potential elements for e- tailing mix be explored in order to model them as e- tailing mix and then further understand their relationship with consumer motives?

CONCEPTUAL MODEL OF THE PRESENT RESEARCH

An effort is being made in the current research to model the marketing mix for e - tailing and to establish the relationship between elements of the e - tailing mix with consumer motives through the following conceptual model. (Dotted boxes are shown because of unsure nature/type of elements which will be explored later.

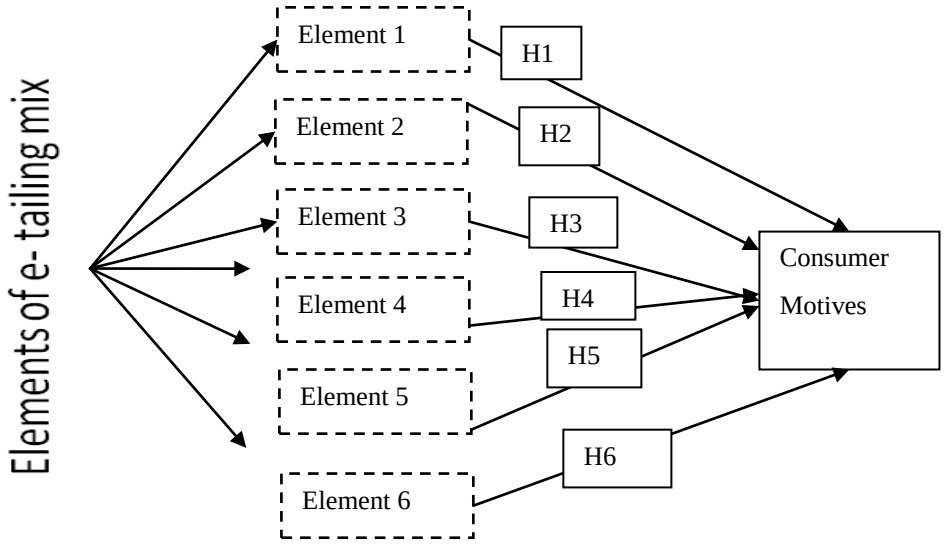

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Figure 1. : Proposed Conceptual Model

It is also proposed to test their relationship for significance, among the elements of e - tailing mix and consumer motives. And for the same following hypothesis are developed.

H1: Element 1 **has a direct and positive impact on consumer motive.**

H2: Element 2 **has a direct and positive impact on consumer motive.**

H3: Element 3 **has a direct and positive impact on consumer motive.**

H4: Element 4 **has a direct and positive impact on consumer motive.**

H5: Element 5 **has a direct and positive impact on consumer motive.**

H6: Element 6 **has a direct and positive impact on consumer motive.**

RESEARCH DESIGN

Bickman et al., (1997) while describing the research designs states that it serves as the "architectural blueprint" for any research, as it involves the research approach to be used, and the best methods of collecting and analyzing the data. Research designs link data collection and analysis activities to the research questions and ensure that all research aspects will be addressed (Bickman et al., 1997). Burns and Grove (2003) opine research design as a blueprint for conducting a study with maximum control over the factors that may interface with the validity of the results. Parahoo (1997) describes a research design as a plan that describes how, when and where data are to be collected and analyzed. Polit et al. (2001) define a research design as the researcher's overall efforts for answering the research question or testing the research hypotheses. Punch (1998) suggests that the concerns of research design are to answer the following questions:

- Who or what will be studied?
- What strategies of inquiry will be used?
- What methods will be used for collecting and analyzing empirical materials?

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Who and What will be Studied?	• The Present research aims at studying the elements of e- tailing mix and their relationship with consumer motives. • The Pre identified respondents on the basis of sampling frame at Mumbai and Pune will participate in the study.
What strategies of inquiry will be used?	• Focus Group Discussion • Pilot Study • Structured Interviews with the help of pre designed and tested Questionnaire
What method will be used for analyzing collected Data	• EXPLORATORY FACTOR ANLAYSIS • CONFIRMATORY FACTOR ANLAYSIS • STRUCTURAL EQUATION MODELING

Target population and sample

A population is the total group of subjects that meet designated set of criteria. Polit and Hunler (1999) distinguish between the target population and the accessible population. The target population includes all the cases about which the researcher would like to make generalization. The ten most populated cities of India ; Mumbai, Pune, Hyderabad, New Delhi, Kolkata, Jaipur, Surat, Ahemdabad, Chennai and Bangalore as per CENSUS study 2011, have been chosen as the population for the present research as the most of e tailing business are centered around these cities. The target population comprises of all those people of the mentioned cities who have made the purchases electronically. In sampling for a survey a researcher should answer three questions; Margin of error, Confidence level and the population, in the present study they were 5%, 95% and more than 20,000 respectively, so after computation the recommended sample size for the present study was 377 spread equally over these ten cities.

The first phase of the study (Focus Group Discussion) was conducted at a town place of Pune, Lonavala for three groups, and each group having 8 respondents in a group along with the researcher as the moderator. In the second phase the researcher has made contacts with 619 persons matching the above criteria and could collect responses from 413. Since in the present research Structural Equation Modeling is applied, According to James Stevens' 'Applied Multivariate Statistics for the Social Sciences a good rule of thumb is 15 cases per predictor in a standard ordinary least squares multiple

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regression analysis. Since SEM is closely related to multiple regression in some respects, 15 cases per measured variable in SEM is not unreasonable. Bentler and Chou (1987) note that researchers may go as low as five cases per parameter estimate in SEM analyses, but only if the data are perfectly well-behaved (i.e., normally distributed, no missing data or outlying cases, etc.). Likert scale is used to measure all items relating to e- tailing mix elements, motives and relationship, because Likert (Sekaran, 1992) scales are very suitable for measuring a wide variety of latent constructs. A scale of **7-** Strongly Agree **6**- Agree **5**- Somewhat Agree **4**- Neither agree nor Disagree 3-Somewhat disagree **2**- Disagree **1**- Strongly Disagree is employed for the measurement in the present study.

DATA ANALYSIS

Scale Reliability

It is mandatory to check the reliability of the scale because this scale has not been previously explored by any researcher in context of Indian industries and internal consistency or reliability is particularly important in connection with multiple item scales. Cronbach's alpha has been used to check the internal consistency. Ideally, the Cronbach's alpha scale for internal consistency (Nunnally 1978) should be above 0.7 (Pallant, 2005). Items that rate below the recommended alpha level of 0.7 may be removed in order to improve the scale's reliability. In the present research, the value of Cronbach's alpha computed using SPSS 20.0 software for the 43 items was found as 0.968, which is reasonably on a higher side to be accepted. According to Sekaran (1992) higher the value of Cronbach's alpha (closer to one), the higher is the internal consistency or reliability.

Exploratory Factor Analysis

Exploratory Factor Analysis (EFA) can be described as orderly simplification of interrelated measures. EFA, traditionally, has been used to explore the possible underlying factor structure of a set of observed variables without imposing a preconceived structure on the outcome (Child, 1990). By performing EFA, the underlying factor structure is identified. It is a statistical method used to determine a small set of unobserved variables (also called latent variables or factors) that can account for the covariance among a larger set of observed variables (also called manifest variables). A factor is an unobservable variable that is assumed to influence observed variables (Albright et al., 2009). Factor Analysis is the most suitable tool to determine the set of variables that forms a coherent subgroup which are relatively independent of one another.

Assessment of the Suitability of the data for Exploratory Factor Analysis

There are two main issues to consider in determining whether a particular data set is suitable for factor analysis: sample size, and the strength of the relationship among the variables (or items). While there is little agreement among authors concerning how large a sample should be, the

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recommendation generally is: the larger, the better. In small samples the correlation coefficients among the variables are less reliable, tending to vary from sample to sample. Factors obtained from small data sets do not generalize as well as those derived from larger samples. Two statistical measures are also generated by SPSS to help assess the factorability of the data: Bartlett's test of sphericity (Bartlett, 1954), and the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy (Kaiser, 1970, 1974). The Bartlett's test of sphericity should be significant ($p<.05$) for the factor analysis to be considered appropriate. The KMO index ranges from 0 to 1, with .6 suggested as the minimum value for a good Factor Analysis (Tabachnick & Fidell, 2001). The value of KMO Statistics **(.945) is larger than 0.5**), thus the factor analysis may be considered appropriate technique for data reduction.

Factor Extraction, Rotation and Interpretation

Factor extraction involves determining the smallest number of factors that can be used to best represent the interrelations among the set of variables. In practice, the two approaches (orthogonal and oblique), of rotation, often result in very similar solutions, particularly when the pattern of correlations among the items is clear (Tabachnick & Fidell, 2001). Within the two broad categories of rotational approaches there are a number of different rotational techniques provided by SPSS (Orthogonal:Varimax, Quartimax, Equamax; Oblique: Direct Oblimin, Promax). The most commonly used orthogonal approach is the Varimax method, which attempts to minimise the number of variables that have high loadings on each factor. The method of Varimax rotation is used in this study.

Results And Interpretations (Exploratory Factor Analysis)

Total variance explained by the extracted factors is being presented in table 5.14. The Total variance explained was 73.571% which is a very good estimate. It is recommended that the factors extracted should account for at least 60% of the variance (Malthotra and Dass, 2007).

Table 1: TOTAL VARIANCE EXPLAINED

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	18.986	44.154	44.154	18.986	44.154	44.154	7.261	16.886	16.886
2	4.403	10.241	54.395	4.403	10.241	54.395	5.617	13.063	29.949
3	2.613	6.077	60.472	2.613	6.077	60.472	5.184	12.057	42.006
4	1.898	4.414	64.885	1.898	4.414	64.885	4.418	10.275	52.281
5	1.426	3.316	68.202	1.426	3.316	68.202	3.999	9.300	61.581
6	1.194	2.776	70.978	1.194	2.776	70.978	2.786	6.479	68.060
7	1.115	2.593	73.571	1.115	2.593	73.571	2.369	5.510	73.571
8	.923	2.146	75.717						
9	.831	1.933	77.650						
10	.732	1.703	79.353						
11	.693	1.612	80.964						
12	.621	1.443	82.408						
13	.587	1.365	83.773						
14	.531	1.234	85.007						

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15	.484	1.125	86.133						
16	.472	1.097	87.230						
17	.426	.991	88.221						
18	.383	.890	89.111						
19	.352	.819	89.930						
20	.342	.795	90.724						
21	.332	.772	91.496						
22	.315	.732	92.228						
23	.292	.679	92.907						
24	.271	.631	93.538						
25	.237	.550	94.088						
26	.232	.540	94.628						
27	.213	.494	95.122						
28	.201	.467	95.589						
29	.193	.448	96.037						
30	.186	.432	96.469						
31	.176	.409	96.878						
32	.159	.370	97.248						
33	.158	.368	97.616						
34	.139	.322	97.939						
35	.128	.297	98.236						
36	.120	.278	98.514						
37	.115	.267	98.781						
38	.108	.251	99.032						
39	.098	.228	99.260						
40	.095	.220	99.480						
41	.088	.205	99.685						
42	.077	.179	99.864						
43	.058	.136	100.000						

EXTRACTION METHOD: PRINCIPAL COMPONENT ANALYSIS.

Table presents the rotated component matrix using Principal Component Analysis as extraction method and Varimax with Kaiser Normalization as rotation method. The rotation converged in 8 iterations. Seven factors are found after Varimax rotation. The type / category of the items loading to any individual factor need to be understood to explain and define the particular extracted factors. The clustering of the items in each factor and their wording offer the best clue as to the meaning of that factor and also help to allocate a justified name to that factor.

Table 2: ROTATED COMPONENT MATRIX[A]

	Component						
	1	2	3	4	5	6	7
F1		.805					
F2		.793					
F3		.792					
F4		.789					
F5		.794					
F6		.761					
F7		.681					
F8							

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F9	.774						
F10	.818						
F11	.807						
F12	.762						
F13	.722						
F14	.737						
F15	.629						
F16	.689						
F17							
F18							
F19							
F20				.636			
F21				.627			
F22				.674			
F23				.629			
F24							
F25				.721			
F26				.676			
F27			.672				
F28			.792				
F29			.827				
F30			.788				
F31			.775				
F32			.731				
F33							
F34						.729	
F35						.670	
F36					.744		
F37					.717		
F38					.739		
F39					.787		
F40					.736		
MV1							.629
MV2							.756
MV3							.781
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.							
a. Rotation converged in 8 iterations.							

The above mentioned rotated component matrix shows that all the variables used in the analysis are loaded upon seven factors**. They are labeled as following;**

Factor 1: Pool of Variables Q9- Q16 **(SITE DESIGN) {SD}**, Factor 2: Pool of variables Q1 – Q7 **(SAFETY) {SF}**, Factor 3: Pool of variables Q27 – Q32 **(SALES TALK) {ST}**, Factor 4: Pool of variables Q20-23and Q25/26 **(SERVICE) {SR}**, Factor 5: Pool of Variables Q36-40 **(SALMAGUNDI (Product**

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Related)) {SD}, Factor 6: Pool of variables Q34 – Q35 **(PRICE RELATED) {SUM}** and Factor 7: Pool of Variables mv1-mv3 **(MOTIVATION) {MV}**

Salmagundi, here, is being assigned to the product related factors as it stands for assortment of elements of SALAD in a plate, which is treated as synonymous here for this research as website and its arrangement and display of products on it. The above connotations have been used in the hypothesis formulation and in Confirmatory Factor Analysis and Structural Equation Modeling.

Structural Equation Modeling

This section presents the attempt made by the researcher to develop a model using extracted factors discussed in the earlier section through Exploratory Factor Analysis. The Structural Equation Modeling is used develop a precise model to help further analyses. SEM is preferred over other statistical techniques because it allows the modeling of relationships among several independent and dependent variables simultaneously (Gerbing and Anderson, 1988). Thus, SEM has been chosen to test causal relationship and subsequently model development. Structure Equation Modeling has two primary component; The Measurement Model: It describes the relationships between observed variables and the constructs or latent variables which are to be measured. The Confirmatory Factor Analysis (CFA) is used to test the measurement model. Such models specify hypotheses about the relations between a set of observed variables, such as ratings or questionnaire items, and the unobserved variables or constructs they were designed to measure (Robert Ho, 2006) and The Structural model: It describes the interrelationships among constructs and is a flexible, comprehensive model that specifies the pattern of relationships among endogenous and exogenous variables. It shows the strengths of multiple regression analysis, Factor Analysis, and multivariate ANOVA in a single model that can be evaluated statistically. It also permits directional predictions among a set of independent or dependent variables, and provide modeling of indirect effects. The structural model is of greater interest since it offers a direct test of the theory of interest (Robert Ho, 2006).

Construction of Measurement Model

The 37 measured variables (EFA) were drawn using rectangle, while 7 latent constructs were made using ellipse and all the error terms using circle. The single headed arrows indicate linear dependencies, these arrow-head points toward observed variables from their respective dependent variable or latent construct. The path coefficient of all the error terms from e1 to e37 were fixed to unity, while the path coefficients for one of the observed variables for each construct were also fixed to unity as this is necessary condition for model to be identified.

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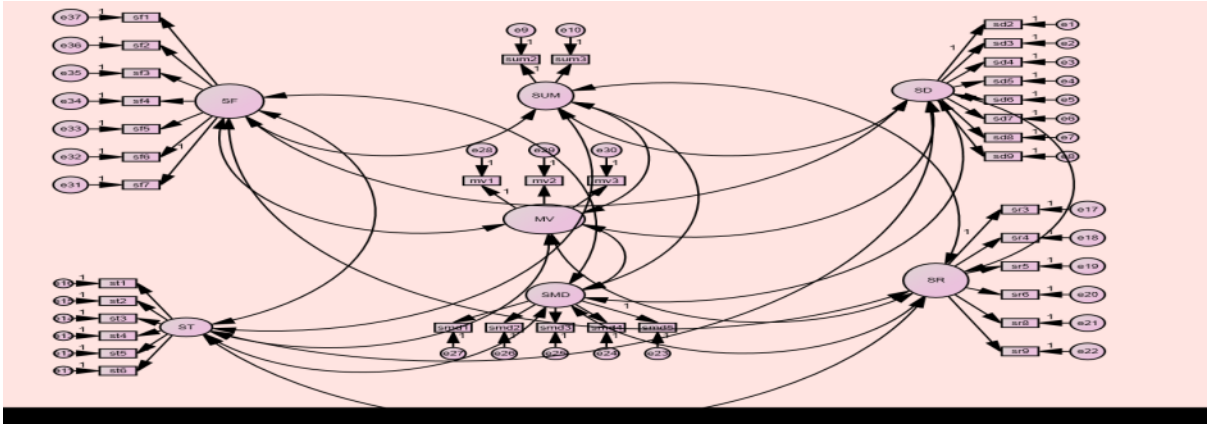

Figure 2. Measurement Model

Results and Discussion for Measurement Model

Assessment ff Reliability

Reliability can reflect the internal consistency of the indicators measuring a given factor. Scales were statistically measured for indicator reliability and scale reliability. The indicator reliability should preferably be 0.5 or greater (Long, 1983; Schumacker and Lomax, 2004). Even values close to the recommended are considered acceptable (Wu, 2005). A value of Cronbach's alpha of 0.6 or more is used as a criterion for a reliable scale (Hair et al., 1998; Nunnally and Bernstein, 1994 The Cronbach alpha, CR and AVE values are given in table below;

Table 3. Scale Reliability Items

Sr. No.	Scale	Cronbach's alpha	Construct Reliability	Average Variance Extracted	No. of Items
1	Safety	.940	.858	.553	7
2	Site Design	.953	.917	.734	10
3	Service	.911	.76	.515	9
4	Sales Talk	.958	.92	.742	6
5	Sum	.805	.778	.636	3
6	Salmagundi	.871	.7922	.56	5
7	Motives	.880	.6514	.48 = .5(Approx)	3

Assessment of Validity

A scale is valid if it measures the concept that it was intended to measure (Bagozzi, 1981; Malhotra, 2010). Since unidimensionality and reliability have been established, the next step is to assess validity. Various measures of construct validity named as Convergent (Bentler-Bonett Coefficient), Discriminant (through Average Variance Extracted) and Criterion Validity were computed. While Convergent and Discriminant Validity are measured using the Measurement Model; the Criterion Validity is measured through the Structural Model. The convergent validity can be measured using the Bentler-Bonett Coefficient (Bentler-Bonett, 1980) in AMOS20. Ahire et al. (1996), Green et al. (2006) recommended assessing convergent validity using the Bentler-Bonett coefficient with values greater than 0.9 indicating strong convergent validity, even the NFI and NNFI of .8 and above are considered

 ISBN: 978-9963-711-37-6

a good fit. In the present case all the scales have a Bentler-Bonett coefficient (i.e. NFI and NNFI) of greater than 0.8 as given in following table, thus indicative of high convergent validity.

Table 4. Indicator of Convergent Validity

Sr. No.	Scale	NFI	NNFI
1	Safety	.944	.923
2	Site Design	.877	.851
3	Service	.978	.975
4	Sales Talk	.929	.889
5	Sum	.979	.985
6	Salmagundi	.935	.879
7	Motives	.992	.998

The measurement model has been constructed using 37 items and 7 constructs. The AMOS results obtained are as follows;

Table 5. Computations of degrees of freedom (mm)

Number of distinct sample moments:	703
Number of distinct parameters to be estimated:	95
Degrees of freedom (703 - 95):	608

D. Chi-square, = 2327.527 at Probability level, p = .000.

Discussions: The input covariance matrix generated from the model's 37 measurement variables contains (Table 5.18) 703 sample moments (Table 5.20). For the Measurement Model, there are 37 regression weights, 21 covariance, and 44 variances, thus a total of 102 parameters to be estimated. The model has 608 degrees of freedom (703 – 95)since, the number of parameters to be estimated (102) are less than the degree of freedom (608) , this implies that the model is over identified which is the necessary condition before CFA.

Measurement Model Improvement

AMOS suggests two ways of improving the measurement model which can be helpful in detecting the model misfit. They are either with the help of modification indices and the standardized residuals (Barbara M. Byrne, 2010). On the basis of these two the model was improved. Fifteen measurement variables were dropped that did not confirm the standards. .

The Final Fit Model

The initial model was modified and out of initial 37 measurement variables, the modified model has 22 measurement variables, five correlations have also got reported in the modified model. It took 16 iterations to converge to the final measurement model. The chi-square goodness-of-fit value for this modified model (528.725) was found significantly smaller than the chi-square value obtained for the initial model (2327.5). With insignificant chi-square value, the final measurement model, therefore, represents best possible fit to the data in context of the present research.

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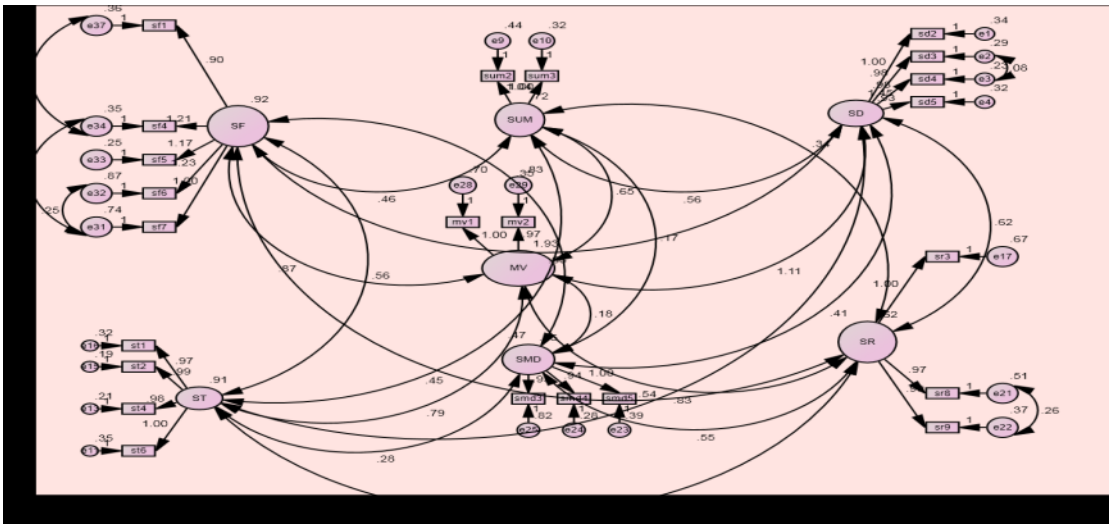

Figure 3. Final Fit Model

TABLE 6. Computations Of Degrees of Freedom (FIT MODEL)

Number of distinct sample moments:	276
Number of distinct parameters to be estimated:	72
Degrees of freedom (276 - 72):	204

D. Minimum was achieved; Chi-square = 528.725at Probability level = .000

Table 7. Regression Weights (Fit Model)

			Estimate	S.E.	C.R.	P
sd2	<---	SD	1.000			
sd3	<---	SD	.976	.035	28.084	***
sd4	<---	SD	.980	.033	29.561	***
sd5	<---	SD	.934	.034	27.593	***
sum2	<---	SUM	1.000			
sum3	<---	SUM	1.045	.079	13.189	***
st6	<---	ST	1.000			
st4	<---	ST	.976	.040	24.381	***
st2	<---	ST	.986	.040	24.892	***
st1	<---	ST	.970	.044	22.277	***
sr3	<---	SR	1.000			
sr8	<---	SR	.967	.078	12.466	***
sr9	<---	SR	.986	.074	13.369	***
smd5	<---	SMD	1.000			
smd4	<---	SMD	.941	.052	17.997	***
smd3	<---	SMD	.932	.064	14.443	***
mv1	<---	MV	1.000			
mv2	<---	MV	.975	.057	17.018	***
sf7	<---	SF	1.000			
sf6	<---	SF	1.229	.064	19.199	***
sf5	<---	SF	1.175	.063	18.510	***
sf4	<---	SF	1.208	.069	17.411	***
sf1	<---	SF	.900	.054	16.573	***

Above Table, shows the un-standardized path coefficient estimates, the Standard Error (S.E.) and Critical Ratio (C.R.). The recommended C.R. value in the test statistics is > ±1.96. As can be seen, all estimates found to have critical ratio values >1.96, thereby indicating their statistical significance

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which is represented by *** (means probability < 0.000). It shows the statistically significant paths and their respective coefficient of the variables, thus proving measurement model to be precise and able to measure the correct output.

Predictive Validity

Ahire et al. (1996) and Garver and Mentzer (1999) recommended assessing predictive validity by determining whether the scale of interest correlate as expected. SEM was used to ascertain the correlation and determine predictive validity. All correlation values were found to be positive and significant thus giving proof of predictive validity.

Model Fit Summary

The standardized path coefficients of the Structural Model were estimated by AMOS20. It was found that the structural model fits the data well. The fit indices values are given in table below,The global fit statistics indicate the structural model represent the data structure well. The significant value (p=0.000), Bollen-Stine statistic indicated a model fit and so suggested the model could be accepted i.e. p<0.05. The RMSEA value (.052) falls well below the maximum recommended value of 0.08 or 0.10 and values for NFI (.936), NNFI (.963) and CFI (.970) all exceeded the recommended 0.90 level, indicating a good fit. The relative chi square/ degree of freedom of 1.792 were less than the recommended maximum of 3.00 Heir et.al (2012).

TABLE 8. CMIN/DF IN FIT MODEL

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	72	365.594	204	.000	1.792
Saturated model	276	.000	0		
Independence model	23	5728.311	253	.000	22.642

TABLE 9. RMR, GFI and AGFI IN FIT MODEL

Model	RMR	GFI	AGFI	PGFI
Default model	.054	.905	.872	.669
Saturated model	.000	1.000		
Independence model	.677	.179	.104	.164

TABLE 10. BASELINE COPARISONS IN FIT MODEL

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.936	.921	.971	.963	.970
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000

TABLE NO 11 RMSEA in FIT MODEL

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.052	.044	.061	.319
Independence model	.274	.268	.280	.000

So finally the model which got fitted has following factors;Factor No. 1 **SAFETY** comprising of Privacy while purchasing, Mode of Payment, Trust of Website, Security of Payments and Processing

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Time while making the payment. Factor No. 2 **SITE DESIGN** comprising of Useful and Precautionary information on the website, Ease of Online ordering, Eye Catching Home Page Design and Personalization. Factor No. 3 **SUM** comprising of Shipping Cost and Discounts. Factor No. 4 **SERVICE** comprising of Ease of Vendor Contact, Ease of Return and Exchange, Ease of Refund and Minor(Peripheral) Contact with Seller. Factor No. 5 **SALMAGUNDI** comprising of Brands Available, Accuracy of Contents on the website and Availability of Selected Product. Factor No. 6 **SALES TALK** comprising of Online Demo, Online Community on the Website, Unique Offers and Social Networking Websites and Their Co-ordinates.

Hypothesis Testing: For hypothesis testing through the path analysis in SEM, following model is developed with the help of elements confirmed in CFA.

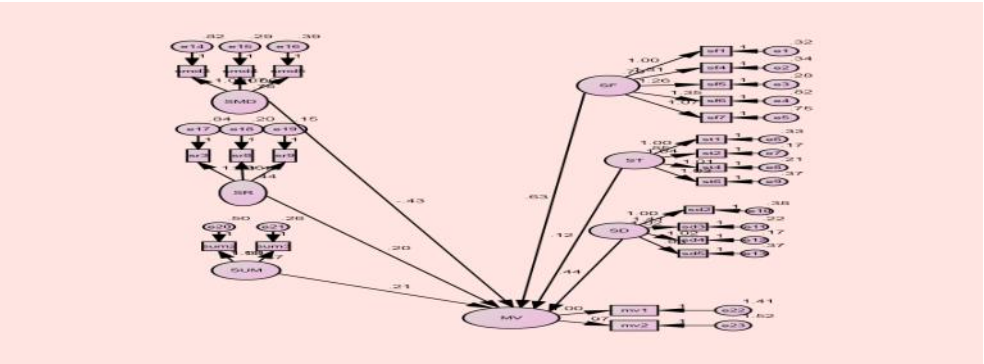

Figure 4. Structural Equation Model for Hypothesis Testing

The path coefficients of the structural model indicate the magnitude and direction of relationships and thus are used for testing the hypotheses are given in the above diagram.

H1: Safety Element 1 **s a direct and positive impact on consumer motive.**

Safety has a direct, significant and positive impact consumer motives as indicated by the significant path from SF to MV (β=0.63). Thus hypothesis H1 is **accepted**.

H2: Sales Talk Element 2 **as a direct and positive impact on consumer motive.**

Sales Talk has a direct, significant and positive impact consumer motives as indicated by the significant path from ST to MV (β= .12). Thus hypothesis H2 is **accepted.**

H3: Sum Element 3 **has a direct and positive impact on consumer motive.**

Sum has a direct, significant and positive impact consumer motives as indicated by the significant path from SUM to MV (β= .21). Thus hypothesis H3 is **accepted.**

H4: Salmagundi Element 4 **as a direct and positive impact on consumer motive.**

Salmagundi does not has a direct, significant and positive impact consumer motives as indicated by the non significant path from SMD to MV (β=-.43). Thus hypothesis H4 **is rejected.**

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H5: Site Design Element 5 **has a direct and positive impact on consumer motive.**

Site Design has a direct, significant and positive impact consumer motives as indicated by the significant path from SD to MV (β=.44). Thus hypothe.sis H5 is **accepted**

H6: Services Element 6 **has a direct and positive impact on consumer motive.**

Service has a direct, significant and positive impact consumer motives as indicated by the significant path from SR to MV (β=.20). Thus hypothesis H6 **is accepted.**

CONCLUSION

This research work has developed an e- tailing mix model integrating selected elements of e-commerce and e- marketing for Indian e- tailing companies using a data analysis tool i.e. SEM which has recently come in use in the area of marketing management and also it do not contain complex mathematical equations and has the best feature to represent the relationship graphically. Thus, a model which is easy to interpret and able to guide the marketing practitioners in real practice is developed. Though, some elements are practiced in the marketing of e- tailing but the fact is that the marketing practitioners are not able to categories them as per their significant suitability. In Indian context of e- tailing the elements safety, site design, sum, service, sales talk and salmagundi play a vital role. In order to be successful in this domain of e- tailing, the companies should mix these elements properly to yield good results.

Testing the Relationship among e- tailing Mix Elements and Consumer Motives

The other prime objective of the present research was to ascertain the relationship among the elements of e- tailing mix and consumer motives for which the results are mentioned below;

The following e-tailing mix elements have direct, significant and positive relation with consumer motives;

- **Safety, Site Design, Service, Sales Talk, and Sum**

Whereas

- **Salmagundi (The Product Related issues)** does not has a direct, significant and positive relation with consumer motive.

It is therefore concluded that consumers will be motivated to purchase on those websites only which will have good safety features, with very attractive site design, high, loud and noticeable sales talk, good pricing mechanism and of course that can provide very effective customer services. On the other side, Salmagundi (the product related issues) will not come in their way to purchase electronically. It is also important to report in the conclusion that in e- tailing environment the respondents surveyed do not believe in patronizing a single website as may be the case in the marketing of retail, product or services. They like to shop on different websites which offer them good discounts, has less shipping

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cost, insures privacy during purchase, has many options to pay for the selected products, has strong security features takes less time in processing the payments.

FUTURE SCOPE

The research work carried out can further be extended to develop more precise model by incorporating following suggestions in future; the electronic purchase environment is changing rapidly and is assumed to be ever evolving, so in days to come, it may be necessary to add or delete more elements to the present model. May be in near future some control variable be added to check the mediating effects on the model. The study was conducted only at ten most populated cities of India; it will be interesting to see whether there are some changes reported if the same study is undertaken at the national level. This study was a cross sectional study; there is every possibility of some change that may be cited if the same study is conducted in a longitudinal manner in near future. The scope will become wider if more consumer motives be added to the present study. In future more searches on literature may unfold some hidden agendas which may direct for future course of work. The researcher may adopt some other methodology to check the results whether they are the same.

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 ISBN: 978-9963-711-37-6

EFFICIENCY MEASUREMENT IN THE LITHUANIAN RETAIL COOPERATIVES

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ABSTRACT

The performance of company is usually measured by several outcomes: profitability, internal rate of return, investment recoupment, labour productivity, etc. However, all those outcomes are predetermined by several or even several dozen factors. By using conventional performance assessment methods that reflect the general factor impact, the managers of companies find it difficult to assess the impact of each particular factor on the results and to take rational decisions. The activities of companies can be diverse; therefore, it is important to have a methodology for the objective assessment of the efficiency of the outcomes and the identification of the causes of ineffectiveness. The paper aims to develop a methodology for the company efficiency measurement by bringing out the activity-characterizing conditions-factors (the input), and the performance outcomes - indicators (the output).

The DEA (Data Envelopment Analysis) methodology shall be used in the paper. The DEA methodology, formally developed by Charnes, Cooper and Rhodes (1978), defines efficiency as a ratio of a weighted sum of outputs to a weighted sum of inputs, where the weights structure is calculated by means of mathematical programming, and constant returns to scale (CRS) are assumed. The advantages of the methodology are especially obvious in the fields where the outputs of the activity do not have monetary expression (land use, hospitals, cooperatives, etc.). The methodology used in the paper is based on the use of the data envelope. The performance of 23 Lithuanian retail cooperatives were assessed by 5 assessment criteria and the reserves of the performance improvement were identified.

Keywords: *measurement, efficiency, retail, cooperative.*

INTRODUCTION

The leaders of the agricultural cooperatives consisting of several farms as well as the large associations consisting of several companies find it important to define the most effective organizations that successfully deal with the funding, management issues, and effective distribution of their companies.

 ISBN: 978-9963-711-37-6

Moreover, performance assessments of several companies and the identification of the most efficient one are required by the public authorities when selecting the best candidate for the desired support of the European Union.

It is not so simple to use the conventional techniques in the performance assessment. The task requires accumulation of a large amount of the statistical data and the construction of a mathematical model of the economic entity's activity. Such statistical models reflect merely internal activity trends in a production process; therefore, management finds it difficult to assess the impact of each input in the production of an individual product and to take rational decisions. Moreover rapidly changing market conditions cause these statistical models to age; therefore new and properly adapted models need to be developed and implemented.

The aim of the paper is to develop methodology to assess the impact of individual inputs on the performance of retail cooperatives.

Research methods. Statistical data analysis, correlation and factor analysis, expert assessment methods, and the mathematical modelling method were applied by using data envelopment analysis**.**

The assessment method used in the paper was based on the use of the Pareto sets. The method was first described by M. J. Farrell (1957), and the consequent theoretical studies of the said method could be found in the works of R. D. Banker, A. Charnes and W. W. Cooper (1984), A. Charnes, W. W. Cooper ir E. Rhodes (1978), and A. Charnes, W. W. Cooper, and R. N. Thvall (1991). The paper presents the performance assessment method of cooperatives that function under similar conditions; the method has been widely used in the works of Lithuanian and foreign researchers: A. Alvarez and C. Arias (2004), T. Baležentis and I. Krikščiukaitienė (2012), M. Gorton and S. Davidova (2004), D. Rimkuvienė, N. Laurinavičienė and J. Laurinavičius (2010).

LITERATURE REVIEW

When one talks about the company efficiency one usually means its success in producing the largest possible output from a given set of inputs. Provided all the inputs and outputs were correctly measured, the usage would probably be generally accepted. At any rate, the measure of *technical efficiency* defined below conforms to this usage (Farrell, 1957).

A company is considered efficient when it is able to reduce the amount of resources (input) it consumes and still generate the same amount of output, or is able to generate more output by using the same amount of input. Later, the findings may be able to help company managers to come up with the adequate responses for improving and maintaining efficiency (Selamat and Md Nasir, 2013).

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Porcelli, F. (2009) wrote that efficiency is only one part of the overall performance and proposed a framework for performance assessment (Figure 1).

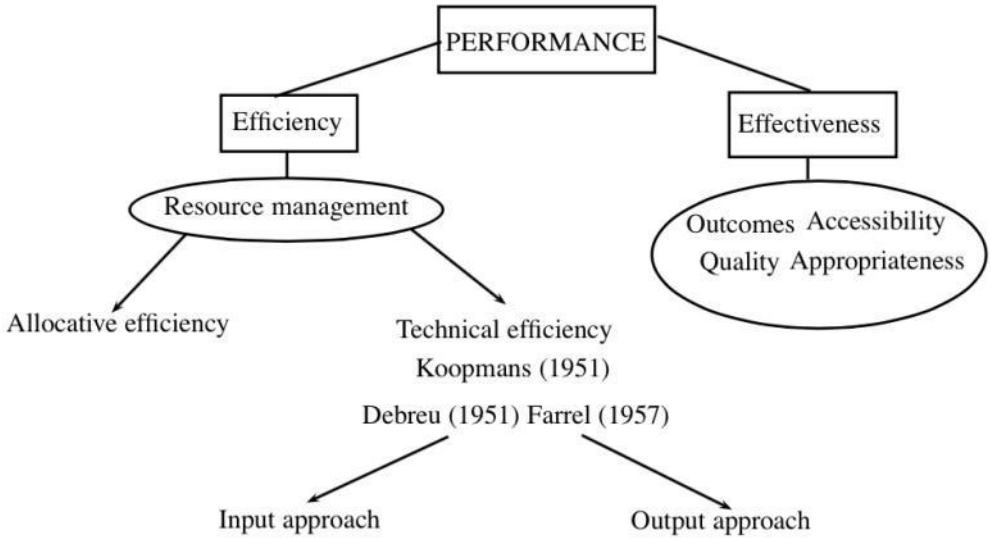

Figure 1. *Framework for performance assessment (Porcelli, F. 2009)*

A complete analysis also involves the measurement of effectiveness and the degree to which a system achieves programmes and policy objectives in terms of outcomes, accessibility, quality, and appropriateness (Worthington and Dollery, 2000).

John Seydel (2006) demonstrates how Data Envelopment Analysis (DEA), a tool that is typically applied more in post hoc evaluations can be also used with some modifications as a prescriptive decision support tool. Š. Bojnec and L. Latruffe (2008) also used the DEA method for their studies. They wrote that the studies of technical, scale, allocative, and economic efficiencies are rare for transitional farm businesses, especially in Slovenia.

Tzouvelekas, V., Pantzios, C. J., Fotopoulos, C. (2002) findings indicate that the organic wheat farms examined are relatively more efficient. They estimate technical efficiency using Kalirajan and Obwona's stochastic varying coefficient regression model.

METHODOLOGICAL FRAMEWORK

The activity of each cooperative (object) is characterized by pairing a factor (input) X and an outcome (output) Y. By placing the pairs of the said values of ***n*** objects (X_i ,Y_i), *i=1,……, n)* on the Cartesian co-ordinate system, we get a picture of the practically achieved outputs *Y* affected by inputs *X* (see Picture 2). In case the exact dependence of input X on output Y is identified, i.e. $Y=F_1(X)$, the efficiency of object ***k*** shall be calculated in the following way:

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$$E_k^0 = \frac{Y_k}{Y_{k_t}} \qquad (1)$$

i.e., the ratio of index value (Y_k) of the practically obtained output with the index value (Y_{kt}) of a theoretically possible output is calculated under the same impact of input (X_k).

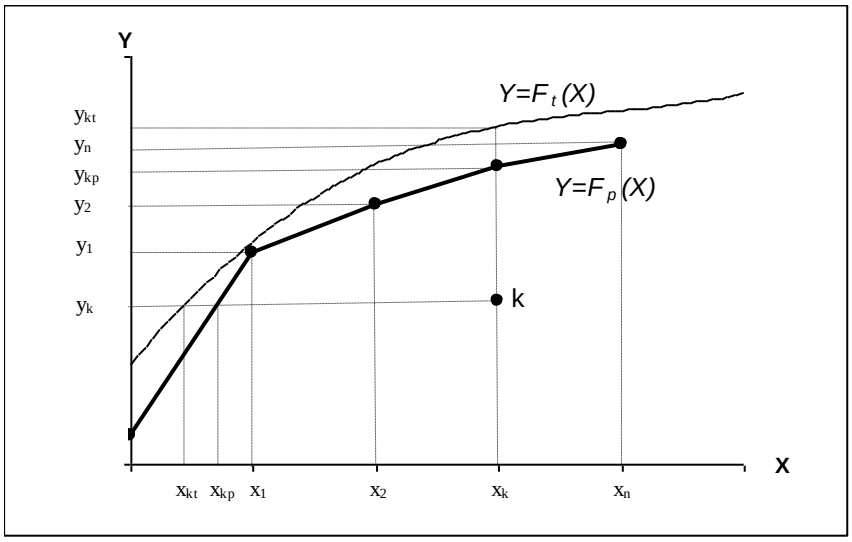

Figure 2. *Efficiency evaluation principle*

Unfortunately, in most cases the exact dependence ^{0} does not exist, therefore, a need emerges to get the most accurate possible substitute for it in some way. There are at least two possibilities. One, so far the most used, is to derive a mathematical model for such dependence by means of detailed research. The method requires huge costs; therefore, it is only applied for the establishment of particularly significant dependences. The second option is to work out a practical dependence that would be as close to the precise one as possible. The second option was used in the present paper; the practical dependence was obtained as a broken line, enveloping the actual data and passing through the points of the top-performing retail cooperatives. That way, the dependence $Y=F_p(X)$ was derived, with respect to which the efficiency of any object *k* could be calculated, i.e.:

$$E_k^0 = \frac{Y_k}{Y_{k_p}} \qquad (2)$$

The efficiency calculated on such a principle is called relative technological efficiency. It shows how relatively (but not absolutely) efficiently the impact of input X is used.

The so-called relative input efficiency is also calculated in an analogical way: it shows how sparingly the impact of input X is used. In accordance with the value of the said indicator, one can find out what

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part of the impact of input X should be used (in comparison with the already used) in order to achieve the same efficiency. For object *k* in the demonstrated example, the efficiency shall be calculated in the following way:

$$E_k^1{}' = \frac{X_{k_t}}{X_k} \text{ when } (Y = F_t(x)) \qquad (3)$$

$$E_k^1{}' = \frac{X_{k_p}}{X_k} \text{ when } (Y = F_p(x)) \qquad (4)$$

In the formulas, ^{0} is relative output efficiency of point *k*, and ^{1} is relative input efficiency of point *k*.

We discussed merely the principle of the above-mentioned relative efficiency calculation. In its implementation, the establishment of the broken line is of the greatest significance. When assessing the efficiency of the object performance on the example of several efficiency-affecting inputs X_i, $(i=1,\ldots,m)$ and several obtained outputs Y_j, $(j=1,\ldots,p)$, the explained principle is realized as a mathematical model formulated in the following way: *n* assessed objects, which use inputs X_i, $(i=1,\ldots,k)$ in their activity, pursue maximum outputs Y_j, $(j=1,\ldots,l)$. To assess the outputs obtained by object *p*, one has to establish such and values as to:

$$\frac{\sum_j V_j^p \cdot Y_j^p}{U_o + \sum_i U_i^p \cdot X_i^p} \rightarrow \max, \qquad (5)$$

$$\text{when } \frac{\sum_j V_j^n \cdot Y_j^n}{U_o + \sum_i U_i^n \cdot X_i^n} \leq 1, \text{ for all } n=1,\ldots,N \qquad (6)$$

$$U_o + \sum_i U_i^p \cdot X_i^p = 1 \qquad (7)$$

≥0, ≥0, U_o is of any sign.

The efficiency measuring task expressed by the above mathematical model is a fractional programming problem which is transformed into a linear programming problem. To calculate the estimates for all the *n* objects, one has to solve *n* linear programming problems with *k+l* variables and *n+k+l* restrictions.

The present paper used the efficiency assessment model of the retail cooperative performance by utilizing the data of the correlation and factor analysis of the practical input and output studies.

ISBN: 978-9963-711-37-6

Retail cooperatives (just like other cooperatives) are specific companies whose purpose is not so much to make profit as to create the conditions for the cooperative members to timely and profitably sell their produce. There are not so many retail cooperatives in the country (Lietuvos… 2014); therefore, it is very important for their founders to assess the conditions of cooperative formation and the efficiency of the projected activity. A cooperative signs contracts with the cultivators under which the latter start to trust the cooperative company to sell their produce or to sell it to the said cooperative company.

The functions of the retail cooperative include:

- the collection of the largest possible amounts of produce from the cooperative members and its storage given the character of consumption;
- sorting and processing of the produce;
- organization of the produce or the finished products sales;
- market analysis and provision of the members with the data of the analysis.

The paper studied the impact of different inputs on the efficiency of the trade cooperative performance.

EMPIRICAL RESULTS

Small family farms with low production and outdated technology are predominant in Lithuania and they have difficulty competing in the market. Small and medium family markets have to find new solutions to strengthen their competitiveness and one of those solutions is cooperation. However, despite of the different incentives that contribute to the development of cooperation in Lithuania, agricultural cooperatives have been developing slowly, even though cooperation is the best opportunity for the farmers to obtain and maintain improved share in the market.

At the end of 2014 there were only about 230 agricultural cooperatives in Lithuania (Žemės ūkio…, 2015). Lithuanian trade agricultural cooperatives, which focus mainly on dairy, grain, seed and silage trade have been developing the most successfully. At the end of 2008 mobile farmers' markets appeared in Lithuania; there are 25 in Vilnius and about 14 in Kaunas. However, the amount of the cooperation in Lithuania is insufficient due to various economic, management, social and psychological factors. A continuous analysis and assessment of the cooperation in Lithuania is needed in order to define developmental tendencies, sudden changes, existing and emerging problems which could be solved on a national level and at the same time incentivize the development and creation of competitive cooperatives. (D. Vidickienė and Ž. Gedminaitė 2009). The assessment methodology of the impact of individual inputs on the outputs of the retail cooperatives is developed in the following sequence:

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- the outputs ($Y_{1,2,\ldots,n}$) of the retail cooperative activity are characterized;
- the principal inputs ($X_{1,2,\ldots,n}$) that predetermine the outputs of the cooperative activity are established;
- cooperative efficiency and the impact of individual inputs on their outputs is established by the means of the derived mathematical model.

The outputs of any company are characterized by a number of economic indicators: the profitability of sales, equity, and assets; the number of jobs in a cooperative company; goods capacity (the size of the member turnover in the cooperative); the number of the cooperative members; the economy of the working time of the cooperative members (farmers); and the savings of the investments of the cooperative members (farmers).

In order to define the outputs of the retail cooperative activities, we used the following economic indicators: sales profitability (Y_1); the number of jobs in the cooperative company (Y_2); the share of the produce sold by the members through the cooperative (Y_3); the economy of the working time of the cooperative members (farmers) (Y_4); and the savings of the investments of the cooperative members (farmers) (Y_5).

The retail cooperative (RC) activities are predetermined by a number of factors: average transportation distances for the growers of agricultural produce (X_1), provision with the means of transport (X_2), provision with storage facilities, equipment, and other means of production (X_3), the amount of production per 1 cooperative member (X_4), utilization of motor vehicles (X_5), the number of the RC staff per 1,000 Litas of the sold produce (X_6), the sum of the entrepreneurial characteristics of the management (X_7), the qualification of the management and the professionals (X_8), work experience of the management and the professionals (X_9), the co-efficient of the work time utilization (X_{10}), the goods delivery costs per 1 cooperative member (X_{11}), the amount of goods received from 1 supplier (X_{12}), advertising costs (X_{13}), marketing funds (X_{14}), market share (X_{15}), the sales prices (X_{16}), the amount of information about the cooperative (X_{17}), the stocks turnover predetermining the general turnover (X_{18}), the stocks turnover preconditioning the utilized capacity of storehouses (X_{19}), the assortment turnover (X_{20}), the demand for the staff in a cooperative company (X_{21}), the projected turnover (X_{22}), the price index of the purchase of produce (advancing money) from the cooperative members (X_{23}), and the geographical location of the cooperative company (X_{24}).

The retail cooperative's performance efficiency indicators and the impact of the inputs on the said indicators were calculated by means of the above mentioned mathematical model. An application was

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designed that integrated the solution of a linear programming problem. The outputs for each retail cooperative calculated by the application were the following:

- the efficiency of the use of the inputs affecting the performance of retail cooperatives for each output and the general efficiency (see Table 1);
- the co-efficients of the inputs impact on the particular retail cooperative are presented in Table 2.

The outputs	Y1	Y2	Y3	Y4	Y5	General
Efficiency in %	75	63	95	100	89	88
The output weight coef.	0.11	0.18	0.28	0.26	0.18	1

Table 7. *Efficiency of the use of all the inputs and the weights of the outputs (example)*

As seen from the data in Table 1, in the pursuit of output Y_1, the efficiency of retail cooperatives was 75%, and the weight of the output was 0.11 or 11%.

Inputs	X4	X5	X7	X10	X11	X13	X14	X16	X18	X22	X23
Impact coeff. for output Y1	0.05	0.04	0.11	0.07	0.14	0.03	0.08	0.16	0.14	0.10	0.08
Impact coeff. for output Y2	0.11	0.03	0.08	0.07	0.11	0.01	0.10	0.10	0.13	0.14	0.11
Impact coeff. for output Y3	0.18	0.06	0.07	0.04	0.10	0.04	0.07	0.12	0.14	0.08	0.11
Impact coeff. for output Y4	0.12	0.09	0.10	0.13	0.03	0.09	0.06	0.04	0.15	0.12	0.07
Impact coeff. for output Y5	0.11	0.03	0.10	0.04	0.14	0.10	0.16	0.04	0.16	0.07	0.05

Table 8. *The impact of the inputs on the outputs (example).*

As seen from the data in Table 2, in that particular retail cooperative the profitability of sales Y_1, e.g., was the most affected by the goods delivery costs X_{11} (0,14) and the stocks turnover X_{18} (0,14), while the least affected by advertising costs X_{13} (0,03).

The results' effectiveness could be objectively measured and the causes of ineffectiveness could be identified based on the presented methods. The analysis carried out by means of the developed methodology allowed to identify both the most efficiently operating cooperatives and the most effective (optimal) size of the cooperative; it also helped the management of the individual cooperatives to identify whether the use of individual inputs was appropriate or not. Government institutions use the presented methods (for example National Paying Agency under the Lithuanian Ministry of Agriculture) to define the most efficient company that would be worth receiving European Union subsidies

National Paying Agency under the Ministry of Agriculture

CONCLUSIONS

- The assessment of the company performance efficiency by the individual indicators may be misleading because while one indicator shows the cooperative performance to be efficient, the

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other indicator might indicate the cooperative to be inefficient. Therefore, a comprehensive examination and assessment of all the indicators is necessary.

- A model was developed on the basis of the assessment of operating conditions typical to the majority retail cooperatives by bringing out the activity characterizing conditions: inputs and outputs.

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 ISBN: 978-9963-711-37-6

THE CONTRIBUTION MARGIN IN COMMERCIAL COMPANIES OF FURNITURE. SOME CONSIDERATIONS FROM THE ITALIAN CONTEXT

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ABSTRACT

The still relevant global crisis has interested different geographical areas. This paper wants to focus on the situation in Italy with specific reference to commercial furniture companies. For years, the furniture trade has been affected by a different social order characterized by the crisis of the more stable traditional family with the will to invest in comfortable, long-lasting environments. The temporary nature of emotional relationships has led to choose furniture qualitatively inferior, especially foreign-made.

In this structural worrisome situation dramatic outcomes of severe international economic crisis have to be added. Considering, therefore, the trends of the furniture market, this paper shows, first of all, the actions of political power in support of a sector in crisis today, which for decades has been, however, one of the most flourishing of the Italian economy.

The highlight for the need of an adequate cost accounting follows, which has in the contribution margin its main indicator. This margin specifies the informative value, the different methods of determining the main variables that lead to its amendment; emphasizing the especially difficult ones to define those costs that may affect the convenience of commercial transactions. The continuous monitoring of this margin should facilitate appropriate re-launching management strategies of each company. This careful analysis of the profits formation must be added to the renewed marketing strategies, on which already exist useful scientific contributions.

Keywords: *Contribution margin; Furniture; Trade of furniture; Cost accounting; Commercial companies.*

INTRODUCTION AND MOTIVATION

[1] The paper is the result of a collaborative work. However it is possible to attribute to Luigi Umberto Rossetti: furnishing market in Italy (facts), latest public actions for the revival of the sector, typical aspects of accounting firms in analytical commercial interiors, contribution margin in particular, and possible strategies. The other sections are of Guido Migliaccio.

 ISBN: 978-9963-711-37-6

The recent economic crisis affecting the greatest powers of our planet production, has had its considerable effects in Italy too. Almost all the productive industry sectors, trade and services have been involved.

The increase in unemployment, and therefore the least disposable income, has reduced the demand for consumer goods and those ones intended for durable use.

Among the latter, the furniture and all other means of furniture used in every typical.

One of the most important commercial and productive sectors of the entire nation has therefore greatly been affected by the crisis.

In fact, for years, and even before the recent crisis, the traditional decor has suffered the consequences of demographic trends disinclined to invest in high quality furniture.

The crisis of the traditional family and the increase of unstable couples have instead favored lower quality furniture, although the cost of it is low or average. This new social context has thus penalized the finest artisan products, in favor of the furniture import, that is practical but certainly far from the aesthetic style that has always characterized the "made in Italy".

The public power intervention for the revival of the sector has been a (harbinger) sign of significant changes aimed precisely at reducing the effects of this crisis.

At the same time, marketing studies have been developed aimed at new relationships with potential customers and to confirm a significant presence of the Italian industry abroad.

Within the industrial and commercial companies, however, it is still lacking the spread of a cost accounting required to provide timely information to the entrepreneur for selecting appropriate supply and sale.

This paper is conceived as an integration toward this significant but unacceptable failing of the Italian economic scientific studies and it proposes some suggestions especially related to the informative power of the contribution margin.

AIMS AND STRUCTURE OF THE PAPER

With regard of this, the paper wants therefore achieve the following objectives:

- Present the main scientific studies related to the economy of Italian companies commercial furniture;
- Highlight the gaps related to these studies, which often appear out of date and too biased toward marketing;
- Outline the main current trends in the furniture market sales;
- Illustrate the actions of the political power aimed at revitalizing the commercial furnishings in crisis;

ISBN: 978-9963-711-37-6

- Explain the importance, functions and features of a system of internal control and management of commercial furnishing companies;
- Focus on the informative value of the contribution margin to be considered as a necessary driver control by management companies.

These objectives are aimed to be achieved progressively in the development of the paper that, as it is normal, begins with the literature review restricted to the Italian context to which the main considerations are referred to.

The illustration of the trends of the domestic furniture market follows, and it highlights the crisis of the last decades, due not only to the broadest international crisis.

Therefore, the presentation of the national standards in recent decades have attempted to deal with the crisis of the internal and external demand for the typically Italian furniture and to oppose the import of qualitatively lower furniture. The laws exposure on the subject, highlights the positive and negative aspects of a still commendable economic policy attempt.

Among the answers that entrepreneurs have provided, marketing surely those already analyzed by the doctrine, it is necessary to highlight the need for an adequate internal information system that encourages timely decisions that are economically and financially useful.

The cost accounting, especially, should provide information about the cost of the product in consideration of the high fixed costs that commercial companies must sustain to submit furnished environments that stimulate purchase.

Among the different tools that accountancy offers, the attention is focused on the contribution margin presenting variables typical of the commercial furniture industry and especially those costs that are more difficult to define and that could compromise the convenience of any transaction.

The monitoring of the contribution margin also favors the drafting of appropriate strategies for a "return value".

ITALIAN LITERATURE REVIEW (NOTES)

This paper only presents the situation commercial furnishings situation in Italy. For this reason, the literature review refers only to the Italian scientific production whose literature is not very rich, and especially not up to date with recent years characterized by the severe economic crisis that has involved the full field.

Some writings focus on the characteristics of the entire production chain, starting from the raw materials to the use of the furniture in the Italian families: April, 1999; Traù, 2003; Gargiulo, 2005; Gargiulo and Zoboli, 2007; Dal Bosco and De Martin, 2011.

ISBN: 978-9963-711-37-6

Others focus on the production processes in the network or in the context of some industrial districts (Bednarz et al., 2011, p. 97 and ss.; Cariani, 2010, p. 260 and ss.; Brunetti et al., 2007, p . 73 and ss.).

The writings of the most consistent and numerous ones, however, are relative to the interior and the furniture marketing, and try to focus on the typical commercial tools in order to promote sales: Marelli, 1999; Grandinetti and Chiarvesio, 2002; Lojacono and Carcano, 2001.

Sometimes it is accentuated the value of some of the factors that enhance the product thus favoring the marketing. For example: the Italian Style (Snaidero, 2005), or more generally the market opportunities arising from the certification of the product quality (Arrigoni, 2001) better if certified (Martelli, 2000).

Many studies published in the Italian international furniture marketing trade are significant which consider the good placement of national exports that take definitely advantage of a style popular in the world: Politi, 2000; Lojacono et al., 2012; Lojacono, 2007. Some publications are related to marketing and penetration in certain countries: US (Lojacono, 2004), and India (Chiarvesio, 2014), in particular.

In some cases, many tools used in other areas are enhanced, such as the franchise (Tosini, 2001), or other methods that try to deal with the typical problems of financial management of businesses (Lojacono and Guerini, 2008).

Furthermore, it is worth noting some professional publications related to the recent Italian government incentives aimed at revitalizing the area in question. (Roncher, 2015 and Donati, 2014).

However, very few are the analytical accounting publications applied to commercial companies of furniture. There is in fact only one volume, outdated, especially relative to the stage of the industrial manufacture, rather than to the commercial one (IASM, 1981) and some other writing which focuses on the remarkable impact of the unsold inventory furniture cost (Righetto, 1998).

To have a more widespread Italian bibliographic production is therefore necessary to turn to generalist volumes related to commercial enterprises which, however, only rarely focus on the typical economy of the company's commercial furniture distribution. These deficiencies have led the authors of this paper to an in depth analysis afoot of subsequent developments.

ISBN: 978-9963-711-37-6

FURNISHING MARKET IN ITALY (FACTS)

The furniture market has always been one of the most dynamic and important in the Italian manufacturing, reaching since the 1980s, very high levels of purchase equal to 2% of the total private consumption of the period (Gargiulo, Onida and Traù, 2009). The piece of furniture "made in Italy", characterized mainly by small and very small companies reached its highest level in terms of number of firms and employees.

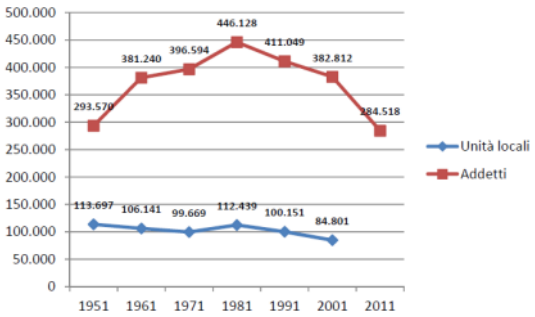

Figure 1: *size classes of the wood industry (Centro Studi Fillea)*

At the beginning of the new millennium the first and most important change in the industry is carried out with the creation of specific areas organized in complementary sectors of production (Gargiulo, Onida and Traù, 2009). We witness the creation of the "induced furniture makers" or "furniture districts" characterized by the processing business in mid-sized companies specialized in the processing of specific parts or materials (Brunetti, Marelli and Visconti, 2007).

The furniture market has been characterized, in recent years, by a strong dynamism: to an evident decline in sales increasing from 42.5 billion to 27.2 billion (2007-2013) is counterposed by a decrease in jobs and the closing of many companies.

The global crisis of the years 2007 - 2009, which certainly has had its negative effects on the industry, is not the only cause of this negative trend. The crisis comes at a time of major changes both geographical (relocation) and competitive (new competitors) (Lojacono, 2007).

The structure of the sector, which has remained unchanged, divided by districts located mainly in North Italy, suffers from a very strong and competitive skimming only the best firms survive while the less efficient ones exit the market.

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Figure 2: *Industrial district of forniture – Istat*

The last period has been characterized by a strong suffering of the internal market; export growth has failed and still fails to prevent further loss of production.

The impact of the crisis on consumption is evident as well as the collapse of confidence in the Italian country system; the furniture sector is experiencing a new scenario: the decline in consumption, the growth of large retail, the difficult access to credit, in a continuous and changing economic and regulatory trend (Lojacono, 2007).

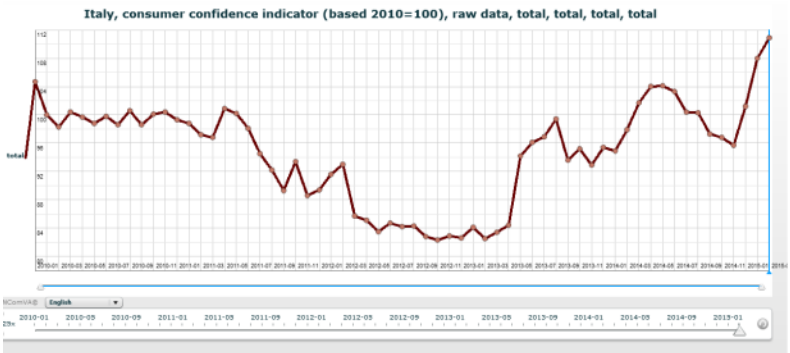

Figure 3: *Italy consumer confidence indicator - Istat*

The growth of retailing depends differently on the type of furniture distributed and on geographical areas; from the geographical point of view it is still evident the difference between North and South, which, however, has recorded a strong increase in percentage, mainly due to the emergence of large shopping centers and to the furniture specialists supply enlargement (Lojacono and Carcano, 2001).

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(Poltronesofà, Chateau d'ax, Natuzzi, Point furniture, Ikea, Mondo Convenienza, Centro Convenienza etc.)

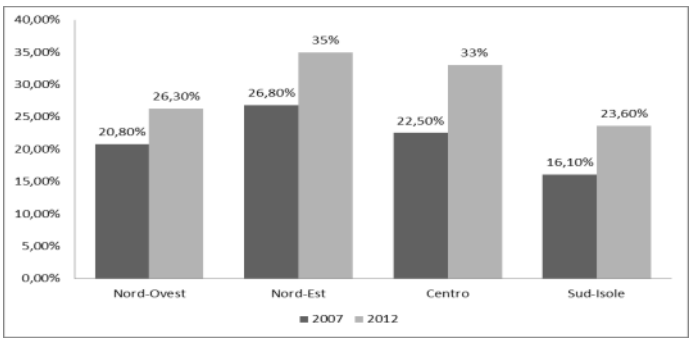

Figure 4: *GDO in Italy (Scavolini – Csil)*

The furnishings are characterized by extensive modularity and require specialization in the assembly, with the biggest difficulties of distribution through supermarket chains; situation evident in the comparison between the general distribution of furniture and one of the kitchens.

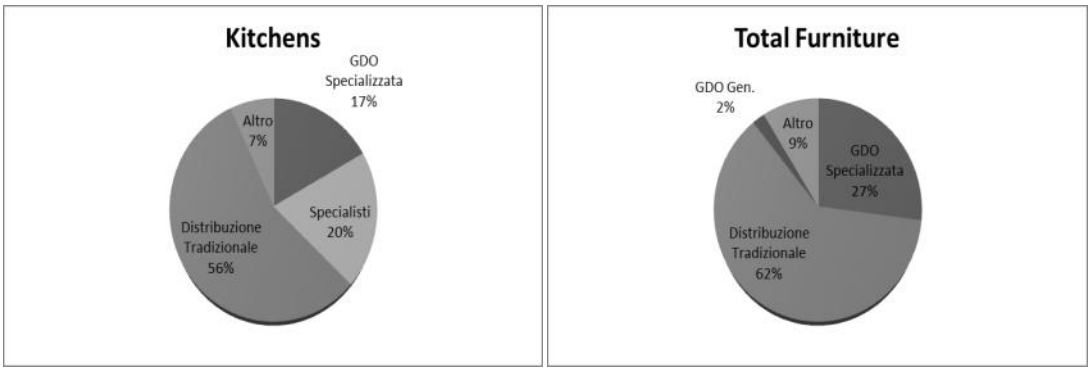

Figure 5: *Distribution Channels 2012 (Scavolini – Csil)*

The next few years will still be difficult for the sector despite the growth of international trade; the recession in Italy will lead to a further decrease in the production of furniture and a stabilization of prices.

Macrosistema ARREDAMENTO
(Valori in milioni di euro a prezzi correnti)

A	2013	2014	var. % 2014/2013
Fatturato alla produzione (a)	17.686	17.337	-2,0%
Esportazioni (b)	10.772	11.057	2,7%
Importazioni (c)	2.784	3.034	9,0%
Saldo (b - c)	7.988	8.023	0,4%
Consumo interno apparente	9.698	9.314	-4,0%
export/fatturato (% b/a)	60,9%	63,8%	4,7%
Addetti	210.318	208.744	-0,7%
Imprese	30.763	30.318	-1,4%

Figure 6: *Furnishing macrosystem* (*Centro Studi Federlegno Arredo Eventi SpA*)

ISBN: 978-9963-711-37-6

LATEST PUBLIC ACTIONS FOR THE REVIVAL OF THE SECTOR

The first state intervention regarding the purchase of furniture and appliances dates back to 2010 and provided an incentive until the funds were allocated.

In case of success, confirmed the availability of the funds, the incentive would have been applied in the form of a reduction to customers who subsequently would have recovered the sum deducted from the sale price. It is currently in force (with extension until the end of December 2015) the Law Decree 63 of June 4, 2013, containing several measures to revitalize the construction industry including the Bonus furniture. It is a measure of tax incentive that allows the buyer to deduct from the (individual income) tax return documented expenses related to the purchase of furnishings, in order to be allocated to buildings that have been restructured or will be in the future (Donati, 2014).

Both incentives have affected, though in different ways, the commercial management of companies; in the first case, the customer paid deducted amount incentive, whose upper limit was set at one thousand euro. Only later the company would have been part of that amount, that is after making a double change in a financial accounting active, one towards the customer and the other towards the State for the amount not paid by the same. This system has shown a strong criticism due to the considerable credit delay of these amounts from the State, often generating, (in the presence of many practical facts) situations of illiquidity.

In the second case, the amount paid by the customer was full, so, the company took, through the indicated means of payment, the full amount. This system too presented, and presents, critical issues. The same Stability Law provides for the increase from 4% to 8% of the withholding tax withheld by banks on transfers for the energy upgrading payment and renovation of buildings that benefit from the deduction of 50%. Therefore, also in this case, companies do not bank immediately the total amount, but an inferior amount (sale proceeds less withholding tax) creating possible illiquidity in this case too.

In the last quarter of 2013, the Bonus Furniture has affected sales by 4% and in the first two months of the year 2014 by 0.6%, representing the first positive sign after years of reductions in revenue. The next few years will surely be characterized by uncertainty especially in the domestic market. The hope is that the resources won't be diverted from economy and with the confirmation of the bonus for the furniture we can suggest an arrest in the decline in the furnishing consumption as it happened in the past (Roncher, 2015).

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Figure 7: *The furniture sector in Italy 2009/2016 (source Csil)*

The tax incentive policies have failed to reverse the negative trend in sales volumes in a depressed economic environment characterized by a decrease in the purchasing power of households, difficult access to credit and the contraction of the housing market.

	Volumes	*Prices*	*Value*
2011	-3,1	1,9	-1,3
2012	-9,3	2,1	-7,4
2013	-6,7	1,1	-5,7

Table 1: *The furniture sector in Italy (variations in %)*

It seems clear, in terms of turnover, the impact that the Government intervention in the economy has had in favor of the furniture industry which has seen, over time, a gradual decrease in sales volumes which was complemented by an inexorable decline in the margin contribution (MCD).

TYPICAL ASPECTS OF ACCOUNTING FIRMS IN ANALYTICAL COMMERCIAL INTERIORS

For many years the furniture industry market research has revealed that the product only, although crucial, can no longer guarantee the success of a company or a store. The consumer gives growing importance to the service factor in determining his own level of satisfaction. The service appears to be a critical success factor because it is difficult to imitate and the related expectations are generally very high. It can be divided into pre-sales, sales and post-sales. The greatest criticism concerns above all the previous phases but especially the post-sale one where important issues, not easily detectable in the general ledger, are observed (Marelli, 1999). It is in the cost accounting that the details and the information of a company are provided (revenue costs). The new competitive scenario is set in a market; size no more sufficient for everyone, shows a tendency to preserve, and not proportionally reduce, its market share or the intention to moving toward other markets (Lojacono, 2012).

Therefore, the issue is to increase the sales in order to maintain or even increase its market share, but, above all, to increase the overall contribution margin of the store.

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CONTRIBUTION MARGIN IN PARTICULAR

The Contribution Margin Unit considers the difference between unit revenue and unit variable cost without considering how the product will be able to cover the fixed costs. It provides a guidance unit not indicative of the overall decision but surely useful for the furnishing specialist companies or single-product, or for strategic evaluations for products "owl".

If from the net revenues is subtracted the cost of goods sold and other variable costs (most of all of the commercial kind), we obtain the Contribution Margin, therefore representing the contribution from operations to cover the fixed costs and the achievement of the profit.

This margin has a decision-making utility in the short term because in the medium/long term the distinction between fixed and variable costs decreases. In the furniture industry, this margin, is usefully located in strategic decisions related to the ratio determination of sales-product quantity/price; greater quantities sold at lower prices or reduced quantities at higher prices. It is clear that this indicator is a separator between the variable costs and fixed costs of the company, representing the most powerful indicator of the business good management, highlighting the validity of the purchasing policy, sales and adaptability and evaluation of the problems of the market.

The analysis of contribution margins is used primarily to control the customer profitability orders as well as for the overall assessment of the business enterprise; its determination is in the evaluation of the strategic positioning of the company and for the commercial management (formulation of product prices). The focus of the commercial companies to the precise determination of the contribution margin is confirmed by the strong attention of the main management software house who have inserted inside calculation functions, monitoring of the same and statistical functions.

The reduction of the Contribution Margin depends on many factors that may be internal or external. The “variables” elements typical of a commercial activity in the furniture industry can be summarized as follows:

Commissions seller/decorator	Design costs
Transfers seller	Relief measures
Transport costs in outsourcing	Assembly costs in outsourcing
Rental equipment external	

Table 2: *main variable costs in commercial companies*

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The main fixed costs can be summarized in:

Salaries and contributions	Leases
Leasing	General subscriber
Indirect taxes	Depreciation expense
Financial burden	Financial cost

Table 3: *major fixed costs of commercial companies*

It is clear that from the list price excluding VAT, you must subtract the discount applied to the customer getting the buyer sold excluding VAT; after that, you must subtract, still from the list price, the discounts reserved by the supplier to the retailer. The difference between that value and the sales excluding VAT gives us the First Contribution Margin.

Prime Contribution Margin is, therefore, the difference between the total value of the sale and the goods sold net variable cost. From this value must be subsequently deducted the costs "variables" mentioned above in order to obtain the Second Contribution Margin; the latter, then, is the difference between the value of the First Contribution Margin and the sum of the variable costs.

The value of the Second Contribution Margin, also called "coverage ratio", allows to prove if it is sufficient to cover the fixed costs that have incurred, regardless of the volume of the sales. This margin is mainly used as a medium/long term decision support.

In the furniture industry are present , however, other variable costs "hidden", defined as "costs after sale", whose prevision and quantification is very difficult to define. It's all the costs that may arise from unforeseen circumstances, additional issues or disputes after the sale.

1. *Product*			
Non compliance	Damage products	Missing or partial product	
2. *Assembly*			
Improper assembly	Impossible assembly	Goods damaged	
3. *Suppliers*			
Goods wrong	Goods arrived damaged	Residues exibitions goods	
4. *Warehouse*			
Goods damaged	Loss of merchandise	Goods decay	Confusion of goods
5. *Company*			
Error relief measures	Graphics Error	Error forms	Error order
6. *Legislation*			
Financial burden	Whitholding tax	Delays receipts	

Table 4: *main causes, internal or external*

ISBN: 978-9963-711-37-6

These variable costs consist of the direct cost of the product and of all the replacement costs (es. Travel costs) to which can be added the financial charges for late payments (credits v/s State), increases in withholding taxes or unsalable goods, such as bits of shows or exhibitions.

Since the reduction of sales increases the incidence of fixed costs on turnover, the first action to be done is a revision of the same, that should not be seen solely as a real cut, but simply as a redistribution and optimization in the overheads.

It is obvious that the only costs that cannot obtain a precise control, because they cannot be measured or expected and therefore not perceived precisely, are the after sale costs. These affect the margins substantially and almost always derives from the company's operational difficulties, management and organization.

To the after sales costs is added the incidence of costs generated by the power / strength of some big brands / suppliers affecting strongly and authoritatively the companies' investment decisions and purchase.

Some companies, while escaping a relationship of exclusivity to sell the product, mandates a minimum investment of product exposure and investment in promotional material exhibition. Some products, characterized by modular elements, in the replacement, once on display, will result unsaleable or difficult to use; a typical example are the kitchens work plans; these affect the Contribution Margin like the unsaleable products.

To a lesser extent, and in the cases provided by law, the unpredictable financial expenses related to incentive measures established by the various governments are set. A decrease in financial charges carries a lower cost of debt with obvious effects on the operating result.

Faced with an uncertain demand and not easily predictable, is of a relevant matter the loss of margins contributions relative to the cost of the resulting products unsaleable or difficult to sell. The big brands are using their power force on insertions in exhibitions of furniture stores who are forced towards investments "required" in the latest products. This obligation of investment of "exposure" products, generates almost always, in the furniture store shows, residues of non-sellable or difficult to sell elements. The reference is toward the modular products (kitchens) compounded by distinct unchangeable parts and therefore not always adaptable to the customer needs.

POSSIBLES STRATEGIES

The contribution margin in commercial companies in the furniture industry is fundamentally linked to the sales policy used by the store. Increasing the overall margin is possible by increasing the number of annual fees; from the sale of ancillary services to the purchase of the product, from the increase in the average of the Committee, or acting on the unpredictable costs.

ISBN: 978-9963-711-37-6

To increase the number of the committees made, you can increase the number of turnout at the store or improve the effectiveness of the vendors in terms of the conclusions of contracts. Another possibility is making some ancillary services, free so far, for a fee; in order to charge the customer of some of the services related to the sale such as graphic design, delivery and assembly or collection of used and / or removal and disposal products.

The increase in the average of the Committee can be achieved either by increasing the average level of sales of the products, or adding to it the sale of furnishings.

Finally, companies have to face the problem of the reduction and the recovery of the contribution margin primarily through interventions and / or optimization of:

Fixed Cost	Company procedures	Relationships with suppliers
Customer loyalty	Higher profitability	Products on display
Management review	Financial flows	Pre-sales
Sale	After sales	Full cost to direct cost

Table 5: *main critical*

Such recovery activities must remain within a field of preservation of the quality of the products and/or services; the use of poor quality products, unskilled labor, not adequate exhibits, if in the short term, will certainly provide an advantage for the company, in the medium/long term can become a critical corporate image and its competitive position.

CONCLUSIONS

The analyzes presented of specific field of production companies have definitely Italian international interest. The entire chain of furniture, and especially the terminal phase of the commercialization of furniture, can be considered exemplary situations of systemic change induced by innovations in consumption and, in recent years, the international economic crisis. The required skimming of marginal holdings was in fact generated primarily by social and demographic changes that have characterized the traditional markets. The replacement of the dominant model of family induced to invest less in furnishing, furniture preferring practical and economic to better quality and more expensive.

The other effects of the economic crisis, especially the reduction in consumption and credit, have had, in the sector under analysis, similar consequences for other production areas.

Again, however, we must emphasize its own typical: the strict relationship between the product and services, as already highlighted appropriately. In today's society the services have taken, as a rule, a growing role, to become prevalent in some cases. The crisis, however, for some products had opposite effects: just to economize, some families prefer to manage services in economics definitely required

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before the dealer. This is evident in the lower segments of the market in which there is increasingly left to the buyer the right to carry and assemble themselves, economizing, or delegating to other such steps and bear the costs.

A final element must be appropriately emphasized that typical feature of the sector: the power relations described between large manufacturing companies, large groups and small business retailers peripheral. The latter often have to succumb to the logic strategic drafted elsewhere, in order to ensure the availability of products. This compresses their spirit and their decision-making autonomy, forcing them to roles of mere executors of decisions taken independently of their local experiences, though significant. In conclusion, it is evident, from the earliest described, that an analytical accounting of the costs and, in particular, an adequate and timely calculation of the contribution margin for each product, can foster a more organized and profitable, even in commercial marginal more modest size. Obviously this implies spreading accountancy and managerial skills that should prevail with respect to administrative and fiscal unfortunately sometimes almost exclusive. This first analysis of the sector should be followed in the future by further study, especially of business cases, to reach conclusions more analytical underpinning the concrete experiences of empirical reality with the dictates generalists that science offers managerial

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 ISBN: 978-9963-711-37-6

THE FINANCIAL CHOICES OF SMES. THE MAIN PROBLEMS OF ITALIAN AGRO-FOOD FIRMS' ACCESS TO FINANCE

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ABSTRACT

Small and Medium Enterprises (SMEs) represent a huge portion of the firm tissue of developed countries, but they have not adequate attention. In fact, various researchers have focused their studies on larger and well-known firms. This paper aims to investigate the access to finance of SME, with a specific focus on agro-food micro firms. Access to finance is key in business start-up, development and growth for SMEs, which have very different needs and face different challenges with regard to financing compared to large companies. The lack of equity invested in small firms makes them more dependent on other sources (e.g. bank lending). The limitations of the paper are the result of its very nature: it is a largely conceptual paper. Empirical research is therefore needed to test and validate the essentially preliminary framework.

Keywords: *Agro-food firms, Financial Choices, Internal Source, External Source, Bank loans*

INTRODUCTION

Small and Medium Enterprises (SMEs) represent a big portion of the firm tissue of developed countries (Figure 1). In fact, the 20 million European SMEs play an important role in the European economy. In 2012, they have represented 99.8% of total number of firms, and 66.5% of all European jobs for that year (European Commission, 2013). During 2012, the SME sector as a whole delivered 57.6% of the Gross Value Added generated by the private, non-financial economy in Europe 2012 (Eurostat, 2013). All these data show the importance of these firms, but they not always receive the right attention. The emphasis on big firms undermined the development of young and small firms, which do not have access to public markets (Zingales, 2000).

 ISBN: 978-9963-711-37-6

Enterprise category	Headcount: Annual Work Unit (AWU)	Annual turnover	or	Annual balance sheet total
Medium-sized	< 250	≤ €50 million (in 1996 € 40 million)	or	≤ €43 million (in 1996 € 27 million)
Small	< 50	≤ €10 million (in 1996 € 7 million)	or	≤ €10 million (in 1996 €5 million)
Micro	< 10	≤ €2 million (previously not defined)	or	≤ €2 million (previously not defined)

Figure 1. The new SMEs defintion

Source: European Commission (2013)

FINANCIAL SOURCES FOR FIRMS

The lack of economic capital is one of the most important obstacle to growth. The management of the capital factor, since the acquisition until the time of its use, will require a decision-making process focused on quantitatively and qualitatively capital resources observed both in their origin - sources - and in their destination – uses (Rossi, 2014). Funds differ in various stages of a company's life cycle (Figure 2).

In the start-up phase, the family of owner and/or business angels are the main investors of new firm. Start-up financing is used for product development and initial marketing activities. Enterprises may still be in the creation phase or have just started operations, without having sold their product. At this stage, money is important to pursue R&D activities. When the product has taken form, a certain number of Venture Capitalists will join the firm: they want to set up the firm. After formation, the firm has developed its product and it requires more financial resources to commercialize it. The firm has not generated profits yet, since the step of Expansion-Development is high progression process. At this stage capital is used to increase production, to develop new services/products, to finance acquisitions and/or to increase the working capital of the business (Rossi, 2014).

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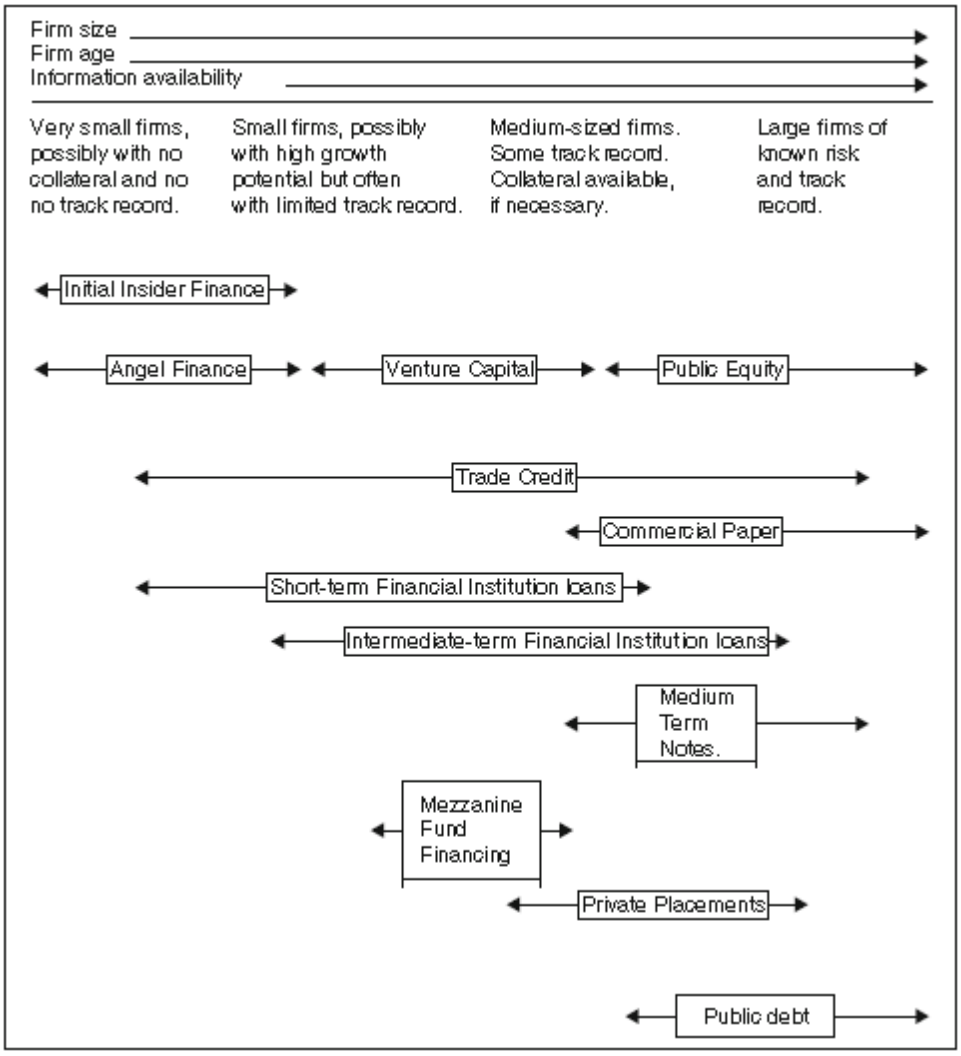

Figure 2. Application of the Life Cycle Approach to the SME Sector

Source: Berger and Udell (1998: 623)

Firms need different capitals in different stages of their life. Financial resources can be classified into external sources and internal sources; the internal sources are all financial resources from inside the business, external sources are all financial tools from outside the business.

Internal finance tends to be the cheapest form of finance since a business does not need to pay interest on the money. However, it may not be able to generate the money that the firm is looking for, especially for larger uses of finance. There are three internal sources of finance:

- Retained profits,
- Sale of existing assets, and
- Cut down stock levels.

External sources can be divided in long-term, medium-term, and short-term. Short-term financing have a repayments period of less than one year. Medium-term financing are those with a maturity

 ISBN: 978-9963-711-37-6

period of more than one-year but less than 5 years. Long-term financing are those with a maturity period of 5 years and more.

There are a lot external sources of finance:

- Bank Loan or Overdraft,
- Trade Credit,
- Factoring,
- Leasing,
- Hire Purchase,
- Shares,
- Long Term Bank Loans,
- Grants, and
- Private Equity, Venture Capital, Business Angels.

The use of external financial resource is linked to principal disadvantage of internal resource (Table 1).

ADVANTAGE	**DISADVANTAGE**
Capital available	Expensive: is not tax-deductible
No interest	No increase of capital
Spares credit line	Not as flexible as external financing
No control procedures regarding creditworthiness	Losses are not tax-deductible
No influence of third parties	Limited in volume

Table 1. Advantage and Disadvantage of Internal Sources

Source: author's calculation

In fact, internal resources are limited in volume, and this requires external investors. External financing can help jump-start of business, but it also has drawbacks (Table 2).

ADVANTAGE	**DISADVANTAGE**
Faster Growth	Loss of Ownership
Greater Economies of Scale	Loss of Control
Leveraged Return	Cost
	Cash Flow

Table 2. Advantage and Disadvantage of External Sources
Source: author's calculation

Starting from the seminal papers of Modigliani and Miller (1958, 1963), a lot of financial researches have focused their attention on optimal capital structure. One of the most important researches was conducted by Myers and Majluf (1984); they argued that it exists a hierarchy in the financing funds of firms. Due to informational asymmetries, firms will prefer internal to external capital sources. The limitation of internal resources conducted owners of SMEs to select external capital sources. In these cases, they chose short term debt, because it does not reduce managers' operability.

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THE ITALIAN AGRO FOOD SYSTEM

The Italian food industry is a fundamental part of the country's economic system and represents an important sector of its manufacturing industry (Crescimanno et al., 2015). In recent years the food industry has been affected by the wider decline and loss of competitiveness of the Italian industry. Italy's products of designated origin continued to increase in number, achieving 210 registered PDO and PGI products (22.6% of the EU total). Most of Italy's PDO and PGI products are fruits, vegetables and cereals (nearly 40%), extra-virgin olive oil (19%), cheese (17.6%) and prepared meats (almost 16%). Neapolitan pizza has become Italy's second TSG (Traditional Specialty Guaranteed), following mozzarella (Rossi et al., 2014).

The agro industrial system is made up of a number of activities through which agriculture interacts with all the sectors connected to it, up and down the supply chain: from the industry inputs (fertilizers, pesticides, animal feed, energy, etc.) to the food processing, distribution and catering industries. The agro-food sector is estimated to will be worth some 246 billion euro (over 16.2% of GDP) at the end of the decade. The main contributions were: approximately 25 billion euro from agricultural value added (VA), 22 billion euro from intermediate consumption in agriculture, 17 billion euro from agro-industrial investments, 26 billion euro from VA in the food industry, 39 billion euro from VA in the catering industry and 99 billion euro from marketing and distribution (Figure 3).

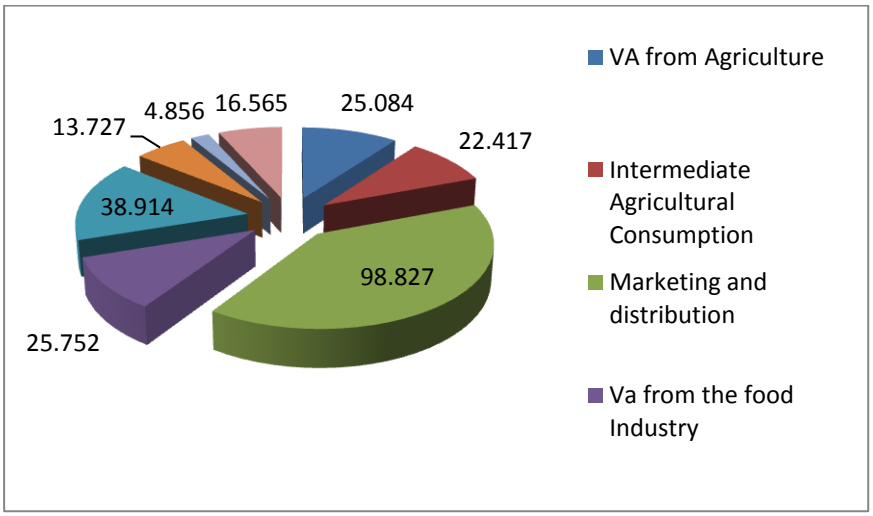

Figure 3: Main components of agro industrial system at basic prices (million euro) – 2009

Source: INEA, 2011

ACCESS TO FINANCE FOR ITALIAN SMES

In agreement with the European Commission SME definition, this paper considers a sample of small and medium firms located in Italy. This sample has been extracted from AIDA, a database of Bureau

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van Dijk, which contains economic and financial information with up to eight years of history of more than 200,000 Italian firms. Before this analysis, this paper analyses the main problem in access to finance for Italian small and medium firms.

4.1 MAIN PROBLEMS IN ACCESS TO FINANCE OF ITALIAN SMEs

Access to finance is one of the most important problem for Italian SMEs. Italy performs well below the EU average, with signs of increasing deterioration (Figure 4). Banks are less willing to provide loans to SMEs, and this indicates a drying up of private-sector financial support.

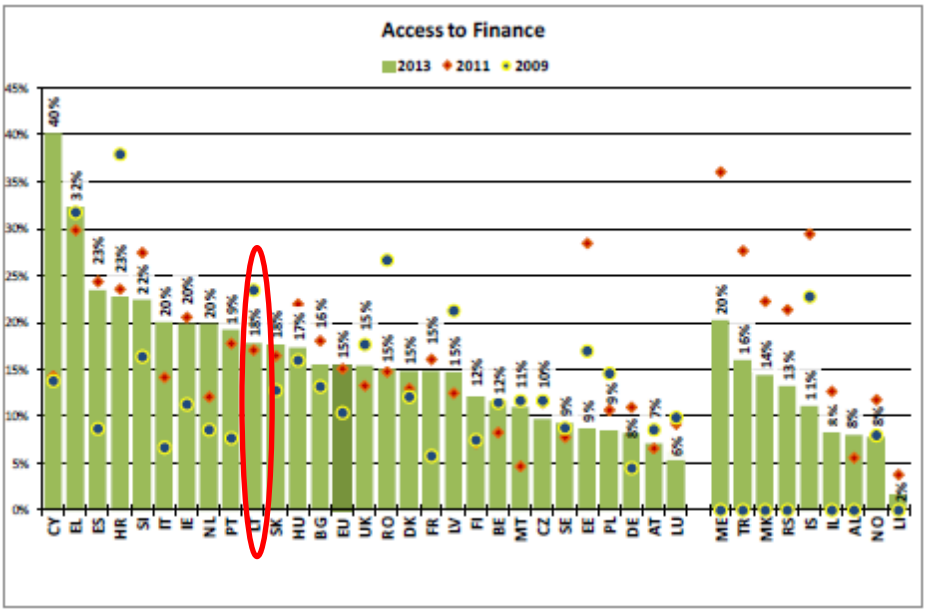

Figure 4. Firms most pressing problem

Source: European Commission, 2013

In line with the long payment times for public authorities, the total invoice payments time remains one of the longest in Europe (117 days), double the EU average (53 days) (European Commission, 2013.

Problems continue in the wider interest rate spreads between small and large loans and the absence of private equity and venture capital investor, particularly for early-stage investments. Despite the efforts realized from Government to sustain new and traditional forms of financial instruments, Italian SMEs still suffer from a chronic and structurally difficult access to finance. The main problems are:

- the increased administrative rigidity of banks in providing loans,
- the higher differential rates between Large firms and small and medium firms.

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RESEARCH METHODS AND RESULTS

The analysis of the principal weakness in financing Italian agro-food SMEs is the basis for the research. Data was obtained through a survey of business firms. The research was realized with CFOs, responsible for capital budgeting decisions. In order to achieve this goal, a total of 85 entrepreneurs-managers were targeted as potential respondents. Due to the nature of research, the study focused primarily on CFOs and managers who are involved in the capital budgeting decisions.

The aim of pilot testing was to check the relevance of questions before interviewing. Out of the 85-targeted interviews, a total of 27 interviews were successfully conducted. This gives a response rate of about 31%.

5.1 MAIN RESULTS

The following section discusses the main findings and results of the survey on capital budgeting techniques used by Italian firms. The first classification has regarded the business size and sector of firms involved. From the total 27 respondents 29.63% qualified as medium enterprises, and the remaining 70.37% were categorized as small businesses.

The survey sought to find out whether there was any relationship between financial decision maker and their level of qualification. In fact, there is a different involvement of respondents to the survey. Figure 4 shows the formal educational qualifications of the decision makers of the respondents.

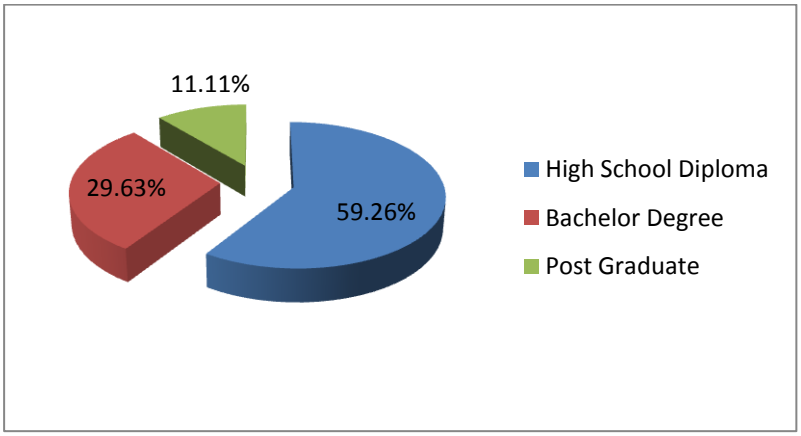

Figure 4: Qualifications of Personnel Responsible

Source: author's calculation

The research highlights that those decision makers that did have an High School Diploma mainly used Bank Loan or Overdraft as compared to those that received formal training. However, a deep analysis revealed that the use of financial instrument more sophisticated (Factoring, Leasing, etc.) was more used by those that received formal accounting-finance training. A closer look at those firms that used more than one source of finance indicate that the majority of them belonged to the post graduate category.

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Another important step of the research was the analysis of responses given per category of firms. The results confirm the theory that SMEs have preferred financial sources: bank loans. In fact, about 70% used bank loans or Overdraft and as firms increase in size they begin to use more financial sources.

External financial sources present an important cost: interests. In our interviews we asked to CFOs which is the interest rate. This aspect is fundamental because is a signal of entrepreneurial awareness in financial choices. The research highlights that SMEs decision makers don't have a specific awareness of interest rates on loans. They consider interest rate as a constant, but this is a crude approximation to reality.

Decision makers play a key role in financial choices. Different organizations use different decision makers to realize their financial choices. Table 3 shows that decision makers are responsible for the selection of better financial sources according to the size of the firms.

Decision Makers	Small (%)	Medium (%)
Owner	81	65
Chief Financial Officer	9	20
Team Decision	10	15

Table 3: Decision Makers

Source: author's calculation

The above results show that about 75% of business owners are directly responsible for choices of financial sources. Furthermore, the results suggest that different business level managers have limited influence on this decision-making process. However, the influence increases with the increase in the firms' size. It seems that, where present, the finance section had a significant influence in all decisions making scenarios.

A similar view can be expressed as regards to the role played by teams. A possible explanation is linked to the nature of small businesses. The majority of the interviewees in the small firms had limited operational structures, generally associated with larger corporations. This may be a reason why owners defined financial choices in small firms. However, the same reason cannot be attributed to larger enterprises. In fact, they have more formalized structures and large work forces.

CONCLUSIONS AND RESEARCH LIMITATIONS

This research has revealed the nature of choices of financial sources of agro-food Italian firms. Particularly, in this research two different variables were considered: the impact of the business size and the level of education of decision makers.

ISBN: 978-9963-711-37-6

This research has demonstrated that financial choice is a complex process, but it is under evaluated from SMEs. In fact, in these firms business owners are directly responsible. In most of the cases of the sampled firms the decisions makers have taken choices without appropriate training (Rossi et al. 2012).

The limitations of the paper are the result of its very nature: it is a largely conceptual paper. Empirical research is therefore needed to test and validate the essentially preliminary framework developed and the (well-based) assumptions made towards its development. Particularly, the most important limit is the definition of company size that was based only on the number of employees. Other indicators of business size such as capital employed and turnover were not considered.

This research has an exploratory aim and its findings are far from definite. They rather represent a starting point, a base for further research and analysis. For this reason the empirical results should be interpreted in view of some limitations: the sample of firms is random and does not fully conform to the criteria of statistical representation; the sample of companies could be expanded numerically.

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 ISBN: 978-9963-711-37-6

COOPERATIVE PRACTICES THROUGH STORYTELLING: ACTORS, RELATIONS, STRATEGIES.

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ABSTRACT

The substantial changes currently affecting competition and value creation processes have led to a significant reassessment of the role of the brand (Collesei et al., 2001). Namely, from a "*lovemark*" (Roberts, 2005), understood as "something that is loved" in that it is the expression of precise inspirational values, the brand has evolved into a "*wikibrand*" (Moffit and Dover, 2012), i.e. "something in which one participates", an incontrovertible sign of interaction/integration with the consumer, able to bring benefits in terms of distinctiveness, profitability, and the ability to develop innovation and generate memorable experiences (Pencarelli and Gregori, 2009).

When applied to tourist systems, the relational advantages of a well thought-out branding strategy become even more evident. In fact, in an increasingly competitive marketplace, the ability to create greater levels of awareness of the destination through collaborative efforts provides an important competitive advantage for a destination (Palmer and Bejou, 1995). Moreover, it has been recognized that destination marketing and promotion, if done individually and independently by various tourism stakeholders, is not conducive to developing a holistic image of the destination and so does not enable the destination to succeed in the long run (Grangsjo, 2003; Fyall and Garrod, 2004).

The basic hypothesis of this paper is that storytelling, defined by the National Storytelling Network (2011) as «the interactive art of using words and actions to reveal the elements and images of a story while encouraging the listener's imagination», represents a fundamental tool not only in the construction of a tourism destination's identity (Lugosi, 2014), in that it is able to highlight its participatory processes, even from a Service-Dominant perspective (Grönroos, 2008; Shaw et al., 2011), but also in terms of value creation, by enhancing the stakeholders' capacity for cooperation within the destination (Wang, 2011).

In fact, ever since the studies of "organizational sagas" (Clark, 1972) and "epic myths" (Mitroff & Kilmann, 1975) storytelling has been considered one of the oldest and most effective devices for identity building. Moreover, it has been widely underlined how through storytelling emotional connections can be created, which act positively on consumer's behaviour (Woodside et al., 2008) by both eliminating any distortions and/or discrepancies in the perception of the destination offer (Hsu et al., 2009), thus getting «the brand to work coherently and consistently because stories pull together pieces of a picture into a more emotional and meaningful whole» (Douglas 2009, p. 23), and by

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stimulating expectations with regard to the outcome of the stories as long as narration flows (Tussyadiah et al., 2011).

However, new perspectives can be acquired by matching the inner nature of storytelling, here understood as a form of textuality characterised by the recognition of the multiple contributions to the narration process and by a high degree of dynamism and inclusivity in both the creation and use of what is narrated (Fog, Budtz, Munch, & Blanchette, 2011; Fournier, 1998; Schank, 1990), and that of tourism destination, which is a complex regional entity driven not just by competitive dynamics with regard to the world outside it (the destination vs. its competitors), but also by collaborative practices which, in a context of co-opetition, develop within it (Wang and Fesenmaier, 2007).

Based on this premise, the purpose of this paper is to develop an integrative framework for narration practices in tourist destinations (what we refer to as "destination telling") and, by this way, to analyse the actors, actions, processes and relations underlying the development of storytelling in destination management. To this end, a theoretical model has been depicted, trying to make explicit the contribution of destination telling to the broader process of value co-creation in the context of tourism destination management.

Given the research's exploratory and inductive aims, a multiple case study approach (Stake, 2013) was chosen, looking at Italian Destination Management Organizations (DMOs) involved in storytelling practices: this ensured consistency with the objectives of the study and the specific nature of the phenomenon being studied. After a preliminary review of the literature, an on-desk survey of the destination telling practices activated by Italian regions was lead, specifically assessing:

a) the degree of innovation;
b) the ability to highlight the potential of tools based on web 2.0;
c) the ability to develop long-term horizontal participatory processes;
d) the ability to integrate on- and off-line promotional activities.

This survey revealed that not all the monitored projects could be considered suitable exemplars. The following regions were judged to have met the criteria: Emilia Romagna, Puglia, Umbria and Friuli Venezia Giulia. Then, an on-field analysis was conducted by means of a series of in-depth interviews with the managers of the DMOs promoting the specific projects of interest, in order to identify relationships, functions and challenges arising from the development of destination telling practices.

As results, it can be argued that the application of storytelling to destination management activities (what we refer to here as "*destination telling*") represents a new strategic frontier, not only for stimulating the development of a representative, distinctive and attractive identity that can also be perceived as "authentic" (Cohen, 1979; Wang, 1999), but also and above all for value creation both within and beyond the destination. In these terms, stories come to life in a "dialogic loop" (Kent &

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Taylor, 1998), in which destination's stakeholders are not mere recipients in a one-directional process, but actors who participate in the construction of *destination conversations* that highlight, by means of metaphor, the destination's tangible and intangible assets (Iazzi et al., 2015), conferring a distinctive and catching personality to the destination brand (Crouch and Ritchie, 1999). In this sense, it is also seen that the shared construction of stories favours the development of long-term inclusive and collaborative behaviours, which can increase operational efficiency in relations with stakeholders, even at the intersectoral level. In fact, the analysis conducted clearly shows that one of the elements that most strongly influences the contribution of destination telling to a broader process of destination development is precisely the nature of the relations that are established between the public and private actors operating within it.

Keywords: *destination marketing, destination management, cooperation, storytelling, competitiveness, tourism*

ISBN: 978-9963-711-37-6

SAAS ADOPTION: CRITICAL FACTORS FOR CRM APPLICATIONS

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ABSTRACT

Software as a Service (SaaS) approach is a demand-driven application that provides network-based access to an integrated portfolio of applications across the virtual value chain of an enterprise. Therefore, the aim of the present paper is to investigate the organizational technological and economic factors, which influence the adoption of SaaS for Customer Relationship Management (CRM) applications. The theoretical framework refers to Transaction Cost Theory (TCT) and Resource Based View (RBV) Theory. The research is based on the case study method and analyses four companies of big dimensions, which have adopted the SaaS approach at least for three years. The results show the importance of some organizational factors such as the optimizations of marketing processes, while other factors such as costs are strongly connected to the reduction of financial risks more than to the costs control in a strict meaning.

Keywords: *Software as a Service (SaaS), Outsourcing, Customer Relationship Management, Transaction Cost Theory (TCT), Resource-Based View (RBV)*

INTRODUCTION

This study investigates how certain organizational, economic, and technological factors enable the adoption of software as a service (SaaS) model for customer relationship management (CRM) applications. In turn, it determines whether it is possible to specify a decision course for such adoption. In this context, CRM represents an integrated, structured process for customer management (Parvatiyar and Sheth, 2000) that uses Information and Communication Technologies (ICT) (Sawhney and Zabin, 2001) to define and develop personalized, long-term customer relationships (Payne and Ryals, 2001) and thus create competitive value and advantage for the firm (Day and Wensley, 1988). Accordingly, CRM systems require a technological infrastructure that can support their processes. The SaaS approach is a demand-driven application that provides network-based access to an integrated portfolio of applications across the virtual value chain of an enterprise (Buxmann et al., 2008). A rapidly growing

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means of software licensing, SaaS differs from traditional approaches, in which the buyer purchases a perpetual use license from the software publisher and makes additional investments to obtain hardware, installation, and maintenance services. In contrast, in the SaaS model, a user buy a subscription to the software, and the software publisher runs and maintains the software on its own hardware, granting subscribers access to the software via the Internet (Xin and Levina, 2008).

We define SaaS as a service delivered according to a peculiar outsourcing procedure (Bardhan et al., 2010), such that a software vendor hosts, operates, and manages a software service for clients, on a paid subscription basis.

Therefore, SaaS can support online CRM applications through two component (Imhoff and White, 2009): applications and platform as a service (PaaS). The latter provides services that support on-demand CRM applications and itself consists of three components: CRM development, data integration, and data management services.

Referring to TCT and RBV the purpose of the present study is to understand which are the factors that drive SaaS adoption for CRM applications. In particular, the research question wants to detect the key organizational factors in the decision-making process for SaaS adoption placing emphasis on its impact on people, operative processes and services' suppliers. Moreover, the economic aspects have been investigated such as the costs and the technological aspects, which enable SaaS adoption in CRM applications.

Today's literature about that matter is very limited and the aim of this paper is to contribute to a literature enrichment in this branch of research. The objective is to try to fill the existing gap between how the world of business practice is moving towards a new organizational solutions based on peculiar types of outsourcing approaches and the academic literature which should study and theorize these models. There is a lack in literature studying SaaS adoption processes because studies are focused on traditional outsourcing themes and prior studies did not analyze the differences between ASP and SaaS (Xin, Levina 2008).

First results are highlighting the importance of some organizational factors such as the marketing processes' optimization, while other factors such as costs, are strictly connected to the reduction of financial risks more than to the cost reduction in a strict meaning. The obtained results suggest the importance of the innovative choice of SaaS on a strategic level as it turns to make CRM operative processes more efficient and reduce the time-to-market.

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The paper is structured as follows: after the background literature, we present the research question. Then we describe our research method, research setting and we offer a discussion of the enablers that emerge from our case studies. Finally, we summarize our preliminary findings and comment on their organizational, economic, and technological implications.

LITERATURE REVIEW

Sofware as a Service is a model of software for distribution and development, which has already been present in the field of Information Technology for almost ten years.

That phenomenon aims to the substitution of the product providing concept with the service providing concept, making intangible to the user the remote place from which the application is provided and the modality though which the application itself is accessible to the final user (Xin and Levina, 2008, Bardhan et al 2010).

The Software as a Service exceeds the traditional outsourcing concept and the Application Service Provider (ASP) concept where it was the IT architecture of the supplier to be provided with a mechanism of software "customization" in favor of the client. On the contrary, in SaaS modality every personalization is done directly from the client using web based standard interfaces. The peculiarity that the applications' supplier doesn't make client-specific investments makes that model particularly competitive from the point of view of costs (Xin, Levina, 2008). Moreover, the possibility to support a better specificity in the investment in terms of integration easiness with the information system which has already been present in the company, makes that approach more convenient in comparison with the solutions which existed in the past. Moreover, this easiness in integration is strictly connected to the level of the client's architecture's maturity (Ross and Beath 2006; Xin and Levina, 2008). Sourcing strategies find their theoretical basis in different organizational theories. The present study is based on two widely used and developed theories in literature: the Resource Based View (RBV) and the Transaction Cost Theory (TCT). The choice of sourcing (SaaS) has been investigated in relation to its strategic value.

Referring to RBV and to TCT, with the present study the following research question has been put: what are the technological and economic organizational key factors to guide the SaaS adoption choice?

SaaS and RBV

In particular, the RBV theory has been adopted to investigate the impact of a SaaS approach choice on human resources working in the involved companies and on the operative CRM processes present inside the same companies (organizational factors). As a matter of fact, the Resource Based View is

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based on the assumption that strategic resources are distributed among organizations in a heterogeneous way and that this characteristic is permanent in the course of time (Penrose, 1959; Wernefelt, 1984; Grant, 1991)

Therefore, the company is not a set of contracts, but it represents a "bundle of resources" (Penrose, 1959), where the resource involves all assets, skills, internal processes, attributes, information, knowledge managed by the company in order to find and implement strategies which can improve its efficiency and efficacy (Wernefelt, 1984). In other words the company's resources, such as physical, human and organizational capital, constitute forces that can be used to complete internal theoretical approaches able to obtain distinctive performances in the company's referred markets, in virtue of the own company's skills to enable internal expertise producing a competitive advantage, particularly if it is sustainable.

The strategy consists in the "match" (Grant, 1991) between internal strength-weakness and external opportunities-threats, with the goal to obtain an optimal combination between these factors. The strategy formulation should include an evaluation from the management of many indicators, through a decisional path that requires (Grant, 1991): the internal resources analysis, the evaluation of companies' skills, the analysis of potential profits, of resources and internal expertise, the selection of strategy, the extension and updating of the resources pool and skills.

Saas and TCT

On the other hand, referring to the transactional cost theory Coase, 1937; Williamson, 1987) the organization is presented as a set of contracts and transactions, nexus of contracts (Coase, 1937), that regulates the process of resources acquisition for the support of internal activities. Under the analysis of that model there are the two structural organizational alternatives which derive from the decisional phase between the two extremes: hierarchy or market. It is the latter to be considered a form of outsourcing. For this reason the sourcing decisional phase has been analyzed focusing the attention on transactions that derive from SaaS approach. The aim is to optimize the operative processes making CRM transactions easier and more economic on one side and managing in a more efficient way the external relationships on the other. This aim requests the definition of adequate services levels (SLA).

The decisional sourcing phase has been analyzed focusing the attention on transactions that have an immediate relapse caused by the choice of SaaS approach. The aim is to investigate if and how can be achieved some improvements in terms of optimization of CRM internal operative processes. The aim is to make the internal transaction easier and more economic on one side and to manage the external

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relationships in a more efficient way as it happens with every other outsourcing compared with a choice of hierarchical in-house sort. This aim requests the definition of adequate services levels (SLA).

All the suggested aspects can be analyzed through the Transaction Cost Theory most of all in regard to the more economic-quantitative aspects, therefore referring to the economic, technologic and contractual perspective relationship with the supplier.

The role of services suppliers has been investigated using control skills connected to the measurability requirement of the work flow allowed by SaaS and connecting the economies of scale from the suppliers' point of view to a cost reduction from the clients point of view that can make that sourcing model very profitable in virtue of the support in achievement of a lower total cost and therefore more convenient (production costs and transaction costs). The transaction cost theory constitutes the first approach developed and used in literature (Coase, 1937), and deepened subsequently by Williamson (1987) about the analysis of these transactions. The transaction investigated in this research has also qualitative features and therefore an analysis of the possible transactions hidden costs, produced by a more complex relationship with the supplier compared to the internal structure becomes essential.

METHODOLOGY AND METHOD

In order to answer our research question, we undertook a multiple case study of four companies during 2014. With this case study method, we can analyze data in a specific context in depth and thereby investigate a phenomenon in its natural setting (Benbasat et al., 1987) through a detailed analysis of a few events and their relationships (Yin, 1994). Furthermore, a case study offers a unique method to observe natural phenomena in the data (Yin, 1994), because unlike quantitative analysis, it considers data on a micro level (Benbasat et al., 1987; Eisenhardt, 1989). Accordingly, case study research supports the practical correspondence of phenomena, studied in their natural setting, and thereby helps answer why, what, and how questions by providing insights into the nature and complexity of those phenomena. Furthermore, a case study allows for explorative investigations when the variables are not known and the phenomena are not well understood. Finally, case studies are easily adaptable to different contexts: In both organizational-managerial and social settings, it is possible to use an investigative model that has been adequately standardized, without the risk of biasing the findings. We identify four companies in four different industrial sectors (table 1) that had adopted SaaS CRM solutions and appeared on a list of large companies in Nord Italy. For this research, we rely on observations, informal conversations, and recorded interviews. The observations and informal conversations established the reference context, prepared us for the investigation, and revealed some information to support the extension and revision of our analysis. Our respondents

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were: high-level managers and vice presidents, in total we collected 20 semi-structured interviews (approximately 70 minutes in duration). The data and results obtained were presented to the main organizational actors and the board of directors of these four firms through the interview transcriptions and the interim results of the data collection phase. In this specific case, the authors used Atlas.ti Computer Assisted Qualitative Data Analysis Software (CAQDAS) to analyze the data because it enables its organization and summarizing by concept (e.g., improved collaboration, system adequacy, error reduction, etc.). Data collection commenced in November 2013 and continued for roughly six months. The analysis and integration of the existing data started in April 2014.

	ALFA	BETA	GAMMA	DELTA
Field	Chemical - textile	Liqueurs - wine-growing and wine-producing-confectionery	Metropolitan management engineering–management of the integrated water service	Job agency
Capital structure	Private capital 80% belonging to the owner family and 20% of an English fund	Private capital 100% belonging to the owner family/it is part of a holding	Ltd. company with a completely public capital	Italian company controller by a multinational group
Year of foundation	1969	1847	1955	1994
n. of employee	2000	950	1500	1700
Sales proceeds (billion €)	432	270	260.5	800
Medium growing rate of the sales proceeds in the last 2 years	20%	4%	9.9%	5%

Table 1. Some information about case studies

CASE STUDY

Case Alfa

The company was founded in 1969 and is one of the principal actors, in Italy and in the world, in the field of synthetic fiber production and in particular in the production of polyamide 6 (nylon 6). It is organized in 13 plants and one engineering enterprise. It is present in three continents and seven countries.

Problem Alfa

ISBN: 978-9963-711-37-6

Because of the peculiarity of its product, the company cannot manage the final customer face to face, but it has to manage its relationship with the big brands of industries, for example in the field of auto motive, or with big chains as IKEA, with the big brands in clothing which study the polymer characteristics together with their company, while the printing and the actual realization of product pieces is given in outsourcing. That means that the direct clients of the company are of a very small number, but extremely relevant, really sophisticated and demanding. Being forced to manage that kind of customer involves the impossibility to manage the CRM processes with easy instruments as EXCEL. The amount of data to be processed is really big and the kind of analysis is very advanced from the marketing point of view.

Solution Alfa

The company has adopted CRM solution provided in SAAS modality. Implementation has taken about three months and the cost has resulted to be contained according to the scheduled budget. A significant aspect has concerned the integration with other applications already present in the company which has not presented any difficulties.

The solution has been implemented in its standard format with only a few and unimportant modifications and has produced significant advantages:

- First of all the competence of the software house in the CRM field have immediately provided the expected results as the use of that instrument inside the company has brought a very important improvement in strategies. As it has collected data and information on all the needs of the market (both about the companies' old clients and new ones) and therefore the company could study in a better way the products and the client on which it should be more convenient to invest.
- Moreover all the advantages of this solution have become evident in terms of minimization of infrastructural investments and managing of costs.

Case Beta

Beta is one of the leader companies in the field of alcoholics. Among its liquors there is a particularly famous one, which is widespread in 160 countries and has almost two centuries of story. It is the "Italian liquor more drunken in the world". Moreover the company produces and commercializes brands connected with the Italian story and tradition.

Problem Beta

ISBN: 978-9963-711-37-6

Even if there are not direct contacts with the final customer, it has become more and more evident the need of an instrument able to support the CRM, very operative and which could pay attention to provide more and more innovative services for the commercial area. That need derives from the fact that in consideration of the 27.000 stores of the Retail Purchasing Consortiums, which are present in Italy, the company is present in the majority of them with a constant promotional activity. Therefore the commercial cost which derive from that presence are very high. The consequence is the need of a continuous monitoring and optimization of these costs.

Solution Beta

That is due to the fact that the company has found itself into a moment of pressing control by the owners that have decided to accept this sort of solution in order to control costs, overall, the costs connected to promotions as they have increased during the last years in a more than proportional way if referred to the sales proceeds. The project has been completed in about four months and a half and the whole complexity of the system has been completely hidden to the final user. The system is adopted by the so called "key accounts" which have in charge the management of products visibility and the promotion inside the stores. The system collected the data produced internally through the feedback of the promotional activities, which are connected with the external information. This external information are, for example, data about the detection of the price on the shelf of the companies and competitors products', data about the fulfillment of the weekly visit planning. Through the system it is therefore possible to manage and monitor all the promotional activities which take place at a national level and to define the commercial activities in a more specific way for the commercial agents as well as to define a more efficient management of the visits at the different stores which feedback can later be directly recorded through CRM.

It is interesting to notice that a key account, that means one of the final user, has cooperated during the whole phase of the application implementation. Therefore he was able to see personally the easiness of the software use avoiding that way unjustified resistances from his colleagues.

Case Gamma

The company was founded in 1955 and since then it has been leader for the planning of structures and infrastructures in its local area as well as all around the world, as its knowhow in the planning of undergrounds has been asked worldwide. From 2003 it is also trustee for the management of the integrated water service.

Problem Gamma

ISBN: 978-9963-711-37-6

The company's management had expressed the need of a new CRM system as they were not satisfied with the traditional and homemade existent systems. There are several reasons, but from the chairmanship have arrived many signals for a more precise costs analysis about the commercial area. It would have been impossible to give all that information without an advanced and articulated CRM system.

Solution Gamma

The solution has been the adoption of a CRM system provided in modality "as a service" which was able to offer high performances, being the result of the great technical competence of the software house which has developed a very trustful relationship particularly during the implementation phase. Advantages have not only concerned the control of costs related to the commercial area but there have been several improvements in the whole optimization of processes in the same area.

Case Delta

The company was born in 1948, founded by two layers from the United States who realized the lack of a service which could satisfy the demand of temporarily workers. Today the group works through 4000 offices dislocated in 82 countries and it is world leader in the services for the management of human resources.

Problem Delta

On the operative level their two aspects, which characterize the present business. The major contacts with the potential workers (who are clients for CRM) which must be recorded and outlined in terms of the evolution in the relationship which develops between the company and the worker. All these data must be catalogued, stored and often they need to be recovered and analyzed as it can happen that the worker himself needs to have his data for a Work Inspectorate inspection. The management of such a big amount of data brings to a huge loss of resources both economic and of time by thee employers committed to the management of commercial relationships.

Solution Delta

Therefore the company has selected a CRM system provided in modality "as a service". The software house which was chosen by the company has been selected because of its competence in the marketing area and because of the completeness of the provided service which has turned into reduction of infrastructural investments and in the elimination of the managing costs and responsibilities impacts inside the organization. The data security is guaranteed through their saving both on magnetic and

ISBN: 978-9963-711-37-6

optical disks and all that has a positive impact on the business continuity and on a potential disaster recovery.

The solution has been implemented after some customizations, which were necessary because of the peculiarity of the needed services, but it has not brought particular problems in the initial phase. This project has doubtless represented a fundamental improvement for the whole organization that has become more flexible and less exposed to delay in the hypothesis of the need of a global analysis on the clients' data concentrated in the same period. The project has been realized in about four months.

DISCUSSION AND CONCLUSIONS

The applications examined in this research present a high level of specificity and therefore they also have a significant strategic value in providing support to the different business companies areas. The aim is to guarantee an adequate service in order to make CRM processes more efficient. This last aspect represents the core of the suppliers' challenge with the aim to make the strategic value of the SaaS business reliable to activate a transparent and less virtual supply of applications allowing internal capabilities that can develop distinctive performances through a sustainable competitive advantage and to enable the internal IT architectural restructuring process. It has emerged that the development of the on-demand software takes place also thanks to the possibility to create strategic alliances and that brings to mitigate the aspects of contractual risks which are normally perceived, making the trust supplier-company stronger. Moreover, a well-considered and correct definition of SLA allows to the client organizations to be protected from technological development and business uncertainties.

The efficiency and efficacy of the answer to the IT question will also pass through the standardization of the architectural systems with the aim to guarantee the interoperability and transfer possibility from one player to the other, and from the security, considered as the integrity and protection of data, privacy, service continuity, connectivity, in order to be protected from operative risks.

Moreover, the present study wants to over go the concept of a SaaS market exclusively referable to little companies: while the planning and implementation of virtualization on a long range of the internal systems is a specific peculiarity of medium-big dimensions companies (because of the amount of investments), SaaS solution has been, in the recent past, always characterized by a bigger attention from small dimensions companies, with the aim to get a quality in IT service similar to the one obtained in big dimension companies but with more affordable costs and moreover, more controllable, avoiding at the same time investment for infrastructures. That means they have given over part of their old infrastructures making their IT department streamline.

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On the contrary, the companies analyzed in this research are of big dimensions and the aim of this is to understand the real development of recent SaaS-adoption, verifying the positive attitude of big companies in reference to this sourcing model. Some researches (Kern et al, 2002) have supposed and noticed a negative connection between the dimensions of the client company and the on-demand software to get a faster and easier access to precious IT resources and skills, but this assumption nowadays does not get the value of an absolute statistic representatives (Buxmann et al, 2008). That can be explained through the fact that the sourcing model is based on the supply of a service, which includes a product. Even the underneath technology is in the phase of maturity and big dimensioned companies are more and more interested in solution of that kind, through a phase of evaluation before and of implementation afterwards.

This study, which has the aim to fill the gap still present in literature about these themes, can represent a significant source of information but cannot be inclined to such a generalization to let consider absolute the results, which have been exposed in that research on the basis of the executed data gathering. Moreover, the present study presents only a limited field of the Italian context. Nevertheless, it is possible to notice some SaaS development perspectives, which have emerged from the present work. This research has underlined the importance of costs containment in the transaction evaluation. Nonetheless, this attention to costs does not represent the main element in the decisional process for the adoption of a SaaS model.

The most critical aspects in SaaS approach have been originated in relation to a transaction-based evaluation, confirming that way the frequent intangibility of relationship which undergoes through the nets' net.

Among the crucial aspects that the supplier should consider on one side the need of transparency in the supplement and in possible dysfunction have emerged, explaining immediately the reasons and intervening in a fast way with the aim of solving the problem even on a structural level. On the other side, it has emerged the need to have some tangible points of contact with the own clients in order to be able to be warrantor for the efficiency of the offered service (less virtual), so to make convenient even bigger investments for the SaaS application in the CRM field. From the investigation it emerges that SaaS produces a company's attitude crosswise favorable to that model and moreover, thanks to the easiness in use and speed in implementation, users are supported in the continuity of their task inside the CRM operative processes. The new role, which is asked to be played from the IT team, which takes the part of the warrantor for the operative efficiency, does not represent a deterrent in the SaaS-adoption. Nevertheless, a reconversion of the personnel skills is indispensable, in order to be more oriented to processes than to technology, but they still have a very important role, if not even more

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critical, as it is the role of the intermediate user-supplier, with whom he will have to cooperate. The IT team will be called to act in supporting functions, transforming their tasks from asset-oriented to process-oriented, therefore involved in the creation, support and adaptation in the intelligence of the organization whose part they are.

Concerning this aspect a positive acceptation from the users has emerged, even if they have not always been involved, to confirm the opportunity offered by SaaS-adoption to enable cooperative aspects and of systemic coordination particularly in CRM field. After the over mentioned considerations the solution to problems related with the supplier, which represent one of the future challenge of this web-based technology, will appear more and more crucial.

The study presents both limitations and new ideas for research. The security aspect has not represented the critical aspect perceived with a major weight; that is a very important element to be developed through new researches, but it can be noticed how the perceive from the point of view of the demand of that requisite is really positive, connected to the fact that the supplier is seen more and more specialized in that field in reference to the kind of delivery that it expresses. In particular, security and data protection, with the related privacy are taken into consideration as significant aspects in the decisional process but they do not appear to be a deterrent for SaaS adoption. On the contrary, it is the connectivity the most controversial aspect even if not decisive, that is considered the object of more deepener investigations, more than all regarding the supply of SaaS which includes different systems with relevant complexities and integrations.

Integration is exactly the aspect which will have business developments in parallel with technological developments: the architectural suppliers will have to create, through specific agreements, a net for SaaS supply (and not only for SaaS) which could guarantee the interoperability inside service-oriented architectures (SOA), so that they could allow to the companies which are planning investments in that field to have at their disposal environments where there are not barrier in the choice of sourcing and supplier: it is always the client organization that must have the control of its own data, while the supplier will have to guarantee the data privacy and availability.

Concerning this matter, the present study has noticed that companies are more interested in innovation to enable more and more business needs with the aim of making the time-to-market faster; the interviewed people have pointed out their interest towards change in the management of the whole IT structure if compared to the possibility of transferring in-house the future CRM application.

ISBN: 978-9963-711-37-6

In the cases, which have been analyzed, the integrability has been in any case guaranteed by the fundamental support of the IT personnel, in spite of the difficult integration process.

One more element, which must be investigated, is the SLA definition, which is fundamental in one sort of outsourcing; this aspect has not been declared of easy solution, mainly in the attempt to guarantee flexibility margins for the advantage of the client company. The future development of SaaS adoption models also goes through the transparency in that field, even in virtue of the measurability services' characteristics which are enclosed in the model itself.

Moreover, it will be interesting to understand, through future researches, if the companies which have been often investigated could present a strong causality requisite through studies of a longitudinal kind that even investigate the behaviorally aspect of people during a certain amount of time, possibly making researches which include different organization stakeholders.

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ISBN: 978-9963-711-37-6

THRIVING IN MULTICULTURAL WORK SETTINGS

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ABSTRACT

Owing to globalization and the global mobility of workforce, working in multicultural environments has become a daily reality for an increasing number of manpower. Such an environment does introduce unique challenges to individuals, enabling some of them to thrive. The aim of the paper, therefore, is to explore the antecedents of thriving and its components in multicultural work settings of multinational corporations (MNCs). The in-depth interviews with 38 informants were conducted to analyze intercultural interactions in 2 MNCs' subsidiaries. The study demonstrates that those individuals who thrive in MNCs assess their specific job demands as challenges. Moreover, thriving people activate their personal resources to face their challenges, which in return enhances their learning and personal growth. The learning component of thriving appeared to be more salient than vitality.

The research may suggest that managers of MNCs should recruit employees whose need for growth is well-developed, since those individuals can benefit more from multicultural work settings and thrive. International experience and psychological capital are the additional factors here that may foster employees' thriving.

To the best of our knowledge this is the first research that explores thriving in multicultural work context. It looks at the antecedents of thriving with the Positive Organizational Scholarship lens. Nevertheless, the study is based on the qualitative methodology, which does not allow for a generalization of the findings.

Keywords: *intercultural interactions, learning, thriving, positive psychological capital, Positive Organizational Scholarship*

INTRODUCTION

Thriving is the experience of an individual's growth resulted from vitality and learning in a work context (Spreitzer *et al.*, 2012; Paterson *et al.*, 2014). The studies on thriving are becoming an important domain of inquiry and are systematically growing in number as the phenomenon produces many positive outcomes for organizations. First, thriving is a positive subjective experience that helps

 ISBN: 978-9963-711-37-6

employees to develop in a positive direction (Spreitzer *et al.*, 2005). Second, it is positively associated with job satisfaction and organizational commitment and negatively associated with professional burnout. Third, it plays a mediating role between organizational commitment and a career development initiative as well as organizational commitment and job performance (Porath *et al.*, 2012; Spreitzer *et al.*, 2012). Moreover, it can support human resource managers in using practices that seek to fit work environment and employees positive potential (Kira and Balkin, 2014).

Over the years researchers have concentrated on the benefits of thriving with regard to work-related outcomes. However, to date, the_antecedents of thriving are considerably less recognized. There are certain calls of other researchers (e.g. Niessen *et al.*, 2012; Paterson *et al.*, 2014) that more studies are needed on how job characteristics (job demands and job resources) and personal resources foster thriving and consequently increase individual and organizational outcomes. An understanding of the role of such contextual antecedents is particularly important for managers in organizations, who are interested in promoting their employees' thriving at work. They want to know how and why their employees react to specific contextual features and utilize their personal resources.

The work landscape has considerably changed over the years. Amidst these changes, both globalization, which has led to multinational corporations (MNCs) being present in host economies worldwide, and the global mobility of workforce have made working in multicultural environments a daily reality for an increasing number of manpower (Nolan, 2012; Westover, 2012). The work context in MNCs varies from any other corporations' work context. The main difference is cultural and language diversity, which is evident in the interactions of MNCs' staff (Lauring, 2009; Tanova and Nadiri, 2010). Although such an environment poses unique challenges to individuals, since they are exposed to cultural barriers (Chen *et al.*, 2005), there may also appear opportunities (Youssef and Luthans, 2012) that enable individuals to thrive. Therefore, the aim of the paper is to explore the antecedents of thriving and its components in multicultural work settings of MNCs.

To the best of our knowledge, no research so far has explored thriving in the multicultural work context. This study, by focusing on multicultural work settings of MNCs, is likely to be the first one that responds to the aforementioned researchers' calls. It also looks at antecedents of thriving with the Positive Organizational Scholarship lens contributing to this emerging domain of inquiry.

In the following sections of the paper, we briefly review the literature on thriving and present the methodology that substantiates our research. Afterwards, the empirical findings are discussed with regard to thriving in multicultural environments of MNCs. The conclusions and discussion section draws contributions, limitations and practical implications. Directions for future research close the discourse.

 ISBN: 978-9963-711-37-6

LITERATURE REVIEW

Thriving in the prior studies and the research gap

Thriving is "the psychological state in which individuals experience both a sense of vitality and a sense of learning at work" (Spreitzer *et al.*, 2005, p. 538). Vitality captures the positive experience of energy and aliveness, while learning is defined as the sense that a person acquires knowledge and skills and is able to use both of them (Spreitzer *et al.*, 2005). Spreitzer *et al.* claim that both components are necessary to thrive (Spreitzer *et al.*, 2012) – namely, experiencing vitality or learning separately is not enough for an individual's prosperity, growth and development.

The prior research on thriving at work has revealed that employees describe both vitality and learning as important elements of forward progress in self-development. Therefore, thriving reflects both the affective and cognitive component of psychological experience and combines the hedonic and eudemonic perspective of psychological functioning (Spreitzer *et al.*, 2005).

Spreitzer *et al.* (2005) point out some antecedents of thriving that have led to the formation of the concept. These are agentic behaviors such as task focus, a heedful relation and exploration, and some psychological traits and experiences, i.e. positive affectivity and resilience. Nevertheless, they were drawn from a theoretical reflection. Some early studies that have explored the antecedents of thriving applied a qualitative design. For example, Travis *et al.* (2014) have examined the effective mechanisms that facilitate positive experiences at work among childcare providers. The results of this study indicate that a climate of trust and respect as well as autonomy in decision-making are instrumental in fostering thriving. Moreover, the importance of the positive attributes of the meaning making process aimed at developing intrinsic motivation and fostering team-orientation was found conducive to thriving at work.

Only a few studies so far have scrutinized thriving in a work setting (see e.g. Niessen *et al.*, 2012; Paterson *et al.*, 2014; Porath *et al.*, 2012). Recently, a few empirical quantitative studies have been published in an organizational context, in which correlational, longitudinal and diary designs of research are applied.

ISBN: 978-9963-711-37-6

The correlational study conducted by Porath *et al.* (2012) shows some antecedents of thriving, namely that thriving is positively related to positive affect, a learning goal orientation, a proactive personality and core self-evaluation in young employees. Moreover, they reveal that proactiveness is a stronger correlate of thriving than other factors and thriving is associated more with a positive affect than a negative one.

Paterson *et al.* (2014) in their longitudinal research tested thriving at work by linking it to a theoretically important personal outcome variable such as self-development, and examined its relationship with two agentic work behaviors, i.e. task-focused and heedful relating, and two antecedent variables, namely positive psychological capital (PsyCap) and organizational supportive climate. The novelty of this study was indicated by advancing the model with PsyCap - a complex, personal resource including self-efficacy, hope, optimism and resilience - components that have a synergistic effect on positive organizational behaviors (Luthans *et al.*, 2007; Luthans *et al.*, 2010). The research of Paterson *et al.* (2014) supports the findings that employees' thriving is positively related to the supervisor ratings of their self-development and is also related to job performance. Task focus and heedful relating are positively associated with thriving as well as with PsyCap and organizational supportive climate. Moreover, task focus, yet not heedful relating, mediates the relationship between two antecedents and thriving.

One of the most interesting studies that have expanded the knowledge about thriving as a dynamic state was conducted by Niessen *et al.* (2012). Their results suggest that employees who can acquire relevant knowledge and experience positive meaning at the beginning of a work day, witness better thriving when the work day ends. Thus, the daily experience of positive meaning is an important antecedent of both vitality and learning. The relationships between positive meaning, knowledge and thriving are also mediated by agentic work behaviors such as task focus and exploration. Additionally, the authors' findings show that dynamic relationships and day-to-day variability are typical of thriving. These results support theoretical assumption of the socially embedded model of thriving and that agentic behaviors can drive thriving (Spreitzer *et al.*, 2005).

Basing on the literature review, we have discovered a significant gap in the previous studies. First and foremost, more empirical studies are still needed to verify the potential antecedents of thriving in various work contexts. Moreover, the existing research has not indicated how job demands and job resources affect thriving and which of them are of vital importance. To the best of our knowledge, no research so far has explored thriving in the multicultural work context that creates peculiar job demands. It has also occurred evident that more effort is needed to explore personal

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resources in the context of MNCs as the antecedents of thriving. Our research responds to these needs.

METHODOLOGY

The research method

The research took a form of a qualitative, explorative study based on information gathered primarily via semi-structured, in-depth interviewees with managers and specialists, who were involved in intercultural interactions while performing their occupational duties in subsidiaries of MNCs. We launched the data collection process in March 2014 and completed it in September of the same year.

The open-ended and flexible character of the in-depth interviews has appeared to be an appropriate method to obtain the most accurate, exact and detailed observation with regard to the participants' experience, attitudes, perceptions and opinions (Dearnley, 2005; Brenner, 2009). The method also gives an opportunity to discover new aspects of the phenomenon which may have been missed so far by other researchers (Kühlmann and Hutchings, 2010).

The series of questions that we asked during the interviews referred to the outcomes of intercultural interactions and factors enabling effective cooperation with foreigners. Nevertheless, we modified the order and the number of the questions depending on the course of each dialogue and the relevance of information obtained from the interviewees (Dearnley, 2005). The study design presumed that the duration of each interview should take 45 - 90 minutes to leave enough room for logical conclusions and a dialogue between us and the informants. On average, each interview's time duration was 63 minutes, whilst we carried out 39 hours of the interviews in total. Then we coded and analyzed the entire collected materials.

We followed the procedure of qualitative content analysis, i.e. "a research method for the subjective interpretation of the content of text data through the systematic classification process of coding and identifying themes or patterns" (Hsieh and Shannon, 2005, p. 1278). The coding schemes used in the content analysis were developed inductively from the data by a constant comparison of each interview and emerging themes (Glaser and Strauss, 1999), thus it took a form of a conventional content analysis (Hsieh and Shannon, 2005). We followed the three steps procedure of qualitative content analysis (Hassi *et al.*, 2011). As the first step, open coding was applied. We tried to reveal some common themes emerging from the interviews known as open coding (Randall and Mello, 2012). These were for instance 'interesting experiences and curiosity'. Afterwards, those categories were labeled with the higher-level concepts such as e.g. 'needs fulfilment'. The main logic behind the axial coding at this step was to classify each category according to 1) the types of difficulties witnessed in

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the relationships with foreigners (e.g. the 'communication barriers' category was developed); 2) the types of outcomes derived from intercultural interactions (e.g. the 'learning and vitality' category was created); 3) conditions essential for fostering successful interactions (e.g. the 'personality' category was found). Finally, during the process of selecting coding some categories were combined into broader clusters and refined (Hsieh and Shannon, 2005). As a result, a theoretical scheme emerged that enabled us to discuss the findings with respect to thriving antecedents, both organizational and individual ones, and its components, i.e. learning and vitality.

The companies and participants

The subsidiaries of two MNCs (see Table 1), which could "inform the research questions being investigated" (Zhang and Wildemuth, 2009, p. 309), were selected via a purposive sampling technique that is usually used in studies that rely on qualitative content analysis (Zhang and Wildemuth, 2009). We searched for subsidiaries of MNCs in which intercultural interactions at work are a daily reality for their staff. The subsidiaries A and B met this initial criterion.

Subsidiary A	• belongs to a German MNC that employ above 2,300 employees worldwide, • established via a greenfield investment in 1986, • offers surface protection, scaffolding, steel construction and oil and gas offshore services, • operates on various European markets and the vast majority of its revenues are produced outside Poland, • involves its employees in intercultural interactions such as both face to face and virtual relationships with the subsidiary's mandators or their authorized representatives, the MNC's employees and contractors, • delivers services for foreign clients by the subsidiary's project managers and workers on overseas assignments, yet it occasionally hires workers from other countries, • it has subsidiaries in France, Denmark and Germany.
Subsidiary B	• is a part of a North American multinational semiconductor manufacturer that employs above 100,000 people worldwide, • founded in 1994 as a greenfield investment and merged with a previously Scandinavian affiliate located in Poland in 1999, • works mainly as an IT-shared service center and additionally as a HR-shared service center as well as a global tax and trade shared service center, • services other subsidiaries in Europe, the Middle East and Africa, • involves its employees in intercultural interactions that are rather intense, daily, and virtual with the other employees of the MNC, including the members of geographically dispersed multicultural teams, who frequently represent culturally distant countries.

Table 1. *A brief profile of the subsidiaries in the sample*

Overall, 38 individuals involved in intercultural interactions constituted the sample in both MNCs, namely 20 subjects in subsidiary A and the remaining 18 interviewees in subsidiary B. The majority of them were specialists and the middle level managers who accounted for 42.1% and 26.3% of the sample respectively. 60.5% of the interviewees were men. There were 3 foreigners in the sample, i.e. a Dane in subsidiary A and an American and a Ukrainian in subsidiary B. People in their twenties and thirties contributed to the sample in 39.5% and 26.3% respectively. 55.3% of the study's informants have worked in the present MNCs for less than five years. The participants represented various

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organizational units, nevertheless most of them were directly employed in operations departments (18.4%), HR/administration (15.8%) or board of directors (15.8%), and R+D unit (13.2%). 71.1% of the individuals in the sample have worked and lived abroad, while 47.4% of them had professional experience gained in other MNCs, which may suggest that the respondents have had international experience (Takeuchi and Chen, 2013). It is worth emphasizing that this fact could affect their notion of intercultural interactions at work.

RESEARCH RESULTS

The organizational antecedents of thriving

The content analysis of the data revealed that the participants witnessed learning and vitality at work as a result of *specific job demands* in MNCs. The vast majority of them categorized those job characteristics as challenges rather than barriers:

> The difficulties are the challenges that motivate you and bring about job satisfaction. I learn more, though frustration may arise when difficulties occur.

Working in the MNCs required from the interviewees a good command of common, *functional language*. As the analysis proved, this job requirement appeared to be the most demanding in view of the respondents' remarks and it was often seen as a barrier to their rapports with foreigners. However, an opportunity to master language skills in a daily communication was also appreciated by the majority of them. Moreover, by some of the participants the requirement was classified as a challenge rather than a barrier that, if successfully faced, contributed to their learning and professional development:

> [Communication is] a challenge not a barrier, but the greatest difficulties are in this area.

In multicultural environments of the MNCs the interviewees were expected *to manage the difference* of attitudes, perspectives, views, habits, etc. under their specific job requirements, which also induced them to learn and invigorate:

> I like diversity and learning. I am fond of working with foreigners. (…) There are difficulties. You have to bear in mind that others may think and behave in a different way, since they were raised in various cultures. (…) You need a wider imagination.

Learning is inclusive, among others, of *cross-cultural adjustment* and adaptation. The requirement to adjust and be flexible was an obvious consequence of cultural diversity at work in the analyzed subsidiaries:

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> You have to be flexible, expect unexpected, be prepared for out-of-the-box thinking about problems.

In view of the study's participants' remarks, their MNCs' work context was highly demanding and competitive. Nevertheless, the companies provided in return better *resources* than in other types of organizations, which could enable employees' adjustment and as a result facilitated tasks actualization and interpersonal rapports. These were for instance language and cross-cultural trainings, communication technology for dispersed teams, knowledge databases, core values, special initiatives, relocation and other amenities:

> Our core values – we are different but we pursue the same goal. There are language courses. The company supports diversity – in case of discrimination, the consequences would be severe.

Personal resources as individual antecedents of thriving

Since work settings of MNCs are highly demanding, MNCs' staff should be equipped with unique personal resources. Thus, we asked the interviewees what, in their opinion, makes working with foreigners affluent of positive outcomes. Generally, the respondents indicated the following: personality traits, a positive attitude, skills and experience.

With respect to personality, *being open* was the most crucial feature of a person that, in view of the informants' remarks, influenced success in intercultural interactions. For instance, one of them noticed:

> [A person who wants to succeed in intercultural interactions should be] open to other people, respect others and be confident of his/her competencies.

The features of curiosity and a preference for variety were also identified in the respondents' utterances:

> Differences are precious and more important than initial challenges. It is interesting and gives you joy when you can interact with others.

The participants of the study frequently mentioned *a positive attitude* as another factor that may determine smooth relationships with foreigners. As symptoms of a positive attitude toward representatives of different cultures the respondents indicated not yielding to stereotypes, persevering toward goals and motivation:

> Positive experiences set one's mind positively. (…) For example, you need a positive attitude toward someone's accent because you want to reach goals together.

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According to the informants, being successful in addressing language and cultural diversity challenges, as specific demands of a work context in MNCs, required certain *abilities* such as speaking foreign languages or having social and technical skills:

> [To be successful, you need to be able to] make contacts, speak a foreign language, present personal culture, will, commitment to goals

In view of the overall collected data, it must also be stressed that the enabling factors in intercultural interactions were a person's belief that he/she demonstrates a sufficient level of the foregoing abilities and has potential for activating required motivation, resources and course of actions, i.e. he/she feels self-efficacy and hope:

> I prefer to work in a multicultural environment because I appreciate diversity (…). I feel self-confident in such an environment.

Last but not least, the interviewees considered *having international experience* as an essential condition for establishing and maintaining effective relationships with foreigners:

> Since I was a child I have been travelling a lot. I have always loved international experiences. I have always wanted to discover, meet new people. I have been open and tolerant, so I don't see problems.

The thriving components in multicultural environments

As far as our research is concerned, it has occurred evident that working in a unique workplace of MNCs faced the interviewees with challenges or barriers, contributing to their perspective broadening, knowledge sharing and as a result enhanced *learning*:

> Contacts always teach you something and bring something. If they are with a foreigner, then you very often learn the other country's culture and it is somewhat enrichment. The contacts with other states broaden your horizons. (…) The contacts with foreigners let you observe how they work and you learn.

As the content analysis revealed, demanding work environments in the MNCs stimulated the interviewees' growth. For instance, working with foreigners activated both the participants' and organizational creativity and innovation via overcoming rigid solutions as well as inducted their adaptability and resilience:

> I personally appreciate the chance to learn from people from other places. It is a kind of reward to observe others, their talents and how they come up with a solution.

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A participant of the study directly indicated that due to working in the multicultural environments of their MNCs, they satisfied their *need for growth*:

> You gain personal development and cultural exchange due to contact with foreigners.

Learning languages as a natural consequence of working with foreigners was another symptom of an individual's growth that also occurred in terms of personality developments, i.e. openness and tolerance:

> Work brings people closer, especially work abroad, when you have a direct contact, talk about habits etc. It increases your curiosity and then respect for the other culture, history.

Finally, the study provided evidence that in multicultural environments of MNCs the participants witnessed *different emotional states*, both positive emotions (e.g. curiosity, excitation, enthusiasm, pleasure, surprise, joy, satisfaction) and negative ones (e.g. frustration, anxiety, stress, impatience, homesickness). However, the positive emotions prevailed in the respondents' opinions and those emotions could foster their vitality:

> This job isn't stress-free, yet it drives my energy, the continuous challenges you meet. I like that.

DISCUSSION AND CONCLUSIONS

Our study extends the literature on thriving and cultural diversity, since it revealed that specific job demands in the MNCs, such as the necessity to use functional language (due to multilingualism), to manage the differences (i.e. cultural diversity) and to adjust to them as well as organizational resources, can be acknowledged as the *organizational antecedents* of learning, whereas personal resources as the *individual antecedents* of vitality. Both learning and vitality facilitate individual development in MNCs. Nevertheless, in our study it is the learning component of thriving that appeared more salient than vitality.

In the subject literature, learning is perceived as a relational process "in the sense of relying on interactions between people to determine what needs improving and how to do it" (Carmeli *et al.*, 2009, p. 81). It "depends on members sharing knowledge and creating new solutions" (Carmeli *et al.*, 2009, p. 82). In our research, learning has not only contributed to one's personal growth, but also supported the organizational development due to enhanced creativity and innovation.

Our study shows that although MNCs' job demands put effort into the work process, they can be evaluated by individuals more as challenges than hindrances. The multicultural work environment appears to be highly motivating and MNCs do provide such job resources that enable coping with potential difficulties and enhance learning. Success in dealing with these challenges triggers positive

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emotions, albeit within the process of cross-cultural adjustment people may experience varied feelings (Takeuchi and Chen, 2013).

To date, numerous studies have scrutinized what competence is needed to function effectively in multicultural environments (e.g. Johnson *et al.*, 2006; Panggabean *et al.*, 2013). Amidst other factors, learning was identified as a process that builds competence required for functioning in multicultural settings (Bartel-Radic, 2006). Learning is also a vital process for an individual's thriving (Spreitzer *et al.*, 2005) and it helps to acquire necessary experience (Takeuchi and Chen, 2013). In our study the respondents indicated the importance of international experience that enables them to deal with multicultural work environments. While acquiring international experience, people learn new abilities and exercise their linguistic, social and other skills, which further enhances their organizational potential.

The informants also described themselves as open, tolerant and curious individuals. Open people "utilize effective and creative solutions to manage work stressors" (You *et al.*, 2015, p. 140). The prior research also suggests that an open person more willingly interacts with representatives of other cultures and exhibits more cultural flexibility (e.g. Maertz *et al.*, 2009; Caligiuri and Tarique, 2012). Openness may therefore foster an individual's adjustment to unique work requirements in MNCs and increase his/her resilience. Furthermore, open people "have intellectual curiosity and a preference for variety" (Maertz *et al.*, 2009, p. 74). Openness is an essential antecedent of thriving (Spreitzer *et al.*, 2005).

The respondents' remarks about the factors that enable them to function in the multinational work environments demonstrate individual traits of self-efficacy, hope, optimism and resilience, i.e. PsyCap. Moreover, what appears visible is that the respondents presented a positive attitude toward cultural diversity, which in the subject literature is seen as a component of cultural competence (Johnson *et al.*, 2006). There is also evidence that an employee's positive PsyCap leads to a positive attitude (Donaldson and Ko, 2010). In our research, the aforementioned personality traits and dispositions created positive emotions, e.g. enthusiasm, excitation, joy and satisfaction, and shaped vitality.

The empirical findings indicate some *practical implications*. Our research may suggest that managers of MNCs should recruit employees whose need for growth is well-developed, since those individuals can benefit more from multicultural work settings and they will thrive. International experience and PsyCap are additional factors that may foster the employees' thriving. Moreover, more concern should be put on training employees' language, social and other skills since it may build their positive PsyCap and organizational resources.

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Our study adds to the literature, since to the best of our knowledge, this is the first research that explores organizational (i.e. job demands and job resources) and individual antecedents of thriving and its components in the multicultural work context. It also looks at thriving with the Positive Organizational Scholarship lens. Nevertheless, the study has some *shortcomings*. First and foremost, the qualitative methodology applied to the research does not allow for a generalization of the findings. The sample size was limited since only the respondents from two MNCs were interviewed. However, the results indicate certain directions for *further research.* For instance, the role of positive PsyCap as a moderator in the relation between job demands and thriving should be better recognized. Moreover, a focus on job resources in future research can help to explain the role of organization in building thriving. Finally, antecedents of thriving in multicultural teams could be separately explored in future studies.

To conclude, *the organizational antecedents* such as job demands and job resources, and *the individual antecedents* such as personal disposition (positive PsyCap), international experience and skills can foster learning and vitality in MNCs. Additionally, thriving strengthens other positive individual and organizational outcomes as well as makes MNCs an attractive workplace for people seeking to thrive.

ACKNOWLEDGMENTS

We gratefully acknowledge the financial support from National Science Centre in Poland (the research grant no. DEC-2013/09/B/HS4/00498).

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ISBN: 978-9963-711-37-6

CORPORATE DISCLOSURE AND DIGITAL CULTURE: SOME EVIDENCES FROM THE ITALIAN STOCK EXCHANGE

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ABSTRACT

The aim of the paper is to introduce the concept of digital corporate disclosure and stimulate the scientific community to develop a fruitful debate on the measurement systems of digital disclosure. The corporate disclosure is an information process that has been argued by many authors who demonstrate, in different ways, the correlation between the disclosure and the business results. At the same time, the conceptualization provided by the literature focus on the centrality of the digital culture in our century as part of a wider phenomenon: the information culture. In this scenario, the information culture becomes the system in which the corporate disclosure and the digital culture are merging to achieve business results. Hence, our evaluation focus on the digital corporate disclosure, following the idea that companies' websites are communication vehicles that widespread information. In this sense, our goal is to formalize a model able to assess companies' websites in order to evaluate the digital disclosure level.

From the analysis of firms' websites of the sample – made by 39 firms listed in the Italian Stock Exchange and operating in the entertainment sector – we've built an evaluation pattern made by eleven indicators. In conclusion, a correlation is carried out between the results and the efficiency indicators, the intangible investments and the governance indicators, in order to verify the determinants of the digital disclosure.

Keywords*: Corporate disclosure, Digital Culture, Entertainment Industries, Italian Stock Exchange, Correlation, Investor Relation Manager, Digital Corporate Disclosure*

INTRODUCTION

In a complex environment, driven by digitalization and reputation (Cuganesan et al., 2010), the digital culture has become a critical element for firms value proposition. In facts, the last years have seen the digitalization becoming a survival need for companies, but also for other kind of organizations in noncompetitive contexts. In this direction, the paper studies companies' websites as information

 ISBN: 978-9963-711-37-6

vehicles (Vrontis et al., 2008), evaluable considering their communication aptitude. In this perspective, digitalization is closely related to the corporate disclosure (Gandía, 2009). Disclosure means transparency: to give an information set able to help the greatest number of stakeholders (Guthrie, et al., 2008) to make informed decisions. Consequently, when a firm carry on a corporate disclosure process, any information are widespread in the environment.

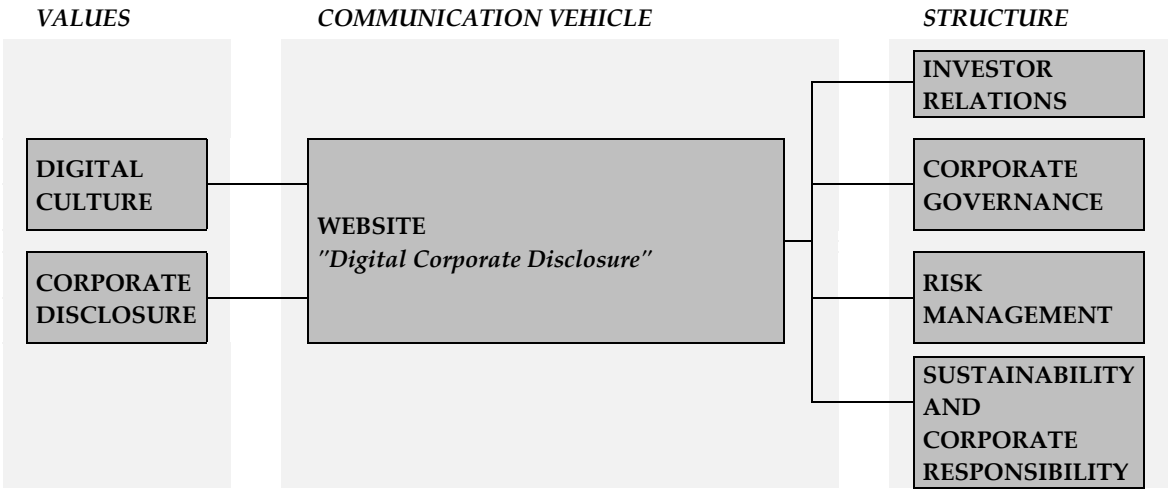
Starting from a literature review on corporate disclosure (Banghoj, et al., 2008; Dumay, Tull, 2007) and digital culture (Creeber, Martin, 2008) we investigate the digital behaviour of firms regarding their corporate disclosure. In other words, we aim to evaluate the characteristics of the "digital corporate disclosure" (Bonsón, Escobar, 2006).

Onida (1945) argued that the balance sheet can be an information instrument or a behavioural instrument; more specifically, when the external reporting it's used as information instrument the aim is to provide information to stakeholders without applying any kind of policies; when it is used as a behavioural instrument the management apply budgetary policies in order to facilitate the exposition of prefixed business goals. The same goes for websites but companies do not widespread false information on the web because they need to protect their reputation (Bromley, 1993; Cravens et al. 2003; Fombrun, Van Riel, 1997).

The literature analysis is developed on secondary sources from international literature (such as reports, newspapers, websites, articles, papers and scientific books).

The evaluation is based on the analysis of the structure of firms' websites by choosing a sample of 39 companies listed in the Italian Stock Exchange. We've built a scoring model that focuses on websites' common sections in order to evaluate the structure and contents of websites. The following figure 1 shows our evaluation process.

Figure 1 – Evaluation process



Source: Our elaboration

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In order to test the model, we check the correlation between our evaluation and some company characteristics: efficiency, intangibles investments and governance indicators.

This paper is structured in six sections: after the introduction, section two analyses the literature related to the corporate disclosure and the digital culture. Section three describes the adopted research approach. Section four illustrates the research results. Section five proposes final consideration and future perspectives of this field.

The research question is the following: How the digital culture and the corporate disclosure are related? Which characteristics of firms affect the digital corporate disclosure?

LITERATURE REVIEW

Manovich (2001) introduces the concept of an information culture conceptualizing the digital culture as "part of the information culture, within media content and form, of national and cultural traditions, characters, sensibilities, as well as a mixing of culture and computers".

In this direction, the author extends the new media theory toward an integrated perspective of "old and new" such as in the contribute on remediation by Bolter and Grusin (1999) and on the mediamorphosis by Fidler (1997).

Many other labels have been given to this concept: Lévy argues about "cyberculture" (Lévy, 2001), Castells defines it "internet culture" (Castells, 2001), Johnson speaks about "interface culture" (Johnson, 1997) and Jones talks about "virtual culture in cybersociety" (Jones, 1998).

According to the media theory, the evolution of digital culture in the worldwide previously shifted from a 19th century print culture to a 20th century electronic culture and then to a 21st century digital culture (Deuze, 2006). In facts this process regards also the corporate disclosure (Guthrie et al., 2008). Companies have been heavily impacted by the digital (r)evolution; consequently, their disclosure vehicles have been influenced.

Many authors explored the association between disclosures and firm's cost of equity capital (Botosan, 1997; Lang, Lundholm, 1996). This evidence has been also demonstrated correlating the results of debt placement with the disclosure quality (Sengupta, 1998).

Other studies (Farragher et al., 1994; Lang, Lundholm, 1996) focused their studies on the negative association between disclosure and dispersion of security analysts' earnings-per-share forecasts or documented a negative relation between the disclosures scores and the bid-ask spread set by the market makers (Welker, 1995). These studies demonstrate the correlation between the corporate disclosure communication process and the business results of companies (Trequattrini et al., 2012a). At the same time, the conceptualization provided by the literature focuses on the centrality of the digital culture in our century as part of a wider culture: the information culture.

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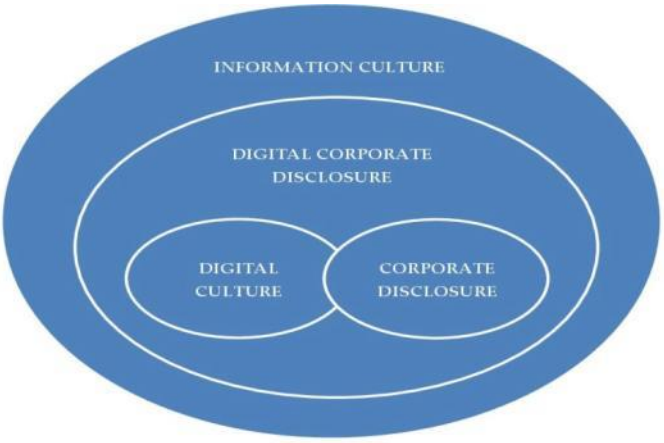
In this scenario, the information culture becomes the system in which the digital corporate disclosure is growing as fusion of the digital culture and the corporate disclosure (Figure 2 – Literature analysis). Some authors (Saxton et al., 2014; Marder, 2008; Cormier et al., 2009) argued the web disclosure but mainly focusing on financial disclosure and on the effect that governance regimes have on the corporate performance web disclosure (Aerts et al., 2007).

Differently from the previous literature, the aim of the present research is to fill the gap related to the influence of the disclosure for other stakeholders as customers or suppliers.

Figure 2 – Literature analysis



Source: Our Elaboration

METHODOLOGY

The scope of the research is to evaluate the digital corporate disclosure and verify, through the application of statistic instruments, the relation with other companies' features. Hence, the research approach is based on a quantitative methodology (Hair et al., 2003).

In this direction, the first issue has been to identify an adequate sample of firms. Using Datastream Thomson Reuters database, we've extracted from the Italian Stock Exchange a sample of listed companies operating in the entertainment sector according the Thomson Reuters Business Classification (TRBC sector). Bounding the search on companies with up from 100 million $ of net revenues, the sample is composed of 39 companies. The reason of this choice is that entertainment firms are subject to a wider population of stakeholders. Sample's features are resumed in the following figure 3.

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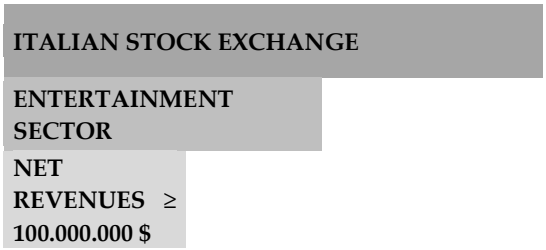
Figure 3 – Features of the sample



Source: Our Elaboration

The digital corporate disclosure is a phenomena showed by companies' websites. Consequently, we've started a review of the sample companies' websites to identify the main characteristics and the main information to consider in evaluation model. We find that companies focus on their relations with investors through websites whose structure is based on four key-points as follows:

- investor relation;
- corporate governance;
- risk management;
- sustainability and corporate responsibility.

From these key-points we've implemented the evaluation network through different indicators. Starting from the investor relations, companies' websites contain a standardized set of information. The most representative element of digital disclosure quality is given by the provision of a dedicated web site for the investor relations. In facts, many companies provide just a section in the main website. Regarding the corporate governance (Trequattrini et al., 2012b) the evaluation process is focused on different aspects: layout format, description of the governance system, information about directors and auditors, corporate governance reports. We've evaluated the provision of a dedicated website for the corporate governance. Then we've checked for information about the governance system and about directors and auditors. We've found that websites have different structures and some of them also contain a corporate governance report. The risk management is an important issue for investors. Moreover, an adequate management of risks and an adequate communication process about risks is crucial to manage the stakeholders' stress. In this direction we analyzed both the description of risks and the description of the risks management system. The fourth key-point is on sustainability and corporate responsibility. The decision (Lombardi et al., 2014) of merging these points is based on the evidence that many companies use them as synonyms. In facts it's usual to find elements of the sustainability under the corporate responsibility and vice versa. We've considered the code of ethics, information about the supervisory board, information about social commitment.

The keywords analyzed have been divided in ten indicators composing the evaluation network. The evaluation process is made by an analysis of each website, giving a score from 0 to 1 to each indicator,

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as follows: 0 means that the information is not expressed; 0,5 means that the information is expressed but not clearly or not enough detailed; 1 means that the information is well expressed. The following table 1 resumes the scoring criteria.

Table 1 – Scoring criteria

ACCURACY OF THE INFORMATION	SCORE
Missing	0
Not detailed	0,5
Detailed	1

Composed in this way, the maximum achievable rate of the model is 10. Through the application of the model, we've found that the lack of some information had an heavy impact on the total grade, even if all the other information or documents were well expressed and easy accessible.

Moreover, the objective is not to evaluate just the provided information set, but also to rate the way in which companies are able to provide these information (Vrontis, Melanthiou, 2011). In the sample, there are some companies with an appreciable level of digital culture that produces positive effects on their disclosure. Some firms have websites that are particularly well-designed with an high level of accessibility. In this direction, the implementation of the evaluation model introduces the possibility to assign up to 2 points for the accessibility. It means that a company with an appreciable accessibility, even if not excellent in every indicator, can be adequately valorized, considering the feeling of the user as an indicator of the website's disclosure.

The following table 2 reports the evaluation model consisting by eleven indicators.

Table 2 – Evaluation model

			Company 1	*Company 2*	*Company n*
INVESTOR RELATIONS	LAYOUT FORMAT	Separate website			
		Section in the main website			
GOVERNANCE	LAYOUT FORMAT	Separate website			
		Section in the main website			
	DESCRIPTION OF THE GOVERNANCE SYSTEM	Detailed			
		Generic			

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	INFORMATION ABOUT DIRECTORS AND AUDITORS				
	CORPORATE GOVERNANCE REPORTS				
RISK MANAGEMENT	DESCRIPTION OF THE RISK MANAGEMENT SYSTEM	Detailed			
		Generic			
	RISK CLASSIFICATION	Detailed			
		Generic			
SUSTAINABILITY AND CORPORATE RESPONSIBILITY	CODE OF ETHICS				
	INFORMATION ABOUT SUPERVISORY BOARD				
	INFORMATION ABOUT SOCIAL COMMITMENT				
ACCESIBILITY (UP TO 2 POINTS)					
TOTAL POINTS					

Source: Our elaboration

Using SPSS we verify the correlation between the digital corporate disclosure, represented by our grades, and other company characteristics, following three hypothesis:

1. the correlation between our evaluation and the efficiency;
2. the correlation between our evaluation and intangible investments;
3. the correlation between our evaluation and governance indicators.

In the first hypothesis the correlation will be analyzed considering the operating profits, ROE and the ratio between total assets and equity. In the second hypothesis intangibles are considered excluding goodwill. The third hypothesis will investigate the correlation of our grades with the governance looking to the age of directors, the independent directors rate and the prevision of the investor relation manager. Table 3 resumes these hypothesis.

Table 3 – Hypothesis and Indicators

HYPOTHESIS	INDICATOR
EFFICIENCY	OPERATING PROFITS
	ROE
	TOTAL ASSETS/EQUITY
INTANGIBLES INVESTMENTS	INTANGIBLE ASSETS (GOODWILL EXCLUDED)
GOVERNANCE	MEAN AGE OF DIRECTORS
	INDEPENDENT DIRECTORS RATE
	PRESENCE OF THE INVESTOR RELATION MANAGER

Source: Our elaboration

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FINDINGS AND DISCUSSION

Companies' websites are vehicles of information that express the association between the digital culture and the corporate disclosure. In other words, the digital corporate disclosure should be analyzed and evaluated.

The most of companies analyzed in the sample obtained a grade between 7,5 and 9 (Table 2 - Results); considering that this range includes the average (7,8974), we fixed it as the medium range. The following table 4 shows the sample and companies' grades.

Table 4 –Results

COMPANY	GRADE	COMPANY	GRADE
Cyfrowy Polsat SA	8,00	Punch Taverns PLC	8,50
TVN SA	8,00	Sodexo SA	8,00
Whitbread PLC	7,50	Marston's PLC	9,50
Compass Group PLC	6,00	Technicolor SA	9,00
ITV PLC	10,50	Kabel Deutschland Holding AG	8,00
InterContinental Hotels Group PLC	8,50	Mitchells & Butlers PLC	7,00
Tui AG	8,00	Spirit Pub Company PLC	6,50
Royal Caribbean Cruises Ltd	8,50	Rank Group PLC	8,00
Thomas Cook Group plc	9,00	Sky PLC	8,50
Ladbrokes PLC	7,50	RTL Group SA	9,00
Autogrill SpA	11,00	Restaurant Group PLC	3,50
Accor SA	6,00	William Hill PLC	7,50
Carnival PLC	9,00	Metropole Television SA	7,50
Modern Times Group MTG AB	6,00	Twenty-First Century Fox Inc	10,00
Mediaset SpA	9,00	J D Wetherspoon PLC	5,00
Greene King PLC	6,00	Mandarin Oriental International Ltd	6,50
Television Francaise 1 SA	7,00	Paddy Power PLC	7,50
Gtech SpA	7,5	Enterprise Inns PLC	8,00
Twenty-First Century Fox Inc	10,00	Millennium & Copthorne Hotels PLC	6,50
Melia Hotels International SA	11,00		

Source: Our elaboration

The lowest score has been 3,5 points; hence from 3,5 to 7 we've defined the sufficient level of digital disclosure. The highest score has been 11; hence from 9,5 to 11 points we defined the high range.

In order to verify the hypothesis listed in the methodology, we correlate with IBM-SPSS our evaluations with the efficiency, the intangible assets and the governance indicators.

As showed by table 5, there are no significant correlations with the efficiency indicators.

Table 5 - Efficiency correlations

		GRADE	Operating Profit (USD)	Return On Equity	Total Assets / Equity
EFFICIENCY	Pearson	1	0,346	-0,170	0,197
	Sig. (2-tail)		0,031	0,301	0,230
	N	39	39	39	39

Source: Our elaboration with IMB - SPSS

ISBN: 978-9963-711-37-6

The same goes for the intangible assets, there isn't a significant correlation between our grades and the intangible assets value. The table 6 shows this evidence.

Table 6 – Intangible assetes correlation

		GRADE	Total Intangibles (Million $)
INTANGIBLES	Pearson	1	0,202
	Sig. (2-tail)		0,218
	N	39	39

Source: Our elaboration with IMB – SPSS

Regarding the correlation with governance, there is no association of grades and mean age or between grades and the independent directors rate (Table 7).

Table 7 – Governance correlations

		GRADE	Age Average	% Independent directiors
GOVERNANCE	Pearson	1	0,186	-0,001
	Sig. (2-tail)		0,257	0,994
	N	39	39	39

Source: Our elaboration with IMB - SPSS

What seems to be related with the above grades is the provision of the investor relation manager. According to the evaluation, companies that implement their board with this professional reach highest rates in the proposed evaluation model (Table 8).

Table 8 – Grade Average

COMPANIES	n°	AVERAGE
COMPANIES WITHOUT INVESTOR RELATION MANAGER	19	7,34
COMPANIES WITH INVESTOR RELATION MANAGER	20	8,25

Source: Our Elaboration

CONCLUSIONS, LIMITATIONS AND FUTURE PERSPECTIVES

The paper aims to evaluate the digital corporate disclosure (Guthrie et al., 2008) through a quantitative research approach. The assumption is that in companies' websites the corporate disclosure and the digital culture merge in the same information vehicle.

The literature review demonstrate that the digital culture is part of the information culture. At the same time, the corporate disclosure is a process in which the information are widespread. Many authors (Botosan, 1997; Lang, Lundholm, 1996) explored the association between disclosures and firm's cost of equity capital or the negative association between the disclosure and the dispersion of

 ISBN: 978-9963-711-37-6

security analysts' earnings-per-share forecasts. Other authors (Farragher et al., 1994; Lang, Lundholm, 1996) documented a negative relation between the disclosures scores and the bid-ask spread set by the market makers. In different ways, it has been demonstrated that the corporate disclosure information process is able to influence the business results.

Starting from the literature gap, we've identified an adequate sample of firms to analyze their websites and to verify their digital corporate disclosure. The evaluation model is made by ten indicators that focus on investor relations, corporate governance, risk management, sustainability and corporate responsibility. In order to consider also the general accessibility of the disclosure, we introduced the possibility to assign up to two premium points.

From the application of the evaluation model, the digital disclosure of firms in the sample has different quality levels. Considering that more than the 50% of the sample is concentrated in a narrow range of score (from 7,5 points to 9 points) we've defined the low and the high range (Figure 4 – Digital disclosure ranges).

Source – Our elaboration

$3,5 \leq x \leq 7$	$7,5 \leq x \leq 9$	$9,5 \leq x \leq 11$
28,21%	56,41%	15,38%
SUFFICIENT	***APPRECIABLE***	***EXCELLENT***

Figure 4 – Digital disclosure ranges

In order to test the significance of the analysis we've checked the association between the assigned grades and other company characteristics.

Correlating the evaluation with the efficiency, the intangible assets and the governance, there is an important correlation with the investor relation manager. More specifically, companies that have an investor relation manger in their board are able to reach a better digital disclosure level. Consequently, the analysis demonstrates that in the sample the digital disclosure does not depend on the efficiency or on intangible investment, but is related to the governance.

This work aims to stimulate the scientific community to move in the direction of measuring the digital disclosure as fusion of digital culture and corporate disclosure.

In this direction, we had set up a model to evaluate the digital disclosure quality and analyze the evidences. Results from the sample demonstrate that firms have different levels of digital disclosure, at the same time firms that hold an investor relation manager have an higher disclosure level.

However, the model proposed has some limitations, there is still an arbitrariness problem that concerns both the choice of elements to analyze, than the evaluation criteria. Regarding elements, companies have similar structures that focus on their relation with investors; consequently, the evaluation structure is divided in four key-points applicable to the sample: investor relation, corporate

ISBN: 978-9963-711-37-6

governance, risk management, sustainability and corporate responsibility. This choice depends on the fact that these key-points occur systematically in our sample. Nevertheless, it's possible that other researchers would find other key-points, or that the network wouldn't work on other samples.

At the same time the evaluation criterion may change by the researcher's point of view. The model consists in scoring the websites looking to the quality and the accessibility of the information; it means that the evaluation can be affected from personal skills, culture and other characteristics of the evaluator.

ACKNOWLEDGEMENTS

This paper is the joint work of the four authors: the *"introduction"* paragraph is by Rosa Lombardi, the *"literature review"* and the *"findings and discussion"* paragraphs are by Matteo Palmaccio, the *"methodology"* paragraph is by Federica Evangelista, the *"conclusions, limitations and future perspectives"* paragraph is by Giuseppe Russo.

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 ISBN: 978-9963-711-37-6

OUTCOME-ORIENTED PERFORMANCE MANAGEMENT SYSTEMS AND PUBLIC VALUE. FROM THEORY TO PACTICE

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ABSTRACT

In the various theoretical streams, considerations on how the creation of PV can be measured and assessed have as yet to be formulated. This paper focuses on how performance management can be readdressed to the creation and measurement of PV. To this aim it seems important to proceed in the following ways: 1) to analyse the evolution of performance management and its extensive interpretation; 2) to understand the degree of attention paid from PV theory to the performance; 3) to establish a reference framework in which performance management becomes supportive and/or complementary to PV.

1. INTRODUCTION

Emphasis on the economic and management vision of the public sector has raised a series of questions which have led to new theoretical elaborations aimed at finding an alternative proposal in the study of public management. Moore's (1995) conceptual framework, for instance, proposed a meaning of Public Value (PV) that placed it above the formal notion of public interest. PV theory "may be attributed to a need for correcting and advancing New Public Management (NPM) concepts" (Meynhardt, 1999:194) and public value management by Stoker (2006) may be considered as "a successor of NPM" (Alford and Hughes, 2008:137).

In the various theoretical streams, considerations on how the creation of PV can be measured and assessed have as yet to be formulated. This paper focuses on how performance management can be readdressed to the creation and measurement of PV. To this aim it seems important to proceed in the following ways: 1) to analyse the evolution of performance management and its extensive interpretation; 2) to understand the degree of attention paid from PV theory to the performance; 3) to establish a reference framework in which performance management becomes supportive and/or complementary to PV.

Due to a growing number of subsequent interpretations PV theory allows us to include several aspects of performance management. The original idea of Moore's theory (1995), and others later (Cole and Parston, 2006; Stoker, 2006; Alford and O'Flynn, 2009; Benington and Moore, 2011) is that the creation of PV depends on the complexity of interdependent processes that together constitute a strategic triangle. PV is defined, legitimized and emphasized for all stakeholders and consolidated in its

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operational capacity. PV can be created and measured following multiple modalities. In fact, according to a holistic view, it must be extended to all types of intervention undertaken by public authorities/agencies and its measurement has to consider not only that created from public entities but also the co-creation derived from partners and co-producers. The use of performance management tools appears to be suitable for public value measurement, though with necessary adaptations.

Section 2 explores the background to the theoretical strand of PV, with an emphasis on the role of performance management in the NPM, its potentialities and constraints. Section 3 analyses the performance management model, as a tool with several points of contact with the stream of the PV. Section 4 proposes a new interpretation of the Moore's strategic triangle, as a result of logical and interdependent processes between performance management and PV theory. In the conclusions we summarize our core findings and discuss the performance management as power element in the development of PV theory.

2. BACKGROUND TO PV THEORY

Managerialism and performance

In the public sector, a transition has been observed from the traditional model - based on the execution of procedural rules - to the managerial model, which focuses on public managers' new role and results (Hood,1991; Osborne and Gaembler, 1992; Broadbent and Guthrie, 1992). The traditional model is characterized by bureaucracy, inflexibility and a lack of responsiveness and inefficiency due to a focus on procedures rather than results and outcomes (Alford and Hughes, 2008: 134). There were two steps in this process of transformation into managerialism.

In managerialism there was an increased emphasis on decentralization in public sector organizations, with a consequent assignment of responsibility to divisional managers on the basis of budgeting and financial reporting similar to that used as in private business. In contractualism, the principle idea was not only decentralization, but also the separation of service delivery functions from policy making through the establishment of competition mechanisms between providers (Blaug et al., 2006; Alford and Hughes, 2008).

Throughout the implementation of managerialism the three *Es* (i.e. Economy, Efficiency and Effectiveness) are of vital importance in constructing indicators, ratios and measures to monitor how an organization converts inputs into outputs, or whether it is getting outputs and outcome (Brignall and Modell, 2000; Modell, 2004). Economy has been described as the result of the interaction of an input-oriented view, usually expressed in terms of costs, budgets, and staffing totals and an output-oriented perspective. This can aid in verifying whether the same number of inputs can lead an organization to produce a greater quantity of outputs. The reference of inputs to both costs and value

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of cost-reduction activities represent the first approach of measurement to emphasize a hierarchical accountability for inputs (Romzek, 1998; Heinrich, 2002).

Efficiency is a ratio between inputs and outputs whilst effectiveness represents the achievement of objectives and results. According to Pollit and Summa (1999:9), "an assessment of effectiveness demands an investigation of outcomes, and outcomes which, by definition, take place in the world beyond the organization or programme". This concerns the extent to which outputs meet organizational needs and requirements (Kristensen et al., 2002). The term outcome denotes "the essentially intangible, multidimensional attributes which are of real concern, relative to stakeholder needs in the public sector" (Boland and Fowler, 2000:427).

Performance has been viewed as a multidimensional concept, where the need of measurement may differ depending on the context of application, the different factors involved and the reference groups (professionals, administrators, employees). It may be related to processes, behaviors (how managers work), and results (what an organization produces and for whose benefit) (Otley, 1999). In general, reference to the performance cannot ignore an assessment of both the internal factors influencing behaviour, as well as external factors influencing the operations of an organization. In essence, the predominant matter is not only what individuals and organizations do and are capable of doing, but also the importance of their role within an organization and the conditions in which they operate (Mwita, 2000). Another perspective is concerned with the use of performance information. Usually the use of the performance information depends on the motivations of potential users and the effective utility to their goals and purposes (Van Dooren and Van De Walle, 2008).

The development of performance measurement is central to the managerialization process in the public sector. The term "performance management" was not utilized in literature until the 1970s (Boland and Fowler, 2000; Armstrong and Baron, 2005). During the 1980s and 1990s usage became widespread, despite Heinrich (2002:712) claiming that *"the plethora of idioms and acronyms for PM initiatives — planning, programming and budgeting, performance-based budgeting, pay-for-performance, performance planning, total organizational performance system, management by objectives, and more — impede a facile understanding of how and why we measure public sector performance"*.

In the early 1990s, NPM actively emphasized the need for performance measurement (Bouckaert & Van Dooren, 2003). However the idea of measuring government performance has a long history. The performance measurement movement within public services has been in part justified as an increase in accountability and participation (Talbot, 2005). The popularity or "myth" of this means of management innovation in public administration has different explanations mainly including (Heinrich, 2002; Noordegraaf and Abma, 2003, Modell, 2004):

- a need to introduce strict forms of financial control;

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- the emulation of business-like models;
- a greater focus transparency in Public Administration by strengthening a performance-oriented information system;
- the need to enhance the effectiveness of public authorities;
- the implementation of result-based evaluations;
- affirmating of a veritable professional accountability.

Performance measurement's primary function is to specify broad and abstract goals and missions to enable evaluation (Wang & Berman, 2001) and a performance management system needs to be purposeful, unified, integrated and fluid (Tarr, 2004). While performance measurement relates to quantifying, inputs, processes and outputs, performance management, instead, is action, based on performance measures and reporting, which results in improving behavior, motivation and processes and promotes innovation. Furthermore, there is a movement aimed to define PM as a system about both measurement and management (Hatry, 1999; Morley et al. 2001, Bouckaert & Van Dooren, 2003). Therefore, performance management takes the form of management that permeates the decision-making process, affecting operational processes, allowing for result assessment and, finally, supporting the process of external information for stakeholders. The typologies and models are classified in different frameworks for comparative analysis (Christensen and Laegreid, 2001), but essentially the analysis of PM concentrates on two forms: the specification of its components and their adaptations within different countries (Bouckaert and Halligan, 2006:6).

A detailed OECD report (1997:7) about PM practices in ten countries, indicates "PM" as "a key factor in public sector reforms", and analyses the different objectives, approaches, institutional arrangements and performance information systems, as "the major elements in PM". The report specifies three main motivations for introducing PM (OECD, 1997:9). First, the desire for improvement in internal functioning resulting in an objective of continuous improvement in performance. Second, to provide new ways of interacting with partners in the societal network resulting in an objective to improve mechanisms to distribute and clarify responsibilities and control. Third, the need for fiscal restraint (or reduction) resulting in an objective to realize savings by shrinking activities and budgets and increasing efficiency gains.

For these reasons in developed nations we have seen a high propensity in "performance oriented management" but in different manners (Pollitt and Bouckaert, 2004; Radnor and McGuire, 2003). The emergent idea is that different ways of applying performance management vary widely in their orientation to outcomes as opposed to both output and outcome (Kristensen et al., 2002, Guthrie and English, 1997). On the basis of the context of application Bouckaert and Halligan (2008:74) distinguished between three *ideal types* of performance application: performance administration

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(France Germany), management of performance (Netherlands, Sweeden) and performance management (Australia, Canada, New Zeland, UK, USA).

3. PERFORMANCE MANAGEMENT IN THE PUBLIC SECTOR

How performance management works in a policy context

To better understand "what" and "how" to measure, it seems useful to employ a model (Boukaert and Halligan 2006:17) according to which performance management works. It shows the dynamics between policies, intended as a tool for the elaboration of needs, and operational processes, in which both the activities and results of public administration are concentrated.

The relationship among inputs-throughputs-outputs-effects allow us to understand "in a context of general and operational needs and embedded policy objectives that are interacting with environments". Another insight from this scheme is the individualization of "who is accountable for that performance".

Examining figure 1, we can observe that the output approach has several limitations. First, an emphasis on quantitative output measures can distort the attention of delivery agencies, so that agencies tend to lose sight of the impact their programmes have on society. Second, politicians and the general public tend to think in terms of outcomes and not of outputs. An accountability mismatch could arise between politicians thinking in terms of outcomes and agency managers administering in terms of outputs. Third, outputs typically do not forge a strong link between government policies (whose purpose is likely to be phrased in terms of outcomes) and their implementation.

Performance management works in two areas at the same time. The first concerns the policy objectives to be related to society needs and should be assessed in the mid-term to verify their impact on the environment. The second one is firmly operational, depending on which activities and processes lead to the implementation of policies and strategies. For each of these areas, it would be appropriate to construct both internal indicators, dedicated to measuring the economy, efficiency and effectiveness, and apposite indicators to measure the impact (and therefore the outcome). A matter of perspective concerns the consistency of the internal objectives (and indicators for monitoring the activity of managers and staff) with policies, while also providing a path for the stakeholder engagement.

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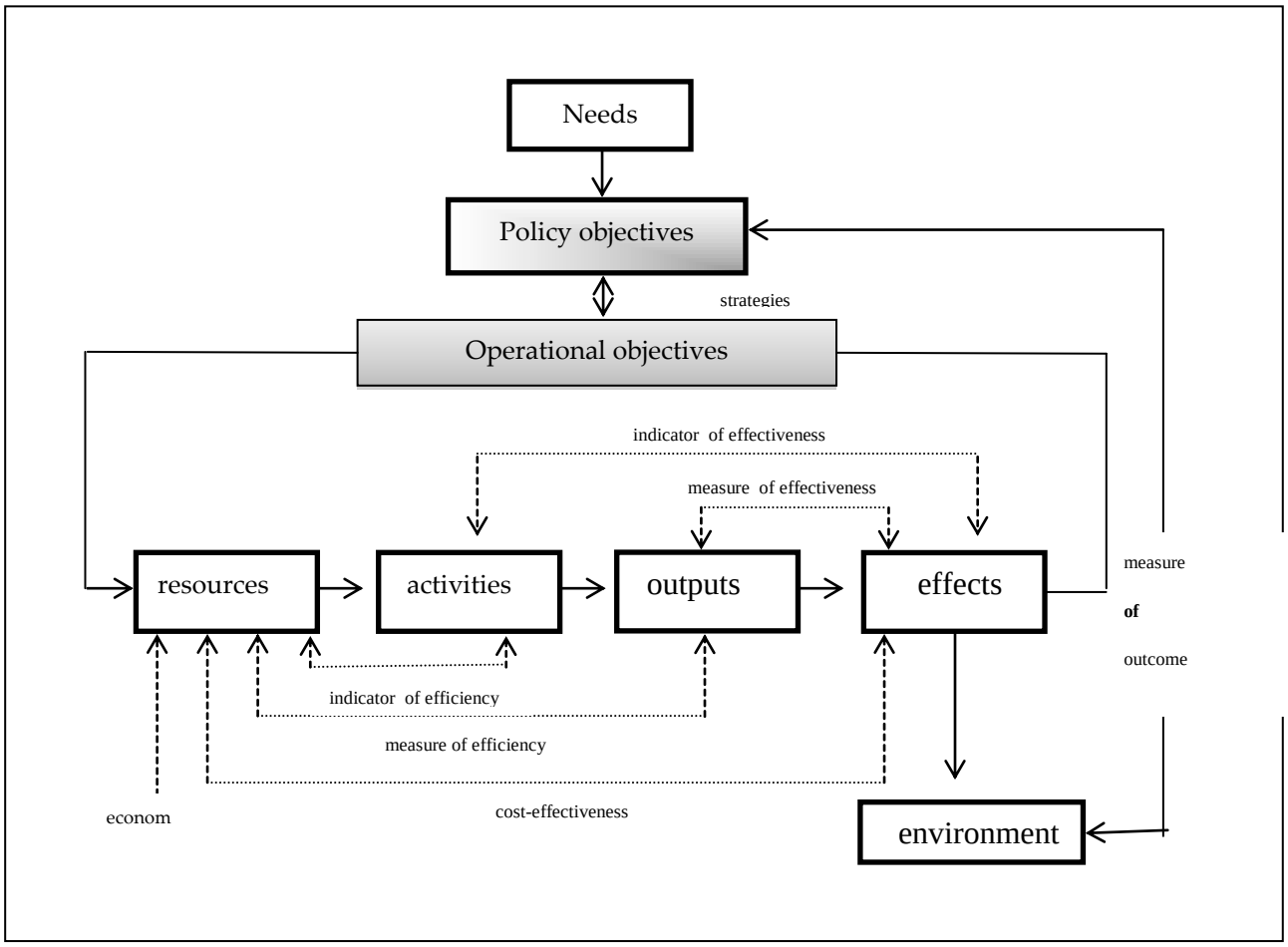
Figure 1- **Performance management in a policy context**



Source: From Boukaert and Halligan (2006: 17)

According to a systemic perspective, elements to be considered for performance management are strategy, process, people and systems and their interdependent relationships (Radnor and McGuire, 2003). By using a delineation of Kristensen et al. (2002:10) "Outcomes are the impacts on, or the consequences for, the community from the outputs or activities of the government. Outcomes reflect the intended and unintended results from government actions and provide the rationale for government interventions".

The advantages of performance management applied to the public sector are of obvious systemic importance, in considering the requirement of public organizations to link the activities performed by managers to the results achieved. Further, an evaluation of performance management in the public sector has to consider some possible pitfalls widely discussed in literature. In this sense, since its introduction, the debate highlights the paradoxes of performance management. These issues were the result of wrong assumptions underlying measurement, measurement errors, and problems concerning the content, position, and amount of measures" (Van Thiel and Leew, 2002). In this study, these authors address the "unintended" effects of the performance systems and further examine the difficulties highlighted by other academics such as Bouckaert and Balk (1991), Smith (1995),

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Schmidtlein (1999), exhibiting an overview of tangible difficulties shared in this paper. Among these, "the proliferation of regulators and auditors that has increased the monitoring costs of the organizations and the state", "effects such as ossification, a lack of innovation, tunnel vision, and suboptimization" due to increased measure pressure, a trend towards "symbolic behavior" so that "monitoring appears to be in place but is in fact not", an unclearness about "what is actually measured", myopia "when, for whatever reason, managers focus their efforts on short-term targets at the expense of longer-term objectives", measure fixation "when outcomes are difficult to measure there is a natural tendency to use performance indicators based on measurable outputs". It is therefore clear that performance management, taking into consideration the role the public sector plays in the economic and social system, is likely to slip into rituality. Such paradoxes are likely to occur whenever performance management implementation fails to integrate the roles of public agencies, strategic development, internal processes, goals and outcomes (Van Thiel & Leeuw, 2002). Other studies show that performance management in public sector is more a fiction than a concrete fact (Radnor & McGuire, 2003).

Performance perspective in the public value theory

In compliance with public value theory, public managers must manage operational processes taking into account both the desires and aspirations of the community (Moore, 1995).

PV is a means and end at the same time, so it does not belong only to public administration, even though these last are suited to its creation. Alford and Hughes (2008:131) state that "should it be understood that value is not public by virtue of being delivered by the public sector. In fact, it can be produced by government organizations, private firms, non-profit or voluntary organizations, service users, or various other entities ".

PV should refer to those who consume it as well as the community i.e. the public as a whole. Consequently it contains within itself all the features related to its economic, legal, ethical and social dimension. In order to embed this in the public sector, we need to look at the "benefits created and resources expended by public organizations in generating those benefits". Through this perspective, the PV doesn't set aside the traditional view of bureaucratic public administration but reiterates its significance in view of the fact that anyone who has an interest in the public matters expects that such interest be pursued. "PV is what the public values" (Talbot, 2006.7). In considering this multidimensional view , a second position becomes relevant, if we look at the most pervasive concept of "public sphere" as a "democratic space which includes, but is not co-terminus with, the state within which citizens address their collective concerns, and where individual liberties have to be protected" (Benington, 2009:233). On the one hand, to the extent of PV creation, we need to ask *how* the public and the community usually evaluate both the activities and results of the public sector

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compared to the needs and aspirations expressed; on the other hand it is necessary for the public sector to be asked how what it is doing will have an impact on the community and future generations, raising the issue of sustainability with regard to the PV created.

The PV theory arises in the context of a critical review of NPM contents, by emphasizing an ethical dimension and a very different concept of legitimacy and accountability.

It requires one to remain on both crucial aspects (i.e. processes and results). Creating PV means focusing on needs to be satisfied, strategies to implement to satisfy the selected needs, the activities by which processes are developing, especially in public services where there is a co-production between producer and consumer (e.g., health and education) (Spano, 2009). Furthermore, it implies paying attention to the results which add value. This explains why both politicians and public managers need to have a strong awareness of creating PV in terms of accountability. In this regard the typical tools of performance management can be extremely useful in creating and measuring PV.

The importance of the necessary steps for the public value creation may actually recognize the logic of the performance management as a real operational support. Nevertheless it is important, redesigning the relations between politicians and manager. In the PV conception, politicians must assign objectives to managers, according to a vision by which managers must become accountable for their achievement. "Public value production process requires a systemic vision of institutional, political and corporate dimensions and management control systems"(Spano, 2009: 343)

As Talbot (2008) claims, three facets of performance seem to be relevant for public agencies: 1) delivering actual services; 2) achieving social outcomes; 3) maintaining trust and legitimacy.

The creation of PV depends on the complexity of three interdependent processes that together constitute the strategic triangle through which the PV is defined, legitimated and emphasized for all stakeholders in order to foresee outcomes, at the strategic level, and consolidate the operational capacity. PV can be created following multiple modalities. In fact, according to a holistic view, it has to be extended to all the types of intervention undertaken by public authorities/agencies. Consequently, any regulations, laws, measures, activities, that may be taken upon the public sphere are susceptible of creating PV (Kelly et al. 2002). The search for PV must include not only service provision, but has to assume a deliberative attitude to create PV in the decision making phase. The latter, however, does not admit direct or immediate verification, as happens with customer satisfaction. PV can only be inferred from more complex analyses aimed at measuring the real improvement of citizens' quality of life, from its creation, i.e. the outcome generated by public decision and action.

Substantially, the PV theory focuses on the role that public managers should have within public administration and its evolutionary interpretations, although evident difficulties have emerged in its possible adaptation to different systems of government (Gains and Stoker, 2009).

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Public value management

In the evolution of PV theory particular relevance has been given to the ethical dimension with reference to the effects that the adoption of "PV thinking" can trigger on management. For that reason, the "label" Public Value Management (PVM) has become widely accepted (Stoker, 2006; O 'Flynn, 2007; Gains and Stoker, 2009; Alford & O 'Flynn 2009; Grant & Fisher, 2010). Moore's model implies a proactive role for public servants in recognizing the political line, mediating it and enabling public responsiveness. This model stretches traditional notions of accountability for both politicians and public managers. The literature reveals a diffuse consciousness, about the difficulties in the PV framework implementation, despite its normative appeal, especially in those forms of government in which the relationship between politics and bureaucracy is overstressed.

PV theory postulates public managers as skilled mediators between politicians and citizens. The creation of PV needs to be assessed through collective democratic processes and dialogue between citizens, politicians and managers about *what is provided* and *at what cost*. Recognizing the PV requires a political engagement and an interaction between stakeholders and government officials at all stages in the policy process (Gains and Stoker, 2009). Therefore the application of the PV theory intrinsically assumes a performance-oriented organization.

In her comparative analysis of the PVM and NPM, O' Flynn (2007:361) singles out a bundle of targets to the "performance objective" component; this bundle contemplates service outputs, satisfaction, outcome, trust and legitimacy. Obviously this impacts on the accountability relationships, which are undertaken in the PV model involving *citizens/overseers of government*, *customers/users* and *taxpayers/funders.*

Within this framework, legitimacy is pursued in and out of the political process. Accountability can be delivered through performance and financial management objective setting and targets, through greater information and transparency as well as through dialogue with all the actors.

The PV paradigm can contribute mainly in two ways to strengthen the performance management. The first is the re-orientation of performance management through a shift of attention onto the outcomes within the performance system variables. Although consciousness about outcomes has long been established within the performance movement, practice frequently tends to incline to a narrower focalization on mere efficiency (as seen before, commenting on the NPM). PVM can help to transcend this limitation. A *performance culture* is one of the fundamentals "to ensure a sustainable service culture and continuous improvement" for a new public service ethos (Stoker, 2006:48). The second one is the introduction of a broader concept of outcome, within both the decision-making processes and the performance measures. This concept encompasses the impact of the public action on the citizens or the community, while the traditional concept was focused on the impact on the users.

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Following this path, performance management can be enriched of elements and values that make the whole process consistent with "what states" the public value management. That implies that, once PV has been understood and created, it can be also measured. In some holistic vision, PV represents the objective to pursue, as postulated in the model proposed by Kelly, Mulgan and Muers (2002), where PV is the total amount of "benefits flow from government action". In this perspective, managing public sector according to PV orientation means to steer public agencies by acknowledging the proactive role of public managers in PV creation. With further evaluation, the label public value management "could be considered a more complex tool for assessing the total value of government services" (Kelly et al. 2001:1). Another interpretation comes from Cole & Parston (2006), when introducing the Public Service Value Model, but their contribution is focused on a mere recovering of the tools used by performance management."They appear to have attached the words 'public' and 'value' to a standard framework for measuring outcomes and cost-effectiveness" (Alford and O'Flynn, 2008:10). Since the method proposed by Moore doesn't adhere to conventional performance measurement, it is necessary to go forward and analyze the proposals aimed to give shape to PVM. "The concept of PV highlights the importance of focusing on processes and outcomes ('what value is being added to the public sphere, by whom and how?) not just for inputs and outputs, or on input/output ratios and productivity" (Benington, 2011:47; see also Williams & Shearer, 2011).

In a heuristic perspective it could be useful to articulate the indispensable steps for a successful performance management system in the backdrop of the PV theory. This means that performance management can be used for the purposes of PV theory. The PVM paradigm is focused on creating value and to transfuse PV thinking into strategies to be implemented, by distinguishing policy areas requiring interventions in different processes. In this perspective, it's noticeable the importance of the co-product value has been highlighted and, consequently, the involvement of both citizens and institutions in delivering public service. A PV orientation should not only be observed in public administration activities, but within those organizations where it is linked to "increased levels of engagement and civic participation" (Williams and Shearer, 201:9).

4. PV AS A TRANSFORMER OF PERFORMANCE MANAGEMENT

In a very appealing lecture, Moore (2006:93), when specifically treating the issue of performance through a comparison with private businesses, pays specific attention to three main issues:

- the reasons for performance measurement in the public sector *(Why should a public manager measure performance*?);
- the focus points of measurement *(Where, along the 'value chain,' is it best to measure performance inputs, processes, outputs or outcomes)?;*

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- the role customer satisfaction plays in PV (*Should we measure customer satisfaction as an important dimension of PV creation, and, if so, who are the customers and what do they want?*)

The answer to the first question consists of the identification of performance measurement as the process of defining and recognizing PV production, so that the strategic triangle may be used as "a highly effective, even essential, tool for strategic management" (Moore, 2006:98). Every point of the strategic triangle (Legitimizing and authorizing environment, Operational capacity, Outcome/Public value) all the actors are involved in a massive process of accountability, internal and external. For this purpose "developing concrete methods of measuring specific aspects of performance" is considered as essential (Moore, 2006:98).

The PV chain provides the answer to the second question; it deploys a whole sequence of activities, processes, procedures, and programs which produce outputs and generate outcomes. Furthermore, it adds emphasis on both social outcomes and the action of partners and co-producers. The scheme is inspired by components observable also in the performance management scheme (fig. 1). The input-output components aim to monitor operational capacity, by taking into account the consequent interactions with partners and co-producers of public services. Public authorities are supposed to undertake policies and actions in a legitimizing environment where they can pursue PV. In addition particular attention is paid to citizens in a logic of customer satisfaction. This offers a satisfactory explanation to the third question where citizens are seen as different from mere users: Moore (2006:106) argues "government has clients on one hand and citizens on the other". So government's clients are the "citizens of the democracy who authorize and pay for the organizations and hope that the organizations will realize through their operations the aggregate social results that citizens want to achieve".

This claim is supported by Alford's explanation (2011) on the different role of the client of public administration, distinguishing between who pays for a public service and who is just a beneficiary. So the core of this relationship is in the behavior that public administration must "elicit from the clients which co-produce value for the public" in order to understand and respect their needs (Alford, 2011). This distinction is an interpretive lens to ensure some level of customer satisfaction but also to produce any necessary change to achieve desired outcomes.

Moreover, it is intuitive to observe the tendency of PV to encompass performance management tools in building a logical pattern, achievable through developing the three corner stones in Moore's strategic triangle.

If we compare the determinants of PV to the canonical steps of performance management, by extending our vision to a sort of pluralization of PV, we could acknowledge an advantageous interaction between the PV paradigm and performance management. The communication area, where

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PV is reported to the citizens, integrates the structure. This means that politicians and managers have to establish a virtuous circle in three actions. The first concerns the definition of rules, policy and strategy by implementing a performance management system to deliver PV. The second envisages constant attention to monitoring processes and managing internal performance. Finally, the third aims at measuring PV to communicate it to citizens. In such a context performance evaluation is just a preliminary step in creating and measuring PV. In this perspective Talbot (2010) refers to a multidimensional performance model taking multiple variables into account in order to give concreteness to a PV measurement model. Key values are identified as solidarity, equality, equity, authority and autonomy. In this way he shows how these values are multiple and often conflicting (such that it is often more appropriate to talk of PVs rather than PV) and how the process of PV creation works. In conclusion, he proposes a model to shape public performance, where the competing PVs are integrated within the performance realm (involving many actors such as citizens, partners etc.) and the performance model.

On the one hand, performance management should aim at highlighting efficiency and productivity, and on the other it should measure the value created for the community and citizens in their different expressions. In this sense, performance management becomes an instrument of both legitimacy and the assertion of PV. Faced with the services expected by the community, public administration should be able to activate a number of mechanisms to ensure the most efficient use of resources and the maximum satisfaction from users. In this way the politicians can provide a motivation about their own role and "authorization", while public managers should be able to demonstrate a certain ability in operating for the benefits of citizens.

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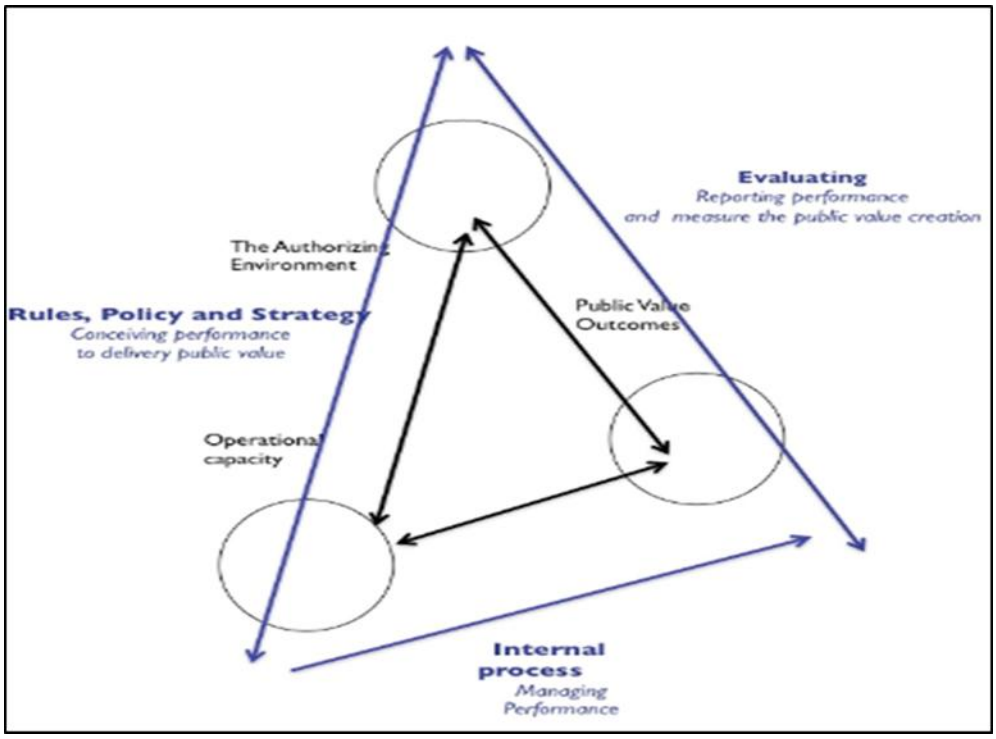
Figure 2: The strategic triangle in the performance management perspective



An interpretive proposal of the strategic triangle

The diagram represents a proposed integration of Moore's PV paradigm (1995) and the performance management system. It aligns the main components of performance management (*Policy*, *Internal process*, *Evaluation*) with the three dimensions of the strategic triangle where the same public managers play an intermediate role and are held accountable to citizens. Along with the authorizing environment, it aligns the system where rules, policies and strategies are developed. The internal processes are connected to the operational capacity where both organizational and individual performance need to be measured and monitored. Finally, we observe that the determination of the outcome has to be connected to performance reporting understood as a tool for measurement and evaluation. If we look at the pattern in which the two triangles overlap, we note that each of the three items of the strategic triangle can match the main components of performance management with an extensive interpretation. This vision needs at least three prepositions:

1. PV creation must be supported by both the political and the managerial dimension. The former acts by defining rules and policies, the second by aligning strategies to policies;

2. Strengthening operational capacity should be based on the adoption of management tools capable of making the connection consistent top-down and bottom-up, organizational goals with individual goals;

3. Measurement and evaluation processes must take into account both internal organizational needs and impact on citizens.

This means that since a policy is designed to meet the needs of the community and be implemented by

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suitable strategies, Public Authorities should be aware of creating PV, by communicating with stakeholders, and addressing the management towards the achievement of results. Essential for the decision making process is the effort to balance the three forces focusing on the creation and measurement of PV: public interest, self-interest and procedural interest Public value potentially captures all three of these—self-interest, public or social interest and procedural interest—in a single framework. Public value theoretically is capable to establish a contact between the political dimension and performance orientation "through its emphasis on legitimacy and trust, re-establishing the idea that in a democratic polity it is not just individual benefits from services or outcomes, or public interest benefits, but also the procedures by which they are shaped and decided upon which determine the utility of public services performance" (Talbot, 2011: 30). The subsequent actions should also be made consistent through an external reporting system with reference to overall performance including public value.

5. CONCLUSIONS

The underlying idea of this paper concerns "how" the performance management system is consistent with the creation and measurement of public value. In this sense, the paper has examined the theme of public sector managerialization, from new public management to public value management.

This has enabled the implementation of performance management systems with special attention to the different phases, underlining the connection among strategies, dynamics of internal processes and outcomes. Within the same evolution of performance management, the shift of attention from output to outcome seems central in explaining how PV theory can be combined with performance management. In a systemic vision attention has to be paid to the outcome, which represents a fundamental step in the connection with public value theory.

Considering outcomes from the perspective of public value creation means paying attention to the role of decision makers on a political level, and, in operational terms to the role played by managers with respect to citizen's expectations. The operational tools of performance management can certainly help to measure the public value created taking into account the following internal and external factors:

- the public managers' awareness of public value;
- the efficiency of internal processes;
- the consistent implementation of policies and the achievement of goals;
- the quantity and quality of services delivered;
- customer satisfaction;
- the level of legitimacy and consensus;

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◎ results and value created over time.

Public value has the ability to integrate all instruments of performance management. The creation of public value is the result of processes that validate the operational capacity and provide support to forms of legitimacy and the environment in which they develop, legitimizing and authorizing relationships.

The main idea is to interpret PM as a supportive system in the enrichment of the paradigm of PV, so it is not unrealistic to think that it should be seen as compatible with the aspects outlined in Moore's strategic triangle.

The limits of the paper derive from a lack of empirical demonstration given that the same concept of public value while embedded in the vision of public agencies is often hindered by excessive focus on internal/organizational performance. Public Organizations which have introduced performance management systems are usually more concentrated on internal impact in terms of its organizational and individual performance. Finalizing the implementation of performance management systems, as a means of creating public value, could give meaning to public management and its benefits for the community.

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 ISBN: 978-9963-711-37-6

STRUCTURAL EQUATION MODELLING IN THE CONTEXT OF DESTINATION QUALITY EVALUATION

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ABSTRACT

The paper describes the possibilities of SEM (structural equation modelling) in the context of the tourism destination quality evaluation process; SEM was specifically used to verify the research results gained by means of the principal component analysis and the cluster analysis. These analyses were based on the primary data from the customers´ satisfaction questionnaire survey with the key factors of destination quality. The output of the used statistical methods (principal component analysis and cluster analysis) was the creation of groups and clusters of quality factors that are similar in terms of respondents´ evaluations. The gained results showed the possibility to use both statistical methods. The aim is to verify the gained results and to identify the advantages and limits of SEM as well as to provide suggestions for the further use in the tourism research. As a conclusion, we can state that the SEM provides a strong alternative for both mentioned statistical methods. The paper is developed in the frame of the research project aimed at designing a methodology for the tourism destination quality evaluation, especially in the context of customer satisfaction and loyalty.

Keywords: tourism, quality of a destination, dimensions of destination quality, SEM, Cluster Analysis, Principal Component Analysis, tourist satisfaction

INTRODUCTION

In today's competitive environment, quality has become a crucial factor that influences the success of a tourist destination; quality impacts the interest of visitors and improves the image of a destination. The competition among tourist destinations increases, due to the strengthening globalization forces, rapid development of the air transport and easy access to information on prices. From the marketing point of view, we can perceive a destination as a complex product of tourism industry that must attain the necessary quality level, which requires a strategic approach to the management.

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Middleton and Clarke (2001) specify that a destination is made up of five components, three of which are the same as the components used by Buhalis (2003; Attraction, Amenities, Accessibility) and the other two components are the image and perception of the destination and price. Grönroos (2007) states that although the service quality is primarily evaluated only in terms of functional quality, the destination assessment by technical quality aspects (the range of attractions and services) is necessary as well.

A wide range of research studies deals with the factors influencing the quality of tourist destinations and their impact on the capacity to compete on the market (e.g. Hsieh et al., 2008; Martin-Cejas, 2006; Truong, Foster, 2006; Chitty et al., 2007; Zhu, Zhao, 2010). However, rather a narrow focus on the partial areas can be seen as the shortcoming of these studies. On the other hand, some studies provide a more comprehensive and complex insight on a destination and its quality (e.g. Krešic, 2008; Xielong, 2011; Žabkar et al., 2010); however, they are less frequent.

The methodology of determining the satisfaction of clients consists of the identification of the most important service attributes in case of which the client´s satisfaction is evaluated at a symmetrical one-dimension scale. On the basis of the information stated above it is possible to discover how the satisfaction with various characters influences the overall satisfaction of a client and his or her intention to come back again (Alegre, Garau, 2010). Clients can be satisfied with one attribute and dissatisfied with another. That is why the overall level of satisfaction on the aggregate level can not reflect these differences on the overall attribute level (Oliva et al., 1995). So, attribute measures based on satisfaction provide research workers and managers with a higher level of specification and diagnostic values (Mittal et al., 1998).

The paper shows the results of using SEM (structural equation modelling) in the context of the tourism destination quality evaluation process; SEM was specifically used to ~~verify~~ compare the research results gained by means of the Principal component analysis and the Cluster analysis. These analyses were based on the primary data from the customers´ satisfaction questionnaire survey with the key factors of destination quality. The objective of this paper is to present the gained results as well as to provide suggestions for the further use in the tourism research. The paper is developed in the frame of the research project aimed at designing a methodology for the tourism destination quality evaluation, especially in the context of customer satisfaction and loyalty (project GACR, nr. 15-21179S).

METHODOLOGY

The authors` approach to the quality evaluation of a destination is based on the analysis of visitors´ satisfaction and the analysis of partial factors of the quality components. There is an effort to

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reduce the amount of the quality factors but without losing relevant information about the quality of a destination.

The choice of 15 factors of the quality of a destination was enacted on the basis of the theoretical approaches (Buhalis, 2003; Middleton, Clarke, 2001; Grönroos, 2007) and its relevance was confirmed by the qualitative research (in-depth interviews, 130 respondents: academicians, services providers, employees in destination management and public administration; Vajcnerova et al., 2012).

Primary data were obtained by means of a questionnaire survey among the visitors of the tourist destination of Brno and its surroundings (387 respondents); using quota sampling (age, gender, education) to determine the level of satisfaction with 15 factors of quality, ten point scale was used (1 - least satisfied, 10 - most satisfied). With the aim to reduce the number of the destination quality factors, three statistical methods were used: Cluster analysis, Principal component analysis and Structural equation modelling.

RESULTS AND DISCUSSION

As regards the CLUSTER ANALYSIS**,** the Ward´s method was chosen as the most convenient one; for the similarity measure we used the correlation coefficient. In our case, the quality factors of the destination will represent the variables and the respondents will represent the objects. Our objective will be to group together the variables and not the objects (Punj, Stewart, 1983). Cluster analysis, using the dendrogram, enabled to aggregate particular quality factors into four clusters, as follows:

1) *Marketing:* the availability and quality of information about the destination, roads leading to the destination and the offer of product packages.

2) *Hospitality of the destination:* welcome and acceptance by local visitors, price level in the destination, the safety of the destination.

3) *Services and entertainment:* cultural and social events, the quality of accommodation, the quality of food and dining, the extent and quality of activities and experiences, the transport accessibility of the destination, local transport within the destination.

4) *Attractiveness of the destination:* nature attractiveness, the image of the destination, the uniqueness of the destination.

By means of the PRINCIPAL COMPONENT ANALYSIS**,** the original 15 quality factors were reduced into four representative factors that were named as follows: *1. Transport and information, 2. Hospitality of the destination, 3. Service and entertainment and 4. Attractiveness of the destination.* Principal

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component analysis (PCA) was carried out in several steps. First, original quality factors were replaced by so-called principal components, the most important of which were selected. Each quality factor in the principal component is evaluated by the component weight (component score) within the interval < -1, 1>. Cluster of similar factors were evaluated by means of the weights of the principal component (in our case, there were three of them). The clusters can be identified visually, by evaluating the charts of components weights for the pairs of principal components or by means of the cluster analysis. Each quality factor is represented by only three numbers (component weights for principal components). On the other hand, in the frame of the cluster analysis a quality factor is represented by 387 numbers (amount of respondents). As the component weight is always within the interval <-1, 1>, the choice of the similarity coefficient is not that important when compared to the cluster analysis. For the analysis, the Euclidean distance was chosen as the most convenient one.

We can summarize that both of the methods - Cluster analysis (in case of grouping together the variables and not the objects) and Principal component analysis - provide similar results in the context of quality evaluation. Saracco at al. (2010) also perceived clustering variables as an alternative to PCA.

These results were supported by means of the STRUCTURAL EQUATION MODEL (SEM). We propose the analysis of the overall satisfaction of the chosen destination (Brno and its surroundings) and the factors that influence it. The SEM model (see Fig. 1) is based on the results of both methods mentioned above.

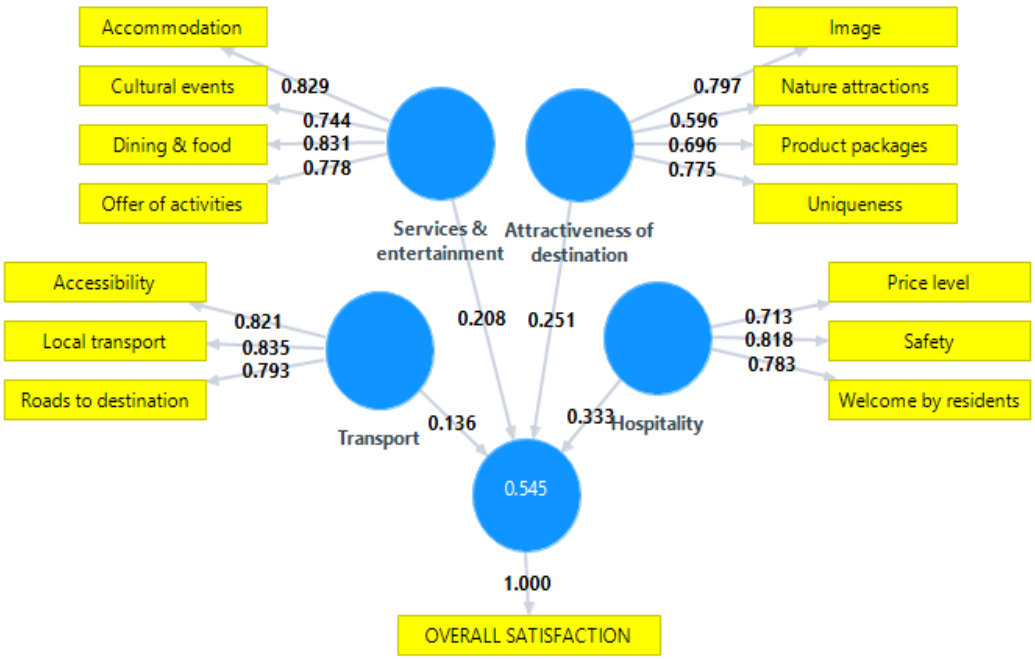

Fig. 1: Model of the visitors´ overall satisfaction of the Brno region (Structural equation model); source: authors

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The four latent variables correspond to the four representative factors identified by the Principal component analysis (*1. Transport and information, 2. Hospitality of the destination, 3. Service and entertainment and 4. Attractiveness of the destination*). However, there is one difference as regards PCA model; notably, SEM analysis revealed that the quality factor "information about the destination" does not improve the quality of the prediction of the overall satisfaction in the destination in our SEM model; hence it was removed. This factor is equally the least important in the frame of the Principal component analysis; it has the lowest component weights when compared to other quality factors. This finding confirms the usefulness of the structural equation model as it enables to identify the importance of particular quality factors clearly and it reveals causalities explaining the overall satisfaction.

The fact that "information about the destination" does not improve the quality of the model can be - with the highest probability - explained as follows: visitors´ expectations regarding this factor are high and this factor attains a good quality in the given destination (information about the Brno destination is clear, abundant and well accessible, the information infrastructure is well developed). In such case, when expectations are high and quality is good, the factor might not significantly contribute to the explanation of the overall satisfaction.

Table 1 confirms that all the latent variables are statistically significant on the level of 95% (t-statistics > 1.96 and p-values < 0.05); statistical significance was calculated by means of the bootstrapping method (using 500 iterations); this method also allows the use of non-parametric variables. AVE (average extracted variance) is higher than 0.5 for all the latent variables that correspond to the general requirement for the model.

	Original Sample (O)	T Statistics (|O/STERR|)	P Values
Attractiveness of destination ->	0.251	5.837	0.000
Hospitality ->	0.333	7.312	0.000
Services & entertainment ->	0.208	4.015	0.000
Transport ->	0.136	2.737	0.006

Table 1: Latent variables for the structural equation model, statistical significance; source: authors

CONCLUSION

The suggested structural equation model (Fig. 1) consists of four latent variables (Service and entertainment, Attractiveness of the destination, Transport, Hospitality) that are parallel to the PCA model, except of the quality factor "information about the destination". Numbers on the lines are correlation coefficients between the variables and the number (0.545) in the circle indicates the amount of the variance explained by the model, which is fairly satisfactory when using this kind of model and calculations.

 ISBN: 978-9963-711-37-6

The use of the structural equation models in the field of the destination quality evaluation is not very frequent. Ebsco database offers several research papers (as of April 2015) that use explicitly the SEM technique in the destination management research that would specifically focus on the visitors´ satisfaction or behavioral intentions; as representative examples we mention Ranjbarian and Pool (2015) who carried out the study for the case of Nowhahr city in Iran; Rangaswamy, Chaiboonsri and Chaitip (2008) used the SEM technique to analyze the satisfaction factors when travelling to India; Eusébio and Vieira (2013) developed a methodology based on the SEM to evaluate overall satisfaction and behavioral intentions of the visitors to the Central Region of Portugal or Kim et al. (2013) with the case study of Orlando.

The SEM is a very useful technique to obtain practical and comprehensive understanding of the factors that influence visitors´ satisfaction, motivation and behavioral intentions as regards the given tourist destination (Chi, Qu, 2008; Yoon, Uysal, 2005). The attributes of a ski destination choice were researched also in a Finnish survey by Konu et al. (2011). In the case of quality evaluation SEM can offer strong insight into the impact of specific quality factors and specific causalities in relation to the visitors` overall satisfaction. As a conclusion, we can state that the SEM provides a strong alternative for both other statistical methods (Cluster analysis and Principal component analysis) and we encourage the use of the Structural equation models in the field of the destination quality management research.

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 ISBN: 978-9963-711-37-6

UTILIZATION OF QUALITY LABELS IN EUROPEAN UNION

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ABSTRACT

The paper deals with European Union schemes of Protected Designation of Origin, Protected Geographical Indication and Traditional Speciality Guaranteed labels used in agricultural and food products sector. The aim of the paper is to analyse the utilization of these labels in European Union market according to selected criteria including type of label registered in each country, and number of agricultural products and foodstuffs registered as quality labels in total. The first part of the paper refers to the definition of food quality, quality labels, and European Union quality schemes specification. The second part includes the discussion of marketing research results. Secondary data from the Database of Origin and Registration are used. Sample consists of 1245 labels registered in this database to the 22nd March 2015. The frequency of labels utilization is analysed according to country, type of label, and product classes, also cluster analysis is applied. Pearson´s chi-square test of independence is used to determine if significant differences do exist between frequency of using the labels and mentioned criteria.

Keywords*: cluster analysis; DOOR database; food quality labels; Protected Designation of Origin; Protected Geographical Indication; Traditional Speciality Guaranteed*

INTRODUCTION

The paper is focused on the specific problem area of so-called quality labels and presents results of marketing research focused on analysis of using selected quality labels in European Union (EU) agricultural and food products market. The production of food and agricultural products is an important part of the European Union economy. European food and beverages play a major role in the cultural identity of European citizens and regions. High quality of European food is a key advantage for European agriculture (Grunert 2005). Many food and agricultural products exhibit special characteristics linked to their geographical area, traditional composition or traditional production method.

 ISBN: 978-9963-711-37-6

An integral part of EU agricultural policy is an effort to improve food quality and safety. Also consumers in EU countries show growing interest in the quality as well as traditional products. This generates a demand for food and agricultural products with identifiable specific characteristics, in particular those linked to their geographical origin. Producers offering products with the value-adding attributes should communicate them on the marketplace and highlight the characteristics of their products to consumers. Agricultural product quality policy therefore should provide producers with the right tools to better identify and promote such products and protect them against unfair practices (European Parliament and Council of the European Union 2012). Protection of original and traditional food from the EU is not only an important factor in preserving cultural and national traditions in the member states of the EU but also an important dimension of marketing for producers, taking into consideration the consumers´ interest and confidence (Nagyová et al. 2011).

In order to allow producers to use the added value of their products as effectively as possible and to facilitate consumers' choice of food products, since 1992, the EU has established quality labels system known as Protected Designation of Origin (PDO), Protected Geographical Indication (PGI) and Traditional Speciality Guaranteed (TSG) to protect the names of these products (EUFIC 2013; European Commission 2012a). These three schemes have built on a long history of regional and traditional specialities, especially in southern European countries (Teuber 2010). The image of the region of origin and the specific product characteristics create a unique identity for food products bringing in this way added value (van Ittersum et al. 2003). The PDO, PGI and TSG labels aim to provide consumers with clear information on the product origin or speciality character, enabling them to make more informed purchases and the best possible choices. (Verbeke et al. 2012).

In the context of the topic, the terms "food quality" and "quality labels" are explained, followed by the specification of surveyed labels PDO, PGI and TSG.

Quality label is a term for a symbol that can be put on a product or its packaging indicating that the product or the process to make the product complies with given standards and that this compliance has been certified (Velčovská a Marhounová 2005; United Nations 2007). Quality labels guarantee compliance not only with current standards, but also with additional quality criteria determined in a corresponding certification system. A quality labels give added value to the products and are usually used in communication with end consumers (The European Committee for the Valve Industry 2007). According to Grunert (2005), quality labels are an ambiguous category that covers many different things. They can be divided into obligatory (determined by legal rules and compulsory for all products in a given product category) and voluntary labels (bring competitive advantage for a product), into general (address all product quality characteristics) and specific labels (focused only on particular

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quality characteristics), or into regional, national, international and global labels. They can cover quality, safety, organic origin and other characteristics of product. (Velčovská 2012; Velčovská a Marhounová 2005; Grunert 2005). More about influence of quality labels on its regional distribution offers Parrot (2002).

Food quality labels are determined to promote and protect food products and should be a guarantee of quality products, their geographical origin, specific characteristics and/or production methods (Velčovská a Marhounová 2005). They give a legal protection of a product against imitation throughout the market and eliminate the misleading of consumers by non-genuine products, which may be of inferior quality; they help producers obtain a premium price for their authentic products, and finally they should give clearer information to consumers about product characteristics and facilitate identification of food products with certified quality (O'Connor and Company 2005).

Following text is focused on EU quality labels scheme that identifies agricultural products and foodstuffs farmed and produced to exacting specifications. It includes Protected Designation of Origin (PDO) and Protected Geographical Indication (PGI) for agricultural products and foodstuffs as well as for wine and spirits (there are different rules for wine and spirits and they are not included in our analysis), and Traditional Speciality Guaranteed (TSG) for agricultural farm products and foodstuffs. While a PDO covers agricultural products and foodstuffs which are produced, processed and prepared in a given geographical area using recognised know-how, a PGI indicates a link with the geographical area in at least one of the stages of production, processing or preparation. The link with the area is therefore stronger for PDO; PGI is a more flexible regulation. For PDO food products, management conditions are regulated by very strict rules with the aim of obtaining high quality process (Espejal et al. 2008), the link with the area is stronger; PGI is a more flexible regulation. A TSG highlights a product´s traditional character, either in the composition or means of production. According to new Regulation on EU quality schemes for agricultural products and foodstuffs entered into force in the beginning of 2013, in order to be "traditional" proven usage on the market during at least 30 years (instead of 25) is now required. (European Commission 2012a; European Commission 2012b; European Commission 2013c)

MATERIAL AND METHODS

The main purpose of marketing research was to analyse the use of PDO, PGI and TSG label registered in DOOR database for agricultural products and foodstuffs in EU market. The DOOR database includes a list of product names (agricultural products and foodstuffs) registered as PDO, PGI or TSG as well as names for which registration has been applied. PDO and PGI cover also wine and spirits, however

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there are different rules for those products (in particular Regulation (EC) No 1234/2007 for wines, Regulation (EEC) No 1601/91 for aromatized wine products, and Regulation (EC) No 110/2008 for spirits) and they are not included in DOOR database as well as other products out of Regulation 1151/2012. (European Commission 2013c). Geographical indications protected in the European Community for wines originating in Member States and third countries are registered in E-BACCHUS database, geographical indications for spirits are listed in E-SPIRIT-DRINKS database.

The DOOR database user can scan a list of product names registered as PDO, PGI or TSG (generally or in selected country), product names can be also sorted according to product classes. However, the user can always see just a list of products. Database does not offer a summarized data and their comparison. Research studies dealing with the topic are focusing only on partial aspects of quality labels like analysis of food products registered as PDO, PGI and TSG in selected countries (Nagyová et al. 2011, Becker 2008), analysis of customer loyalty and buying intention for PDO label (Fandos et al. 2006), consumer awareness and perception of labels (Verbeke W. et al. 2012, Velčovská et al. 2012), consumer behaviour (Espejal et al. 2007), customer satisfaction (Espejal et al. 2008), or impact of labels on customer loyalty (Chrysochou et al. 2012).

As criteria of analysis we set country of origin and type of label. Specific research purposes were as follows:

To identify the frequency of PDO, PGI and TSG labels utilization, to compare using of the labels according to EU countries and to compare using of the labels according to product classes.

The secondary data from the Database of Origin and Registration (DOOR) database were used. In March 2015, DOOR database includes total number of 1435 items, but some of them are on waiting list and there is not sure if they would be accepted (European Commission 2013c; European Commission 2013d). Therefore, in our analysis we have calculated with sample of registered items only, i.e. 1245 items. We have to notice, in database are not only European countries, but also China represented with 10 own products certified with PDO and PGI labels, Vietnam, Colombia, Thailand and India with one registered product name.

In analysis, we proceeded descriptive statistics and contingency tables, where we tested relations with Chi-square test. Method used in for classification of quality labels utilization is cluster analysis in order to find groups of countries, which have similar structure of registered quality labels. Author used cluster analysis to find a homogeneous groups of countries by set factor, a number of products registered as PDO's, PGI's and TSG's.

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Each researched category is illustrated by dendrogram as an output of cluster analysis. Cluster analysis is a multidimensional statistical method used to classify the objects. The cluster analysis helps to assign observed units into several groups in such matter that most similar units are included in the some group (cluster) and conversely so that the units of individual clusters differ as much as possible. Individual steps of the cluster analysis differ depending on how the „closeness“ or „distance“ of the units is perceived within the groups, also depending whether the set of units is gradually divided, separated or conversely composed, connected according to a selected criteria (Everitt 2011). There are three main types of clustering methods: hierarchical, parallel and sequential. Hierarchical clustering is a sequence of absorbed decompositions, which on the one side start with a trivial decomposition, where each object of a given set of objects create a separate single-element category cluster, and on the other side the trivial decomposition ends with one cluster containing all objects (Hendl 2009). A hierarchical algorithm yields a dendrogram representing the nested grouping of patterns and similarity levels at which grouping change. The dendrogram can be broken at different levels to yield different clustering of the data (Abonyi, 2007). Then, a one-step clustering procedure (between-groups linkage hierarchical clustering method) was applied to identify distinctive, homogenous products segments. Other frequent methods are nearest neighbour method, furthest neighbour method, centroid method, pair-group average method, Ward's method and K-mean method.

RESULTS AND DISCUSSION

Research outcomes correspond with the date of 28th March 2015, when 1245 product items certified with PGI, PDO or TSG label were registered in the DOOR database. Sample structure is presented in Table 1.

Type of Label	PGI	47.81	**Country**[1]	Italy	21.90
	PDO	48.87		France	16.84
	TSG	3.32		Spain	14.14
Product Class[1)]	1.6 Fruits, vegetables and cereals	27.05		Portugal	10.30
	1.3 Cheeses	18.32		Greece	8.46
	1.2 Meat products	12.13		Germany	7.85
	1.1 Fresh meat	11.61		United	4.01
	1.5 Oils and fats	10.30		Poland	3.05
	2.4 Bread, pastry, cakes, other baker´s	4.36		Czech	2.79
	1.8 Other products of Annex I*	4.10		Slovenia	1.40
	1.4 Other products of animal origin**	2.88		Other	9.26
	Other	9.25			

Table 1. *Sample Characteristics (n = 1245, in per cent), first 90 % of cases*

* Species, condiments, ciders, teas, etc.; ** eggs, honey, various milk products excluding butter etc.

As we can see in Table 1, the highest share has PDO label followed by PGI label. Number of registered PGI (548, i.e. 47.81 %) and PDO labels (560, i.e. 48.87 %) is relatively balanced, with the slight

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predominance of PDO. There is only minimum product names registered as TSG (38, i.e. 3.32 %). Based on product class, the most of labels were awarded for fruits, vegetables and cereals. The most frequently certified products come from Italy (251 registered product names as PGI, PDO and TSG, i.e. 21.90 % from all registered product names).

FREQUENCY OF PGI, PDO AND TSG LABELS ACCORDING TO COUNTRY

This part of analysis is based on the list of all countries and product names registered in the DOOR database. The ranking of all countries according to total number of registered product names as PGI, PDO and TSG was created, see Table 2. Fields with the largest number of registered product names under PGI, PDO and TSG are highlighted in grey colour.

Country	PGI	PDO	TSG	Total
1. Italy	8.20	13.53	0.17	**21.90**
2. France	9.51	7.33	0.00	**16.84**
3. Spain	6.28	7.59	0.26	**14.14**
4. Portugal	5.15	5.15	0.00	**10.30**
5. Greece	2.36	6.11	0.00	**8.46**
6. Germany	5.24	2.62	0.00	**7.85**
7. United Kingdom	2.18	1.66	0.17	**4.01**
8. Poland	1.57	0.70	0.79	**3.05**
9. Czech Republic	1.92	0.52	0.35	**2.79**
10. Slovenia	0.70	0.44	0.26	**1.40**
11. Austria	0.52	0.70	0.00	**1.22**
12. Slovakia	0.61	0.00	0.61	**1.22**
13. Belgium	0.44	0.26	0.44	**1.13**
14. Hungary	0.52	0.52	0.00	**1.05**
15. Netherlands	0.26	0.44	0.09	**0.79**
16. Finland	0.09	0.44	0.26	**0.79**
17. Sweden	0.26	0.09	0.17	**0.52**
18. Denmark	0.44	0.00	0.00	**0.44**
19. Luxembourg	0.17	0.17	0.00	**0.35**
20. Ireland	0.26	0.09	0.00	**0.35**
21. Cyprus	0.17	0.00	0.00	**0.17**
22. Lithuania	0.00	0.09	0.09	**0.17**
23. Bulgaria	0.09	0.00	0.00	**0.09**
24. Romania	0.09	0.00	0.00	**0.09**
Total	**47.81**	48.87	**3.66***	**100.35***

Table 2. *Numbers of product names registered as PGI, PDO and TSG according to countries (n = 1245, in per cent)*

* *The Czech Republic and Slovakia has registered four the same product names as TSG. Because of this duplicity, the sum of per cent for TSG is higher and also total sum of per cent is higher than 100 %.*

As it is evident from Table 2, 24 from 27 EU member countries have registered their product names as PGI, PDO or TSG in DOOR database. Malta, Latvia and Estonia have not yet used this type of protection. The first six countries of ranking in Table 2 (i.e. 22 % of all EU countries) have obtained PDO, PGI and TSG labels for 80 % product names registered in DOOR database (interestingly, the

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Pareto rule is shown here). The first three countries in the ranking, Italy, France and Spain, then have more than 50 % of all registered product names. Italy has registered the highest number of product names as PDO; France is the first in number of PGI labels. It is interesting, that most of TSG labels belong to countries in weaker positions in the overall ranking, i.e. to Poland, Slovakia, Belgium and the Czech Republic.

In order to discover reciprocal dependences of tracked characters, we proceeded Chi-square test at significance level $\alpha = 0.05$, when sig $F = 0$, and we can confirm variables depend reciprocally. Thereby, we accept stated hypothesis about highest distribution of labels in three Mediterranean countries, Italy, France and Spain. Reasons for this could be well-known gastronomic specialities as well as national cuisine of these countries, which have built on a long history and are popular around the world. Overall, these countries have higher impact on global food marketplace, comparing with countries such Luxembourg, Ireland and Lithuania, whose food products are not so popular in customers' minds. Relations in the sample are described by Pearson contingency coefficient (0.514) and Cramer's contingency coefficient (0.424), thus there is weak dependence between number of product names registered in the database and country of origin. These two contingency coefficients are the most basic measure of association between two nominal-level variables (Blaikie 2003).

Labels distribution by countries is also illustrated using cluster analysis and represented graphically by dendrogram, see Figure 1. For better transparency of dendrogram, only first ten countries from ranking in Table 2 were included in cluster analysis. There are three clusters. The first one involves Mediterranean countries, Italy, France and Spain. Furthermore, Italy has its own cluster and category, because of highest share of labels. This is influenced by long tradition of quality labels in these countries, which is multiplied by EU quality schemes. Second cluster is consisted of Greece, Germany and Portugal and third one comes from UK, Slovenia, Czech Republic and Poland with much lower share of labels, between 1.4 – 4.0 % of total. Germany is an interesting example of country, where utilization of quality labels does not have a long tradition, but they benefit from registration of foodstuffs as PDOs and PGIs.

ISBN: 978-9963-711-37-6

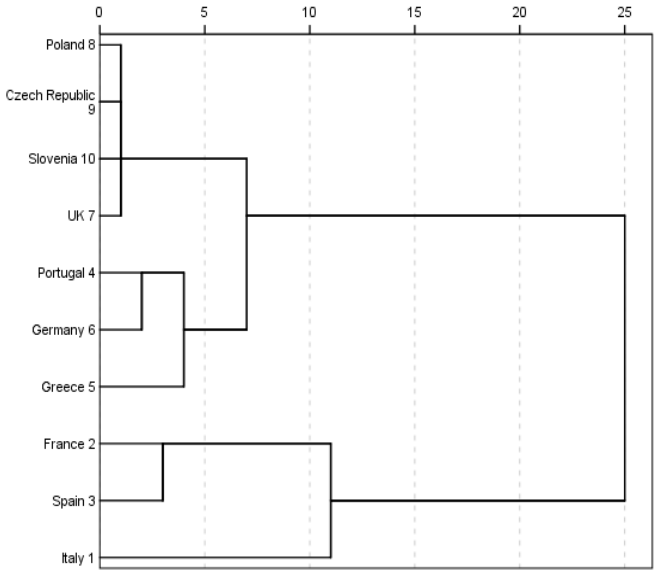

Figure 1. *Grouping EU countries by PGI, PDO, and TSG labels*

COMPARISON OF SELECTED EU COUNTRIES ACCORDING TO NUMBERS OF PRODUCT NAMES REGISTERED IN THE INDIVIDUAL PRODUCT CLASSES

In the last step of analysis, we compare EU countries by numbers of product names registered in the individual product classes. We wanted to know which product class is the most typical in each country. Because of too high number of items in the DOOR database, we have decided to focus only on countries which have registered more than 15 product names. This is ten first countries mentioned in Table 2 which have registered 90% (1040) items as PGI, PDO and TSG (in March 2015).

The most common product class is 1.6 (Fruits, vegetables and cereals) which is dominant in Italy, Spain, Greece and Poland. Portugal and Slovenia have the highest number of registered products in class 1.2 (Meat products), France in class 1.1 (Fresh meat), UK in class 1.3 (Cheeses). As we expected, the Czech Republic excels in class 2.1 (Beers). Germany is the only country represented in the class 2.2 (Mineral and spring waters) and at the same time this product class is dominant for Germany.

In order to discover dependency between country of origin and the most often registered product class, we proceeded Chi-square test at significance level $\alpha = 0.05$, sig $F = 0$ and we can confirm, there are dependencies between these variables. In the next step, we measured tightness size between same variables with using of Pearson contingency coefficient. Its value is 0.707, which means strong positive dependence between country and the most often registered product class, i.e. each country has one important product class in which the most of domestic products is registered. Similar to the analysis of labels utilization by country of origin, we prove the most product types are registered in Italy, France

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and Spain. The most likely explanation is importance of these national food products at the global marketplace, where products like olive oils, cheeses, vegetable a fruit products play important role.

Results are also illustrated using cluster analysis and represented graphically by dendrogram, see Figure 3. In dendrogram, we can see two individual clusters of Italy and France with numbers of registered products different from other. Third cluster is consisted of the rest of countries, but there are apparent distinctions between these countries, because Slovenia, Czech Republic, Poland and UK have much lower number of registered products than Germany or Greece. Spain and Portugal have stable position with high amount of probability even though they are not concentrated in individual cluster.

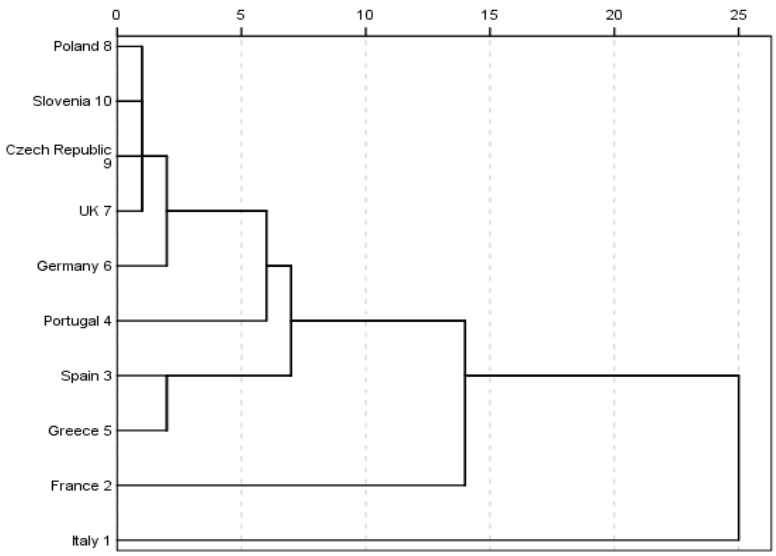

Figure 2. *Grouping EU countries by product classes*

DISCUSSION

In the literature, PDOs, PGIs and TSGs are usually modeled as a signal of high quality in a vertical differentiation context. In some countries, importance of PDOs, PGIs and TSGs is very high. For instance in leading countries such France, Italy and Spain a high share of wine is sold under PGIs and important factors for this are soil, climate and traditional know-how, then there is a high importance of geographical location. There also exists real impact on national economies because smaller producers of agricultural and food products can benefit from well-established reputation of EU-wide known quality labels and can manufacture products with added value and differ from their competitors. Furthermore it can affect positive impact on regional development in particular region in form of new jobs.

Success of utilization of European Union quality schemes is influenced by perception of quality in certain European countries. In southern Europe, customers willing to pay more for acquiring a good

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from a particular origin (Lucatelli, 1999), but in northern Europe quality is associated more with a set of rules on safety, integrity, or conformity to industrial processes and there is not needed to support traditional know-how of certain geographical origin. Another case are French wines, which names are so well-known, that further geographical protection is not needed, because there are well-promoted brands (for instance Chateau Margaux, Georges Duboeuf, Mouton-Cadet).

The reason why dominate countries such France, Italy and Spain is also long tradition of protection their food products prior nowadays European Union Quality Schemes. For instance, Roquefort, famous French cheese is protected since 15th century, when King Charles VI granted a monopoly for producers in Roquefort-sur-Soulzon only. Perhaps France has the biggest experiences with protection of certain food brands by organization called Appellation d'origine controlee.

CONCLUSION

Presented paper deals with analysis of European Union quality labels scheme known as PDO, PGI and TSG used in agricultural and food products sector. Data comes from the DOOR database and for obtaining outcomes, statistical methods have been used. The main contribution of the paper is a comprehensive view on the topic, the comparison of summarized data according to selected criteria including country of origin, type of label and product class, and statistical testing the relations between using of the labels and mentioned criteria. As results show, the highest number of product names is registered under PDO label followed with slight difference by PGI label. There is only minimum product names registered as TSG. Dominating country is Italy followed other Mediterranean countries like France, Spain, Portugal and Greece. The reason for this could be a long history of regional and traditional specialities in these countries and a higher importance of these products (such olive oil, cheeses, vegetable products and other) on the global marketplace. Based on product class, the most common classes are Fruits, vegetables and cereals (for PGI, PDO), Cheeses (PDO) and Meat products (TSG, PGI). In various countries dominate different product classes, but most frequent are, in consistency with previous results, classes Fruits, vegetables and cereals (Italy, Spain, Greece and Poland) and Meat products (Portugal and Slovenia). Beer is the most typical product class in the Czech Republic. Statistic testing has confirmed weak dependence between number of product names registered as PDO, PGI and TSG and country of origin, middle strong dependence between type of label and product classes where the label is used, and strong dependence between country of origin and the most often registered product class.

Original and traditional agricultural and food products can be perceived as an important part of tradition and image of the region. The PDO, PGI and TSG schemes bring benefits to consumers as well

 ISBN: 978-9963-711-37-6

as to producers. Consumers are assured they are buying a genuine product with specific value-adding qualities. Producers benefits lies in fair competition, protection, and promotion of their products. To take full advantage of these benefits, producers should communicate their products with the value-adding attributes and highlight the specific character of their products to consumers, enabling them to make more informed purchases and the best possible choices. The aim of the communication campaign should be to build awareness, credibility and favourable perceptions about quality and distinctiveness of PDO, PGI and TSG products, and to stimulate consumers´ interest in such products.

ACKNOWLEDGEMENTS

The research was supported by grant F2/94/2015 Analysis of quality labels utilization in the Czech food market and efficiency of campaigns supporting them of Faculty of International Relations, University of Economics in Prague.

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 ISBN: 978-9963-711-37-6

OPEN INNOVATION IN SMES: A SURVEY IN THE PIEDMONT AREA

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ABSTRACT

In the current scenario of hypercompetition and technological progress, openness towards external sources of knowledge appears the key to gain and sustain competitive advantages, especially in certain industries. From this point of view, many firms from different industries are increasing their boundaries' openness to external sources of knowledge. Very often, small-medium firms lack the essential internal resources and technical capabilities. Thus, they must increasingly rely on external partners to innovate, but only recently, researchers have started to highlight the importance and the specific nature of open innovation in small and medium-sized enterprises (SMEs).

This paper investigates if open innovation practices is also applied by SMEs. Using a database of 93 SMEs in Piedmont, the research explores the importance of internal and external sources for the innovation development processes. We found that SMEs in Piedmont rely mainly on internal sources to develop new products and services. Moreover, with regard to external sources of knowledge, they primarily rely to one source, the customers.

The research concludes with interesting managerial implications, which provide a conceptual interpretation of the phenomena and try to prescribe actions to managers.

Keywords: *Open Innovation, small and medium-sized enterprises, Source of Knowledge.*

INTRODUCTION

The increasing complexity of the economic situation, the globalization, the hypercompetition and the rising of new technology that characterizes most of the world markets have pushed many companies to rethink their strategies and to open their firms' boundaries in order to facilitate the exchange of ideas and knowledge, in line with the new paradigm of open innovation.

In a such scenario, it is counterproductive for firms to innovate in isolation because the high technology development costs and the shortening of the product lifecycle (especially in high-tech industries). In fact, this makes more expensive the development of technological products. Therefore, firms tries to diversify the business risks across multiple sources and, at the same time, to reduce R&D costs.

 ISBN: 978-9963-711-37-6

In this new contest, mainstream literature identified a number of factors which influence the decision on which tools use to innovate. These factors may vary depending on the home country, the local business configuration and the sector (Chesbrough, 2003).

Customers are usually considered one of the main innovative sources used by firms, because they may enable to directly gather several information usefully to find new technological trajectories and ideas.

The current economic situation also threatens the financial health and the ability to stay into the market of SMEs. Despite SMEs are recognized as a form of enterprise characterized by high innovative capacity and by an open approach (Bresciani and Ferraris, 2012; Ferraris, 2013), mainstream studies on SMEs are almost totally excluded from the traditional discussion on open innovation. From this point of view, in fact, few studies have focused almost exclusively on specific industries.

Thus, the present work aims to investigate the sources of knowledge for innovation mostly used by SMEs in Piedmont, highlighting those that companies better handle, and explore the (underdeveloped) topic of open innovation for SMEs.

In addition, the paper aims at broadening the scope of investigation, considering that most of the studies on open innovation topic have been applied to high-tech companies in US.

The reminder of the paper is structured as follows. Section 2 discusses the theoretical framework; section 3 describes data and methodology; section 4 analyzes findings and trends of SMEs open innovation approach. Finally, section 5 concludes and discusses the implications and limitations of this work.

THEORETICAL FRAMEWORK

Open innovation literature

There was a growing interest on open innovation paradigm over the past decade (Chesbrough, 2003; Gassman and Enkel, 2004; West and Gallagher, 2006; Dahlander & Gann, 2010; Rossi et al., 2013; Brunswicker and Vanhaverbeke, 2014).

The literature on open innovation is very wide, recent and shows many aspects related to management, innovation governance, strategy and competition. Its concept was developed primarily by Chesbrough (2003), which emphasized the transition from Close Innovation, in which innovation processes are accomplished through the traditional R&D represented by a vertically integrated system (Freeman, 1974; Chandler, 1990; Mowery, 1990; Pavitt, 1991), to the new frontier of innovation processes, characterized by relationships between multiple entities which make and share knowledge and technologies that can create more value than stand-alone.

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In fact, companies have realized the necessity to move away from the control of the innovation processes according to the traditional model, shifting the focus on open innovation (Chesbrough, 2003). According to the author, the closed model has allowed for a long time to develop successful innovations through the use of talented human resources. However, environmental changes have challenged the traditional model, making it vulnerable.

There are numerous case studies which show the trend of large companies such as P&G, IBM, and Xerox to develop skills and technologies with external organizations and exploiting ideas from outside the company's boundaries, accelerating new products development and achieving a significant costs reduction (Chesbrough, 2003; Dodgson et al., 2006). Therefore, for companies like these, is no longer enough investing large sums in R&D, but they need to have an "open approach" in innovation process management, maintaining a constant focus on market and customer (Gassmann and Enkel, 2004).

How to define the concept of "openness"? Empirical studies on external sources of knowledge define this concept through two parameters. The first concerns the number of external sources used in the innovation development process. The second is associated to the depth of the relationship with each source (Laursen and Salter, 2004, 2006). However, measure the depth of a relationship is not as easy as measuring the number of external sources used. In this sense, the relationship between sources and the company can be very different. Other studies have shown that sources such as universities and research centers are very important for larger high-tech companies, but much less for SMEs, especially those who have a few customers who buy large volumes (Gans and Stern, 2003).

In order to give a more fine-grained picture of this new phenomenon, Gassmann and Enkel (2004) identified three core open innovation processes: the outside-in process (Inbound), the inside-out process (Outbound), and the coupled process, providing a clear classification of the open innovation activities.

The focus of this paper is to investigate the contribution of the so-called inbound activities (the Outside-in Process). In particular, they identify the search for innovative solutions and new sources of knowledge from external partners to incorporate those developed internally (Chesbrough and Crowther, 2006; Chiaroni et al., 2010). In this way, firms may reduce R&D risks and costs, acquire missing knowledge, complementary resources and enlarge its networks (Mohr and Spekman, 1994; Hoffmann and Schlosser, 2001).

These external sources of knowledge can be companies, customers, universities, research centers, suppliers, industry experts (Chesbrough, 2003; Gassmann and Enkel, 2004).

Van de Vrande et al. (2009) refer to *technology exploration* highlighting those activities which enable enterprises to acquire new knowledge and technologies from outside. In particular, they identify five

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practices to do that: customer involvement, external networking, external participation, outsourcing R&D and inward licensing of IP. Moreover, Gassmann (2006) assumes that customers involvement is one important alternative to implement internal innovation processes, because they may have several information that would help internal R&D technician to develop new knowledge and invention and to discover new potential markets (Franke et al., 2006; Baldwin and von Hippel, 2009; Dahlander and Frederiksen, 2012).

Thus, firms may benefit from (van de Vrande et al., 2009):

a) their customers' ideas and innovations by proactive market research;
b) providing tools to experiment with and/or develop products similar to the ones that are currently offered;
c) producing products based on the designs of customers and evaluating what may be learned from general product development.

What emerge from this studies is that literature on open innovation is often intertwined with those on user innovation. As noted earlier, one of the most important source of knowledge are the customers (often referred to as "users" in the literature). Within the customer class, literature identifies a segment of "extreme users" which provide an active contribution to the development of new innovative ideas. Some scholars show that those users are part of communities for the development and sharing of knowledge (Franke and Shah, 2003; Fuller et al., 2008) and that they can operate in an independent manner from companies or may bind in different ways through forms of cooperation with the aim at commercializing innovations (Flowers, 2008; Churchill et al., 2009).

Open innovation in SMEs

SMEs are excluded from the mainstream discussion on open innovation (exceptions are van de Vrande et al., 2009; Lee et al., 2010; Parida et al., 2012; Brunswicker and Vanhaverbeke, 2014) even though they are certainly active in innovation development (Chesbrough et al., 2006).

In fact, many SMEs strongly depend on their innovative ability in order to achieve and sustain competitive advantage and, due to increased competition and rapidly technology progress in many industries, they are often forced to develop new products faster and more effectively (Parida et al., 2012).

SMEs can rely on very different types of open innovation activities. While some SMEs tend to use few activities or sources, others tend to engage with different partner and develop different open innovation practices. Moreover, with regard to the types of sources, many SMEs open up their "Value

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chain", while others tend to rely on university and research centers (Brunswicker and Vanhaverbeke, 2010; Cosh and Zhang, 2011).

Furthermore, their innovation processes differ widely from those of large companies, with hallmarks of high flexibility, less formality, faster decision making processes, but of course fewer R&D resources available (Vossen, 1998; van de Vrande et al., 2009; Lee et al., 2010). Due to the lack of internal resources and competencies, it is necessary for this kind of firm rely more on open innovation approaches, in particular they need to take care of: a) inbound activities, seeking knowledge, technology and skills in the external environment (Kogut, 2000; Christensen et al., 2005; Lichtenthaler, 2008; van de Vrande et al., 2009), and b) non-monetary activities such as networking and the informal search for knowledge (Brunswicker and Vanhaverbeke, 2014) rather than monetary activities such as acquisitions and in-licensing.

As well as for large enterprises, SMEs have to develop internal capabilities (Chiaroni et al., 2010; Spithoven et al., 2010; Brunswicker and van de Vrande, 2014), in particular the ability to absorb external knowledge in order to benefit from it (Cohen and Levinthal, 1990). A recent study emphasizes the importance of the capabilities of the management to acquire, exploit and apply external knowledge to produce competitive advantages; they are accessive, adaptive and integrative capacities (Robertson et al., 2012).

With regard to the ownership structure, the SME-specific organizational and leadership characteristics, can leverage the adoption of inbound activities. For example, family-owned SMEs usually have a lower search breadth than those non-family (Chesbrough, 2003).

There are two main empirical studies which prove the importance of open innovation for SMEs. In particular, Lichtenthaler (2008) has conducted a survey among manufacturing SMEs in Germany, Austria and Switzerland, founding that 32.5% of the respondents was somehow engaged in open innovation. Parida et al. (2012) have shown that the adoption of open innovation activities can positively influence the innovation performance of SMEs as much as those of the large companies.

Moreover, other studies emphasize the importance for SMEs to innovate through knowledge and information obtained directly from the customer through an understanding of their needs and experiences (von Hippel and von Krogh, 2006). Thus, SMEs prefer to collaborate with market actors than with horizontal partners like universities, public research centers or government agencies (Diez, 2000; Zeng et al., 2010; OECD, 2013).

Finally, Brunswicker and Vanhaverbeke (2014), through an empirical analysis carried out on SMEs, identify 5 clusters, grouped on the approach to research from external sources, from which emerged a specific category, called "Supply-chain searcher", characterized by an intense relationship with direct

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customers and suppliers, neglecting the cooperation with universities, research centers and, in general, the scientific research.

METHODOLOGY

The main purpose of the research is to investigate the sources of knowledge mainly used by SMEs of Piedmont. A total of 422 SMEs from different industries were investigated through a structured questionnaire and data granted directly by the firms. The response rate is 31% and, due to incorrect answers or missing values the final sample includes answers from 93 SMEs. The questionnaire consists of questions from different nature concerning:

1. General questions on the Family and the Company;
2. Family and firm values;
3. Product development process.

The questions on the "product development process", useful to achieve our paper's goal, were structured so as to respond with a scale from 1 (not important) to 5 (very important).

So, each firm was asked to indicate on a 0-5 scale the degree of use for a list of sources, divided in three categories: Internal, External and Scientific.

Data collected were processed, analyzed and combined with available bibliography, companies' documents and internet websites; the data-triangulation is useful to validate and integrated all the information coming from different sources (Olsen, 2004).

To better understand the characteristics of the sample firms, the following tables show classifications by company size, age and sector. Most of these are family firms.

Number of employees	%
Micro firms (<10)	12,62
Small firms (≥10 and <50)	53,13
Medium firms (≥50 and <250)	34,25

Table 1. *Company's size*

Age of firms	%
Less than 5 years	4,48
Between 5 and 15 years	29,32
Between 15 and 30 years	37,76
More than 30 years	28,44

Table 2. *Age of firms (percentage)*

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Most of the sample consists of manufacturing firms. Those belong to the high-tech sector for almost 42%, and to the low-tech sector for 32%. Low-tech manufacturing firms are companies that, despite being included in such industrial contexts, achieve important innovation activities, mostly of incremental nature and focused on innovation processes. Approximately 8% of the firms operate in the field of advanced services (studies of engineering, consulting corporate services, R&D products).

Industry	%
Commerce and service	7,95
ICT	10,12
Manufacturing (high tech)	42,10
Manufacturing (low-tech)	32,05
Advanced serviced	7,78

Table 3. *Firm's industry (percentage)*

The turnover share relating to the three main customers of the companies also reflects the high dependence from this innovation source, who have strong bargaining power. Tab. 4 highlights the dependence of companies from their customers, who typically buy large volumes and, consequently, the concentration of the revenues. In addition, almost half of the sample (48%) is composed of companies that sell both products and services, while 32% is devoted solely to the sale of products. Most of these firms have a B2B business model.

Market share first 3 customers	%
Less than 20%	17.17
Between 20% and 40%	30.71
Between 40% and 60%	26.36
Between 60% and 80%	16.23
More than 80%	9.53

Table 4. *Market share of the first three customers*

FINDINGS

This work has the purpose of identify the sources of knowledge used by SMEs in Piedmont for the innovations development. The collaborations and technology transfer agreements provide insight

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how the local area offers to the companies an ecosystem that encourages the development of ideas, innovations and technologies.

Results indicate that one-third of the sample analyzed does not have an "open" approach in developing new products and services (tab. 6). Evidently, these companies do not consider important external sources of knowledge. Specifically, 33% of firms attaches little importance to these external sources and only 28% used R&D agreements with external entities.

Therefore, few companies participate in the so-called "technology markets". In fact, innovation activities seem to be reside into strategic relationships with some customers that represent a large proportion of company's turnover. This confirm that customers are the external source primarily used by firms to innovate (tab. 6).

Even for SMEs, thus, the processes of learning and technological innovation are based on a few channels of knowledge and interaction with the outside environment.

Furthermore, another significant result emerges: only 20% of the sample identified relationship with universities as an important factor in the ideas and knowledge development.

It should be noted that the internal sources have a fairly substantial weight, and, among these, the Technical head office plays a fundamental role. For external sources, the use of customers as a source of knowledge has a very significant role for the 54% of respondents; this is quite consistent with the fact that the sample is composed of many SMEs engaged in business-to-business activities and with sales concentrated on relatively few customers. Other contributions to the innovation process come from marketing (57%), production (50%) and competitors (31%).

Type of source	**Source of knowledge**	**Mean**	**≥4**
	Technical head office	4,26	82%
Internal sources	Marketing	3,59	57%
	Production	3,38	50%
	Customers	3,89	54%
External sources	Competitors	3,04	31%
	Partners	2,48	27%
	Suppliers	2,78	23%
	University	2,45	20%
	External consulting	2,35	16%
Scientific sources	Technical pubblication	2,52	22%
	Scientific publication	2,30	15%

Table 5. *Sources of knowledge used*

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As a result, emerges the centrality of the customer in the innovation process, just as shown in the literature review. Conversely, companies that show a close proximity to the academic world of university research and scientific or technical publications are restricted subsets of the sample analyzed.

Considering the number of external sources deemed relevant to the innovation process and according to Laursen and Salter (2004) (tab. 6), there are several relevant results: for the 33% of the sample there is no external source among the categories identified to have a high importance in the innovation process.

Number of sources	**Freq.**	**%**	**Sum %**
0	31	33.33	33.33
1	13	13.98	47.31
2	18	19.35	66.66
3	11	11.83	78.49
4	9	9.68	88.17
5	5	5.38	93.55
6	4	4.31	97.86
7	1	1.07	98.93
8	1	1.07	100
Tot.	93	100	

Table 6. *Number of external sources*

Referring to the notions of open and closed innovation proposed by Chesbrough, we may therefore conclude that for these firms, innovation is essentially closed and is not based on significant contributions from the outside and collaboration with other actors. The 14% of the sample attaches strong importance to only one source; for the majority of these firms are the customers the source with strong importance in the innovation process. Furthermore, it is important to note that only 20% of firms in the sample innovation is open to more than three types of sources.

CONCLUSION AND DISCUSSION

This paper investigates the approach of SMEs to open innovation focusing on the sources of knowledge mainly used to innovate and the number of external sources used, taking into account the local business structure of Piedmont, largely characterized by the presence of SMEs, and its approach to innovation.

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As seen in the literature, resource constraints should make SMEs very active in adopting an open approach (Gassmann and Enkel, 2004; Christensen et al., 2005; Lichtenthaler, 2008; van de Vrande et al.; 2009).

Our results show that SMEs in Piedmont do not adopt an open innovation approach, at least not in the sense of Chesbrough (2003). More in particular, considering the weight of internal sources on the external ones, we can assume that SMEs in our sample make little use of open innovation. In fact, firm's innovativeness is supported mainly by the contribution of technical head office and marketing office, two type of internal sources.

According to Laursen and Salter (2004), the degree of openness is expressed by the number of external sources used to innovate. In line with this definition, our results show that SMEs in Piedmont have a low degree of openness, considering that only 20% of firms in the sample innovation is open to more than three different kind of sources.

From this perspective, rely on many sources of knowledge requires management efforts and create economic and organizational challenges; in this sense it increases the complexity of coordination and integration costs. Perhaps this is the greatest challenge for SMEs in adopting a more intense open innovation approach.

Considering only external sources, SMEs prefer collaborate with market sources like customers rather than with university and public research centers. These results are in line with the literature (Diez, 2000; Zeng et al., 2010; OECD, 2013; Brunswicker and Vanhaverbeke, 2014). In fact, it emerges that customers are the most important external sources of knowledge for the respondents (54%). This probably because most of the sample have a B2B business model (almost 95%), and it is very important to innovate with a close collaboration with the business customers, which have their specific needs.

From the evidence discussed in this paper, we can derive managerial implications. The lack of financial resources and technical capabilities lead SMEs to adopt a particular open innovation approach that is very close to a co-development process with their customers. Moreover, Piedmont SMEs are too dependent on their customers and this could be a risk in a situation of extreme competitiveness and easy erosion of market share. The survival of these firms often depends on the relationship with one or a few customers, who, therefore, have high bargaining power. This lead to a trade-off. On one hand, innovate in close contact with them is an advantage in terms of obtaining direct information necessary to introduce new radical or incremental products or services. This allows to straightly identify the needs of the market and avoid unnecessary R&D spending. Furthermore, it helps mitigating threats arising from the shortening of product life cycles introducing new solutions quickly. On the other hand, it involves a high risks, as the failure of a customer or the possibility that it

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can choose a competitor's product. In this context, it would be more appropriate a high "openness" to different sources of knowledge.

As stated in the previous section, only 20% of the firms of our sample rely on university to innovate; these are mainly start-up many of whom were born within the university environment through help of incubators and technological hubs and the formation of team composed of researchers and professors.

From a managerial perspective, the size of these firms is another factor preventing high levels of research knowledge and technologies in the external market. In fact, the small size limits the dimension of the technical head office and management team, which plays a crucial role in the exploration outwards and coordination with partners. Furthermore, SMEs doesn't have the absorptive capacity that big enterprises do, so they doesn't have the strength to handle and manage multiple sources of knowledge.

The current paper provides a new qualitative conceptualization of openness in SMEs, but also presents several limitations. The most relevant is that it focused on the sources of knowledge mainly used to innovate and the number of external sources used, but says nothing about the innovation and financial performance achieved thanks to the "open" strategy choices.

Another limitation concerns the range of the sample; in fact, the focus of this study has been solely on SMEs in Piedmont. This offer an avenue for future research, so it would be interesting to enlarge the analysis at a national and international level.

Moreover, future research could be directed toward a comparative analysis of innovative performances of SMEs from different sectors. Finally, according to Brunswicker and Vanhaverbeke (2014), future research should provide answer on "how" SMEs can use network and social capital by purposively using inflows and outflows of knowledge.

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 ISBN: 978-9963-711-37-6

LUXEMBOURG'S MULTICULTURAL, MULTILINGUAL EDUCATION SYSTEM AND HOFSTEDE

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ABSTRACT

The purpose of this study is to describe and explain the Luxembourgish trilingual public education system considering the special cultural pattern following Hofstede et al. (2010). 154 questionnaires were collected and 36 interviews conducted among 1) Luxembourgers with Luxembourgish Nationality (Lux.Nat.), 2) Luxembourg residents including Lux.Nat. and foreigners who reside in Luxembourg (Lux.All.), and 3) the rest of the world (World). More specifically cross-cultural management theories by Hofstede et al. (2010), Hofstede (2001) and House et al. (2004), in combination with language theories by Lewis (2006), Blackledge and Ceese (2010), Cummins (2000), García (2014, 2009), and language and management theories by Brannen, Piekkari & Tietze (2014) serve as basis for the language as identifier theory (Schinzel, 2013a).There is a high failure rate of school students who tend to not understand the language of instruction especially in mathematics, biology, chemistry, and history, and the command of the English language in schools is insufficient. Some of the interviews are reprinted; discussion, implications, and recommendations for future research follow.

Keywords: *Language and management, Hofstede, education, cross-cultural management, international business, language, trilingual public education system, Luxembourg*

INTRODUCTION

The language situation in Luxembourg has been subject to actions plans (MENJE), numerous researches, publications, discussions, debates (Fehlen, 1998a; Maurer-Hetto, 2009; Horner, 2007; Weber, 2014a), and reforms (FGIL, 2012; Kurschat, 2014a,b), involving even the OECD (Carey and Ernst, 2006). Despite these efforts a solution to the complexity of the situation – integration versus separation (Fehlen et al., 1998b) – seems a remote, unattainable goal. Plurilingual school goes in parallel with conflicts (Elcheroth, 2010, pp.40), and reflects the complexities and paradoxes of a multicultural national identity shaped by history (Kraemer, 1995, pp.74-75).

Luxembourg

 ISBN: 978-9963-711-37-6

The language situation in Luxembourg's schools is deeply anchored in the specific place the Grand Duchy of Luxembourg takes in Europe and in the world. With its small size of only 2,586 km², 82 km long and 57 km wide at its longest and widest points it is one of the smallest European countries. Its borders are with Germany (138 km), France (73 km), and Belgium (148 km) (The World Factbook). The population is growing fast, as in 1991 it was 384,400, in 2001 it was approximately 439,500, in 2011 it was 512,400, in 2013 it was 537,000 (statec, 2014), and in March 2014 it was 549,680 (statec, 2014).

The resident population as of 1 January 2014 (statec, 2014) included 90,764 Portuguese, 37,158 French, 18,773 Italians, 18,159 Belgians, and 12,659 Germans, see http://www.statistiques.public.lu/stat/TableViewer/tableView.aspx .

To show the specific situation of cross-border workers in Luxembourg, the data from Statec from 2014 are taken, where Luxembourg's total population consisted of 537,000 inhabitants of whom 298,200 (55.53%) were Luxembourgers and 238,800 (44.47%) were foreigners. Domestic employment was 379,000. During the daytime, 156,900 cross-border workers came to Luxembourg to work, 39% of the domestic employment: 77,800 from France, 39,500 from Belgium, and 39,600 from Germany (Schinzel, 2013a). You have to genuinely understand the meaning of '*Mir wëlle bleiwe, wat mir sin' ['We want to remain what we are']* (Berg, 1993).

The national language is Luxembourgish (Lëtzebuergesch), and administrative languages are French, German, Luxembourgish (statec, 2014). Citizenship is only awarded to people who speak Luxembourgish (Spizzo, 1995). The language defines the in-group (Briley et al. 2005) and the out-group. Those who speak Luxembourgish are part of the in-group and those who do not speak the language are part of the out-group.

Table 2 (Schinzel, 2014b) shows Hofstede's cultural dimensions of Lux.Nat. and Lux.All., Hofstede's estimates on Luxembourg, his data for France, Germany, the UK, Belgium FR, Belgium NL, Italy, the Netherlands, China, the USA, and Japan, where the cultural differences become clear.

Table 2 Cultural Comparisons: The author's Luxembourg, Lux.Nat. in comparison with Hofstede's UK – Belgium FR – Belgium NL – Italy – the Netherlands NL – China –USA – Japan (on a scale from 1-100, 1 being the lowest and 100 the highest score)

	The author's Lux.Nat.	The author's Lux.All.	Hofstede's estimates on Luxbg	Hofstede's France	Hofstede's Germany	UK	Belgium FR	Belgium NL	Italy	NL	China	USA	Japan
PDI	29	36	40	68	35	35	68	61	50	38	80	40	54
UAI	95	97	70	86	65	35	93	97	75	53	30	46	92
IDV	34	51.5	60	71	67	89	71	78	76	80	20	91	46
MAS	54	47	50	43	66	66	60	43	70	14	66	62	95
LTO	65	69	64	63	83	51	82	82	61	67	87	26	88
IVR	55	53.5	56	48	40	69	57	57	30	68	24	68	42
MON	24	10	-	16.5	9.9	35.4	-	-	35.2	11.9	0	57.2	4.0

 ISBN: 978-9963-711-37-6

Management scholars

Management scholars, such as Hofstede (2001), Hofstede et al. (2010) and House et al. (2004) have acknowledged that language has indeed an impact on culture. Hofstede (2001) defines culture as the "collective programming of the mind which distinguishes the members of one human group from another". This explains the author's choice of 3 different groups for the present research: Lux.Nat., Lux.All., World. This research does not investigate Hofstede's 6 dimensions of culture, but rather the murky field of language and management, it tests their theory of culture across languages rather than across national borders, which is what the above mentioned management scholars do. Hofstede et al.'s (2002) criticism of his own theory goes, among others: "Nations are not the best units for studying cultures". Blackledge and Creese (2010) situate linguistic practices in their respective social, historical, cultural and political contexts, Brannen, Piekkari and Tietze (2014) combine language and management and Schinzel (2014a,b) uses language as identifier. Lewis (2006) explores the relationship between language and thought, how the mind is conditioned culturally at an early age, how the cultural capital in organizations is used in negotiation and decision-making, in meetings, in leadership, in communication style, in listening habits, in team-building mechanisms, all conditioned by language. Jim Cummins (2000) teaches and researches Canada's bilingual language situation, French-English at the University of Toronto, where he founded the 'Teaching English as a Foreign Language' TEFL certificate. He uses the CALP – Cognitive Academic Language Proficiency theory to manipulate a second language in a sophisticated manner after several years of practice and the BICS, Basic Interpersonal Communicative Skills, achieved by all normal native speakers of a language, but a challenge to second language learners, who typically would need 1-3 years to develop BICS following Cummins (2000). Ofelia García (2009, 2014) researches Hispanic and Luso-Brazilian languages and literature in the USA at the City University of New York, published on language education, speaking out in favor of bilingual education and more recently tending to translanguaging. Bringing further light to the multiple facets and the critical interplay of language on global business effects could be the outcome by applying the research by Brannen, Piekkari and Tietze (2014, p. 495) on combining language and management in international business in Luxembourg.

The Luxembourgish public school system

Kraemer (1995) describes the situation in multilingual Luxembourg as follows: the language issue starts already in pre-school, as the instruction language is Luxembourgish, which represents a problem for foreign children, who often speak French or Portuguese. Luxembourgish is given the 'integration' function, preparing foreign children for an alphabetization in German in primary school. Later, French will replace German progressively to become the main language instruction in secondary school (Weber and Horner, 2008).

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To cite Weber and Horner (2008, p.89): "Moreover, there are few alternatives for parents whose children cannot cope with the state school system. The small number of private, religious (i.e. Catholic) schools follows the state school curricula and students take exactly the same examinations, including the Secondary School Leaving Examination. The only alternatives are the Lycée Vauban, the Waldorf School, the European School and the International School, but they tend to charge high fees and to cater for an international elite. As a result, the only other option taken up by 3.6% of the school population is to attend schools just across the border mostly in Belgium or France (Berg and Weis, 2005, p.58)."

HYPOTHESES

There are more issues to the research subject besides the five main themes 1) integration not separation of the population, 2) learn the three official languages of the country: Luxembourgish, French, German, 3) be prepared for the multilingual and multicultural reality in Luxembourg, 4) high failure rate given the fact that children do not understand the language of instruction especially in mathematics, biology, chemistry, history, and 5) pupils do not learn English well enough.

The author formulates the following three hypotheses.

Hypothesis 1: Lux.Nat. will highly favor trilingualism. Lux.All. will be less in favor of trilingualism. The rest of the world will be afraid of trilingualism in education.

Hypothesis 2: Lux.Nat. will be against bilingualism. Lux.All. will be less against bilingualism. The rest of the world will favor bilingualism.

Hypothesis 3: The other school options will be equally less preferred by all three categories: Lux.Nat., Lux.All., World.

METHODS

Questionnaire respondents

Business men and women in Luxembourg and all over the world were asked to fill in the questionnaire. Companies in Luxembourg and worldwide were chosen and not more than 10 respondents per company considered, allowing a representative view on the situation. The questionnaire was completed by a total of 154 respondents, divided into three categories, Lux.Nat, Lux.All., World, as follows: 110 residents of Luxembourg, out of them 62 Luxembourgers with Luxembourgish nationality (Lux.Nat.). Other nationalities among the Luxembourg residents were Italians (19), French (13), Portuguese (11), Spanish (3), Germans (2), Dutch (2), Belgians (2), Polish (1),

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Czech (1), Slovak (1), Greek (1), and Kazakh (1). 152 questionnaires were usable, 2 were not filled in completely.

The 42 residents outside of Luxembourg (from the rest of the World) came from Canada (13), France (8), Italy (3), Germany (2), Greece (2), Belgium (2), Switzerland (2), China (1), Israel (1), the USA (1), Turkey (4), Spain (1), and the UK (1).

The following languages are native languages: Luxembourgish (52), French (24), Italian (19), Portuguese (13), German (6), English (5), Russian (5), Turkish (4) and Spanish (4). Other mother tongues among the respondents were: Turkish, Mandarin, Cantonese, Taiwanese, Creole, Hebrew, Czech, Greek, Dutch, Vietnamese, Polish, Arabic, Slovak and Catalan, each accounting for 1 respondent.

Out of the 154 respondents, only 1 person indicated having 3 mother tongues: Portuguese, German and English. 2 respondents speak seven languages, 13 speak 6 languages, 22 speak 5 languages, 49 speak 4 languages, 33 speak 3 languages, 24 speak 2 languages, and only 6 respondents speak just one language. In general it can be said: most Lux.Nat. speak Luxembourgish, German, French, English, some in addition speak Portuguese, Italian and/or Spanish. Most French speak just French, some with a little English. Most Portuguese living in Luxembourg speak Portuguese, Luxembourgish, German, French, and some English. In general, English native speakers just speak English, without any other foreign language notions, some with a little Spanish.

Interestingly, only eight people indicated having 2 mother tongues.

Out of the 154 respondents, 13 have double nationality, and 17 changed their birth nationality into another nationality.

In total the 154 respondents come from 29 different countries and speak 22 different languages.

The respondents' age categories were age 0-19 (2), age 20-24 (13), age 25-29 (11), age 30-34 (14), age 35-39 (16), age 40-49 (40), age 50-59 (35), over age 60 (20).

38% of the respondents were males, 62% females.

There is an equal distribution of all diplomas among the respondents: A-level (33), professional education (19), undergraduate degree (16), master's degree (43), doctorate (29), other (10).

Concerning job type, the distribution consists of 18 civil servants, 41 teachers/professors, 18 employees, 9 assistant/secretaries, 4 consultants/HR, 9 bank managers, 6 manual workers, 14 retired, 2 house wives, 5 commercials, 8 hospital workers, 3 IT managers, 2 lawyers, 1 architect and 11 students.

The industry sectors of the respondents are: the state/government (24), education (53), bank/finance (34), hospital/medical (5), construction (3), none (12), industry (2), IT/high tech (4), and services/commerce (12).

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The open questions of the questionnaires allowed the respondents time and space to write down their private opinion in their own words about the present trilingual public education system.

Interviews were semi-structured, carried out in Luxembourgish, French, German, Italian, and Spanish, and lasted 15-60 minutes. While the open questions provided mainly short answers to the research question, interviews allowed more in-depth, longer, more precise answers, going into detail, leaving room for private stories about the respondents own children, the fears, threats, thoughts, opportunities seen and success stories.

Process

Nationality does not always correspond to native language and therefore questionnaires were distributed in English, French, German, unfortunately not in Luxembourgish, although this was much requested. A pilot study was conducted to pre-test the questionnaire's face validity. Precautions have been taken to ensure confidentiality, as ethical concerns may emerge at all stages of the research (Elms et al. 2010). Questionnaires have been anonymous. Equity in treatment regardless of gender, race or nationality was always guaranteed (Robertson 2008). After the initial screening and cleaning of the collected data, the average, standard error, median, minimum, maximum, minimum-maximum, Q1 and Q3 were calculated in Excel. Four categories were created: (1) All respondents, (2) respondents with Luxembourgish Nationality (Lux.Nat.), (3) all residents of Luxembourg (Lux.All.), (4) residents outside of Luxembourg – the rest of the world (World).

Additionally, the open questions provided deep insight into the thoughts, fears, ideas, threats, and opportunities of the present education system. By respecting the same four categories: all, Lux.Nat., Lux.All., World, the open questions were categorized into broad themes: 1) integration not separation of the population, 2) learn the three official languages of the country: L+D+F, 3) be prepared for the multilingual and multicultural reality in Luxembourg, 4) high failure rate given the fact that they do not understand the language of instruction especially in mathematics, biology, chemistry, history, and 5) pupils do not learn English well enough. Some open questions are reprinted hereafter.

Finally, the interview responses were categorized into the same four categories and main themes as the open questions. Success stories were told, as well as stories of failure. Respondents allowed deep insight into their private lives, answering with great honesty the very important questions regarding their children's education. Some interviews are reprinted hereafter.

RESULTS AND DATA ANALYSES - QUESTIONNAIRE

Following the above initial preparations of the data basis the calculation of the questionnaire's results provided the following results:

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Results from the question: What are the advantages of this trilingual public education system (the current education system)?

Regarding the advantages of the current trilingual public education system, the scores among the 152 total valid respondents divided into the three categories Lux.Nat., Lux.All., World were as follows:

The differences in scores were not so important, as 'Integration of all children into the multicultural, multilingual, multinational environment in Luxembourg' scored highest (4.06) with Lux.All., followed by Lux.Nat. (4.02), and only third by the rest of the world (3.90). 'Children learn 3 languages and have the opportunity to study in L, G, F' scored highest with Lux.Nat. (4.31), followed by Lux.All. (4.13) and third the rest of the world (4.17). 'Children are educated following the multicultural education in Luxembourg' scored highest with Lux.Nat. (3.88), followed by Lux.All. (3.85) and third by the rest of the world (3.69). 'Children are prepared for the multilingual reality of Luxembourg, for the future, for work, for life' scored highest the World (4.05) followed by Lux.All. (4.04) and Lux.Nat. (3.97). 'L+G+F is to be seen as ONE language, not three, we add English, Spanish as foreign language' interestingly reverses the scores' order, the world scoring highest with 3.02, followed by Lux.All. (2.69) and last Lux.Nat. (2.53). This advantage scored lowest of all advantages in all points. 'Often, none of the three languages (L+G+F) is the mother tongue of the children at home, but it is Portuguese, Italian, …, what allows pupils an alphabetisation in L+G+F' again shows the order Lux.All., Lux.Nat., World, by scoring 3.62 Lux.All., 3.54 Lux.Nat. and 3.38 World.

The above numbers demonstrate that the World has a different view of the current situation than Lux.Nat. of themselves, or Lux.All. in general of the country they are living in.

The absolute highest score for all of the above answers with 4.31 out of 5 is by Lux.Nat. is 'Children learn 3 languages and have the opportunity to study in L, G, F'. Following the respondents of this research this is the biggest advantage of Luxembourg's trilingual public education system.

The absolute lowest score with 2.53 out of 5 is by Lux.Nat. for all of the above answers is 'L+G+F is to be seen as ONE language, not three, we add English, Spanish as foreign language'. In fact, the result shows that Luxembourgish, German and French are well to be seen and treated as three different languages and not as one.

Results from the question: What are the disadvantages of this trilingual public education system (the current education system)? :

Regarding the disadvantages of the current trilingual public education system, the scores among the 152 total valid respondents divided into the three categories Lux.Nat., Lux.All., World were as follows:

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The differences in scores were not so big, as 'Pupils do not understand the language of education and therefore cannot follow the content in i.e. biology, mathematics, chemistry…' scored highest among Lux.Nat. (3.42), followed closely by Lux.All. (3.35), and third by World (3.19). 'Pupils are not performing well in the field of study (i.e. biology, mathematics, chemistry…), because they don't understand the language' as disadvantage scored highest among Lux.Nat. with 3.53, followed by Lux.All. 3.34, and with 3.14 for the World. 'This causes a high failure rate' scored again highest with Lux.Nat. (3.46), followed by Lux.All. (3.33) and with a low 2.76 for the World. An explanation for this low score might be the fact that they might not be familiar with the relatively high failure rate of the current trilingual Luxembourgish public education system. 'Loss of identity in terms of culture. Language is not only a method of communication but also determines my cultural identity, my: who am I?!' scored highest among Lux.All. (2.99), followed by Lux.Nat. (2.81), and closely by the World (2.79). The foreigners in Luxembourg know from experience about their loss of cultural identity. The last advantage in the list changes the order in the score, showing that the World has a different opinion on this than Lux.Nat. or Lux.All. 'Pupils do not learn well English. English is neglected. L+G+F preferred' scores highest among the World (3.29), second by Lux.Nat. (3.00) and nearly identical by Lux.All. (3.01). Here the World allows a little critique at the English level of Luxembourg residents, that they themselves do not concede as being an issue.

The above numbers demonstrate that the World has a different view of the current situation than Lux.Nat. of themselves, or Lux.All. in general of the country they are living in..

The absolute highest score for all of the above answers with 3.53 out of 5 is by Lux.Nat. is 'Pupils are not performing well in the field of study (i.e. biology, mathematics, chemistry…), because they don't understand the language'. The respondents to this study demonstrate what represents the greatest challenge of the trilingual public education system in Luxembourg: pupils do not understand the language of instruction of the math or biology or chemistry class. Were the class in their mother tongue they would perform normally, but given the fact that the subject is treated in a foreign language, the issue comes with understanding a difficult subject (math, biology, chemistry, history) in addition to the issues with the foreign language. There are too many issues to be solved at the same time, children simply give up, abandon, drop out and fail. This is the explanation for the unusually high failure rate of the Luxembourgish public school.

The absolute lowest score with 2.76 out of 5 is by the World for 'This causes the high failure rate'. This score might be originated by the lack of knowledge of the World about the indeed high failure rate. Therefore the author prefers to consider the second lowest score with 2.78 out of 5, again by the World for 'Loss of identity in terms of culture. Language is not only a method of communication but also determines my cultural identity, my: who am I?!'. In the World's opinion,

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identity is not lost through several languages at school. Identity is conserved, guarded despite different languages in use.

Results from the question: What would be the advantages of this bilingual public education system (the discussed proposed but contested reform-system: In Kindergarten the language of education would remain Luxembourgish. But then the child would have the choice between a full education (primary and secondary) in German language of instruction, or in French)?:

Regarding the advantages of the bilingual public reform system, the scores among the 152 total valid respondents divided into the three categories Lux.Nat., Lux.All., World were as follows:

The differences in scores were not significant, as 'All children still would learn Luxembourgish in Kindergarten' was answered nearly identically by all three categories: Lux.Nat. (3.95), Lux.All. (3.87), the World (3.89). 'The choice of one language of instruction for primary and secondary education allows that children understand the content of instruction (i.e. biology, mathematics, chemistry…)' scores highest among the World (3.74), followed by Lux.Nat. (3.68), and nearly identical by Lux.All. (3.65). 'The failure rate would decline' scores highest by Lux.All. (3.36), second by Lux.Nat. (3.27), and lowest by the World (3.19). 'Children could better concentrate on the content of instruction than on the language of instruction' scored highest by Lux.All. (3.70), followed nearly identically by Lux.Nat. (3.69) and third by the World (3.55). 'Better motivation of children who will be more motivated to learn the different subjects thanks to the taught language' scored nearly identically among all three categories: Lux.Nat. (3.44), Lux.All. (3.44), the World (3.43). Nearly everybody has the same opinion on the children's motivation. Again, 'Pupils could concentrate better on learning English' got the highest score from the World (3.48), followed by nearly identical second and third places for Lux.Nat. (3.21) and Lux.All. (3.20). The World has the opinion that people in Luxembourg generally do not speak that well English and should concentrate more on learning English, contrary to people in Luxembourg, who think they could concentrate more on English, yes, but in the end, our English is not that bad.

Results from the question: What would be the disadvantages of this bilingual public education system (the discussed proposed but contested reform-system)?

Regarding the disadvantages of the bilingual public reform system, the scores among the 152 total valid respondents divided into the three categories Lux.Nat., Lux.All., World were as follows:

'This reform system would be a separator of the population – those who speak German – divided from those who speak French' scores highest among Lux.Nat. (3.86), followed by Lux.All. (3.67), and third by the World (3.40). 'This separation in 2 different languages would divide the society

 ISBN: 978-9963-711-37-6

into different levels' scores highest among Lux.Nat. (3.60), followed by Lux.All. (3.60), and third by the World (3.12). 'Children/Pupils would not be prepared for the multilingual reality in Luxembourg, where at least L, G, F are needed in everyday situations' scored highest among Lux.Nat. (3.95), followed by Lux.All. (3.75), and third by the World (3.31). 'There might not be enough teachers in Luxembourg capable of teaching and/or in German and/or in French in primary and secondary school' scores highest among the World (3.19), followed by Lux.Nat. (2.88), and third by Lux.All. (2.78). This shows the different point of views from the outside or from the inside on the subject. 'There would be an administrative problem, because this division would duplicate all classes, new school rooms would be needed, new schools would be necessary to construct' scores highest among Lux.Nat. (3.57), followed by Lux.All. (3.46) and third the World (3.48). 'This language division (in German or French) would re-enforce the cultural division into German or French culture' scores highest among Lux.Nat. (3.76), followed by Lux.All. (3.63), and third by the World (3.50). The results of this study prove that Lux.Nat. are indeed afraid of a cultural division of their country. 'Other countries (Germany, France,) also experience the same problem with immigrant children not understanding the language of instruction in class' scores highest among the World (3.52), followed by Lux.Nat. (3.31), and third by Lux.All. (3.22). This studies' result demonstrates that, in the opinion of the World, Luxembourg is not the only country in the world experiencing these problems of multiculturalism and multilingualism.

Results from the question: What is your personal opinion. Which system would you prefer?

In the category "All respondents" out of a total of 152 valid respondents 98 were pro trilingualism, which corresponds to 64%. Only 54 were against, corresponding to 35%. Bilingualism was favored by 45 (30%), with 105 (69%) voices against. Other schools (European School, International School, Lycée Français) were favored by 56 (37%), and 92 (61%) were against.

In the category "Lux.Nat" these equations change. Out of a total of 62 Lux.Nat. the trilingual public education system was preferred by 53 (84%), with only 9 (16%) voices against it. Regarding the bilingual reform system, only 9 (16%) were for it, whilst 53 (84%) were against it. Other schools were considered positively by 23 (36%), but negatively by 37 (64%).

In the category "Luxembourg including all nationalities" these results change again. Out of a total of 110, still 77 (69%) are pro the current trilingual public education system, but this is less than the 84% from the Lux.Nat. 33 (21%) are against it, which is more than the 16% Lux.Nat.. The bilingual system is preferred by 27 (24%), and rejected by 82 (66%). Other schools are preferred by 41 (37%) with 67 (63%) against them.

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In the category "Rest of the world" the distributions change once again. Out of a total of 42 respondents 20 (52%) are pro the current trilingual system, 20 (48%) are against. The bilingual system would be preferred by 19 (45%), but rejected by 23 (55%). Other schools are favored by 15 (37%), while 26 (63%) are against.

The rest of the world mainly is afraid of the challenges that come with the three languages to be learnt by the child and ideally by the parents.

84% of the Lux.Nat are pro trilingualism, whereas the percentage decreases to only 69% for 'Luxembourg including all nationalities', and a small majority of 52% pro trilingualism for the rest of the world.

On the other hand, the percentage in favor of bilingualism increases from a weak 16% pro bilingualism among Lux.Nat., to a 24% pro bilingualism among 'Luxembourg including all nationalities', and a strong 45% pro bilingualism for the rest of the world.

Taking the three categories together by summing them up, trilingualism is preferred by a total of 65% of all the respondents of this research, with 84% by Lux.Nat., 69% LuxAll, and 52% the rest of the world.

The other school's option was equally chosen by the 3 categories: 36%, 37%, 37%, totaling up to 37% in the total batch of all respondents.

RESULTS – QUESTIONNAIRE'S OPEN QUESTIONS

Open questions aimed at providing deeper insights besides the above discussed categories 1) integration not separation of the population, 2) learn the three official languages of the country: L+D+F, 3) be prepared for the multilingual and multicultural reality in Luxembourg, 4) high failure rate given the fact that they do not understand the language of instruction especially in mathematics, biology, chemistry, history, and 5) pupils do not learn English well enough.

By keeping the three categories, 1) Lux.Nat., 2) Lux.All., 3) World, the open questions' responses provided in-depth insight into serious reflections of directly concerned parents, whose children follow the Luxembourgish trilingual education system, or who consider doing so or who hypothesize in case of an eventual move to Luxembourg. Besides the above mentioned categories of advantages/opportunities and disadvantages/fears, here is what some of the respondents said:

<u>Respondent from the category **Lux.Nat**., who are **for** the trilingual system:</u>

"I followed the Luxembourgish school system and today I am very happy to have done it (as my origins are Portuguese). I must admit that it was very hard: German lessons and some matters (biology / geography) were

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given in German. I felt alone as nobody (my parents) could support me on a day to day basis with my homework. My child is in the Luxembourgish school system. I speak Luxembourgish, Portuguese and French with my own child..."

Respondent from the category **Lux.Nat.**, who are **against** the system:

"…. The Luxembourgish education system is not the best, pupils don't have enough knowledge, following the PISA results, especially in sciences, biology, physiques, chemistry, philosophy. They only learn these matters by heart without any generation of own ideas or any creativity. … Motivation in general is low. … School teachers lack knowledge themselves and teach frontally without any inspiration … What misses at their language level is the mastering of one language. Pupils express themselves badly in written and orally in all languages. … Pupils' only wish is to become school teacher or civil servant because of the fringe benefits. There is no real motivation, nor enthusiasm ..."

Respondent from the category **Lux.All.**, who are **for** the trilingual system:

"… It is an enormous chance for our children to be given the possibility of learning three languages. … Knowing to speak three languages opens up their mind for other languages, cultures and knowledge … Yet, we should teach better our teachers. … Today my son speaks five languages, despite the initial problems with German, he had needed extra tutorial lessons ..."

Respondents from the category **Lux.All.**, who are **against** the trilingual system:

"… The requirements are too high. Strong pupils are able to follow, weaker not. ..."

"… Languages should be taught differently. French and German should be taught together from primary school on, and additionally offer extra tuition classes for weaker pupils. … Luxembourger pupils have problems with French, whereas others with German. … European School, International School, St. George … are no public schools and therefore not for free ..."

"… The current system with the Luxembourgish language as the basis is not adapted to the open European world. The future of our children lies in the languages they speak …"

Respondents from the category **'World'**, who are **for** the trilingual system:

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"I think a trilingual system best prepares a child for the realities of Luxembourg and Europe. However, as a teacher, I would certainly think there would be issues switching from one language in primary to a second language in secondary. It would be better to study in German and French all the way through. My husband and I are both bilingual English and Spanish, however, we tend to speak mostly in English out of habit …" (Respondent from Canada)

"I personally think that sending our children to either trilingual or bilingual public education is a good idea, since the kids can share their different languages and family backgrounds. But English is still having the largest popular users all around the world. It is important in my own opinion that they should learn English ..." (Respondent from Canada)

"I have no experience of life in Luxembourg but I believe that children should be taught in Luxembourgish, French and German in parallel along the whole education path, as it is a multicultural country and everyone might need to be fluent in the three languages. There could be an optional choice for a foreign language such as English or Spanish or more options even. Dividing students by language may split the country such as what is happening in Belgium. Taking India as another model, schools teach English and 2 or 3 other local languages at school ..." (Respondent from France)

Respondents from the category **'World'**, who are **against** the trilingual system:

"I think the current system is too complicated to be followed by a Chinese family, because we were taught English in China, so it is very difficult to learn 3 new languages, not only for the child but also for the parents. I just feel this is too complicated ... Hope someday I will have the opportunity to visit Luxembourg with my child to experience the education system of your country." (Respondent from China)

"As a Greek I am very sensitive about the language issue. Language is a significant element of the cultural and national identity of a nation; it is actually a mirror of the culture. Besides Maths and Chemistry education means also Literature and History and so ..." (Respondent from Greece)

"I would not like my children to follow Luxembourgish school system." (Respondent from Turkey)

"The instruction in Luxembourgish is unnecessary. This dialect needs to remain in the everyday use, but has not to enter school ..." (Respondent from Belgium)

ISBN: 978-9963-711-37-6

"I would prefer the mother tongue which would be the formal language as well..." (Respondent from Greece)

RESULTS - INTERVIEWS

Among the 36 interview responses the main themes already mentioned and questioned above re-appeared. 1) integration not separation of the population, 2) learn the three official languages of the country: Luxembourgish, French, German, 3) be prepared for the multilingual and multicultural reality in Luxembourg, 4) high failure rate given the fact that children do not understand the language of instruction especially in mathematics, biology, chemistry, history, and 5) pupils do not learn English well enough. Other themes were discussed. The interview responses were categorized into the three categories: 1) Lux.Nat., 2) Lux.All. and 3) World and following if they are pro or contra the trilingual education system.

CONCLUSION, DISCUSSION AND IMPLICATION

This research has brought light to the particular elements of trilingualism in Luxembourg, in the particular cultural specificity following Hofstede et al. (2010). A huge majority respondents from Lux.Nat., Lux.All., and the rest of the world provided astonishingly similar answers. Trilingualism is part of the Luxembourgish constitution, namely Luxembourgish, French and German are the three official languages of the country. It is the characteristics of the country, it is its culture, its collective programming of their mind (Hofstede et al., 2010). While Cummins (2000) researches Canada's language situation - French-English - and García (2009, 2014) in the USA - Spanish-English – tends to translanguaging, Blackledge and Creese (2010) situate linguistic practices in their respective social, historical, cultural and political contexts, Brannen, Piekkari and Tietze (2014) combine language and management and Schinzel (2013a,b) uses language as identifier.

From the questionnaires, the written open questions and the interviews no significant differences in the results emerge. Only one question regarding preference of the system showed significant differences between Lux.Nat., Lux.All., and the rest of the world.

This research paths the way for more studies in the field of multilingualism and multiculturalism. In a world of increasing separation, conflict, crisis and war, the integrative, tolerant system of Luxembourg may serve as an example for peace, integration, tolerance, and harmonious coexistence. Further research could be the research among cross-border workers, by investigating their opinion on the trilingual public education system.

ISBN: 978-9963-711-37-6

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 ISBN: 978-9963-711-37-6

THE LINK BETWEEN ENTREPRENEURIAL FEATURES AND IMMIGRANT FLOWS IN A REGIONAL ENTREPRENEURSHIP CONTEXT

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ABSTRACT

The management literature has recently given the increased attention to the topic of entrepreneurial activity and attitudes in different regions. New businesses and jobs creation contribute to the growth of economic. Together with the increasing migration flows it has been noticed the growing involvement of immigrants in the development of entrepreneurial businesses. In this paper we aim to link the entrepreneurial attitudes and activity at the regional level and migration, with emphasis on self-employment opportunities and the prevalence for immigrant entrepreneurs in different EU countries. This paper presents different indices of the regional entrepreneurship rankings, by focusing on the scores of entrepreneurial activity and attitudes in the context of migration flows. Comparative analysis of the variables of the EU countries is done. The study reveals in which countries immigrant entrepreneurs are the most common to develop their activities. Additionally, the study represents linkages between regional immigration and entrepreneurship. Based on empirical results further research directions are presented.

Keywords: *Regional entrepreneurship, entrepreneurial activity, attitudes, immigrant entrepreneurs, European regions.*

INTRODUCTION

Entrepreneurship has been identified as an important engine for the development of country or region, as well as substantial determinant for the growth of competitiveness and workplace creation, innovation and technology development and transfer. However, the extent and the magnitude of entrepreneurship influence vary across countries and regions (Szerb et al., 2013). There are several research focuses: at the individual and contextual level. Bosma and Schutjens (2007) highlighted the

 ISBN: 978-9963-711-37-6

importance of (cross-country) institutional factors and (interregional) demographic and economic attributes to variation in entrepreneurship. On the other hand, entrepreneurial activity and attitudes are highly dependent on the individual behavior of entrepreneur. Therefore, complex methodologies of regional entrepreneurship level assessment are often used to analyze separate indicators. The Global Entrepreneurship and Development Index (GEDI) methodology to measure regional entrepreneurship, and the Regional Entrepreneurship and Development Index (REDI) has been constructed for capturing the contextual features of entrepreneurship across the NUTS-2 level Spanish regions (Acs et al. 2011), as well Hungarian regions (Szerb et al., 2013). Global Entrepreneurship Monitor (GEM) is widely used to assess the national level of entrepreneurial activity.

The scientific problem of this research has been implied by the lack of the unified approach to the entrepreneurial features of the regions and their influence on (im)migration flow and link with immigrant entrepreneurship. Only few empirical studies on the topic of entrepreneurial regions have been conducted in Spain (Acs et al., 2011) and Hungary (Szerb et al., 2013). Kshetri (2014) analyzed how to develop successful entrepreneurial ecosystem in the context of Asian and Baltic „tigers". It is important to note that migration usually serves as an indicator in different methodologies. However, recent scientific works have demonstrated a growing interest in immigrant entrepreneurship. The manifestation of immigrant entrepreneurship by analyzing the business development aspects has been studied by Carbonell et al. (2014); the relationship between the migration experience and risk perception has been highlighted by Hormiga and Bolívar-Cruz (2014). As Baycan-Levent and Nijkamp (2009) present, Central European countries including Germany, Switzerland, Austria, the Benelux countries, and France have been the most important immigration countries as well as traditionally the port of entry of many labor migrants in Europe. However, since the 1980s, the Southern European countries such as Italy, Greece, Spain, and Portugal have also become immigration countries, receiving people from Northern Africa, the Balkans, and the Eastern Mediterranean, mostly through illegal immigration due to the proximity to these regions, the geographical features.

In view of the research gaps identified, this study attempts to address the important research questions: what are differences in regions entrepreneurial features across countries? what opportunities for immigrants the entrepreneurial regions face? what are the connections between regions of entrepreneurship and immigration?

The purpose of this study is to investigate the link between regional entrepreneurial features and immigration flows across European countries. The research will cover regions' entrepreneurial factors, where presumptions of entrepreneurial activity by immigrants could appear. This study extends the

 ISBN: 978-9963-711-37-6

scientific discussion of immigrant flows relations with regional entrepreneurial features. Scientific literature analysis and statistical data analysis has been used for this study.

REGIONAL ENTREPRENEURSHIP, ENTREPRENEURIAL FEATURES AND THE ROLE OF IMMIGRANT

Measurement methodologies of the regional entrepreneurship

Over the last years entrepreneurship has been gaining increasing importance as a major driver for economic development, growth, competitiveness, employment and productivity growth (Braunerhjelm et al., 2009; Carree and Thurik, 2003). The rate of new businesses formation influences regional growth, forms industry composition, and contributes to regional disparities (Audrestch and Fritsch, 2002; Fritsch and Mueller, 2007). It is recognized that entrepreneurship is a complex phenomenon that is driven by individuals but embedded in a wider economic and societal context. That is to say, although actions by individuals drive the entrepreneurial process in regions, the wider regional context regulates the quality and outcomes of this process (Acs et al., 2013). Factors associated with regional variation in new firm formation at the regional level have been explored through studies of structural differences in geographical, industrial, and organizational variables (Kirchhoff et al., 2007; Woodward et al., 2006; Audretsch and Lehmann, 2005; Lee et al., 2004; Lay, 2003; Armington and Acs, 2002; Saxenian and Hsu, 2001). However, regions differ in terms of firm entrants, innovation and employment (Audretsch and Fritsch, 2002; Fritsch and Schmude, 2006). An entrepreneurial environment can be defined by habitat factors such as institutional and regulatory features, input and product market structures and the quality of human capital. Thus, regional entrepreneurship depends on a combination of several factors such as regulatory environment, natural advantages and resources, industrial and demographical characteristics of a region. Demographical characteristics of a region could also be called as an entrepreneurship capital. According Bönte et al., (2008), a region's entrepreneurship capital (REC) is initially dependent on individuals and their entrepreneurial intentions, interactions, and efficiency in exploiting new knowledge. Thus, REC includes all regional factors influencing an individual's decision to start a business, including the availability of resources needed to start a business and the regulatory environment.

While entrepreneurship as a complex phenomenon encompasses both the individual and contextual levels, the methodology of entrepreneurship measurement is a multidimensional process as well. There are several entrepreneurship measurement methodologies which have been widely used for decades:

- The Global Entrepreneurship and Development Index (GEDI) project came to alive to provide a suitable measure of entrepreneurship based on the multidimensional definition of

 ISBN: 978-9963-711-37-6

entrepreneurship and to present a useful platform for policy analysis and outreach. The distinguished features of GEDI are (1) the contextualization of individual level data by a country's institutional conditions; (2) the use of 14 context weighted measures of entrepreneurial attitudes, abilities and aspirations; (3) the recognition that different pillars combine to produce system-level performance; and (4) the consequent recognition that national entrepreneurial performance may be held back by bottleneck factors - i.e. poorly performing pillars that may constrain system performance (Acs et al. 2013).

- Global Entrepreneurship Monitor (GEM) research program is an annual assessment of the national level of entrepreneurial activity. Initiated in 1999 with 10 countries, it has progressively expanded its coverage and in 2014 conducted comparative assessments of entrepreneurial activity rates in 73 economies. GEM focuses on three main objectives: 1) To measure differences in entrepreneurial attitudes, activity and aspirations among economies; 2) To uncover factors determining the nature and level of national entrepreneurial activity; 3) To identify policy implications for enhancing entrepreneurship in an economy (GEM, 2015).

Entrepreneurial activities and attitudes and the link with migration

A system of entrepreneurship is the dynamic, institutionally embedded interaction between entrepreneurial attitudes and ability by individuals, which drives the allocation of resources through the creation and operation of new ventures (Acs et al., 2013). Thus, regional differences might be explained by analyzing entrepreneurial attitudes and activities. There are several phases of *entrepreneurial activities* such as nascent, baby business and established business (Bosma and Schutjens, 2007). The entrepreneurs' activities occur within a business context, which includes industry structures, competition, and national economic structures. Meanwhile, *entrepreneurial attitudes* at the individual level is captured by a combination of fear of failure, the perception of the start-up opportunities and having knowledge and skill to set up a new company.

By mapping indicators on entrepreneurial attitude and entrepreneurial activity it is possible to reveal the importance of (cross-country) institutional factors and (interregional) economic and demographic attributes to variation in entrepreneurship (Bosma and Schutjens, 2007). According to these authors *immigration* becomes one of the variables of entrepreneurial attitude and factor of the interregional differences. According Batista and Umblijs (2013) there are potential positive effects that migrants can have on host economies. First of all, migrants bring new skills (Ottaviano and Peri, 2012; Hunt, 2009), increase domestic demand and ease demographic pressures, furthermore, they often create jobs by engaging in entrepreneurial activities (Lacomba and Lagos, 2010). Evaluating entrepreneurial attitudes,

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we can state, that majority of studies (Stewart and Roth, 2001; Ekelund et al., 2005), are focusing on the role that risk preferences play in the decision to be self-employed. For example, in the context of migration, the findings by Clark and Drinkwater (1998) (cited by Constant and Zimmermann, 2006) suggest that self-employment is a way out of discrimination in paid-employment for immigrants in the United Kingdom.

Immigrants entrepreneurs

The largest volume of migration and the main focus of migration are in those regions with the highest quality of life - usually developed economies, as well as those located in the largest immigrant diaspora. Regions with higher quality of life can attract migrants, as well potential entrepreneurs, easier than those with lower quality. Scholars examining regional entrepreneurship and economic growth have been explored factors related closely to quality of life (Goldstein and Drucker, 2006). Therefore, previous studies have considered factors such as crime, health care, and climate indices (Goldstein and Drucker, 2006), natural amenities (Woodward et al., 2006), creativity and diversity indices (Lee et al., 2004), and *ratio of immigrants or foreigners* (Kirchhoff et al., 2007; Saxenian, 2002). Racial diversity is also highlighted as an important variable in the promotion of entrepreneurial activity. Racial diversity represents the contribution of skilled immigrants and foreigners, along with the creativities generated from communications among people from different contexts in entrepreneurial activities. According to Chiswick et al. (2005), for high-skilled immigrants and for immigrants from countries where skills are less readily transferable to the host in the case of high-skill immigrants, there is more room to drop down the occupational ladder when migrating and more scope for upward mobility following migration, relative to less-skilled immigrants. In the case of immigrants from countries with very different labor markets, the move from one country to another is more likely to involve downward mobility, but, as with high skilled immigrants, as location-specific human capital is acquired, upward mobility is possible.

Some studies suggest that immigrants are more likely to be entrepreneurs, because they lack networks and contacts in existing businesses and are poor in communication skills or there are such as barriers to entry into paid employment and to the particular business structure of a given host country or region, thus they are more likely to start new firms and be self- of entrepreneurship (Lee et al., 2004). Saxenian (2002) found that the most successful entrepreneurs of Silicon Valley rely heavily on ethnic resources. Kirchhoff et al. (2007) also agree that a foreign population has a positive effect on new business formation. The entrepreneurial behaviour of many migrant groups has led to the rise of a new phenomenon that is called 'migrant entrepreneurship' or 'ethnic entrepreneurship' (Baycan-Levent and Nijkamp, 2009).

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METHODOLOGY

The empirical research aim was to explore regional entrepreneurial features (activity and attitudes) and immigration flow across 28 EU countries, seeking to identify the link between entrepreneurial attributes and attitudes, attributes and immigrant entrepreneurs. According to this, the following investigation blocks have been formed, by combining similar statistical indices representing entrepreneurship and immigration. The main 5 blocks were chosen, seeking to identify the entrepreneurial features and migration flows across regions:

1) *Regional entrepreneurship evaluation* across 27 EU countries. Such indicator as overall countries rank according to Global Entrepreneurship Index (GEDI, 2015) was discussed.

2) *Individual entrepreneurial attributes*. The research indices were investigated: *perceived opportunities* which reflect the percentage of individuals who believe there is occasion to start a business in the next six months. *Perceived capabilities* reflect the percentage of individuals who believe they have the required skills, knowledge and experience for starting business. The measure of *fear of failure* only applies to those who perceive opportunities. *Entrepreneurial intentions* reflect the percentage of individuals who expect to start a business within the next three years (GEM, 2015).

3) *Motives for entrepreneurial activities*. Such indicator as Motivation index in early-stage entrepreneurial activity was investigated.

4) *Entrepreneurship activities* by comparing such indices as *early-stage activities* and *established business*. Total early-stage entrepreneurial activity - percentage of individuals aged 18-64 who are either a nascent entrepreneur or owner-manager of a new business (less than 42 months). Established business ownership rate -percentage of individuals aged 18-64 who are currently an owner-manager of an established business, i.e., owning and managing a running business that has paid salaries, wages, or any other payments to the owners for more than 42 months (GEM, 2015).

5) *Immigrants entrepreneurs*. Such indices as *immigration flows* across EU countries, number of self employed foreigners, biggest *immigrant' diasporas* were investigated.

The secondary research strategy has been used. The statistical data from the *Global Entrepreneurship Index* (GEDI, 2015) and *Global Entrepreneurship Monitor* (GEM, 2015) reports and other statistical databases such as Eurostat was used. The methods of the empirical survey: comparative qualitative analysis, descriptive statistics.

RESULTS

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Regional entrepreneurship evaluation across 28 EU countries. By comparing the regional entrepreneurship, the General Entrepreneurship Index (GEI) should be taken into consideration. This index allows us to consider which countries create favorable ecosystem for entrepreneurial activities, considering different individual level and contextual factors (institutional, cultural, social, and so on) of entrepreneurship (see Figure 1).

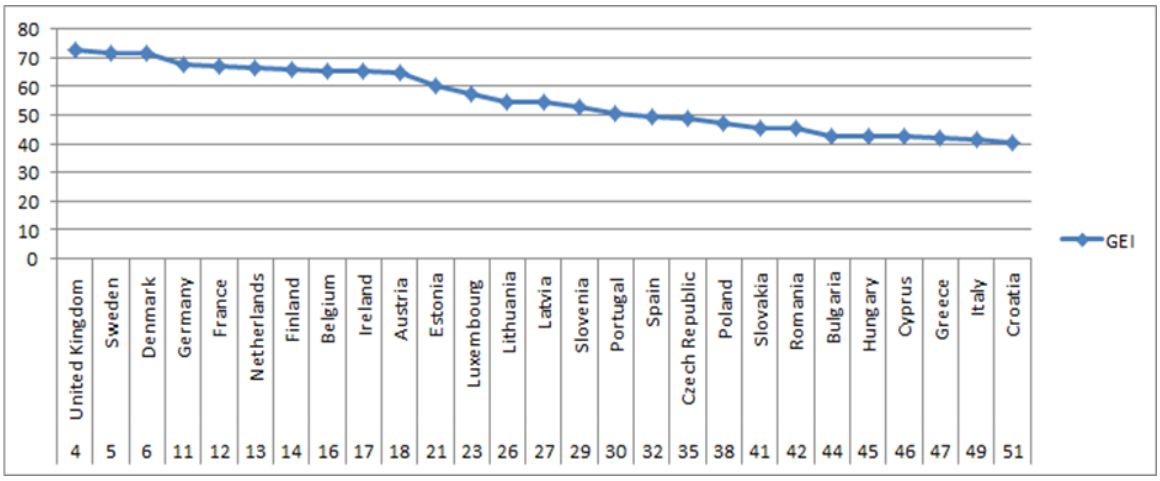

Figure 12. *The Global Entrepreneurship Index, 2015 (adopted according GEDI, 2015)*

As Figure 1 shows, the UK and Sweden are in the top 5 among the most entrepreneurial countries in the world, meanwhile, the other Nordic countries such as Denmark and Finland rank in the top 15 globally. All three Baltic countries (Lithuania, Latvia and Estonia) are closely ranked, although Estonia plays a leading role among them. Italy's performance is alarmingly weak, ranking below a group of countries that have suffered badly throughout the global financial crisis (Portugal, Spain and Greece) and even worse than many countries with socialist legacies, such as Slovenia, the Czech Republic, Romania, Bulgaria, and Hungary. Other bottom performers in EU are Greece and Croatia.

Individual entrepreneurial attributes. Individual entrepreneurship attributes, such as capability to identify opportunity, proactiveness, risk taking, initiating change, team mobilization and intentions to start a business are an essential to native workers in self-employment, and immigrant entrepreneurs as well. The table 1 provides information about individual attributes which lead to entrepreneurship activities.

Region and economies	Perceived opportunities, %	Perceived capabilities, %	Fear of failure, %*	Entrepreneurial intentions, %**
Romania	32.4	48.4	41.3	31.7
Lithuania	31.7	33.4	44.8	19.7
Croatia	18.4	45.9	30.3	19.5
Portugal	22.9	46.6	38.4	15.8
Poland	31.3	54.3	51.1	15.6
Slovakia	23.5	54.4	36.0	15.1

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Region and economies	Perceived opportunities, %	Perceived capabilities, %	Fear of failure, %*	Entrepreneurial intentions, %**
France	28.3	35.4	41.2	14.2
Hungary	23.4	40.9	42.0	13.9
Luxembourg	42.5	37.6	42.0	11.9
Italy	26.6	31.3	49.1	11.4
Slovenia	17.2	48.6	29.0	11.4
Belgium	35.9	30.4	49.4	10.6
Estonia	49.4	42.5	41.8	9.8
Greece	19.9	45.5	61.6	9.5
Netherlands	45.6	44.3	34.8	9.3
Sweden	70.1	36.7	36.5	8.5
Austria	44.4	48.7	34.9	8.1
Finland	42.4	34.9	36.8	7.9
Ireland	33.4	47.2	39.3	7.2
Spain	22.6	48.1	38.0	7.1
Denmark	59.7	34.9	41.0	6.9
United Kingdom	41.0	46.4	36.8	6.9
Germany	37.6	36.4	39.9	5.9
Average (unweighted)	34.8	42.3	40.7	12.1

* Denominator: 18-64 age group perceives good opportunities to start a business.

** Respondent expects to start a business within three years; denominator: 18-64 age group that is currently not involved in entrepreneurial activity.

***23 countries are taken for analysis as GEM (2015) gives information only about these countries.

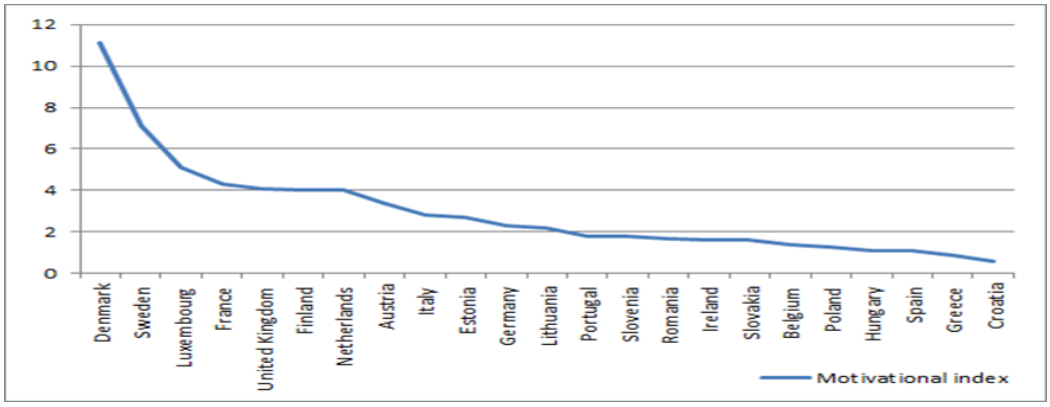
Table 1. *Individual attributes which lead to entrepreneurship activities* (*adopted according GEM, 2015*)

We can state, that among EU economies individual perceived capabilities are higher than perceived opportunities: perceived capabilities are 45.5% vs. perceived opportunities 19.9% in Greece; 45.9% vs. 18.4% in Croatia; 48.6% vs. 17.2% in Slovenia; 48.1% vs. 22.6% in Spain; 46.6% vs. 22.9% in Portugal (GEM, 2015). The highest fear of failure is observed in Greece (61.6%), Poland (51.1%), Belgium (49.4%) and Italy (49.1%). The highest entrepreneurial intention rate is in Romania (31,7%), Lithuania (19,7%) and Croatia (19,5%). The lowest entrepreneurial intention rate is detected in the most entrepreneurial countries such as UK (6,9%), Denmark (6,9%) and Sweden (8,5%). Hence, it could be argued that the high country's level of entrepreneurship is more conditioned by contextual factors than individual entrepreneurial attributes.

Motives for entrepreneurial activities. Individual entrepreneurial attributes generally conditions quite high motivation to develop the new business. Figure 2 presents motivation differences in early-stage

 ISBN: 978-9963-711-37-6

entrepreneurial activity in 2014 among EU countries. The identification of differences can be better understood by using a motivational aspect of starting businesses.



*23 countries are taken for analysis as GEM (2015) gives information only about these countries.

Figure 13. *Motivation index in early-stage entrepreneurial activity, 2014 (adopted according GEM, 2015)*

Following the data, the high motivational index is observed in Denmark (11,1), Sweden (7,1) and Luxembourg (5,1), meanwhile the lowest index - in Croatia (0,6), Greece (0,9), Spain (1,1) and Hungary (1,1). Low motivational index reveals high rates of necessity driven motives (when there are no better options to obtain resources for living) for entrepreneurial activity. Therefore, in comparison with the entrepreneurial attributes data, it could be presumed that the most entrepreneurial countries in EU such as Sweden, Denmark, UK, are more improvement-driven (when opportunity arises, by seeking to earn more money or to be more independent) motivated to start a new business.

Entrepreneurship activities. The figure below (see Figure 3) represents the comparison between early-stage entrepreneurial activities (TEA) and established business ownership (BE).

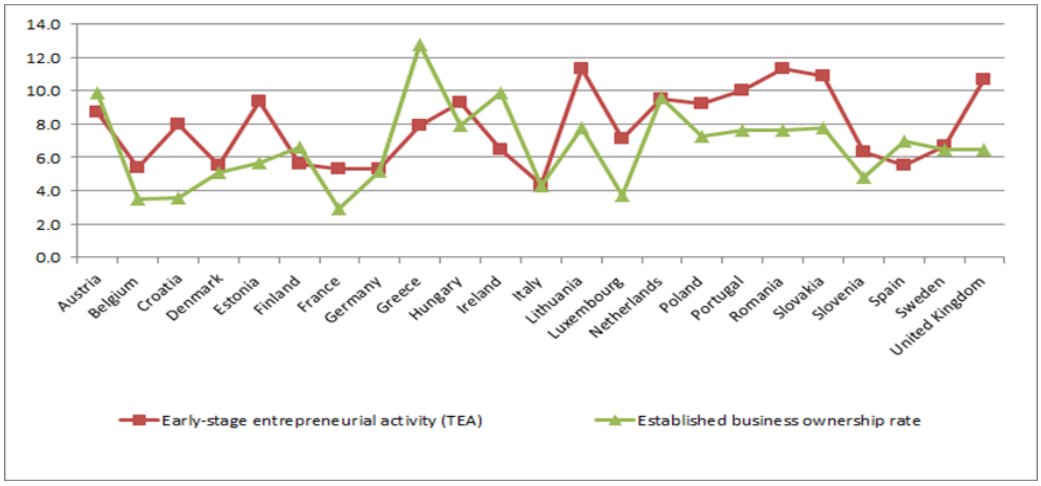


Figure 14. *Entrepreneurship activities, % of population, 2014 (adopted according GEM, 2015)*

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We can state, that the rate of TEA is very close to the rate of BE in European Union economies. The low dynamics can be explained by the presence of more efficient entrepreneurship ecosystem (education, access to finance, R&D transfer, etc.) supporting creation of business. Although, the authors of this paper presume, that the financial recession could have an influence on the slowdown of early stage entrepreneurial activities in some countries. As a consequence, Greece and Spain have lower level of early-stage entrepreneurial activities as compared to their level of established business ownership rates (Greece: 7.85 TEA vs. 12.84 EB; Spain: 5.47 TEA vs. 7.28 EB).

Immigrants entrepreneurs. Following assessments of regional entrepreneurship, attributes of entrepreneurship and activities it was seeking to examine the relation among these determinants and immigrant entrepreneurs and migration flows. The biggest immigration was in Germany (592,2 persons per 1000 citizens), UK (498), Italy (350), France (327,4) and Spain (304,1) in 2012 (Eurostat, 2015). At the same time 5 countries with the lowest immigration are following: Estonia (2,6 %), Czech Republic (4 %), Slovakia (5,4%), Malta (7,1 %), and Croatia (9,0 %). In comparison countries with the biggest numbers of foreign-born workers in self-employment were Poland (29.2%), Czech Republic (19.6%), Austria (18.8%), Hungary (16.4), Italy (17.5%), and Belgium (15.5%). Looking to Figure 4 it is seen that the most foreigners self-employed were in Poland, even the number of foreign citizens is very low there. Luxembourg shows totally opposite situation. However, this is not wondering as Luxembourg is known as country of foreigners, banks and public services, where self-employment sector is not developed.

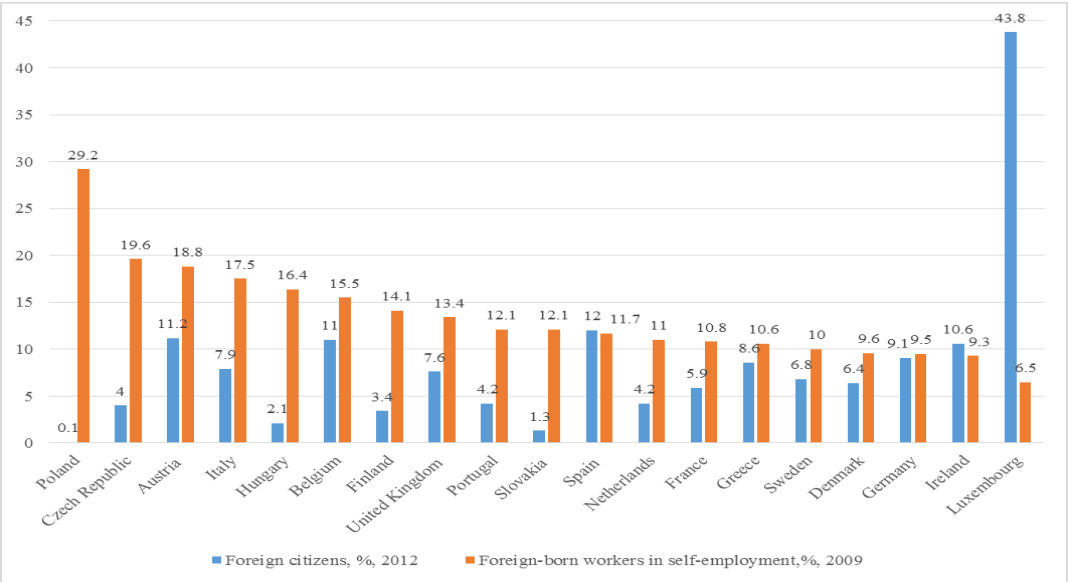

Figure 15. *Comparison of foreign citizens and foreign-born self-employed in Europe, in percent (adopted according Eurostat, 2015; OECD, 2010)*

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It is a common tendency that foreign-born people are more like to be self-employed. However we can see opposite situation in Greece, Italy, Ireland, Portugal, Spain, Germany and Slovakia. Differences in Slovakia and Germany are very small when those differences are almost 16% in Greece, around 7% in Italy and Ireland. The reasons of situation should be analyzed in more details; however, the authors of this paper suppose that mentioned Southern countries face huge illegal immigration from Africa. After the analysis of immigration flow, the authors of this paper, as well as Baycan-Levent and Nijkan (2009), may state that there is migration to the UK and Germany, as countries with highly favorable entrepreneurial ecosystem. On the other hand, one of the highest immigration flows are in Italy and Spain, while Entrepreneurship Index in these countries is probably two-fold lower than the afore mentioned. These trends require deeper causal empirical researches which enable us for more accurate statements.

Immigrants create strong diasporas. For example Turks' diasporas in Germany (21.6% of country population), Austria (11,4%), Polish in Iceland (43.7%), Ireland (22.1%), and Norway (16.8%), Brazils' in Portugal (25.3%), Ukrainians' in Czech Republic (25.5%) and Poland (23.6%), Indians' in UK (7.2%), Romanians' in Hungary (24%) and Spain (15%) and Moroccans' in Spain (15%) (Ec. Europa, 2013). Immigrant diaspora size is directly related to immigration flows in those countries. Authors of the article assume that strong diaspora often helps immigrants to settle in the country, thus additionally helps to create or expand their businesses.

CONCLUSIONS, DISCUSSION AND FURTHER RESEARCH

The results of the study have showed that entrepreneurship in the region is determined by both individual and contextual factors. These complex factors are combined by entrepreneurial valuation methodologies: The Global Entrepreneurship and Development Index and the Global Entrepreneurship Monitor. In this article there is a theoretical basement on the idea, that immigration is one of the indicators showing entrepreneurial attitudes in regions. Social and economic change in Europe is characterized by international mobility, the challenge of a multicultural society, and new forms of integration and tension between immigrants and local populations (Baycan-Levent and Nijkamp, 2009). In general, immigrants are more likely to be self-employed than similarly skilled native-born workers, while self-employment rates of immigrants exceed in many countries those of native-born. This was confirmed by the empirical results of the this study - Poland, Czech Republic, Austria, Italy and Hungary are the countries with the highest entrepreneurial initiatives of foreign -born self-employed persons. UK and Germany as one of the best entrepreneurial ecosystem countries, in which the largest flows of immigrants are, unfortunately does not have high foreign-born number of self-employed. These results confirm Baycan-Levent and Nijkamp (2009) studies, where as the main determinant of

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migrant entrepreneurship in UK are identified the high unemployment rates, low participation rates and low employment status and, 'push' and 'pull' factors for different ethnic groups. Accordingly, in Germany there is observed the low shares of self-employed immigrants than self-employed natives (Baycan-Levent and Nijkamp, 2009).

The main limitation of the study is the lack of different indicators empirical data which will enable a comparison of all EU countries. Another limitation associated with the descriptiveness of study, thus limits the conclusions about the causal relations among the variables and the presence of their correlation.

This finding suggests a necessity of further and deeper research on regional entrepreneurship and immigrant entrepreneurs' issues. Further studies may include the assessment of regions' institutional, socio-economic and country-specific entrepreneurial factors affect to entrepreneurship. Another research direction could focus on the examination of causative factors which most influence immigrant entrepreneurship in specific countries or regions. Next study could include the analysis of structural and individual barriers which inhibit immigrant entrepreneurship in different countries, as well as examination of "push" and "pull" factors for different ethnic groups.

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 ISBN: 978-9963-711-37-6

ANALYSIS OF PLACE MARKETING STRATEGIES AND PROPOSAL OF A MODEL AIMED AT THE ECONOMIC DEVELOPMENT BASED ON RURAL LANDSCAPE

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ABSTRACT

Assuming that *rural landscape* refers to a particular landscape which is that of the fields, both simple and complex agricultural systems, the will to recover and to enhance it persists, affirming a cultural identity expressing the value of territory.

Today, rural landscape is seriously compromised, in Italy only 10% of agricultural land is used, the rest is affected by typical phenomena of erosion, such as urban-sprawl, or abandonment.

It is necessary to connect agricultural and territorial policies, to sensitize people and the State on the issue landscape, creating alternatives for the use that are best suited to these modern times, but especially to encourage public entities to invest in this resource, linked to local communities (mentioned by the European Landscape Convention, CEP).

Rural landscape is a heritage of great charm, which should be "exposed" just like a painting in a museum.

Tourism is a key sector of our economy (10% of GDP), moreover the interest that people show respect to heritage and cultural activities is progressively increasing; the museum of territory fits perfectly in this light, a museum model that consists of a fixed place, but especially of a digitized network, that allows its to create different solutions, according to the specific characteristics of the area to which it refers, and the type of user.

Questions are: it is possible to develop an analysis whose object is the economy of rural landscape? Or better, rural landscape is a topic that could be examined according to logical categories of economic analysis?

Keywords: *rural landscape, place marketing, resources, tourism, museum of territory, urban planning.*

ISBN: 978-9963-711-37-6

RURAL LANDSCAPE, A UNKNOWN RESOURCE

Landscape is concrete and daily presence around us, but it is also intangible and interior, reassuring or disturbing; it is sedimentation of a past in which forces of nature interlaced their actions to activity of man. Landscape is the ideal projection of fantasy places elaborated in the memory, it is a cultural heritage of great beauty, and a valuable resource to defend wisely.

Whenever we try to give a complete definition of the landscape concept, just because of the large size of the phenomenon, it is introduced the classic combination: ideal representation - material concreteness. Assuming that *rural landscape* refers to a particular landscape which is that of the fields, both simple and complex agricultural systems, the will to recover and to enhance it persists, affirming a cultural identity expressing the value of territory (Carci, 2005).

Landscape, expression used to indicate the complex interaction between society and nature, and the stratification of processes that accompanied the production over time, is one of the most important categories of the UNESCO World Heritage List. Introduced into the system of the World Heritage Convention in 1992 with the term "cultural landscape", this category was chosen by many states of the different continents to identify and protect areas of special beauty and great cultural and spiritual value. Today cultural landscapes in the World Heritage List are 66, belong to all regions and cultures of the world, and they attest the wealth and the importance of landscape for the cultural identity of peoples. For these reasons, the definition of landscape that we assumed as exact is that of the European Landscape Convention (2000):

«[...] it designates a certain portion of territory, as perceived by people, whose character derives from natural and/or humans actions and their interrelationships» (Priore, 2007).

Figure 1. *Pantelleria's bands – UNESCO World Heritage List*

ISBN: 978-9963-711-37-6

A parallelism between yesterday and today is required. In fact, yesterday the protection was directed mainly to areas recognized as being of "exceptional" value (content scenic, prevalence of natural elements, etc.), now the focus has shifted towards characteristic landscapes: in this way are considered worthy of protection even landscapes "ordinary", but distinctive of a given region, where the cultural element made from human presence assumes equal importance to the natural (Cartei, 2007).

In this context asset, Italy has a very special and privileged role. Its physical conformation, geographic location, the rich historical events have allowed, in a relatively small area, the formation of a cultural landscapes variety of extraordinary beauty, with few parallels in the world. In Italy, many mountain and hill landscape, linked to traditional agriculture, are at risk, in fact, as in many countries of the world, entire landscapes or coastal hills were completely destroyed in just two or three decades ago. As mentioned, Italy offers an incomparable landscapes heritage forged by man, it is representative of the many civilizations that have left footprints on our territories. They constitute an exceptional wealth, are the expression of cultural identity and of our country image in the world (Pittalunga, 1989).

But the landscape question should be addressed in all its complexity, without any concession to nostalgic approaches, or to the illusory quest of a nature completely subtracted to human influence, instead considering its role as an added value for the rural areas development, for the environment conservation, and for the population quality life.

So, we should consider landscape as the integration of social, economic and environmental aspects, and counteract the abandonment, industrialization and urbanization phenomena, which compromise its integrity and future development opportunities (Pericoli, 2013).

Today, rural landscape is seriously compromised, in Italy only 10% of agricultural land is used, the rest is affected by typical phenomena of erosion, such as urban-sprawl, caused by the urbanization phenomenon that has emptied countryside in favor of the economic prosperity dream linked to the new processes of industrialization that affected almost all nation in the reconstruction years; or abandonment, caused by many unfavorable conditions, all in some way connected to economy.

Specifically, analyzing Italian landscape, we discover with surprise, that the apparently more productive activity, that of wine, covers just 4% of the used rural land, while, in reality, the more productive activities relate to some types of crops that are still linked to farm activities or industrial production sectors; for example the fields used as arable (almost 43.5%) that are related to the production of cereals, and then of common products such as bread or pasta, or even to permanent pastures (22%) that served farm activities (Agnoletti, 2010).

Along with these issues, which specifically concern the not-used rural lands, and activities of major and minor interest, we should focus attention on all issues that afflict rural landscape for years, and

 ISBN: 978-9963-711-37-6

that over time are finding increasingly widespread: abandoned agricultural lands, historical monuments and evidence of ancient abandonment agriculture, pollution that devastates agriculture, agro – biodiversity loss, desertification, waste water, deforestation and fires motivated by new buildings, ruins of terraces ("bands" in Liguria), loss of crops due to new destinations in energy production (photovoltaic ground), big infrastructure designed and drawn on paper without looking at the morphology of agrarian territories that cover.

CULTURE, TOURISM AND THE ECONOMIC COMPONENT OF LANDSCAPE

Our country is universally recognized for its great cultural wealth, but the heritage is not only our past and present, it is also the future of the country, a resource that should be protected and enhanced, and that makes us unique in the international scene.

The knowledge of a heritage like agricultural landscape repeats randomness characters of his own training, with very serious consequences for protection and preservation. It is a heritage of unquestionable charm, with a great appeal even at a wide audience, for its evocative power made up of memories and emotions, recalling ancient stories, recent events and legends; it is a unknown heritage, that instead should be “exposed” just like a painting in a museum.

New art communication methods have radically changed the inter-relationship between artwork and user; today the user is used to having everything at hand, to taking benefit from information, concepts, and goods, without intermediaries.

The museum of territory fits perfectly in this light, a museum model that consists of a fixed place, but especially of a digitized network, that allows its to create different solutions, according to the specific characteristics of the area to which it refers, and the type of user.

Tourism is a key sector of our economy (10% of GDP), but beyond estimates of numbers and statements about our tangible and intangible heritage, the true is that culture is not considered a priority in political choices for the development of the country.

For several years, the cultural sector is suffering due to a serious resources subtraction, consequence of a substantial absence of active investment policies for the development of cultural, creative and artistic activities, and of a renunciation to effective protection and enhancement of our heritage.

Yet, the interest that people show respect to heritage, and cultural activities in general, is progressively increasing, surely thanks to medium level of culture, that is improved considerably compared to the past, but also thanks to an instinctive attraction to beauty, which brings us approaching, looking and understanding it.

ISBN: 978-9963-711-37-6

These statements are demonstrated thanks to data provided by SISTAN (National Statistical System) and Statistical Office of the MIBAC (Ministry of Heritage and Culture); from the analysis it is clear that the number of museum visitors (including in this category also monuments, archaeological sites, etc. ...) is increasing continuously.

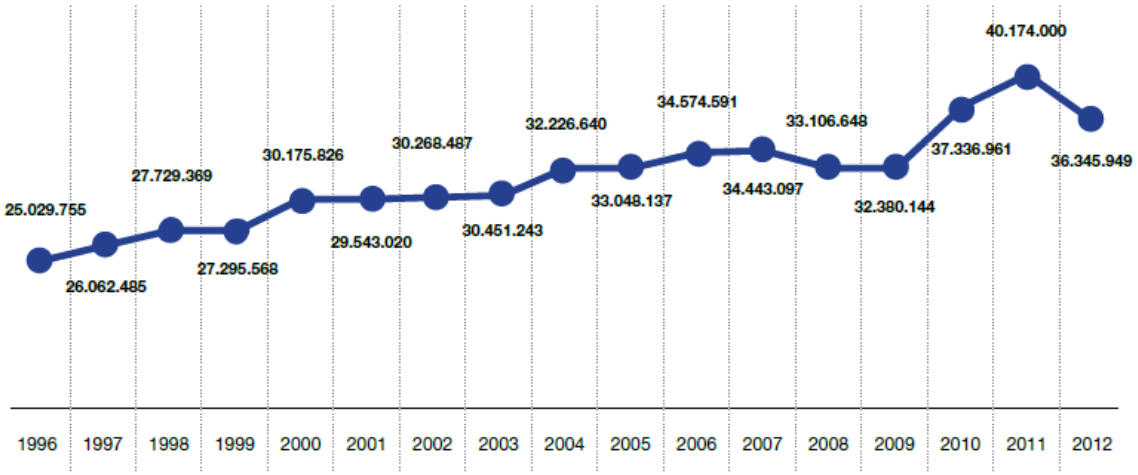

Table 1. *Cultural sites visitors – time series 1996-2012*

In fact, cultural tourism remains a key segment of the tourism industry, which accounts for about 35%; moreover, 17.6% of the Italians and foreigners expenditure, in our country in 2012 (ie 12.6 billion euro), is represented by expenses for cultural activities.

For these reasons, it was necessary understanding how to direct the population interest towards the heritage landscape, an immense good, which could be declined in different disciplines, and read as a touristic product; in this way, we could spread the landscape culture, the love and the attraction for a resource full of opportunities.

Questions are: it is possible to develop an analysis whose object is the economy of rural landscape? Or better, rural landscape is a topic that could be examined according to logical categories of economic analysis?

A possible answer concerns specifically the subject of this work: if rural landscape is considered regardless of its relationship with the man, economic science has nothing to say on landscape as object of study.

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If, however, rural landscape is considered, as we should, a social construction, that is the expression of rural societies and not just a natural attribute, then it falls rightly in search fields of economy.
But we should find a more analytical answer in a broader view of environmental problems, retracting the rural landscape economy in the environment economy.
For its nature of global concept and complex system of natural and cultural assets, rural landscape can be an economic analysis object, not only because even the landscape is a finite resource like other natural resources, but also, and above all, because today environmental problems are viewed and analyzed as global and pervasive transformations. This change of view makes possible to enlarge the investigation field of economic science to aspects that seem distant from its privileged objects of study.
In this way, rural landscape covered the economy, because environment isn't a specific problem that can be treated separately from economic variables, but as a set of elements that affects and interacts with variables too.
Indeed, economy is the social science that treated the analysis of environmental degradation phenomenon, most of the other sciences. The environment economy constitutes an investigated field, that occupies an important place in the reflection of economists. This does not apply to an environment component that is the most pervasive and perceptible: landscape (Caroli, 1999).
The value of landscape derives from its ability to satisfy three types of questions:

- preservation of cultural heritage of which landscape is an integral part;
- preservation of people and territory cultural identity;
- improvement of citizens and users welfare, for its dining and entertainment abilities.

According to economy, traditionally all resources used by humans could be divided into two broad categories:

- FREE GOODS: that are available in exceeding quantities to the needs of man, so they haven't the scarcity phenomenon;
- ECONOMIC GOODS: that are available in less quantities to the needs of man, so there will be a problem of efficient use that may or may not be settled by spontaneous market work (Tempesta et al., 2006).

Landscape, especially in contemporary society, is increasingly assuming the nature of scarce resource, and consequently, of economic good.
Which are the tools that could be used to correct market failure?

- To carry out educational activities towards society and public decision makers.

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In our society, the link between landscape, identification processes and symbols of local community, is being lost. Often there was a social denial of all agriculture and traditional landscape symbols, that were associated with economic and cultural backwardness; sometimes, farmers have eliminated some elements of traditional landscapes for cultural reasons, and not for economic reasons.

- To valorize relationships of complementarity that could be established between the goods and services production by farmers and quality of the landscape.

  Many economic activities carried out in rural areas are directly influenced by landscape features (rural tourism); others are indirectly influenced (marketing of some food products). Beyond the usual and useless statements of principle (self-celebrating slogan) little or nothing is known about the actual relations between tourism, marketing and quality of landscape
- To Quantify the value of landscape in order to: paying subsidies to farmers, reducing the impact on the landscape due to processing activities in the area (urban planning, road network, network infrastructure, etc.) (Chiusoli, 1999).

To correct the inefficiency of landscape in the market, we could adopt a variety of strategies (constraints and standards, economic incentives, voluntary certification, direct actions, etc.), of which we will analyze the benefits and efficiency, and the valuation method used will depend essentially on the landscape policy instrument and on objectives to be achieved.

Today, it is necessary to connect agricultural and territorial policies, to sensitize people and the State on the issue landscape, creating alternatives for the use that are best suited to these modern times, but especially to encourage public entities to invest in this resource, linked to local communities (mentioned by the European Landscape Convention, CEP).

Moreover, the full legitimacy of these subjects in the cultural sphere is established by the Code of Cultural Heritage and Landscape. Article n.112 provides, in fact, the possibility to form "special legal entities" for processing and development of strategic plans in the cultural sphere.

The management of goods and cultural services pertains primarily to the sphere of exploitation, that consists in the establishment and organization of stable resources, structures and networks, or in the provision of technical expertise and financial or instrumental resources. It is just the Code establishing that private entities can compete, cooperate or participate in those activities.

The enhancement process of a cultural provides, before management, a strategic/planning moment, that may become an agreement between involved private authorities, in order to define strategies and objectives, and to develop cultural development plans, that could be made also by third parties specially formed.

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NEW MARKETING STRATEGIES APPLIED TO THE TERRITORY - EXAMPLES

The coming of social networks, internet, the use of new technologies and strategies of digital communication, have generated deep changes and imposed new rules, new speed and new spaces. The network and participatory planning are deeply innovating the culture world with concepts as Social Innovation, Digital Humanities, Web Reputation Strategy, to name but a few. To understand the magnitude of the change, we could make a comparison between the effect that the print invention produced in the spreading knowledge process, and what is happening today in the web: new audience, new formats, new languages and new economic processes.

Essentially, we created new ways of interaction and relationship with end-users, users themselves and between users and the cultural institution; a new communication space, made not only of exclusive content, created ad hoc, but based mainly on sharing, discussions, constant feedback and interaction with users, before, during and after the experience of enjoyment (Distaso, 1998).

Therefore, we should reconsider everything. And we should do it fast.

A paradigmatic example is the *Domus Romane* of *Palazzo Valentini* in Rome, second in the ranking of the attractions that for visitors represent an experience of great excellence (Tripadvisor data). In this case, the archaeological site, certainly interesting, is less than other places (such as the Roman Forum), but the experience, accompanied by lights, video and digital installations is highly appreciated.

Another example is the *Correr Museum* in Venice, that on the occasion of great exhibitions such as that for Gustav Klimt ("*Gustav Klimt, in the sign of Hoffmann and the Secession*"), realized single-issue app, that allow users a more complex approach, and more learning possibilities through interactivity. Or more, the example of some public administrations (Province of Prato, Florence, Pistoia and the Arno River Authority) that answered to the need having open data and publishing their data on the network, using a different approach, based more on quality than quantity; in fact they have created a single portal, that is a tool able to provide geo-referenced data on the territory.

Although our country has the highest concentration of cultural heritage, certainly it does not stand out for a promotion activity able to communicate with new generation, exploiting the full potential of digital channels, starting with the name of the museum that we seek in the web.

The *Uffizi Gallery*, for example, is one of the most famous museums in the world, but on Google it is on the third position as result of research, the name of the website is *polomuseale.firenze.it*, the website is translated in English only, the graphical interface does not capture, the Facebook page has only 28.794 "likes" and only 117 people who "are talking about it", nothing compared to the *British Museum*, that has 468.747 "likes", and 12.057 people who "are talking about it" (Pariante, 2014).

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Heritage and cultural activities, by their nature, are natural candidates to support an effective endogenous development, through the deployment of accumulation economies, mutually and self-reinforcing. But art makes the economy grow if there is strategy.

The convenience to invest in the cultural field, therefore, lies not in an immediate economic advantage, but in the utilities flow generated by the use, the research, and by the propagation of heritage and territory in which it is sited.

The goal is not only trying to insert our territories in the obligatory destinations of tourist circuits, national and international, but making possible some strategic decisions oriented to economic development and employment.

At the end of this paragraph, it is clear how the tourism, and the social media too, help to promote a territory. In fact, people buy consulting the social, choose clothes, shoes and accessories for the car through Facebook and Twitter, and obviously, planning their holidays.

It is for this reason that most of marketing actions develop and transmit through the web. Let's see some examples.

Cesenatico Bellavita

The *Cesenatico Bellavita* project began on 9th of July 2012, with a clear objective: telling about a resort town, through the authentic experience of about 40 bloggers.

It is nothing new, in fact this is the *blog tour* formula, that provides hosting people more or less influential on the web, and inviting them to describe the lived experience. But, why was *Cesenatico Bellavita* a success? Why do we remember its hashtag (#cesenaticobellavita), and articles that have told this adventure, even today?

Because all the participants were free. The bloggers hate forcing, the constraints that prevent them telling their own point of view, in favor of a false and commercial tone.

The information was communicated clearly, nobody has forced bloggers to write reviews, there were no charges. In this way it was achieved the goal: to give maximum emphasis to the Cesenatico place.

We Like Sila

We Like Sila is not only a project of tourism marketing, but it's a new way to tell one of the great natural treasures of southern Italy: the Sila.

In fact, *We Like Sila* is a tale dedicated to this oasis, created thanks to the experiences (photos, stories, testimonies, tweet) of those who lived it.

On the platform there are the stories of citizens and tourists, this is a great way to get involved, but especially to create user generated content and engage people.

ISBN: 978-9963-711-37-6

When you get on the site, immediately you understand that are the emotions of ordinary people to dictate the rules of the game. With *We Like Sila* you can imagine, tell, observe the territory. But first of all, you can give your contribution to describe in the best way the Sila.

Ispired by Iceland

How could we push a tourist to choose Iceland as a destination for his holidays, when everyone is attracted by the warm tropical beaches?

Simple (at least in theory). You should use social media and mark a line that makes people dream. Or better, that creates inspiration. It is this the theme chosen by Iceland: *Inspired by Iceland*.

Twitter was invaded by the hashtag (#icelandsecret invites users to share secret locations) and on Facebook there were breathtaking photos that attract the attention of users, not to mention the engagement. There were also organized competitions to reward the author of the best photo, and invited famous people as testimonial.

But the true force of project is the presentation of the project; *Inspired By Iceland* catalysed click because it is packaged to perfection, is nice, is dedicated to people who choose Iceland for fun and enjoy nature.

These are, logically, mild actions, which do not implement a real change in the area, but certainly modify it transversely, increasing useful flows as tourism and economy.

Now we describe another example of marketing that acts directly on territory:

Science and Technology Park Project "Romagna Sit Park".

Faenza is a town of 54.000 people, in the province of Ravenna, located near the cities of Bologna, Imola and Forli. It is particularly active in place marketing, so that the Department for Economic Policy has dedicated an entire site to collect and to systematize the project activities.

The backbone of the Faenza production system is related to the manufacturing sector, in particular to engineering, textiles and apparel sectors, and more well-known ceramic sector. This segment features Faenza worldwide and leaves space for a specific tourism.

The City is the main actor of the project for the construction of a science and technology park, ceramic sector oriented.

Project results: the outputs of the project are the construction of a business incubator and the creation of an area designated for productive activities of the companies interested in the services of the science park and in the know-how that will be made available in the park.

Concluding remarks: the project follows a formula that could be revived for areas similar to Faenza, i.e.: a core business: ceramics; the existence of a regional brand, which should be recognized and developed; the presence in the area of research and training; the need to add value to the own

ISBN: 978-9963-711-37-6

product, through scientific and technological innovation, to compete on a traditional field, such as ceramic, on which competitors often offer a more favorable labor.

THE MUSEUM OF TERRITORY AS DEVELOPMENT DRIVING

The museum, considered for many years like a sacred place in which existed prohibitions and lack of interaction, becomes a means through which bringing people to the landscape theme, using narration of different technologies, training moments on its use and protection, and even activities that allow to enter into contact with goods, their beauty and their productivity.

The intention is considering landscape as an art work, and trying to establish new relationships: tactics, sensory, communicative and multimedia; in this way, the landscape heritage will not be more alien, unattainable, and especially unknown.

This kind of museum is the place where reality and landscape's image join together, and become a set of cultural relations; it is the promoter of confrontation moments with public, in which commercial aspect is enhanced.

It has nothing of the museums of the past, it is not static and crystallized over time, but it is part of a complex reality, that on the basis of the past, of the stratifications, and of social, geographical and economic connotations, changing face constantly, pointing right development directions, that we could define sustainable.

Prerogatives of a traditional museum are preservation, maintenance, storage and exhibition of artistic and cultural heritage, in fact the main goal was to preserve the authenticity of each art work. Looking back at the past, we could say that, by the end of 1800, museums have always been criticized institution and at the same time desired.

Paraphrasing *Camillo Sitte* in his essay *L'arte di costruire le città. L'urbanistica secondo i suoi fondamenti artistici*, museums are perceived as "art's zoo" because they impoverished city of their goods; the art work, originally intended as an object chosen and created to exist in a certain place and to be perceived in that given space, becomes a case study to observe, just like in a zoo. So, from 1800, the museum becomes the only privileged place for the meeting between art and public (Sitte, 1981).

From the first museum's birth, however, there have been significant changes, especially about interaction patterns, which have undergone progressive evolution thanks to the technological advancement, increasingly linked to the digital world and to the Net.

The model of territory museum, as well as being a network of opportunities for territory too, should necessarily embrace the concept of "virtual museum".

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However, the adjective “virtual”, should not be placed only in a digital framework, it originates from the medieval latin “virtualis”, derivation of “virtus”, that indicates precisely the virtue, the strength, the power. For these reasons, its characteristics near it much more to the concepts of re source and tool, than to exhibition or art installation.

In addition, the territory museum, bypasses the possible problematic of a drop in visitors presence in museums so-called “real”, because the direct contact that is created between the viewer and the art work is essential to the indirect, but mainly because the main goal of the model is to create real opportunities of interaction between users and the landscape.

Exist, in Italy and in other European countries, many cases of eco-museums related to the landscapes traditionally considered and perceived as landscapes "of value", that should be preserved and protected, while there are few cases of museums of urban land, of territory, of the suburbs, the agriurbane or peri-urban areas. For this reason, the landscape museum is configured, not only as a socio-cultural process projected towards the establishment of a cultural institution, but also as a laboratory for innovative study in the international museum panorama.

The museum landscape, could still be thought of as a set of places to visit, but it should be considered as a deep process of cultural and anthropological change of communities that inhabit it; also it is not identified with specific spaces, but it is a process which involves all the territory. In this sense, the establishment of the museum is a long-term challenge for the resident population, for administrations and for the economic and cultural community, because there will be the evaluation of the resources that each local context could put into play, the programs modeling on specificity of the place, promoting its development.

It is evident that the museum is not only a tool for the development of the area and the landscape in a sustainable perspective, but also and perhaps above all, it is a long term shared and sustainable development process, that evolves and through which the territory and the community become the museum itself. In fact, the centrality of the human component and the subjective value in the interpretation of cultural heritage and landscape, emerge as core elements of the museum processes.

This type of museum could be understood as a covenant between a territory and its community, with which both parties agree, in a different way, to take care of a place, saving and working to increase its value over time.

In particular, the mission of the museum is framed in the desire to protect the landscape and to promote the efficient use of the resources, in order to promote the natural and cultural assets, in which is specified the importance of the development of natural resources and rural development policies.

In this context, the project of the museum, could be a good model of governance, local development and integrated design.

ISBN: 978-9963-711-37-6

It is an institution, that wants studying, preserving, promoting and presenting the collective memory of community and of territory that hosts it, outlining consistent lines for future development; it is the result of a constructive relationship between population, his administration and a multidisciplinary team of experts; it is an organism which, even if it is aimed to an external audience, has as main interlocutors the inhabitants of the community, that want to become active users; it is a museum of the time, where knowledge extend themselves through the community past to arrive in the present, with an opening to the future; it is a space museum: significant spaces where you could stop and walk.

Its key components are:

1. The territory, because the museum is not a building or a place, but it has spread throughout the space, representing and making more visible its landscape, history, memory, identity;
2. The population, that is the true subject-object of the museum, because only its participation legitimizes the museum's existence, and also because it is the succession of communities and populations in the space and the time, and this succession created the landscape and the heritage of a region;
3. The Heritage, that is not only a part (such as art, or science, or archeology, or ethnography), but that is all that a community considers as Heritage, or even all that our fathers have left us to transmit to future generations.

A museum like this, focuses its attention on all territory, such as a diffused museum, in order to know characteristics and resources of the territory, problems and weaknesses, and to create land mapping and databases, that could be able to orient the territory towards sustainable development choices.

In this context, the museum isn't only a virtual museum, but also an interactive museum.

The interactive museums are real museums, that use their internal digital technologies, aimed at making attractive and dynamic visit.

The fundamental particularities of interactive museums are various:

- Making the visit in the museum more attractive and dynamic, so virtual and interactive installations are realized;
- The visitor is fully involved in the museum experience, because the perception of objects and their understanding depends exclusively by his actions;
- The visitor could have a complete experience with art work;
- Knowledge takes place through fittings that use the latest digital technologies.

In addition to use modern technology and "immersive reality", the museum of territory aims:

- To be the benchmark for regional agro-economic policies;

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- To be a reference interregional center, in order to implement development processes aimed at interacting and cooperation;
- To be a research center for the development of agricultural techniques;
- To be a seed bank and an exchange center between different cultures, both within zones of the same region, than of the other regions;
- To be a social integration possibility;
- To create new culture approach methods;
- To collaborate with schools providing opportunities for cultural education, through the organization of visits to organic farms, protected areas or bio-parks;
- To protect rural landscape through the establishment of eco-museums to safeguard particular techniques or preserve bio-diversity;
- To be the benchmark for the tourism segment specifically interested in eco activities and natural trips, or that would like to receive a specific training in line with the sustainable development.

The advantages of this museum model are obvious. Landscape will return fully to occupy a key role within the social community, both for its typical characteristics of wealth, such beauty, value and uniqueness, but also thanks to its new role as a resource, aimed at supporting the region's economy and driving it into prosperity and growth scenarios.

The economic aspect is not the only added value of integration between museums and tourism; if properly managed, certainly it could be a driver for economic and social development of territory, and it is also an opportunity and stimulus, as well as resource, to ensure the maintenance of cultural values and landscape.

However, little has been done respect to the potential for comparison and exchange that a museum is able to activate. The importance of the "creating the network" logic, in fact, lies in the ability to create stable relationships with other organizations in the area, and with other systems such as eco-museums, companies, institutions. It is these relationships that allow to structure network projects, aimed at the research, conservation, enhancement, enjoyment and education.

ISBN: 978-9963-711-37-6

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 ISBN: 978-9963-711-37-6

MARKETING AND INNOVATIONS IN CHEMICAL AGRI-INDUSTRY THROUGH THE SWOT AND PEST ANALYSIS

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ABSTRACT

This paper is dedicated to the reflection of innovations in the mirror of marketing. The best way to do so is to consider specific product, company or market. The production of mineral fertilizers is one of the most important branches in the chemical industry. The potash market is exceptional in characteristics, which make it an interesting object for marketing analysis with emphasis on innovations. The comparative marketing analysis of main potash producers has been performed in order to delineate the best potash supplier for EU market. SWOT and PEST analysis as well as Porter's five competitive forces model were used.

It has very important economic advantages aroused from Canadian tax system, facilitating the company to work up a market by lowest prices for potash fertilizers. However, transportation costs to EU market are relatively large. Recently Uralkali started massive retrofit installation, completed the takeover process of Silvinit, which has set company to the second place in the international potash market. The main disadvantages of the company are relatively low quality of the product and high transportation cost to EU market. On the other hand, Belaruskali remains to be the best supplier for EU countries from the point of geographical location and product quality, since German K+S cannot cover all EU market demand. Despite highly unfavourable political environment, the main company's asset is high quality potash fertilizer. Recently, a radical innovation – the balling granulation – has been introduced by Belaruskali, which allowed obtaining the product with superior characteristics. Finally, the estimation of the economic effect for balling granulation has been performed.

Keywords: Marketing, *innovations, chemical agri-industry, Swot Analysis, Pest Analysis.*

INTRODUCTION

Marketing is defined by the American marketing association as "the activity, set of institutions and processes for creating, communicating, delivering and exchanging offerings that have value for customers, clients, partners and society at large" (AMA 2015). The market analysis is indispensable tool for marketing, since it studies the attractiveness and the dynamics of a certain market or industry,

 ISBN: 978-9963-711-37-6

serving thereby to the main goal of marketing. The main purpose of marketing analysis is an assessment of the potential opportunities and risks derived from the strengths and shortcomings of certain product or company as well as from the needs and expectations of customers, taking into consideration the economic, political, social, etc. environment.

Though innovation is a discrete category, however it is interpenetrative with marketing. Innovation is a typical 'chicken-and-egg' problem: it can appear as result of the needs of market, or as a challenge to established state of things and affairs. Innovation is always a risky offering, since one cannot predict if it will be accepted by customers and society or get into the dump of abortive attempts. It could be continuous and therefore almost negligible, but it also can be revolutionary, affecting all branches of economy and production if not even all society and the way of living. The other obvious thing is that innovations, especially nowadays, is the main, if not the only, way to increase not only the income of the specific enterprise, but also raise the national wealth and life standards to a new level. And that is another intersection point of innovation and marketing.

This paper is dedicated exactly to the reflection of innovations in the mirror of marketing. The best way to do so is to consider specific product, company or market. Potash fertilizer market is very specific market like nothing on earth.

The present work focuses on the marketing and innovations in chemical industry, namely in potash fertilizer production. Methods of marketing analysis and innovation activities as well as basic features of innovative marketing are considered in theoretic part of the paper.

The main objective of the study is the identification of the advantages and disadvantages of potash fertilizer producers in terms of profitability for EU consumers using marketing methods.

The novelty of the research consists in the marketing analysis as well as innovation management of the companies – potash fertilizer producers, especially due to scarce and, sometimes, confident information. The results given in the paper derive from sparse online sources, however are mainly based on nonpublic reports of the enterprises and scientific institutions involved in innovation activity.

LITERATURE REVIEW

Why has Europe placed such importance on innovation? "Because it is the key to our continued competitiveness", – says ex EU commission President Barroso, – "To maintain a high quality of life, we must maintain our economies' competitiveness. Innovation is the best way to do this" (Barroso J.M. 2011).

The theory of innovation dates back to early studies on the capital system. It was Bacon, at the beginning of the 17th century, who suggested a "science-created utopia" on the role of the

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developments in science and technology in society. His views were opposed by Bernal, who gave importance on the uses of new discoveries for societal wealth rather than their own creation. Later, Adam Smith, in the second half of the 18th century, suggested technological change as a major concern for the development industrial production. In the first half of the 20th century Schumpeter was the first to mention innovation as "keeping the capitalist engine in motion" (Gaponenko N. et al 1998). He suggested innovations to be imperative for economic growth, commercial profit, and thus, public wealth. This theory has later been developed by neo-Schumpeterian economists such as Freeman and Dosi (Czarnitzki D. et al. 2000). Recently, contributions from diverse disciplines including Design, Management, and Marketing have developed the modern theory of innovation (Freeman C. at al 1997).

During the course of the development of the theory of innovation, scholars with different approaches including the classical economists, the Marxists, the neo-classical theorists, the Schumpeterians, post-Keynesians, and post-Schumpeterians have had significant contributions. Nevertheless, two characters in the history of innovation emerged: Adam Smith, who set the foundations of the classical understanding of technical change and economic growth; and Joseph Schumpeter, by challenging Smith's views with a dynamic theory of economics based on cycles of innovation (Gaponenko N. 1998).

Smith was fundamentally the first classical economist, who studied technical change and its impact on economic growth. He believed that economic development is a gradual, self-perpetuating process. He built his theory on the 18th-century doctrine of natural law. He asserted that, within the control of the natural legal system, each member of the society is free to pursue his self-interest, resulting in a harmonious, beneficial economic order. Development has a tendency to become cumulative, which results in an increase in saved capital, that is fundamental element for further economic development, increase in national wealth population growth (Freeman et al 1997). Smith's classical theory mentions developments resulting in "improvements in art," which will lead to further specialization and productivity gains (Freeman et al 1997).

Schumpeterian analysis brings an outstanding point of view to Smith's classical theory, providing the most comprehensive and provocative analysis. Schumpeter rejected the classical and neo-classical explanation of economic development as a gradual, harmonious process (Gaponenko N. 1998). According to Schumpeter's "Theory of Economic Development", instead of a gradual and smooth way, development occurs if there is a high degree of risk and uncertainty in an economic environment (Freeman et al 1997). He explained that equilibrium state in an economic environment is represented by a constantly repeating circular flow of money and goods and the only are routine changes to which producers and consumers can easily adapt themselves (Tidd J. et al 2011). Schumpeter's dynamic

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theory exposes a disturbance of equilibrium of the circular flow in a constantly growing static economy by clusters of innovations, which open new profitable opportunities, obtain profit and growth in the economy, and finally result in an enhancement in the standard of life and wealth (Gaponenko N. 1998). Each cluster of innovation appears as "an avalanche of consumers goods that permanently deepen and widen the stream of real income" (Schumpeter J.A 2010). Schumpeter believed that, there is no possibility of profiting in the equilibrium state and innovations are essential for a profit. Innovations increase the economic activity by activating other innovations. This economic activity reaches to a mature state and alleviates itself, and economy returns to the state of equilibrium. Therefore, Schumpeter's theory of innovation suggests that innovation, which is the force behind the capitalist economic system, eventually brings about the growth of the economy and the increment in the standard of life (Freeman et al 1997 and Schumpeter J.A 2010).

In current debates about globalization and competitiveness, innovation is often represented as providing opportunities and conditions for developing countries to participate in the world economy (Farrel G. et al 1998). Innovation is seen as a potential way in which low income countries can strengthen their firms' competitive position within global value chains (Tidd J. 2011).

Thus, in business and economics, innovation is the catalyst for growth. With rapid advancements in transportation and communications over the past few decades, the old world concepts of factor endowments and comparative advantage, focused on an area's unique inputs, are outmoded for today's global economy. Now, as Harvard economist Michael Porter points out a continual innovation is paramount for any specialized firm to succeed (Schumpeter J.A. 1950 and 2010).

METHODOLOGY

The market analysis is a documented investigation of a market and is used to adjust a firm's planning activities, particularly involving decisions of inventory, expansion of the human resources, facility expansion, purchases of capital equipment, promotional activities, and many other aspects (Kotler P. et al 2009 and 2003, Unger F. et al 2005). It studies the attractiveness and the dynamics of a certain market within a specified industry. The market analysis is part of the industry analysis and gives an assessment of the chances, strengths, weaknesses and risks.

The SWOT analysis is an extremely useful tool for understanding and decision-making for all sorts of situations in business and organizations. SWOT is an acronym for Strengths, Weaknesses, Opportunities, Threats. Modern SWOT analysis is normally structured so that a 2x2 matrix grid is produced, according to two pairs of dimensions. Strengths and Weaknesses, are "mapped" against Opportunities and Threats. This is done to compile the analysis clearly, because in most business and

ISBN: 978-9963-711-37-6

marketing situations Strengths and Weaknesses are regarded distinctly as internal factors, whereas Opportunities and Threats as external factors (Kotler P. et al 2009 and 2003).

Another tool of marketing analysis is the PEST analysis. The PEST analysis is used for understanding market growth or decline, as well as the position, potential and direction for a business. The PEST analysis headings are the framework for reviewing a situation, and can also, like SWOT analysis, and Porter's Five Forces model, be used to review a strategy or position, direction of a company, a marketing proposition, or idea.

PEST is useful before SWOT, because it definitely helps to identify SWOT factors. There is overlap between PEST and SWOT, in that similar factors, which would appear in each. However, PEST and SWOT are certainly two different perspectives: PEST assesses a market, including competitors, from the standpoint of a particular proposition or a business, whereas, SWOT is an assessment of a business or a proposition, whether one under consideration or a competitor's.

Strategic planning is not a precise science, no tool is mandatory, it's a matter of pragmatic choice of which one helps better to identify and explain the issues. PEST becomes more useful and relevant the larger and more complex is the business or proposition. But even for a very small local businesses a PEST analysis can still throw up one or two very significant issues that might otherwise be missed.

All businesses benefit from a SWOT analysis, and all businesses benefit from completing a SWOT analysis of their main competitors, which interestingly can then provide some very important feedback into the economic aspects of the PEST analysis.

ANALYSIS AND FINDINGS

The production of mineral fertilizers is one of the most important branches in the chemical industry. Potassium is essential for plant growth and development. Potash deficiency in soil results in the loss of germination power of seeds, weak stalks and poor yield quality. The use of potassium chloride as potash fertilizer in agriculture accounts for more than 95% of global potash consumption (Uralkali 2008). The world reserve base of potash ore is estimated at 9500 Mt (Potash 2012); the deposits are scarce and geographically limited: more than 90% of all proven potash reserves are concentrated in three countries – Canada, Russia and Belarus. According to the Fertencon Ltd. (US) (the mineral fertilizers consulting and market analysis company) and International Fertilizer Association, the world consumption of potassium-based salts has been increasing annually by 3.5% in the period from 2007 to 2011(IFA 2012 and Fertecon 2012) with a current amount exceeding 30 Mt per year (IFA 2012, and Potash 2012).

The main producers are concentrated in Europe, Central Asia and North America. The main consumers are East and South Asia, Latin and North America as well as Europe. The lowest consumption is in

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Africa and Middle East. The most balanced markets are North American and West European. However BRIC countries are considered as key markets for all potash producers, since they are characterised by high populations, income growth rates and the importance of agriculture for the economy (Uralkai 2008, Fertecon and PotashCorp 2012).

For the potash fertilizer market, 2008 consisted of two distinct periods: rapid growth in the first half and a dramatic downturn beginning in the third quarter. The first half for international fertilizer markets was characterized by a high level of demand, resulting in increased prices for agricultural products. In general, the industry was characterised by demand exceeding possible supply in the first half of the year. The situation in both global agriculture and the potash industry caused price growth in the international potash market. It increased up to 250%.

The world potash market is characterized by small number of players. More than 60% of the market is concentrated in 5 companies: PotashCorp, Uralkali and Silvinit, Mosaic and Belaruskali. There are two business models among the key companies in global potash production industry. On one hand, the potash producers of the CIS countries (Belaruskali, Uralkali, and former Silvinit), as well as the APC are concentrating their activity mainly on potash production, which provide more than 90% of their income. On the other hand, other companies like PotashCorp, Mosaic, K+S, ICL and Agrium have diversified their business and produce other fertilizers and chemicals along with potash.

The Potash Corporation: market analysis

The Potash Corporation of Saskatchewan Inc., referred to as PotashCorp, is a Canadian public corporation based in Saskatoon, Saskatchewan. The company is the world's largest potash producer and the third largest producer of nitrogen and phosphate fertilizers. At the end of 2010, the company controlled 20% of the world's potash production capacity, 2% of nitrogen production capacity and 5% of phosphate supply (Potash 2012).

The company is the largest contributor to Canpotex, the distribution company, which competes with global marketing agencies mainly with BPC. The principal markets for both Canpotex and BPC producers are China, India, Brazil and Southeast Asia. Apart from this, company invests in other potash-related companies. With 32 % ownership, PotashCorp has an influential position in SQM (Chile), the world's leading producer of specialty potassium, iodine and lithium products; 28% ownership of APC (Jordan) gives a logistical advantage in delivering to Mediterranean and East Asian. In 2008, the ownership of Israel Chemicals Ltd. (ICL) and in fertilizer distributor Sinofert (China), which distributes 50-60% of the fertilizer imported into China, has been increased to 11% and 22% respectively. It has an 18% interest in Qinghai Salt Lake Potash Company (QSLP, China), the country's largest potash producer (Potash 2012).

 ISBN: 978-9963-711-37-6

In domestic North American market PotashCorp has two main competitors: Mosaic and Agrium. The potash market has been in deadlock between Mosaic and PotashCorp since 2005. Potash made a successful play on phosphates from 2005-2007, but started losing out to Agrium and Mosaic in 2008. Potash has enjoyed its largest competitive success in the expansion of its nitrogen production, which has directly eroded Agrium's superior market-share. Although PotashCorp and its competitors have similar revenues, its ability to set favourable prices by controlling the limited supply of potash has got it ahead of its competitors. In addition, it also competes with state enterprises. Government owned companies are not usually profit driven, they can set their prices below market value to help subsidize their farmers costs and would force the other companies in the industry to lower their prices too, or face losing their customers (Potash 2012).

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Table 1. SWOT analysis of PotashCorp (PotashCorp 2008)

	Strength	Grade		Weakness	Grade
1	Noticeable increase in productive capacity in 2007-2011 in comparison to competitors	3	1	High rail and ocean freight delivery costs for Saskatchewan potash are potential for transportation bottlenecks	4
2	Availability of expert personnel	3	2	Relatively high sensitiveness to taxation in the absence of major investments in production expansion	3
3	Foreign markets experience	4			
4	Investment in offshore production: companies ICL (Israel), APC (Jordan), SQM (Chile) and Sinofert (China)	5	3	To date the existing facilities are insufficient to meet the growing demand, esp. it is applied to low logistical capability	5
5	High product quality, no known substitutes for potash	5			
Total		**20**	**Total**		**12**
	Opportunities	**Grade**		**Threats**	**Grade**
1	Rising global demand for food and biofuels is accelerating long-term growth expectations for potash consumption	5	1	The five-year plan projects for production expansion of production require a quite significant initial investments	4
2	According to the forecast, the capacity expansion gives a larger share of a growing market, since competitors have lower expansion potential	5	2	Underground mines face particular risks, like the risk of water inflow in the vicinity of underground mines and the risk of unexpected rock falls	2
3	Production fixed costs, as well as variable costs per unit, are likely to reduce with the increase of production capacity	3	3	Toughening of global environmental legislation may negatively impact on the company, esp. with a tendency of growing pollutions in 2011-2013	1
4	Reduction of tax payments per tons of product with the increase of output	5	4	Potash demand growth could exceed the company's logistical capability to deliver in the short term	4
5	Growing investment in the offshore manufacturing	4	5	The company’s tax rates are likely to increase after 2012 and as a result the capital expenditures will increase	4
Total		**22**	**Total**		**15**

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Table 2. PEST analysis of the macro environment of PotashCorp (PotashCorp, 2008)

	Factor of PEST analysis	The forecast of the influence of the PEST-factor on the organization activity
Political and legal factors		
1	Nature conservation legislation	Toughening of global environmental legislation may negatively impact on the company's activity, which is aggravated by the incapacity to significantly reduce the amount of wastes.
2	State influence in the industry	The negative impact could have a further increase of import duties on fertilizers in China.
Economic forces		
1	Regional tax policy in the mining sector	Specific taxation in Saskatchewan region creates favourable conditions for company.
2	Price changes for agricultural crops	The price of potash fertilizers is directly dependent on the agricultural products price; 2011 is characterized by the increase of prices for agricultural crops as a result of recovery from the crisis.
Social factors		
	The dynamics of population growth	Since the growth of world population is a major demand factor for potash fertilizers, esp. in India and China, one can expect a positive sales dynamics.
Technological factors		
1	The introduction of new processing lines	PotashCorp plans to place in operation new production lines in 2011-2014.
2	Investment in the transportation and distribution Infrastructure	PotashCorp has built a new port facility at Prince Rupert on Canada's West Coast, expands the existing terminal in Vancouver, increases the number of railcars, etc.

JSC "Uralkali": market analysis

Open Joint Stock company "Uralkali" and its subsidiaries (hereinafter Uralkali) is a public corporation based in Berezniki, Perm Krai, Russian Federation; was founded in 1930 as a state-owned entity and incorporated as a private company in 1992. It is a vertically integrated company that controls the whole chain from production of potash ore to delivery of potash to the consumers. Shares and GDRs of Uralkali traded on stock exchanges like RTS, MICEX and LSE.

The Company's assets include two potash mines and five processing plants (4 produce potash and 1 – enriched carnallite), as well as a factory for the production of sodium chloride. Common ore reserves of the company are near 3500 Mt. Recently the company got the license to develop the Ust-Yayvinsky field of the Verkhnekamskoye deposit, which carry 1300 Mt reserves of ore. Uralkali also has 100% interest in the Baltic Bulk Terminal (BBT), 50% interest in BPC, a world leader in potash fertilizer sales that accounts more than 40% of global potash exports. Besides BBT, transportation infrastructure includes 4600 railcars and 2 storage facilities, which can hold 540 Tt of fertilizer. In December 2010, Uralkali announced the

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intention to buy Silvinit. The merger was finalized in July 2011. Together they form one of the world's largest potash producers (Uralkali, 2008, PotashCorp, 2009).

Uralkali is one of the world's leading potash producers with 9% market share (2009), more than 80% of all production is exported. Key marketing outlets are Brazil, China, India, Southeast Asia, Russia, USA and Europe. The company also has the exceptional advantage of being able to deliver potash to China by rail. The export is performed through BPC (Uralkali, 2008, PotashCorp, 2009).

Table 3. SWOT analysis of Uralkali

	Strength	Grade		Weakness	Grade
1	Modern sophisticated equipment and technical resources	4	1	The high costs of environmental protection activities	4
2	Company's standing in the market	5	2	The delivery of floatation agents is notable for instability	3
3	Developed transportation infrastructure: owes several Baltic ports and a fleet of rail cars	5	3	Uralkali's activity is not diversified that makes the company vulnerable towards sharp decrease of demand followed by sales drop	4
4	Power generation projects involvement	3			
5	Exports through BPC that helps to compete with overseas producers creating attractive conditions	4	4	The company's activity is limited by the international and national antitrust laws	4
Total		**21**	**Total**		**15**
	Opportunities	**Grade**		**Threats**	**Grade**
1	The new markets in Europe and USA	4	1	The largest manufacturers of potash can increase their market share	4
2	The increase of production capacity in recent years	4	2	The demand decline due to the decrease of solvency of consumers in the domestic market	2
3	The products prices can be reduced due to the increase of the production volume	2			
4	The possibility of rapid development due to the sharp increase in demand	5	3	Antitrust policy of the states-customers is likely to become tougher	4
5	Company is increasing highly qualified technical staff	4	4	The introduction of export quotas on fertilizers	4
6	In July 2011 Uralkali finished the takeover of Silvinit (the 2nd potash producer in Russia); the consolidation of facilities will greatly improve the competitive state of the company	5	5	Eurochem, which plans to start potash production in 2013, can win a significant portion of Uralkali's domestic and international market	5
Total		**24**	**Total**		**19**

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Table 4. PEST analysis of the macro environment of Uralkali

	Factor of PEST analysis	The forecast of the influence of the PEST-factor on the organization activity
Political and legal factors		
1	Anti-dumping measures	Now introduced in Russia and EU countries, they increase the final price, hampering the export.
2	The tax legislation alteration	The changes in tax legislation can increase payments subsequently reducing the net profit.
3	Nature conservation legislation	Local environmental legislation negatively affects the company's activity, making the company to invest in recycling and reclamation as well as increase payments of penalties and environmental taxes. However, it improves the market status of the company.
Conclusion		
The most significant factor in the political sphere is the state's impact on the activity of the Uralkali, mostly by ever-changing tax legislation. This induces, apart from increased tax payments, unscheduled disbursement of fines and penalties, which in total adversely affects the operation of company. The situation seems to be rather unchangeable, but not oppressive. Environmental protection activities of Uralkali are considerable, which has a positive effect on the status and position of enterprise in the international market.		
Economic forces		
1	Insolvency of the consumers	The consumption of potash fertilizers at the domestic market has decreased in recent years due to decrease of purchase power of customers.
2	Capacity expansion	This will likely reduce costs and increase the sales.
3	The consumption of potash fertilizers has increased recently in the international market	Post-crisis recovery and significant price rise for basic grains induced the increased demand and consumption of potash. According to the forecasts for 2012-2013, the main potash markets will keep high demand for the potash fertilizers.
4	Merge with Silvinit	The amalgamation greatly improved the company's state in the market; joint production creates a new force in the international market.
Conclusion		
At this moment the economic state of "Uralkali" is stable. Company faced hard crisis years 2008-2009, but it has recovered well and the forecasts for 2012-2015 are positive. It is expected to increase output capacity and market extension with consistent profit growth. Moreover the takeover of Silvinit strengthened the position of the company in the international market.		
Social factors		
1	The growth of the population and the decrease of arable area	These are two major interconnected demand factors. The tendency is esp. vivid for India and China, to which Uralkali has the most beneficial geographical position.
2	Decrease of population growth in Russia	The shortage of employees and highly qualified professionals will affect the company's activity in the future. However, Uralkali pays a great attention to social programs in order to attract specialists into the potash segment. The decrease of population in Russia can decrease of domestic market sales.
Conclusion		

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RUE PA "Belaruskali": market analysis

Republic unitary enterprise "Production Amalgamation "Belaruskali" (referred to as Belaruskali) is one of the world's biggest producers, being on the 4th place. The activity of the company dates to 9th of January 1961, when the commercial mining started (Belaruskali 2014).

Three sylvinite ore deposits have been discovered in the territory of the Republic of Belarus, two of which are exploited. Only one of them – Starobin deposit – alone yields in more than 5 Mt of potash annually, covering the domestic and export demand (Belaruskali 2014).

At the present day the company comprises the four mining and refinery complexes, auxiliary shops and infrastructure (transport, energy supply, etc). The mineral potash fertilizers are produced in the form of fine, fine crystalline and granulated concentrate of the potassium chloride. The latter is the main product of the company's activity. Apart from this, Belaruskali produces the cooking salt, technical salt, edible and feeding salt. The staff of the company totals in about 20 thousand people (Belaruskali 2014).

Recently Belaruskali has started a commissioning of the Krasnoslobodski mine and constructing a new mine at the Beryozovski section of the deposit to resolve problems related with Starobin deposit reserve depletion. The company has set a goal to renew completely the obsolete mining and processing equipment, in order to ensure the maintenance of production capacities and competitiveness of output goods, both on quality and the price levels (Belaruskali 2014).

Table 5. SWOT analysis of Belaruskali

	Strength	Grade		Weakness	Grade
1	The superior geographical position for EU market	5	1	High depreciation level of the plant equipment	5
2	Qualified personnel	3	2	Low coverage degree of the CIS market	4
3	Diversification of markets, experience on foreign markets	3	3	Lack of advertising, low transparency	5
4	Company's standing in the market, registered trademark	4	4	Company's activity is not diversified in terms of products, making it susceptible towards sharp decrease of demand	5
5	Innovative technology allowing to produce high quality product, some of properties of which are unique in market	5			
6	Developed transportation infrastructure	3	5	Lack of own financial resources	4
7	Exports through BPC that helps to compete with overseas producers creating attractive conditions	4	7	Excessive taxation and total state control over the activity of the company	5
8	The company can significantly increase production in very short period in case of sharp demand growth	5	8	The company's activity is limited by the international antitrust laws	2
Total		**32**	**Total**		**30**
	Opportunities	**Grade**		**Threats**	**Grade**
1	Company can strengthen the market position due to increase of transparency and advertisement	3	1	Some competitors access to cheaper and more efficient technologies and equipment	5
2	The possibility for sharp production output expansion	4			
3	Company can to enter new markets, where other companies have the dominant position	2	2	High customs duties and fees, as well as possible embargo due to current political situation	5
4	Elaboration of products with increased service properties	5	3	The competitors can introduce new or upgraded products	2
5	The introduction of new innovation technology of balling granulation that results in product with significantly improved properties can considerably improve the market position of the company	5	4	The company can hardly respond to a possible decrease in potash price since the costs of manufacture are considerable comparing ones of other producers	4
Total		**19**	**Total**		**16**

ISBN: 978-9963-711-37-6

Table 6. PEST analysis of the macro environment of Belaruskali

	Factor of PEST analysis	The forecast of the influence of the PEST-factor on the organization activity
Political and legal factors		
1	The political stability	The political situation in Belarus is considered to be very stable, since all power has been concentrated in very narrow group of people. The changes in the activity of the enterprise are hardly possible too.
2	The state control	The centralized political power and total state control of any enterprise, esp. state-run and/or with high profitability, ceases any free economic, social and marketing activity. As a result Belaruskali is an enterprise with extremely low transparency, which makes it highly unattractive for investors aggravating the current worsening of market position.
3	Development of China policy priorities	The introduction of export fertilizer duties, especially in China, have added uncertainty to the world market of fertilizers since 2007
Conclusion		
Since the company is a state-run enterprise, the political factors play a determinative role in activity of Belaruskali. The political environment is highly unfavourable for the development of the company; the management board of the company has no decisive power.		
Economic forces		
1	High inflation rate, unstable national currency exchange rate	The inflation rate directly affects the profits of the company. The actual excess of the forecasted inflation rate would reduce profit of the enterprise and in general negatively affect the company's activity.
2	High taxation in the mining sector	The tax rates are extremely high in Belarus, esp. in the mining sector. As a result a company has extremely low financial resources, which are inefficient to cover the scheduled maintenance of the equipment, whereas the retrofit activity is hardly possible. Excessive taxation greatly reduces the attractiveness of investments in major projects, decelerates the growth of production capacity. It also affects the availability of export transactions in the international market.
3	Energy resource prices	The prices on the energy resources, esp. on liquid fuel that is mainly used, are constantly growing. Besides the situation in Belarusian fuel market is rather unstable.
4	Prices and wages control	Unlike other producers, which normally reduce price on the domestic market to protect local agriculture to a certain reasonable amount, Belaruskali, in accordance with political decisions, has to sell potash on the domestic market below the cost price at the expense of own income. Besides the wages are fixed by the state, which aggravates the financial position of the company.
5	Investment policy	The investment policy of the company could give additional

Innovative activity of Belaruskali

One of the main peculiarities of the potash fertilizer market is its high degree of monopolization. In such conditions, the price becomes fixed in the point of Nash equilibrium. Unilaterally the company

 ISBN: 978-9963-711-37-6

can increase income only through the reduction of manufacturing costs by searching the cheapest resources or optimizing mining, improving the production string to increase the product yield per unit of raw material used. The introduction of substitute-product is the other way to increase income.

Since potassium chloride is the best type of potassium fertilizers concerning production, transportation and application, the main research and innovation activity is concentrated in the development of new form and additional treatment of the final product to control service properties. The scientific research work goes beyond the R&D departments of the potash producers, involving research institutes and universities all over the world. Innovations in mining and ore dressing are being introduced too.

Belaruskali uses underground ore extraction, including both chamber and pillar mining methods (Belaruskali 2011). Over the last decade several incremental innovations have been made in this field. These include several improvements that significantly decreased the losses of useful mineral, increased safety of mining activity by reducing probability of roof collapse and mine flooding; a new reliable method for opening of gas strata lowering the probability of explosion has been introduced. The economic effect of these innovations is obvious, since it enhanced the efficiency of mining and pit output.

Though the treatment of potash with chemicals helps to enhance granules' hydrophobicity, it's still insufficient to prevent adverse alterations during transportation and storage. Simple changing of form-factor of granules, especially together with hydrophobization, greatly increases the stability of potash fertilizer (Н. П. Крутько et al 2006 and Н. П. Крутько 2007).

High hydrophilicity is an intrinsic property of potassium chloride. During transportation and storage potash granules absorb water and tend to agglomerate into vast stone-like structures. Such adverse processes are accelerated under warm humid conditions, making the delivery to tropic countries a complex task. Post-transportation and post-storage crushing and screening are necessary prior fertilizer application (Н. П. Крутько et al 2006 and Н. П. Крутько 2007).

Nowadays all potash producers use identical method of granulation – press granulation. The process flowsheet includes following important steps: drying and heating of materials – pressing using press rollers – crushing of obtained slab – sieving. As a result the final product is irregular-shaped potash particles.

Potash fertilizer produced by balling granulation technology can be easily considered as a new product since the production and product itself comprises so many important advantages that set it far apart from traditional one.

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Table 7. The economic effect of the balling granulation method

	Press granulation method	Balling granulation method
Line speed, t/h	40	
Working time		
days per year	365	
hours per day	24	
Total, h/y	8760	
Utilization factor	0.8	
Line speed, t/y	**280320**	
Capital expenditures		
Capital expenditures for equipment installation	9026244	2997419
Equipment installation (10% out of cost)	–	299741.9
Expenditures related with research engineering development work	–	124317.2
Total capital investments	**9026244**	**3421478.1**
Depreciation rate	0.15	
Total annual capital expenditures	**1353936.6**	**513221.7**
Estimated annual economic effect		**840714.9**
Variable costs		
Fuel costs		
Total energy consumption, kJ	17665434	24188408
The calorific value of the fuel, kJ / kg	37422	
The fuel consumption, kg	472.1	646.4
The price for 1 kg of fuel	0.102	
Total fuel costs	**48.15**	**65.93**
Electric power expenditures		
Total electricity consumption, kW	3087	189
The price for 1 kW of electricity	0.14	
Total expenditures for electricity	**432.18**	**26.46**
Other expenditures		
Costs of chemicals for balling granulation	–	108.8
Total annual variable costs	**3366153.57**	**1409936.74**
Estimated annual economic effect		**1956216.83**
Total annual expenditures	**4720090.17**	**1923158.44**
Total estimated annual economic effect		**2796931.73**
Total estimated economic effect per ton		**9.978**

According to the estimation, the expenditures on purchase and installation of a new equipment as well as research engineering development work will be compensated after 15 month of balling granulation line operation. The production cost for granulation is reduced from 16.84 to 6.86 USD per ton of potash. Taking into consideration the total cost price, which is roughly assessed to be below 40 USD, such economic effect (9.98 USD per ton) is significant. However, regarding the sale price of 400-500 USD per ton, the increase of EBIT is immaterial. Therefore the main advantages of the balling

ISBN: 978-9963-711-37-6

granulation come from the properties of the product itself. By now it is impossible to ascertain economic effect of new product from a marketing point of view, because such product is still not produced in industrial level. Nowadays Belaruskali is performing the re-equipment of granulation line and it is expected to start producing spherical potash in industrial range till the end of 2012.

CONCLUSION

The production of mineral fertilizers is one of the most important branches in the chemical industry. More than 60% of the market is concentrated in 4 companies: PotashCorp and Mosaic, Uralkali and Belaruskali, which are consolidated in addition into syndicates making the international market one of the most monopolized product markets in the world. Besides, the potash market is characterized by constantly increasing demand and production output, high long-term pricing stability and high profitability. However, high barriers exist for the entry on the new company or product.

PotashCorp, Uralkali and Belaruskali are under consideration. PotashCorp is a strong company, which will likely keep the current position. But it faces severe competition on the international market. The main rivals are Belaruskali and Uralkali. PotashCorp has very important economic advantage aroused from special conditions in Canadian tax system. Besides, company invests in offshore production. The main asset of the company is business diversification: along with potash, it produces N,P-fertilizers too. However, PotashCorp has relatively weak transportation system.

Uralkali is strong potash Russian potash producer. In July 2011 it finished the takeover of the only domestic rival company – Silvinit. The main advantage of the company is good transportation facilities. Uralkali also invests in re-equipment of the production line with new machines that allowed switching the production from liquid fuel to natural gas. However, since the company's activity is focused only on potash production, the main thread comes from Eurochem, the biggest N,P-fertilizer company in Russia, which plans to start potash production in 2013, and can win a significant portion of Uralkali's domestic and international market.

Belaruskali is successful company with vast experience in potash industry. However, by now, the financial situation gives a justifiable concern, which is related with very deep economic crisis in Belarus. However, the marketing analysis shows that the most beneficial supplier is Belaruskali from the point of geographical location and product quality, since German K+S cannot cover all EU market demand. Therefore, the necessity to increase the contribution of Belaruskali in the EU market is obvious. Besides, company has very good transportation facilities. The quality of produced potash is in the same level with other producers, being in some cases even better due to recent improvements.

The main disadvantage of both PotashCorp and Uralkali is that their innovative activity is targeted mainly on the retrofitting, as well as on the improvement of transportation and distribution

 ISBN: 978-9963-711-37-6

Infrastructure, but not on the upgrading the product itself. Belaruskali, however, has developed new process flowsheet to produce granulated potash fertilizer with enhanced service properties under the reduction of manufacturing cost; and, since, granulated fertilizers are nowadays of the greatest interest, such breakthrough technology sets the company apart the competitors.

In fact, another goal of the research is the analysis of innovation activity of the selected enterprise. Innovation is the process of creation of better and more effective products, processes, technologies, or ideas that are accepted by markets, governments and society. Innovation is "the most powerful engine of growth". The main aspects of innovations as historical background, the theoretical treatment innovation process, classification and innovation risk management as well as relationship between innovations and marketing are considered.

Innovations in potash production are of the greatest importance, since the market price becomes fixed in the point of Nash equilibrium due to small number of players, and a company unilaterally can increase income only through the reduction of manufacturing costs and increase the product yield per unit of raw material used. Over the last decade several incremental innovations have been made in Belaruskali including improvements in underground ore extraction; hot-leaching method was introduced to separate the potash ore along with the conventional floatation method. The post-granulation modification with chemical agents allowed reaching the relative hydrophobization up to 30-40%, enabling long-term export of potash to tropical countries.

Finally, the paper presents the balling granulation method that is reasonably considered to be a radical innovation that is being introduced now by Belaruskali. The production of spherical potash can greatly improve the market position of Belaruskali due to the superior properties of the product that passes ahead the traditional press granulated potash. Among the assets of the new product are increased shelf life and reduced ability to segregate; being the one of the constituents, it improves the application of complex mixed fertilizers; etc. Besides, the balling granulation allowed reducing cost price of potash, namely from 16.84 to 6.86 USD per ton of potash. Taking into consideration the total cost price, which is roughly assessed to be below 40 USD, such economic effect (9.98 USD per ton) is significant. However, the main advantages of the balling granulation come from the properties of the product itself. The market success of the product is beyond any doubts.

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 ISBN: 978-9963-711-37-6

CONSTRAINED SUSTAINABILITY INNOVATION: INSIGHTS FROM AN INDUCTIVE STUDY OF THE GLOBAL WINE INDUSTRY

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ABSTRACT

In dynamic and turbulent contexts many firms are trying to develop innovative sustainability solutions. Managers across the globe from this study discussed sustainability innovations in terms of product innovation (products, services, product-service bundles), process innovation, and organizational innovation. However, forces act to constrain sustainability innovations in some agricultural industries including the wine industry.

This article reports findings on forces constraining sustainability innovation from an ongoing six-year investigation into global contemporary wine marketing and sustainability.

This inductive study, with theory-building grounded theory and phenomenological data collection, has been conducted relying upon a large number of in-depth interviews and using traditional interpretive trustworthiness criteria to ensure valid data were collected and the best interpretations developed.

Executive perspectives from wineries of seven countries yielded insights to the notion of constraints to sustainability innovations and why, in some cases, making progress is difficult.

Keywords*: wine, innovation, sustainability, grounded theory, constraints, resource based view*

INTRODUCTION

Sustainability in all of its forms (i.e., environmental, social and economic), has developed over the last decade into an important focus for both businesses and academic research across industries and disciplines, and within that context firms are striving to be more innovative in their practices in order to improve sustainability (e.g., Leach *et al.*, 2012). Within agricultural industries, of which wine is one, the sustainability discourse has been predominantly focused on the environmental sustainability

 ISBN: 978-9963-711-37-6

dimension (e.g., Cardano *et al.*, 2010, Gerling, 2015). The wine industry offers a unique set of challenges when it comes to pursuing sustainability objectives, however, some research suggests that these efforts pay off in terms of improved product quality and market perceptions (Pullman *et al.*, 2010). Our research discovered that this is not always the case. While it is true that sustainability innovations are pursued by wineries around the world, sometimes out of firm strategy and sometimes due to industry or regulatory pressures, many find significant barriers to their innovation efforts, some of which are coming directly from the marketplace. These barriers in combination with forces driving them toward innovation challenge wineries to carefully select which forms of innovations to pursue and in some cases fight against pressures to pursue sustainability innovation projects.

Firms are driven towards innovation at a general level (i.e., of any kind) through market forces as they attempt to find various means of differentiation (Day, 2013) and these innovations can range from incremental to radical (Kahn, 2001). Yet firms are typically constrained by resources and capabilities in their abilities to innovate (Wernerfelt, 1984). For example, a firm may lack access to materials, lack employees with the capacity to innovate, lack an organizational culture enabling innovation to prosper, or lack formal processes enabling routine innovations to emerge. These constraints act as barriers to innovation and will apply to sustainability-focused process and product innovations. Despite normative advice on how to pursue sustainability projects, there are still calls for research into conditions under which sustainability projects emerge within the wine industry (e.g., Santini *et al.*, 2013). Additionally, first hand perspectives on how winery leaders are attempting to pursue sustainability innovations around the globe are still lacking.

As such, this paper is focused on this intersection of three concepts: sustainability, innovation, and barriers (Fig. 1).

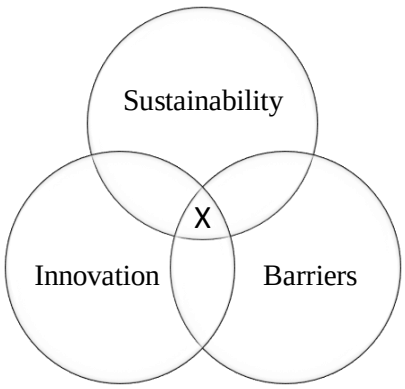

Figure 1. *Focus of Paper*

Specifically, a large-scale inductive (i.e., qualitative, interpretive) project explored answers to questions about what sustainability meant to leaders in wineries around the world and how they were pursuing

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(or not) sustainability innovations. By exploring meaning and processes, we discovered that leaders often felt significantly constrained in their pursuit of sustainability innovations regardless of pressures from within and outside of the firm. In some cases, they aggressively fought against sustainability pressures. Thus, we found a tension that managers were experiencing that has yet to be described in the literature and that may partially explain the variance in the pace of sustainability innovations within this and other industries. The next section provides a brief literature background for this research.

LITERATURE BACKGROUND ON INNOVATION AND SUSTAINABILITY ORIENTATION

Innovation in sustainability often involves the development of modified processes and products that reduce negative environmental impact (e.g., Leach *et al.,* 2012). Business sustainability is broader than the environment however, and is well represented in hundreds of contemporary articles and books as involving a balance between environmental, societal and economic longevity (e.g., Willard, 2012). Within agricultural-based consumer products, environmental sustainability has become very important. Sustainability has even been discussed in the wine industry as a potential source of competitive advantage (Flint and Golicic, 2009; Forbes *et al*., 2009). Over the years, a debate has existed on the extent to which economic sustainability may be hindered when an organization invests in environmental and or societal sustainability initiatives, resulting in detailed discussions of the viability of a true "triple bottom line" (Norman and McDonald, 2004).

Small to medium sized wineries have been found to be responsive to internal stakeholder pressures to become more environmentally sustainable and seem to have more success in implementing environmental management practices when they voluntarily pursue changes, meaning that they buy into the sustainability attitudes and norms expressed by others (Cordano *et al.,* 2010). The corollary is that coercing winery leaders to implement environmental management practices will likely result in less successful practices as well as innovations. As such, it seems important to understand at a deeper level what leaders are actually thinking regarding sustainability projects; do they buy into sustainability attitudes and norms or do they feel coerced (through regulation for example)? Cordano *et al*., (2010) go on to propose that industry standards be developed since these will lead to greater process improvements than each winery pursuing projects in an ad hoc fashion. They found that institutional support coupled with a strong collective motivation to change, i.e., positive attitude norms, works well to improve business environmental management practices.

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Pullman *et al.* (2010) found that wineries who tend to focus on certain environmental projects and specifically those that improve product quality and/or pursue social responsibility projects, market perceptions are positive. But this depends on the region. As Santini *et al.* (2013) as well as numerous authors in Gerling's (2015) edited book note, the intensity of wine sustainability efforts varies by region globally. In some countries such as New Zealand sustainability and sustainability innovations are not only encouraged but are part of the culture, celebrated, rewarded and in some cases mandated by regulatory bodies. This variance will likely influence the intensity of sustainability innovations and the nature of the projects pursued.

There are numerous barriers to pursuing sustainability innovations. We noted here the need for buy-in or a positive attitude toward adopting sustainability practices. Without this buy-in, regulations may actually be counterproductive. Additionally, organizations must often share information to improve practices within a region. Szolnoki (2013) emphasized how the lack of information sharing between relevant organizations may well be the most difficult barrier to sustainability improvements.

Converting an organization's operations from traditional processes to ones that are better long-term for the environment can be costly and can require the development of and/or adoption of innovations in numerous areas. For example, innovations in packaging such as using lighter glass or alternative materials (Svanes *et al*., 2010), supplies such as those organically grown (Lockie, 2006), and transportation such as strategies that minimize carbon footprint (Carter and Easton, 2011), offer means for reducing the impact on the planet's resources. However, all of these changes require resources, time and skills. And these require leadership commitment. We still lack an understanding of how leaders themselves see their organizations and the sustainability discussion as they attempt to address sustainability innovation pressures.

To briefly describe what innovation itself means, we suggest that what constitutes an innovation is largely in the eyes of the adopter. Innovations can occur in products, technologies, processes or ideas that are perceived as new by an individual or group of individuals (organization, society) (Rogers, 1995; Schumpeter, 1934). They have long been shown to be critical to firm's success (Reichheld, 1996) and many draw heavily upon market and customer insights (Cobbenhagen, 2000; Hargadon, 2003). Over the last fifteen years, innovation research moved from predominantly product and technology focused to also include processes and service innovations (e.g., Fugslang 2002; Mattson, 2002). Innovations within the wine industry reflect this broad and diverse conceptualization as well. Within this context, barriers to being an innovative organization are addressed. Innovation is expensive, and organizations are limited in their financial resources and capabilities to dedicate to innovation (Sharma and Iyer, 2012; Wernerfelt, 1984). However, through our interpretative process we discovered that not

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only are resources limiting innovation, but also other forces are constraining innovation development, particularly when it comes to sustainability.

Our research objective was to understand executives' perspectives on trying to be sustainable, trying to be innovative, barriers to both and how the three inter-relate. We wanted to examine this phenomenon in a context with intense global competition, and that likely has a high need for environmental sustainability, which meant a product with an agricultural component. The global wine industry fit these criteria well (Hussain *et al*., 2007).

METHODOLOGY

Findings for this paper represent a portion of our findings from a project spanning six years (2009-2015). Because we were examining attitudes toward sustainability and innovation, and not necessarily highlighting innovations themselves, six years is not only acceptable it helped us demonstrate stability in our emergent concepts. The project followed closely the principles and procedures of the grounded theory tradition (Glaser and Strauss 1967; Strauss 1987). This tradition is well-suited for inductive research with the objective of delving deeply into social processes for problem-solving actors around important topics (such as trying to be sustainable, trying to be innovative, trying to overcome barriers).

The context was the global wine industry. Over 199 in-depth interviews were conducted with executives and managers in 122 wineries spread across seven countries (Australia, France, Germany, Italy, New Zealand, Slovenia, U.S.) (See Table 1). Participants represented small, medium and large enterprises, well-established and relatively young wineries, and New World as well as Old World wine regions.

COUNTRY	REGIONS	NO. OF COMPANIES
Australia	Barossa Valley/ Margaret River	28
France	Bordeaux	8
Germany	Rheingau/Pfalz	11
Italy	Veneto/ Tuscany	24
New Zealand	Canterbury/Christchurch/ Marlborough	9
Slovenia	Podravje/Primorska	10
United States	California/ Oregon/Washington	32

Table 2. *Research Sample*

These are each well-known wine regions, many with distinct character. Our manager participants were senior level marketing, operations, or wine-making professionals with extensive experience in the wine industry, and were knowledgeable about their wines, their business practices, the regions and the industry at large. They came from wineries of all sizes, representing boutique wineries, mid-size wineries and a few of the largest wineries or wine consortia in their regions and the world.

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Interviews were conversational using interview guides to provide topics for discussion and lasted on average between one and two hours each. Conversations focused on the nature of their experiences and business/social processes related to marketing, innovation and sustainability. Participants discussed problems they were trying to solve; ways they tried to solve those problems; who they interacted with when and how; their feelings about these efforts; organization level issues at stake for specific experiences; resources needed to solve problems; and ways they martial or generate resources.

Interviews were audio-recorded, transcribed and analyzed using open, axial and selecting coding techniques to develop concepts, categories and eventually the framework we present here (Strauss, 1987). Hundreds of codes were collapsed and refined as our research team eventually worked to the best interpretations of the data. In addition to in-depth interviews, we spent significant time on-site observing/touring participants' organizations, collecting relevant documents and examining company-specific online content. Traditional well-established trustworthiness procedures were followed to ensure data/interpretation credibility, integrity, transferability, and dependability (Lincoln and Guba, 1985). We not only compared our findings between countries, we compared them along other dimensions such as Old World and New World, and small organizations and large.

FINDINGS

When immersed in data interpretations in a grounded theory project, a 'core phenomenon' (Strauss, 1987), the key action about which participants are trying to convey information, emerges. In our study, the 'core phenomenon' that emerged we eventually interpreted as *trying to pursue sustainability innovation under constraints*, what we refer to as *constrained sustainability innovation*.

Four categories of forces emerged that were constraining efforts to be innovative with respect to sustainability: 1) dealing with competing motivations; 2) focus and style; 3) resources and capabilities; 4) sustainability orientation. We discuss each next.

Dealing with Competing Motivations

Many participants described the wine environment within which they operated as dynamic, challenging and in general creating difficulties that required changes and the ability to adapt in order to survive. Several passages bring home the point that the operating environment for wine businesses is challenging: "*I think we are in this cycle of low growth or no growth for awhile and that's going to force consumers to change their buying habits permanently*"; "*We are now experiencing worldwide competition in terms of quality and price… There are more quality wines on the market than the market is able to buy*"; "*The economy has allowed us to be more selective of who we buy from* [grapes] *because the economy is telling us not to*

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make wine unless we're damn sure we are going to sell it"; "*So the trend that we will see over the next probably 3-5 years is that a lot more wine companies will become unprofitable, their margins will start to squeeze*." Each of these passages is from a different interview and only represent examples of hundreds like them. A theme we interpreted was that the more turbulent the environment, the more likely a firm is to remain focused and not deviate even if this is precisely when it should invest in innovations.

Our data revealed challenges managers were facing in terms of growth, profitability, resources, supply chain modifications, dealing with myopic attitudes, over production, intensifying competition (nature, number and globalization), and changes in market demand/consumption.

Deeper interpretations found skepticism, tension and stress as executives were torn between options and pressures for addressing each of these. Sometimes what the market seemed to demand pulled against what sustainability proponents were demanding. We refer to this torn attitude as *competing motivations*. This tension, between Survival Market Motivators and Sustainability Motivators, are depicted in Figure 2. We describe these competing motivations.

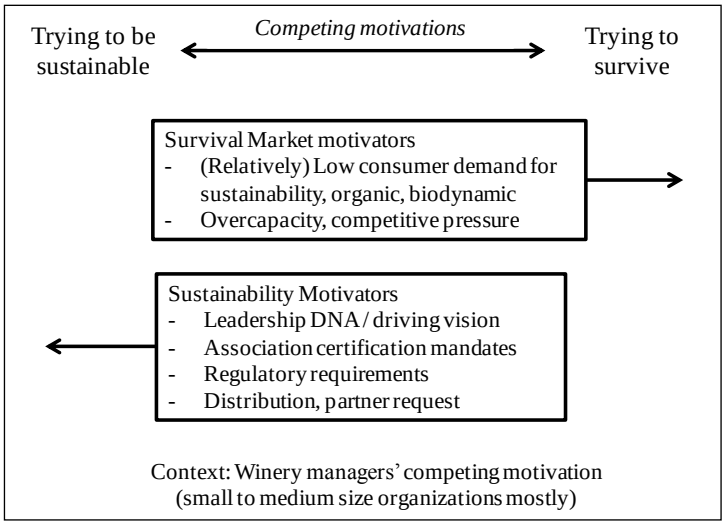

Figure 2. *Dealing with competing motivations*

On one side of the tension existed Survival Market Motivators. Participants explained that demand was low for wine produced organically or biodynamically. Furthermore, numerous participants themselves were skeptical of the quality of products produced in this way. In addition, other sustainability initiatives, such as screw-top closure mechanisms (caps), considered to be more sustainable than cork, were consistently associated with lower quality wines. Similarly, lighter bottles or boxes were not seen as appropriate for high quality wines despite the positive environmental effects on carbon footprint and resource use. This is negative quality perception is problematic for a product almost always positioned on quality as a base line attribute. This also contradicts Pullman *et al.*'s (2010) findings of

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positive reactions to wineries' sustainability initiatives and improvements in product quality. Additionally, the wine industry's intense competition placed pressures on executives to simply focus on cost minimization and consistent quality, detracting from costly sustainability-related and innovation projects. Thus, beyond environmental sustainability projects demanding financial resources as others have discussed (Carter and Easton, 2011), trying to survive meant specifically *not pursuing* environmental sustainability and innovation projects. As one participant explained: "*The overall driving force for me is wine quality and if there are ways of doing that that are more sustainable and more friendly to everybody concerned then we want to integrate them in as a systems whole. But there are probably winemaking techniques that we could apply that would be deemed very sustainable that I would think are completely inappropriate for the quality of what we're doing that I wouldn't entertain.*"

Conversely, there existed Sustainability Motivators. For some participants a sustainability orientation was simply part of their vision from the start, i.e., it was in their DNA so they were internally motivated and had naturally bought-in. These participants were sometimes driven toward environmental measures despite low market demand for products produced this way. Others were driven toward environmental sustainability initiatives through external pressures such as those from a variety of industry associations and certification bodies or regulations.

This tension itself between competing motivations sometimes slowed down or even stalled sustainability innovation initiatives. As a result, participants wanted to resolve this tension, much like humans resolve any cognitive dissonance. Given limited resources they had to make choices, and sometimes where they focused as well as the way in which organizations worked toward those innovations (their styles) resulted in additional constraints to their sustainability innovations. We discuss these next as innovation focus and styles.

Focus and styles

A broad conceptualization of innovation is adopted here because it is consistent with the way participants in this study discussed innovation (Flint 2006, p. 350). The following passage may best articulate a common theme we found on innovation and where a participant recognized its role in firms' survival: "*Innovation for us is one of the most important things to survive. One is in the production, studying new opportunities using the past methods to reinterpret in different ways the old product, innovation is also service to customers and suppliers, new production methods or new services to the customers. We are able to reach the final customers by big investments in sales and distribution [innovations]…*". Although changes in product and process may not be new to the world, they can still be seen as innovative if they are novel and improvements within the wine industry, in a specific region, and in a specific time frame.

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Managers across the globe from this study discussed innovation, with foci on product innovation (products, services, product-service bundles), process innovation, and organizational innovation. And sometimes these innovations were focused on sustainability initiatives. Product directed innovation refers to innovations aimed at improving the wine, the packaging, the labels, the services offered, and bundles of products and services. One participant stated that they were studying indigenous grapes and innovative wines in order to constantly meet the needs of emerging consumer markets and catch the attention of both consumers and buyers all over the world. This focus did not always align with pursuit of sustainability. Examples of product innovations that positively impacted the environment included adopting wine in a box for higher end wines, designing new corks and developing lighter bottles: "*What we're going into now is a lot more packaging innovation. So a lot more focus on the occasion and also the visual cues that consumers will see*." Process innovations included using a new process to create a custom blend for a customer, changing buying processes as in buying in bulk, using photo voltaic roofing, recycling, and changing to lighter bottles that facilitated transportation process innovations, to name only a few. Again, clearly managers were not always focused on sustainability and a focus on these innovations in fact often meant insufficient funds for pursuing sustainability projects. Organizational innovations referred to innovative changes in organizational philosophies, culture, organizational structure or the larger network of businesses such as connections with competitors or sometimes within clusters.

Participants' stories about innovation on sustainability fell into two experimentation styles, i.e., trial and error and formal experiments. Specifically, a trial and error approach refers to an ongoing style of learning that reflects a "let's give it a try" attitude, whereas formal experimentation refers to planned projects that include methodical data collection and analyses. Sometimes these styles acted as barriers to innovative sustainability initiatives. For example, some experimental styles require many experiments in order to arrive at an answer, drawing resources from other sustainability projects. Conversely, without experiments it's difficult to make significant innovative improvements. An example of a formal style is represented by a company that is trying to be sustainable in many aspects, recycling and investing on photovoltaic roofs on one estate, and "*...this is the first pilot test to go also to the other sites...*". As a comparison, an example of a trial and error style is represented by the following passage about the launching a new, limited production varietal of Sauvignon based simply on the winery owner's intuition: "*...I started it almost as a joke…It was an experiment that in my heart of hearts, I was convinced would be effective. A commercial move that wouldn't go unobserved, one that would immediately capture the attention and enthusiasm of wine lovers*…". In this case, the trial and error attention was focused entirely on market demand and not on sustainability. Our interpretations suggest that sustainability innovations require focused attention. We did not come across significant innovations

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related to sustainability emerging from trial and error styles. They almost always emerged from methodical research and experiments. Thus, we conclude that the style of experimentation can be an enabler or serve as a barrier.

Experimentation is essential for innovation (Thomke, 2001) and furthermore, innovation stems from lessons learned through the failures experienced through the experimentation process (McGrath, 2011). However, we have many examples of managers extremely hesitant to pursue any forms of experimentation when it came to wine arguing that "[we do not need] *faster technology. We must respect the time of the wine.*"; and "*…nobody really ever invents anything in agriculture …too much technology is not always good. Sometimes it doesn't work. Things have no real value. Nothing has really changed. It's just a fake idea of modernity. It's much better to go back to the real values and the roots…*".

Sometimes the focus and style of innovating facilitated sustainability improvements but many times they did not. In these cases, investing time and energy in certain product, process or organizational innovations meant that there was not enough time nor motivation to work on sustainability innovations. In these cases, the innovation focus and style sometimes constrained sustainability innovations. Only being able to focus on a limited number of projects or only knowing one or two ways to be innovative (style) is directly linked to resources and capabilities, discussed next.

Resources and Capabilities

Resources in this context included financial resources, access to markets, wine production and marketing experience, land, and experimentation facilities. Capabilities included experimentation knowledge, operational knowledge, supply chain management knowledge, relationship building skills, wine production, and visionary thinking. As with all of our findings, each of these concepts emerged from the ground and are examples of transcript interpretation codes. The following passage clearly connects a region's resources with the ability to experiment and innovate: "*Australia has a global reputation as a technologically advanced wine producer. The AWRI (Australian Wine Research Institute) has been at the forefront of providing the industry with the means to develop and maintain that status through a 50-year history of world class and relevant science….fostering a culture of lifelong learning that, in turn, has been building the capacity to experiment and innovate"*. Having certain resources enables organizations to innovate toward the directions they want. For example, participants indicated that when an industry association provides resources for experimentation and innovation, the chances of the actual experiments and innovations having a positive impact are higher consistent with Cardona *et al.* (2010) : "*We are lucky, we are fortunate to have access to resources that allow us to analyze the situation before we act* [pursue innovations]". Other examples of resource implications include "*It's a luxury[for innovation] that*

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we don't own vineyards and it's a problem that we don't own vineyards". Because organizations saw themselves as limited in terms of finances and capabilities, in part because many wineries are not large corporations, participants often saw themselves as constrained in innovations they could actually pursue. This relates to our final constraining force, attitude. In this context, the attitude we refer to is an organization-wide orientation toward sustainability.

Sustainability orientation

In our study, some executives were *trying* to be sustainable in some way, and within that sometimes be innovative. However, many participants discussed how executives/leaders needed to be committed to sustainability for innovations to succeed: "*it has been driven pretty much by the owner*". But sometimes an organization-wide attitude and set of behaviors consistent with the leader's focus on sustainability was lacking. A sustainability orientation refers to an organization-wide attitude toward and set of behaviors consistent with all aspects of sustainability (environmental, social, financial) (Bansal, 2003; Kuckertz and Wagner, 2010; Sayem, 2012). And this requires that organizational leaders to be sustainability oriented (Hahn *et al.,* 2014). Possessing an organization-wide attitude that constantly directed attention at sustainability solutions and options seemed important to some participants. Absent this attitude, successful sustainability innovations failed to emerge. A lack of organizational commitment to sustainability meant sustainability innovations stalled. An attitude toward doing the "right thing environmentally and socially" even at the expense of economic growth is reflected by this participant: "*I believe the earth is a finite space. We do have finite resources and this business is about being a safe business about providing quality to clients, to our staff, and to myself in providing sustainability. It's not about taking over the word*".

Additionally, because sustainability sometimes meant working with suppliers such as grape growers, ideally those suppliers would also have a sustainability orientation. But many participants explained that growers could be resistant to any influence by wineries. Thus, a lack of suppliers with a sustainability orientation constrained one's own sustainability innovations.

In line with the human sustainability dimension, some owners described the importance of keeping the business alive for generations, while others described desires to help the community or children. Without an organizational commitment to these causes, innovations did not emerge.

DISCUSSION AND CONCLUSION

In summary, at least four forces serve to constrain sustainability innovations as depicted in Figure 3. Our findings suggest that competing motivations serve to constrain sustainability innovation (e.g. "The

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market does not want it"); innovation focus and style can constrain (e.g. "The way I am trying to be innovative and what I'm working on are not complementary to also being sustainable"); limited resources and capabilities constrain (e.g. "I don't have enough resources or the right skills"); and a lack of a sustainability orientation constrains (e.g. "Because the entire organization is not sustainable oriented, we are constrained"). Furthermore, these four forces are interrelated, as shown by the curved arrows in Figure 3.

As implied by our participants, by placing concerted effort on these four forces, the constraints they impose can be removed. Specifically, many participants seemed to be trying to reconcile their competing motivations through a variety of approaches. For example, some attempted to stimulate demand for sustainable produced wine at the consumer and distributor levels by highlighting the product and/or cost related benefits of sustainability initiatives. These we refer to as resolution approaches, often referred to in psychology as coping strategies for reducing tensions these executives were feeling. Thus, despite the extant literature's emphasis that economic sustainability does not need to suffer while pursuing environmental sustainability, we found that this battle still exists within the meaning and pursuit of sustainability innovation. We found this across the globe, with the most powerful executives of very large multi-national as well as small organizations. Additionally, finding ways to work on process innovations through experiments that involve both a sustainability initiative and a market need could address the first two forces by resolving competing motivations as well as aligning the focus of innovations and style of innovating on projects that tie survival and sustainability motivations together. Seeking consortia or winery cluster members who have complementary resources may allow organizations with limited funds and skills to work on sustainability innovations more easily. Finally, specifically managing organizational culture to be committed toward sustainability can improve the chances of sustainability innovations emerging.

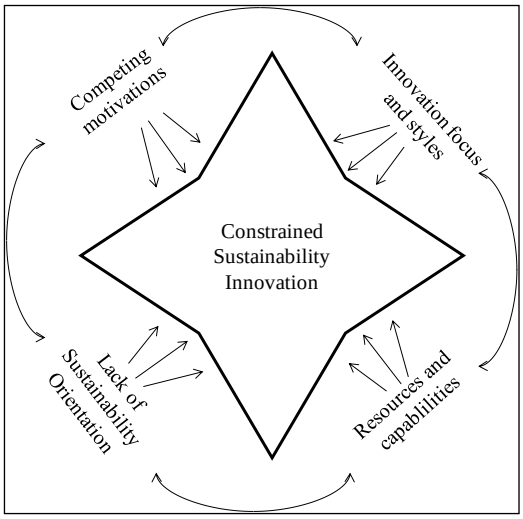

Figure 3. *Forces constraining Sustainability Innovation*

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Our findings contradict a bit those of Pullman *et al.* (2010) in that our findings show that in many cases the marketplace specifically does not desire wine produced using many of the mandated or standard sustainability practices. Although Santini *et al.* (2013) and Gerling (2015) discuss how the intensity of sustainability initiatives varies globally, we found significant innovation energy in every country where we collected data. Yes, some countries encourage innovation and sustainability openly and loudly to a greater extent than others, however, forward thinking wineries everywhere were trying to pursue innovations. In some cases, these were sustainability innovations, but many were not. In these cases where they were not, wineries were pursuing means of creating a marketable differential advantage regardless of the sustainability implications. Wineries are reluctant to invest in innovations that will not only not help but may in fact hurt performance. This feeling of tension, of being torn between competing motivations is not geographically constrained; it is globally felt.

IMPLICATIONS AND LIMITATIONS

This research contributes to the discourse on innovation within a sustainability context and in particular, highlights additional constraints to making progress on innovations that adds to other general discussions of sustainability orientations (Signori *et al.,* 2015) and constraints (Ny *et al.,* 2006). Although possibly limited to qualitative interviews within the wine industry, we feel that the findings suggest generalizability and the sample size is quite large for such a project. That said, future research should document a more complete categorization of sustainability innovation constraints and successful resolution approaches.

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ISBN: 978-9963-711-37-6

FROM PRODUCT INNOVATION TO COMPETITIVE ADVANTAGE: EVIDENCE FROM THE CASE OF TURRI & BOARI

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ABSTRACT

The objective of this paper is to demonstrate how a company can differentiate itself in the market for the long term through its initial product innovation. By employing qualitative analysis through in-depth interviews, we investigate the organisational and strategic factors that are useful for maintaining long-term competitive advantage that results from product innovation.

The originality and significance of this study lies in its investigation of an entire sector observed through 100 per cent of its (national) businesses and its highlighting of distinctive features of individual companies.

Turri & Boari snc's brand Wingamm is a product-innovation case that demonstrates rather radical change in the company's production process that led to organisational innovation. Turri & Boari operates in a niche that arose independently in the early 1980s, and has maintained its position in the market over time thanks to careful management of almost every aspect of production, and its organisational and commercial strategies.

The conclusions of this case study can be applied to companies from different sectors working under the same conditions, that is, innovative companies that offer specialty and experience goods in a niche market.

Keywords: *Product Innovation; Competitive Advantage; Niche Market; Motorcaravan Sector; Motorhome; Recreational Vehicles; Drive Tourism; Wingamm.*

INTRODUCTION

Innovation can be described as 'the first reduction to practice of an idea in cultures' (Mintzberg *et al.*, 1995). The case study analysed in this paper, the birth of Turri & Boari snc and its evolution, may be read in terms of its innovation.

 ISBN: 978-9963-711-37-6

Turri & Boari is part of the motorcaravan (or motorhome[1]) industry, which is composed of a set of enterprises that produce recreational vehicles (RVs) (motorcaravans and caravans) aimed at 'drive tourism'**. The motorcaravans sector in Italy has only eight small and medium enterprises (SMEs), but despite its small size, it is one of the most relevant in Europe (Associazione Produttori Caravan e Camper [APC], 2014), and Europe is the leader in this sector worldwide (Caravan Industrie-Verbandes Deutschland [CIVD], 2012).**

It is interesting to note that motorcaravans are usually perceived as specialty goods, that is, goods for which consumers are willing to make a special purchasing effort (Holton, 1958). In addition, a motorcaravan can be considered an experience good, that is, it can only be completely evaluated after purchase (Nakayama *et al.*, 2010). Therefore, this product usually requires a complex purchasing process (Goossen, 2000; Voss *et al.*, 2003; Pallas *et al.*, 2014).

As such, the context of motorcaravan production is a special case. Within this specialised context, Turri & Boari created an exceedingly innovative product, the Monocoque cabin in a fibreglass for Wingamm Motorcaravan, upon which it has based its development. Schumpeter (1977) argues that innovation was the introduction 'of a new production function' and a 'new combination of the factors of production' (cited in Baccarani, 1985). The Wingamm Motorcaravan demonstrates not only product innovation, but also provides an example of rather radical change in the production process and in organisational innovation (Mintzberg, 1995).

The objective of this paper is to demonstrate how, 30 years **after birth**, Turri & Boari is still able to differentiate itself in the market thanks to this initial innovation. As such, this study employed qualitative analysis through in-depth interviews to investigate the organisational and strategic aspects useful for maintaining long-term competitive advantage, and resulting in product innovation. This study is original and significant, as it observes an entire sector in Italy to highlight distinctive features of individual businesses.

LITERATURE REVIEW

The theoretical and empirical contributions in the context of Italian and international management literature concerning the RV sector are extremely few and dated (Guinn, 1980; Fidgeon, 1983; Davies, 1993). Excluding research that is not strictly scientific (Galassetti, 2002, 2008), only two recent studies emerge as significant from a strategic perspective. Lynch *et al.*'s (2012) study connects

[1] These vehicles are referred to using several terms, some of which are misleading, particularly if translated into Italian. The Italian Highway Code (art. 54) generically defines 'motorcaravans' ('autocaravan') as 'motor vehicles equipped with special bodywork to be used permanently for the transport and accommodation of people'. The term 'camper' is used exclusively in the Italian context. The use of the term 'motorhome' is misleading because the same term also defines a specific category of motorcaravan.

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the theme of business orientation to analyse the sector in the United Kingdom (UK). Lynch *et al.*'s study notes that in a dynamic and turbulent environment such as that of the two years following the spread of the Global Financial Crisis that erupted in 2007/2008, companies should adopt more strategic guidelines to respond effectively to changes. Simeoni (2013) analysed the structure of the Italian motorcaravan sector, highlighting the competitive dynamics, interactions that individual enterprises can develop to find competitive advantage, and the threats and opportunities for motorcaravan manufacturers.

Some reflections on this sector can be also deduced from an analysis of the drive-tourism industry of which caravanning (understood to describe caravans, motorcaravans and RVs in general) is a subset (McClymont *et al.*, 2011; Hardy and Gretzel, 2011). While there also seems to be scant research on the drive-tourism industry (Connel and Page, 2008), there are some data that demonstrate an expected increase in consumer interest in drive tourism (Carson and Prideaux, 2011). The RV-production sector and drive tourism are closely related. Timothy (2011) states that the increase of vehicle owners is a 'push factor behind the high demand for drive tourism experiences'.

The peculiarities of the caravanning sector and the drive-tourism industry serve to frame and analyse the Turri & Boari case study from the perspective of the analysis of radical innovation. This paper contributes to the literature on innovation, not particularly by proposing new theories, but rather by demonstrating the importance and relevance of a new and original description of the characteristics necessary to identify a radical innovation (Mintzberg *et al.*, 1995). This description will emphasise the importance of process or organisational innovation as a source to achieve and sustain competitive advantage (Schumpeter, 1977; Mintzberg, 1995). Teece (1997, 515) argues that "winners in the global marketplace have been firms that can demonstrate timely responsiveness and rapid and flexible product innovation, coupled with the management capability to effectively coordinate and redeploy internal and external competences".

The paper also contributes to the literature by demonstrating through the case study how it is possible to reinforce the effects of an innovation when it operates in a niche market (Kotler, 1993; Mattiacci, 2008, Louart and Martin, 2012). The findings suggest that to maintain competitive advantage through managing innovation firms need, not only a good research and development on the product that "can lead to a systematic erosion of competitive advantage, resulting in firms within an industry looking more similar to each other over time (Sawhney, Wolcott and Arroniz, 2006, p. 30), but a strong market orientation (Jawoeski and Kohli, 1993; Lukas and Ferrell, 2000; Küster and Vila, 2011, Quinn, 1995).

RESEARCH DESIGN AND DATA COLLECTION

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This study adopted a qualitative approach (Cassel and Buehring, 2006; Bluhm *et al*, 2011) based on McCracken's (1988) long-interview technique for data collection. Open-ended questions were developed, and the information was collected through in-depth two-hour interviews.

The research strategy consists of a longitudinal multiple case study (Van De Ven e Huber, 1990; Gibbert et al., 2008) on the entire universe of eight italian businesses of motorcaravan industry (Arca Camper, Autocaravans Rimor, ESA, Industrie Giottiline, Laika Caravans, P.L.A., Trigano, Turri & Boari). Even other operators were interviewed as key witnesses to present the industry, its results, problems and opportunities. The first contacts with all these subjects have occurred since 2010, while the interviews were carried out mainly between 2012 and 2013. During this period the interviewees have also made available the use of corporate balance sheets and other relevant documentation for the current research.

Interviews with all other Italian businesses in the motorcaravan sector were also used for analysis, interpretation and discussion of the case study; however, these interviews are not provided explicitly in this paper. The interviews were recorded and transcribed. Sections relating directly to the analysis are reported in this paper.

To present information about the sector in general, the data collected through the interviews were combined with a secondary data analysis, which principally included industry reports (APC, 2014; European Caravan Federation - ECF, 2014). As the interviews were conducted in Italian, the relevant quotations included in the findings section were translated into English and then translated back into Italian to ensure that the original intent/meaning was preserved.

FINDINGS

Turri & Boari is a small family business founded in 1977 as a furniture manufacturer. Some of the many customers of the business were also caravan companies. The interactions between Turri & Boari's and these companies led to the idea for Turri & Boari to create a completely new product in the market, a monocoque fibreglass motorhome. This radical product innovation of 1982 redefined the core business of Turri & Boari, and created the production and sale of a medium–high range RV line that still has no competitors in the European market.

It is of particular interest to investigate the factors that have made it possible for Turri & Boari to maintain competitive advantage. It is not only the radical innovation of the product, but a set of factors that affect the entire business model, as Sawhney, Wolcott and Arroniz (2006) argues "the creation of substantial new value for customers and the firm by creatively changing one or more dimensions of the business system" (p. 29).

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The first factor identified is the choice of product. This has been very well defined and maintained over time, and allowed the small business to make the most of every investment without dispersing capital throughout different projects. The interviewee stated:

> *Even today, we are distinguished by the production of a medium–high range motorhome (we do not produce other categories of RVs), which is of fibreglass monocoque and branded Wingamm. In addition to the motorhomes, we also produce caravans, but with the same production philosophy.*

Turri & Boari also given a choice of almost complete vertical integration, which maintains internal-design vitality and the ability to check the finished product to ensure that the innovation of the business continues:

> *Ours is a fully vertically integrated company. The only production that is outsourced is the moulding of the bodies, which requires a completely different production process and, in each case, the design and the mould are internally produced.*

This innovative product owes much to a production process that is craft and labour intensive. However, the innovation of Turri & Boari did not arise merely from product innovation, but also from an innovation process that reversed the sequence of steps of the production process. The barriers to market entry for potential competitors are particularly difficult to overcome because the modifications required for the production of a similar product would result in the need for reorganisation of a factory that is not outfitted for the same production process. The interviewee stated:

> *I consider myself a 'great craftsman' because although the company is industrial (for some years, it has been an SME), the production process is very labour intensive and still very artisanal. Ours is a reverse process to that of the other manufacturers of motorcaravans because we first assemble the body to the chassis and only later assemble all extensions (obviously having a monocoque means it would be impossible to do otherwise).*

The product that emerges from this process is very particular and caters to a tourist with the following specific characteristics:

- preference for drive tourism
- rather high spending power
- strong knowledge of RVs

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- clear awareness of their needs.

The interviewee describes their clients as follows:

Our clients are generally very knowledgeable RV users who have already had at least one RV, and are very decided on the choice they are making. Our clients are not very sensitive to the selling price and therefore, there is not much sense in us having aggressive pricing policies, either to a list or offer special discounts in the dealership.

The Wingamm Motorhome is therefore aimed at a niche market that covers only 0.5 per cent of the market, but is not served by any other company:

The Wingamm is so special that I do not consider there are any direct competitors in Italy if comparing ourselves with the products of small 'pure' outfitters like Aiesistem or AZ System. In any case, the competition is relative because these small fitters do not produce in series, but only on request of the customer, thus providing a different product every time, and responding to the requests of the personal client. If this production process gives them a distinctive feature for achieving a competitive advantage, it is also true that the market for a product of this type is so small that it is of particular concern from the point of view of the competition. Even looking beyond the [Italian] border, the situation does not change. Only in France is there a similar producer in terms of the vehicle offered, but the production process is still different because it is a 'pure' body builder with a custom process.

The potential competition that offers high-quality products and that is aimed at a target customer similar to that of the Wingamm RV cannot really compete with Turri & Boari because of the difference of the product itself created by the fibreglass monocoque (the original radical innovation). The interviewee stated:

Analysis of competition for us is 'reduced', so even against manufacturers of compact vehicles with a medium to high price range, we enjoy a significant difference because of the monocoque.

The competitive advantage has been maintained over time thanks to Turri & Boari's distribution choices. The company has selected several dealerships, of which a single brand, with which it maintains constructive dialogue:

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We try to maintain a relationship of cooperation and confrontation with the dealerships, with some involvement in the choices. In fact, we do not have many dealers, which means we can effectively communicate with them all. In addition to those in Italy, the brand is present in some Wingamm dealerships in Switzerland, France, Belgium and Germany. In Berlin, we also have a single-brand dealership.

The same choice was also made for suppliers for manufacturing the main chassis. This choice allows Turri & Boari to have real support in the design of vehicles and thus to maintain the innovative nature of the product. The close relationship with the main supplier also allowed review of the contract terms (during the years of the economic crisis) to maintain a sufficient margin to avoid company collapse:

With the side suppliers, mainly Fiat, which covers about 80 per cent of the mechanics used (the rest is Volkswagen), we have a very strong working relationship and mutual trust. I recognise Fiat's dedication and ability to adapt the chassis to this type of vehicle. Mercedes-Benz, our former supplier of part of the chassis, was not able to adapt the chassis enough to make a reliable recreational vehicle from the point of view of safety on the road. Fiat also has competence not only in the design phase of the chassis dedicated to motorhomes, but also at any other time we need the supplier company to solve particular problems. In all such situations, we have always found available a dedicated and highly competent staff. Last but not least, Fiat was willing to review the contracts despite the fact that the required numbers had decreased.

In addition to dialogue with dealers and suppliers, to stay updated on news in the field and to dialogue with many different stakeholders, Turri & Boari always participate in the work of the Italian APC and the trade fair organisation of Parma, which organises the most important national-industry exhibition (the second largest exhibition of its type in Europe). The interviewee stated:

I think things are working well the APC, which we joined a short time ago, especially with the project for the opening of parking areas, which involves the municipalities (which I hope will become even stronger). [Things are also working well] with the trade fair organisation of Parma for the promotion of the Salone del Camper.

Although it is not geographically located within the Valley, Camper believes it can benefit from the possible advantages of the motorcaravan district. In any case, the firm invests in promotion

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and information campaigns throughout the year and not just in times that are institutionally organised (e.g., by the APC):

> *A promotion campaign and communication would also be useful, and maybe even education in all possible directions. Some years ago, for example, Promocamp (Businessmen Association of Open Air Tourism) promoted a series of meetings at schools with the aim of transmitting the educational values of this type of tourism, values such as respect for the environment, attention to consumption, and the pleasure of the journey to discover the hidden beauty and cultures of countries.*
> *Encouraging factory visits could be another initiative that could exploit our production, and would show the value of what we offer on the market. In this sense, I really appreciate the initiative Terre di Siena Plein Air, but this initiative should also be extended to the factories not just the Camper Valley, and it should take place at all times of the year.*
> *In terms of the motorcaravan district, I do not see any particular difficulties in not being part of it from a geographical point of view.*

DISCUSSION

The case study demonstrates that the business under analysis operates in a true niche market through a strategy of focus (Aquilani, 2008). The conditions in discriminating effects are all present, there is indeed greater homogeneity in the function of use than other products on the market, and there is a market share of approximately 0.5 per cent.

Turri & Boari manages to remain on the market and differentiate its product through the initial innovation because it operates in a niche that arose independently in the early 1980s. This is one of the four cases identified by Louart and Martin (2006, p. 22) "technological innovations with a view to adjustment and adaptation, or aiming to secure international niche markets, which interact with the internationalization process". Turri & Boari has maintained its market position over time thanks to careful management of (almost) every aspect of production, organisation and commercial. As Teece (1997, 524) argues "competences can provide competitive advantage and generate rents only if they are based on a collection of routines, skills, and complementary assets that are difficult to imitate".

The success of Turri & Boari lies in several factors:

- important choice of the products offered,
- choices concerning the production process favoured the internalisation of most stages of the production chain,

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- decisions and the resulting investments in terms of collaborations with suppliers, distributors and other stakeholders, and the efforts for the promotion and external communication of its offer.

The strength of the strategies of focus is principally in the strategic design of Turri & Boari. However, there is evidence of a weak point in the management of customer relations. This weakness could become a threat to the company when the barriers to entry in the market are overcome by a big competitor.

A 'niche-ideal' is one in which 'the company can defend against a bigger competitor that attacks using the rating that is built from the customers' (Kotler, 1993). Given that Turri & Boari are mainly a niche company that has high-quality product and image (Dringoli, 2008), it is important that the company invests in promotion, communication and advertising to support and strengthen the brand. However, the interview indicates that this is a weak point of the business:

> *There is a direct relationship with the end customer, either in the showroom or through a few phone calls or emails; however, there is no structured dialogue.*

Given the number of customers is not very high and that the type of customer is very particular, the business not speaking directly to them represents a missed opportunity to create loyalty and further develop the market. This dialogue would make it possible to listen to the changing needs of customers to ensure that the business maintains a level of technical innovation in line with market expectations (Quinn, 1995) and thus avoids entry of new competitors into the niche. Some Authors show that more market-oriented businesses are also those most innovative (Damanpour, 1991; O'Cass and Weeravardena, 2009).

The case-study analysis revealed the following further weaknesses relating to the business' future growth:

- relations with the suppliers of the various components of the vehicle
- communication
- influence on national policy decisions
- search for unexplored markets.

Achieving better results than those obtained to date with respect to the issues listed above will enable Turri & Boari to continue innovating into the future with competitive advantage. However, it must be emphasised that not all the items listed are necessarily and exclusively dependent on the choices of the case-study business.

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For example, in relation to the first point 'relations with the suppliers of the various components of the vehicle', for the supply of all the different components of the vehicle (excluding the chassis) that are not produced in-house, all the companies in the sector are facing a near monopoly in the market with all the consequences that entails. For example, for heating systems and appliances, suppliers are unique or at worst, there is an oligopoly; however, the second or third producer typically offers a product with some fundamental characteristic not up market demands final, or by the RV users that evaluate the equipment on the vehicle. Each firm could favour activating new partnerships with supplier companies that could consider the RV a possible outlet for their products; however, there would certainly be better results if they sought new collaborations through the APC with all producers of motorhomes.

Even considering communication in the realm of the single-business sector, especially the smallest of the eight, can do little if not encouraging when those associative communication investments deemed more effective and efficient. Only a combined movement could lead to having influence on national policy decisions. For example, the APC is promoting a dialogue with the institutions to approve a proposed scrapping of older vehicles in circulation to stimulate demand and free the yards (and capital) of dealerships from old vehicles.

On the last point listed, the individual firm can also make a difference by creating partnerships in the tourism sector, presenting the potential of itinerant tourism, and investing in more technical and commercial staff within their organisation, particularly considering the necessary and increasing internationalisation of the company.

CONCLUSIONS AND FURTHER RESEARCH

The case study confirms several theories in the literature and has managerial implications. First, the case study demonstrated that radical innovation of a product allows the creation of a market niche. This market niche has been strengthened with an innovative production process. The market niche that these factors can create is sufficient to create a competitive advantage for the business. Although the relationship between innovation and economic performance is still an open question in the international literature (Garcia and Calantone, 2002), if the product and production-process innovation are accompanied by a careful strategy of focus, the business will be able to maintain its competitive advantage in the long term (Hall and Mairesse, 1995; Adams and Jaffe, 1996; Chesbrough, 2007).

However, the case study has also revealed the importance of the business ensuring full adoption of all necessary investments in all business functions. For example, the danger (threat) of the lack of attention paid to direct dialogue with the customer before and after purchase.

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The conclusions of this case study can also be applied to companies from different sectors if they operate under the same basic conditions, which would be as innovative companies that offer specialty and experience goods in a niche market.

Future research should analyse the future behaviour of firms and the consequent results. It would be interesting to investigate Turri & Boari's ability to maintain its competitive advantage focusing on any future desirable investments in vertical integration, or in on any changes in the dialogue it creates with its customers. It will be interesting to analyse how long and under what economic conditions the business will succeed in maintaining such high barriers to entry through their own innovation.

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 ISBN: 978-9963-711-37-6

INNOVATION IN MULTINATIONAL COMPANIES: A PARADOX APPROACH

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ABSTRACT

Management involves dealing with contradictory demands. For instance, companies have to innovate. Innovation means that past successful behaviours to be discarded, and replaced by others for the company to forge ahead in a new environment. However, companies cannot easily forget the past: their present conditions are shaped by earlier trajectories. How can a company keep its identity, its *persona*, while changing?

This is the essence of paradox. Paradox is central in organization studies, being at the heart of innovation management. Schumpeter's idea of "creative destruction" is paradoxical in itself. Interestingly, the use of paradox in International Management is relatively limited. This is surprising, having in mind the pervasive nature of dualities (local/global, headquarters/subsidiaries, standardisation/adaptation, core/periphery, centralisation/decentralisation) in the field. It is argued that we might benefit a lot from using paradox lenses in addressing the key international management issues. The paper provides some examples of paradox thinking to improve our understanding about innovation management in multinational companies (MNEs).

The focus is put on the paradox of capability as fate *versus* capability as leverage. This was applied to the rise and fall of a long-lasting MNE: Kodak. It was found that the very capabilities which have fostered Kodak's international growth and leadership were the same which led to its fall. Kodak managers did not espouse a paradox approach, aimed at establishing an acceptable trade-off between past capabilities the creation of opportunities for the future. The company fell pray of its past, failing to reinvent itself.

Keywords: *Paradox, International Management, Innovation, Multinational Companies, Conflicting Tensions, Kodak, Capability as fate, Capability as leverage.*

INTRODUCTION

Managing is not an easy task, and managing internationally is even more demanding. As time goes by and distance increases, companies are forced to adapt their behaviours. Solutions forged in the context of the 'golden sixties' have to be discarded in an information-based society. Approaches which proved

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to be successful in Europe or the US do not work properly in China or Brazil. To a large extent, for firms competing on innovation, change is the name of the game.

However, companies cannot easily forget former behaviours and routines. Managers cannot take a rubber to erase past approaches, replacing them by (assumedly) better ones. Companies have, for the good and the bad, memories: these are the result of past trajectories and do influence their future. The combination of stability and change is at the crux of innovation management, thereby raising contradictory pressures on management. How can the company keep its identity while fostering change? The issue becomes even more complex when time and space are combined. That is the challenge of multinational companies, which simultaneously face time pressures (leading in launching new products) and space pressures (how to reconfigure the company in an increasingly Eastern-bound world?). Very often, firm heritages, best practices, and core capabilities are the very factors behind companies' fall.

This leads to paradox. How to reconcile contradictory demands by generating new syntheses that may grant the company a competitive edge?

According to Clegg *at allii* (2002) the organization itself is based on paradoxical thinking: it is made of independent, creative individuals who, by belonging to the organization, do accept a control structure. Paradox is also at the heart of innovation management, as expressed by Schumpeter's (1942)'s concept of "creative destruction". Unfortunately, however, the use of paradox in management studies, especially in International Management, is very limited. Interesting exceptions are Hong and Doz (2013), Monteiro (2015), O'Grady and Lane (1996) and Song and Chin (2008). However, dualities are central to international management, from local/global and standardization/adaptation to headquarters/subsidiaries and core/periphery.

This paper is aimed at providing a contribution to use a paradox perspective to improve our understanding about innovation management in multinational enterprises (MNEs). We will follow an "appreciative theory" approach, in line with Nelson and Winter (1982) and Nelson (2005). The paper is organized in four sections. The first addresses the concept of paradox and its managerial implications. The second goes further to focus on the role of paradox in International Management, highlighting how contradictory pressures are at the heart of managing innovation in MNEs. Then, an analysis of the role played by paradox is provided, focusing on the failure of a multinational 'star': Kodak. The key managerial implications are derived in the concluding section.

PARADOXES IN MANAGEMENT

Paradox corresponds to apparent conflicting propositions which are simultaneously present so that actions aimed at resolving the inherent tension entail to new dilemmas (Abdallah *et allii*, 2011; Clegg *et*

ISBN: 978-9963-711-37-6

allii, 2002; Lüscher and Lewis, 2008; Sutherland and Smith, 2011). A paradox involves "tensions, oppositions, and contradictions" (Poole and Van de Ven, 1989: 563-4).

Paradoxes are pervasive in management, applying to multiple dimensions of business administration. Goddard and Eccles (2013:132) convincingly argue that "the need for extraordinary management suggests a poorly designed organisation". In the same vein, Cunha and Rego (2010) suggest that "complex organising may be paradoxically facilitated by a simple infrastructure, and the theory of organisations may be viewed as resulting from the dialectic interplay between simplicity and complexity". Taking a different perspective, Sutherland and Smith (2011) provide a broad list of examples of tensions regarding the continuity *versus* change duality. It includes *inter alia* the following: control *versus* flexibility; planning *versus* action; leadership *versus* empowerment; differentiation *versus* integration; individual *versus* group; and internal *versus* external focus. All these tensions have important managerial implications.

Let us consider two of them: leadership *versus* empowerment; and internal *versus* external focus. Leadership may be envisaged as the capacity to develop a vision and to mobilize others to commit themselves to carry out the activities perceived as required to turn the vision into reality. Empowerment is based on the idea that individuals may take individual actions aimed at the benefit of the company as a whole. The two perspectives seem contradictory: what does leadership mean, if individuals take actions in their own initiative? Such a contradiction, however, does not hold if a closer analysis is taken. On the one hand, empowerment only makes sense when it is framed in a wider perspective: individual action takes place in an overarching corporate context. On the other, leadership is not absolute power. Leadership is to some extent stewardship to provide the conditions for better decision-making and for more appropriate and timely action. And this may occur at different levels in the company.

Turning now to the internal *versus* external focus, one is faced with another contradiction. The company needs to keep an internal focus based on its *weltanschauung*, history, administrative heritage and core capabilities. It develops a way of 'how things are done out here', to use Sidney Winter's words. However, the company cannot become too inward-looking. It cannot survive if its value propositions no longer hold in the market. Very often, competitive challenges come from the periphery, and not from traditional competitors. If the company is not aware of this, it risks being unable to anticipate and respond external change. However, this does not mean that the company should just be concerned with outside challenges. No company will be sustainable should it define its strategy just on the basis of positioning to take profit from (perceived) changes. Doing so is likely to stimulate a 'go with the wave' behaviour, which puts into jeopardy the company's distinctive

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capabilities. Therefore, there is a need to combine the two 'ends': looking around while taking into account firm's capabilities, and exploring firm's capabilities while anticipating market trends.

These examples suggest that dealing with paradoxes does not require an 'either/or', but rather an 'and' approach. The two 'horns' of the paradox are related, and they may not be amenable to elimination, as Clegg *et allii* (2002) has remarked. Some kind of balance or 'escape', involving both 'ends', has to be crafted. The literature indicates that very often a definitive response to the underlying tension is not possible, being at best temporary, and such a response is in most cases an outcome of action, being "enacted, not designed" (Clegg *et allii*, 2002). Drawing from extant literature, especially from Poole and Van de Ven (1989), five main approaches to address paradox may be pointed out: opposition recognition; spatial separation; temporal separation; integration, and synthesis.

Opposition recognition involves the constructive acceptance of paradox. This may be done by emphasizing one of the poles, as is the case of franchising, in which the standardization pole clearly prevails over adaptation. In spatial separation the company identifies the most appropriate organizational levels to focus on each 'horn' of the paradox, as happens in the development of an internationalization strategy. Temporal separation may be adopted in line with the development of a product life cycle or of a technology S-curve. In earlier periods, before the emergence of a dominant design (Abernathy & Utterback, 1978), innovation activities are focused on experimenting new product designs, while after such emergence effort is concentrated on process innovation. The fourth approach is integration, which involves the design of operational methods for the 'quasi-resolution' of the paradox. Finally, synthesis requires the development of a new concept or perspective to respond the paradox. In dialectical terms, it corresponds to a creative reframing of the terms, in order to transcend the original thesis and antithesis. The "discourses of transcendence" (Abdallah *et allii*, 2011), providing a new opportunity window for organisations faced with perceived deadlocks, are examples of a synthesis approach. These five approaches may apply to different issues faced by companies, from company restructuring to strategy.

They may also apply to MNEs. As shown above, they are especially prevalent in this type of companies, which face even strong contradictory demands, stemming particularly from the dispersed international configuration of their assets. In fact, the need to accommodate different local production and marketing conditions and requirements is very acute in this type of organization. A MNE has different types of 'embeddedness' (home country, host countries, industry, value chain), each one with specific characteristics (Andersson, Forsgren and Holm, 2001 and 2002). This raises tensions, contradictions and, therefore, managerial challenges. We will turn now to the role of paradox in International Management.

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PARADOXES IN INTERNATIONAL MANAGEMENT

One of the first things that students learn in any International Management course is that different local conditions and forces need to be taken into account. In spite of globalization pressure towards international homogenisation, local differences are still strong, from culture and language to product preferences. Such differences are sharpened when there is a need to manage people in different locations. This means that there is not a 'one best way' for managing internationally. Successful managerial approaches in a given country do not hold in others. For instance, some Portuguese firms had to change their organizational charts in Brazil, increasing the number of organizational layers, in order to adapt to a higher power distance culture.

If one turns to product development, differences are also significant. The Centre of Excellence for domestic water heating of the Germany-based Bosch Group has learned, at its own cost, how solutions which were appropriate for Europe did not hold for China. Bosch entered China with a model whose high levels of quality and security were not "valued by the Chinese market". Because Chinese customers did not value quality and security in the same way as European ones, the company found that "it had neither a product nor a price appropriate for the Chinese market" (Diário de Notícias, 2007).

Some years ago, Whirlpool launched a project to develop a new type of laundry washing machine, in order to develop a worldwide machine. There was a perception that different washing habits might be overcame through the development of a machine that might combine the features of different approaches in a coherent whole (Financial Times, April 29, 2002). A team comprising designers, engineers and marketers from the Whirlpool units in Germany, Italy and the USA worked on a new washing machine design, combining the European approach of frontal feeding with American requirement to process large volumes of clothing. However, the product was marketed under two different brands ('Duet' in the USA, and 'Dreamspace' in Europe). However, this approach failed in China and India, leading to another cycle of adaptation to specific product conditions.

These examples show how international product convergence, intended to foster the global 'horn' of the local *versus* global paradox, have failed. The best that companies may aspire to is the development of robust (basic) designs that might then be adaptable to different local market requirements.

The local *versus* global tension is related to another paradox: efficiency *versus* adaptation. In fact, the quest for efficiency and lower production costs has led to the identification of a few production sites for worldwide manufacturing of standardized products. However, this runs counter the need for adaptation and fast reaction to market changes. The decline of production in China by US firms is not just due to wage increases: it also stems from logistic requirements, and the need to locate production activities closer to marketing places (The Economist, 2013).

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Another relevant International Management paradox refers to headquarters' control *versus* subsidiary initiative. The traditional 'command-and-control' approach assumes that subsidiaries should behave as 'agents' of the 'principal' (headquarters). These are in charge of designing the overall company strategy, which should be 'rolled out' or 'deployed' internationally through subsidiaries. However, such a centralized approach, further enabled by Enterprise Resource Planning (ERP) software, risks to seriously undermine the potential contribution from subsidiaries, which know local conditions and are closer to the 'front-line' (Yamin and Sinkovics, 2007). For the same reason, Bartlett and Ghoshal (1989) underlined the risks of an excessively centralized approach. They argued in favour of a "transnational solution" (Bartlett and Ghoshal, 1989), and suggested that the MNE should be envisaged as a 'differentiated network' (Ghoshal and Nohria, 1997), in which subsidiaries play a key role in perceiving opportunities, in adapting implementation to local conditions, and in sourcing and learning about specific knowledge which might be combined with the MNE's knowledge base (Bartlett and Ghoshal, 1989). However, some authors –for instance, Benito (2005) or Ghemawat (2007) –contend that the transnational approach is very difficult to implement, since it puts a heavy pressure on management. Additionally, such approach may fell prey to anarchy, by giving too much freedom to subsidiaries, whose interests may be conflicting. Bartlett & Ghoshal (1989) argument that, instead of creating an organizational matrix, companies should aim at building up a matrix on managers' heads corresponds to the recognition of the inherent tensions, and implicitly suggests a spatial separation strategy.

Interestingly, subsidiary's knowledge-sourcing role entails another paradox. If subsidiaries are to learn from local clusters or environments (Birkinshaw and Hood, 1998), they need to develop a local, external, network to interact with local counterparts to develop knowledge together, and also to absorb knowledge; this has been labelled "local embeddedness" (Andersson *et allii*, 2001 and 2002). But it may run counter the integration of the subsidiary in the MNE network itself. In other words, the need for increased local embeddedness may run counter subsidiary's "internal embeddedness" in the MNE itself. Again, a balance has to be achieved. Subsidiaries may be envisaged as network coordinators (Simões, 2002), but the trade-off between local and internal networks is not an easy task. If the subsidiary leans too much towards the local network, it may generate centrifugal pressures. It is bends too strongly towards the integration in the MNE group, the very objective of learning from the local environment may be put into jeopardy.

The recent work by Monteiro (2015) provides a new paradoxical issue on this regard. His research focused on a MNE which has created subsidiaries with a knowledge-sourcing role to overcome local search. However, even in this case, headquarters' decision makers show a bias towards market proven opportunities that confirm MNEs' pre-existing knowledge. This means that, even though the MNE

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seems to be open to assign subsidiaries responsibilities for worldwide knowledge-sourcing, the weight of entrenched views may constrain the evaluation and exploitation of new technology approaches and business opportunities.

More than providing a whole picture of the main paradoxes in international management, the purpose of this section has been to highlight a few examples on how paradox thinking impinges upon International Management. All of them deal, directly or indirectly, with product, process and organizational innovation in MNEs. In the following section, the focus will be put specifically on this issue. To illustrate the challenges faced, the case of Kodak will be used. In fact, in our view, the fate of Kodak epitomizes key issues of innovation management in MNEs: paradoxically, the same factors which have been behind Kodak's centenary leadership were the same which led to the company's fall.

PARADOX IN INNOVATION MANAGEMENT IN MNES: THE CASE OF KODAK

Innovation is an increasingly important competitive factor in a fast-changing, global World. Innovation production and diffusion have become global, in spite of local differences. The concepts of home base exploiting, home base augmenting or borderless (Kuemmerle, 1997; Rocha *et allii*, 2014) have been introduced with a view to better understand how global organizing for innovation takes place. Paradox lenses may be used to address a wide set of innovation challenges in MNEs. An encompassing approach to this issue is out of the scope of the present paper. Here we will delve on just one paradox, though a very important one: capability as leverage *versus* capability as fate. The case of Kodak will be used to illustrate the main underlying tensions and contradictions. The headlines of the case are introduced first, being followed by a discussion of the main implications.

The Rise and Fall of Kodak

Kodak was born in the 19th century. In 1900, it launched the Brownie camera, a model which could be bought for one dollar, plus 15 cents by the film (Brachmann, 2014). In 1912, Kodak Vest Pocket camera was launched; the model was discontinued in 1926, after selling by the millions. The 1888 slogan 'You press the button, we do the rest' worked magnificently. Kodak's business model was, since then, based on selling cameras at relatively low cost, while earning most money from film sales and processing. Following the missionary approach (Hedlund and Kogut, 1993) that characterized most American firms until the 1960s, Kodak swiftly expanded internationally. People just wanted 'to press the button' to have the pictures delivered later. A key vector of Kodak's international spread was the dealership network: one could find a place to buy and process Kodak firm everywhere. The company revenues peaked at about 16 million USD by 1996 (The Economist, 2012). To put in a nutshell, Kodak's

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fortunes were based on three main factors: its chemical knowledge base on film-processing, its business model, and its worldwide dealership network.

Ironically, the digital camera was invented in mid-1975 by a Kodak engineer, Steve Sasson (Brachmann, 2014). Obviously, image quality was lower than the one provided by films. Furthermore, the camera was too large and heavy. Brackmann (2014) points out that some people in the company understood the potential of filmless photography, being estimated that some 15 to 20 years would be needed to make the technology viable for consumers. The Economist (2012) recalls that in 1979 Larry Matteson, a former Kodak executive, wrote a report forecasting how the adoption of the new digital technology would evolve, from government reconnaissance, through professional photography to the mass market by 2010.

In the 1990s, Kodak's CEO George Fischer made an attempt to change Kodak's expertise from chemicals to imaging (The Economist, 2012). The compact digital model DC-25 was launched. The focus was put on developing the best photo storage medium. It was not able to notice that the differences between photo storage and other forms of information storage were vanishing (DiSalvo, 2011). Additionally, the launch of digital cameras, some of them with image-sharing facilities, was carried out in the context of the old film-processing dealership network. In 2012 Kodak filed for article 11, regarding the cameras division. The old leader had not been able to resist the growing digital market, something that ironically Kodak itself had contributed to emerge.

DISCUSSION

In our view, the case of Kodak provides a good example of the capability as leverage *versus* capability as fate paradox. Kodak was able to develop the first prototype of a digital camera. As mentioned above, it has even launched digital cameras in the market. Its key weaknesses were not so much in the technological field. They were chiefly of organizational nature. The very perception of its key capabilities (chemicals, film technology, and the worldwide dealership network) led the company to frame the business according to these principles. As Brachmann (2014) put it, for Kodak "there was nothing more important for company's success than protecting its interests in film photography". Business opportunities were framed on the basis of this reasoning. Since digital, filmless imaging was not convergent with such capabilities, it was felt as a challenge that risked to kill the 'goose that lays the golden egg'. Therefore, investing in filmless imaging would amount to canibalise what Kodak envisaged as the real business: film photography.

Other reasons for Kodak's demise have been pointed out. Rosabeth Moss Kanter, once a company's consultant, points out in her analysis that Kodak's executives "suffered from a mentality of perfect products, rather than the high-tech mindset of make it, launch it, fix it" (The Economist, 2012).

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Another issue raised by the same author concerns the one-company town complex: managers of a worldwide leader became inward-looking, being to a large extent insulated from criticism, and from a World in which emerging markets were gaining the lead. In spite of its dealership network, Kodak became confined in its home turf, being to a large extent deaf to the warning signals coming from the outside world. These are interesting considerations which converge with our argument that the main problem was in the organisational front.

However, in our view the key problem has been that Kodak managers tacitly assumed that its core capabilities should not be challenged: they were like diamonds, they seemed to last forever. The legacy of the past 'framed' the way how the future might be perceived and imagined. To use Leonard-Barton's (1995) words, core capabilities became core rigidities. Dynamic capabilities (Teece, 2009) did not develop. The company's capabilities were envisaged as fate: for most of Kodak's community, the company was film and retailing. Paradoxically, the company fell prey of its historical assets. The very factors behind its growth and leadership were the same that prevented it from shaping a different future. For too long, Kodak's management have neither questioned the value (and the drawbacks) of its core capabilities nor used them as a leverage to create the future. The company was not able, through action, to enact a synthesis (Clegg *et allii*, 2002) between past capabilities and future challenges. Should the company have embraced paradox in its current managerial approaches, things might have been different!

CONCLUSION

This paper was intended to underline the relevance of paradox thinking in management, and especially in innovation management in MNEs. In our view, extant International Management literature has not assigned paradox the relevance it deserves. While several trade-offs are commonly considered in International Management, they have seldom been viewed through paradox lenses.

We have shown how important a paradox approach may be for management, and for International Management in particular. The need to respond different, often conflicting, requirements is especially acute here, since the objectives and the visions of headquarters and subsidiaries may be distinct, and the requirements from different markets may be contradictory. For subsidiaries to perform a knowledge sourcing role, they need to empowered to establish the right connections. Otherwise, they will not be able to access the relevant knowledge.

The empirical application to the rise and fall of Kodak illustrates a relatively common innovation management paradox: the tension between exploiting and exploring or, as we put it, the conflict between capabilities as fate and capabilities as leverage. When companies, as Kodak has done, frame the future in terms of existing capabilities, developed in the past, these may become a serious

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hindrance to change. Future perspectives which did not converge with the orthodoxy were envisaged as threats, and therefore abandoned. Paradoxically, the core capabilities that raised the company to competitive heights were the same which have created the conditions for its fall.

This means that companies need to embrace paradox if they want to escape 'crystallisation'. A paradox approach provides managers with better tools to understand how the past may constrain the future, and how international management continuously requires the establishment of temporary balances and trade-offs between contradictory forces.

We do hope that this paper might have contributed to enhance the literature on management paradoxes, particularly in the international field. The study of paradox is, in our opinion, one of the most promising in International Management. The objectives of the present piece of work will be attained, if it will stimulate further research, particularly empirical research, in the field.

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 ISBN: 978-9963-711-37-6

UNDERSTANDING THE INTERNATIONAL MARKET SELECTION DECISIONS OF THE SOCIAL ENTERPRISE

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ABSTRACT

The role of the social enterprise (SE), as an actor of development has increased significantly over the years. SEs thrives to achieve a social mission while maintaining the financial sustainability. This creates a hybrid form of organization, which combines the characteristics of both for-profit and non-profit organizations. With the expanding role, recent years have seen a significant increase of cross boarder activity by these SEs. Despite the importance, as far as our knowledge is concerned, there have been only very few studies done in the area examining internationalization of the SE. Therefore the objective of the study was to examine the impact of target country macro-economic factors on international market selection of SEs. Study examine the impact of three macro-economic factors namely level of development, country risk and country institutional strength. Each factor was measured through two indices, where, level of development was measured through HDI and GDP; while country risk was measured through OECD risk index and Euler Hemes risk index and finally institutional strength was measured through rule of law and government effectiveness. The study then couples these macro-economic data with international market entry decisions made by 32 Microfinance SEs, and analyze them using logistic regression. The study reveals that SEs select target markets that are less developed, characterized by greater risk profiles, and governed by relatively week institutions.

Keywords: *Social Enterprise, Market Selection, Internationalization, Location Strategy, Microfinance, Country Risk*

INTRODUCTION

The role of the social enterprise, as an actor of development has increased significantly over the years (Sharir and Lerner, 2006). Social enterprise thrives to achieve a social mission while maintaining the financial sustainability (Doherty et al., 2014). This creates a hybrid form of organization, which combines the characteristics of both for-profit and non-profit organizations.

With the expanding role, recent years have seen a significant increase of cross boarder activity by these social enterprises. Social enterprises normally are non-profits with a rare exception. Despite the

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growing presence outside their boarders by social enterprises, not much attention has been focused on systematically examining the process used by these organizations in internationalizing their operations. Internationalization is a process which involves key crucial components; including motive for internationalization, international market selection, entry mode choice, etc. Out of which, where they decide to operate or the market selection decision taken by these social enterprises are very important, since it has direct bearing on achieving its fundamental objective which is satisfying needs of its beneficiaries as well as on achieving the financial sustainability which will help their continuance. Further, examining the market selection decision will allow theorists to understand the extent to which, social enterprises are willing to compromise on their social mission in pursuit of financial sustainability.

Despite the importance, as far as our knowledge is concerned, there have been only very few studies done in the area; in fact even the general concept of social enterprise needs more research (Pless, 2012). Therefore the main objective of the study is to understand the factors which influence the international market selection decisions of the social enterprise. In order to archive this objective study used Microfinance (MF) industry, this was due to two main reasons. First of all MF industry has recently seen a dramatic increase of social enterprises operating, and second of all it is one of the most internationalized industries in the world, thus providing a classic case for analyzing the study objectives. Majority of the data collected were based on secondary data sources, however where necessary fresh data was collected for verifications purposes.

LITERATURE REVIEW

Nonprofit organizations (NPOs):

NPOs have become important actors in international development in recent years (Zulkhibri, 2014). Despite the growth and the importance, the sector remains loosely defined. The industry also referred to as voluntary sector, non-governmental sector, tax exempt sector, independent sector, charitable sector, etc interchangeably. As far as the study is concerned it use the definition by Hansmann (1980), "an organization which is barred from distributing its net earnings, if any, to individuals who exercise control over it, such as members, officers, directors, or trustees".

NPOs are different from mainstream for-profit organizations in several ways. The study discusses two key differences; objectives and financing. NPOs primary objective is to create as much positive social change as possible, for-profits on the other hand would primarily focus on profits. As far as financing is concerned, financing for for-profits are provided by their shareholders and through debt markets thus the organization is responsible for them. NPOs on the other hand are supported by multiple

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sources, including donations by donors, voluntary work or work at a lower salary by employees making the organization primarily responsible for them.

Social enterprises (SE):

Social enterprise can be defined as a "business with a primary social objective which re invests any surpluses in the business for the social purpose or in the community, rather than being driven by the need to maximize profits for shareholders and owners" (DTI, 2002). Elaborating further Ebrahim et al. (2014) defines social enterprise as " an organizations whose primary objective is to deliver social value to the beneficiaries of their social mission, and their primary revenue source is commercial, relying on markets instead of donations or grants to sustain themselves and to scale their operations". As highlighted in the definitions, Social enterprises try to achieve its social missions through integrating market mechanisms for continued operations rather than based on conventional grants and donations, like conventional nonprofits (Stevens et al., 2014), however this happens in such a manner so that "economic activities are means towards social ends" (Ebrahim et al., 2014). The idea is to create social value but at the same time make the activity sustainable by earning majority of its own revenues (Doherty et al., 2014). The concept first emerges among NPOs, which were looking for solutions for the threats arising as a result of diminishing grants from governments and other donors (Dees and Elias, 1998). It is important to note that, as the name implies in a social enterprise and explained earlier, social value creation becomes the dominant objective, however to what extent is less understood, especially with the limited research in the area (Stevens et al., 2014). Thus the study would extend the current understanding on the extent to which social enterprises are motivated by economic value creation in their expansion strategies in the microfinance context.

International market selection:

International market selection (IMS) is one of the most important as well as a complex decision an organization has to make during its expansion across borders (Papadopoulos and Martín, 2011). IMS of an organization will be mainly influenced by factors of two levels; target country level factors and firm level factors .Target country level factors include market potential, competition, economic factors, political factors and social factors. Firm level factors include resources (human, financial, etc.) and competencies (technical, managerial, etc.). As far as current study is concerned the study are only focused on the impact of target country factors.

There are number of theories which are used by researchers', in order to explain IMS by organizations, these include Uppsala model (Johanson and Vahlne, 1977), eclectic paradigm (Dunning, 1988), network approach (Johanson and Mattsson, 1988), business strategy approach (Welford and Prescott,

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1992). Uppsala model highlights the importance of understanding the markets and argues that firms will have better understanding of psychically closer markets, thus making them more favorable (Johanson & Vahlne, 1977). Eclectic paradigm emphasizes primarily on managing the cost of transaction, thus highlights the importance of ownership (O), locational (L) and internalization (I) advantages (Dunning, 1988). Network approach emphasizes the importance of relationships organizations maintain (Johanson & Mattsson, 1988). The business strategy suggests a situational approach by balancing opportunities and risks pertaining to the market (Welford & Prescott, 1992).

Microfinance industry:

Microfinance deals with providing banking services to poor, who are normally considered un-bankable by the mainstream financial sector. "Microfinance service providers can be categorized into three groups; member based cooperatives, NPOs or shareholder firms" (Mersland, 2009). The role of SE's as microfinance service providers had grown significantly over the years; especially with more and more nonprofits in the area adopting business like strategies to achieve their missions. Due to these specific characteristics of microfinance; having a social mission but at the same time using business like strategies, it would be interesting to examine how these organizations behave in their international marketing endeavors.

Hypothesis development:

Market potential:

Level of market potential is one of the key determinants of market entry when it comes to mainstream for-profit sector (Sinha et al., 2015). Market potential is comprised with size of the market, expected growth rate and the potential for product acceptance. Greater market potential is associated with higher profits, both in the present term as well as in the future. As a result generally, market potential is greater in countries with higher levels of developments. However, when you consider the microfinance sector they mainly concentrated on relatively poor customers who are not served by the mainstream banking sector (Mersland, 2009), thus it is logical for microfinance related organizations to operate and enter places where there are customers. Further due to their social oriented objectives, the organizations can create a greater impact by operating in less developed countries. Therefore the study argues that,

H 1: Social enterprises are more likely to operate in countries characterized by low rather than high levels of development.

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Country risk:

Target country risk in mainstream management literature is considered to be a factor which has negative impact on country selection strategies (Majocchi et al., 2015). This is primarily due to the negative relationship between profitability and risk. However as far as social enterprises are concerned, due to their neutrality on profit, the impact of risk may be different. In fact higher risk countries are comprised with more vulnerable communities, thus providing greater opportunity for social enterprises to achieve their social aspect of the mission. This is the reason why The study see significantly higher number of NPOs operating in comparatively high risk countries (Wapner, 2015). However it would be interesting to examine the impact of economic related aspect of the mission on selecting target countries with higher risk profiles. Thus The study believe this is a hypothesis which will help us expand our understanding on duality of the mission persuaded by social enterprises. Having this in mind the study propose,

H2: Social enterprises are more likely to operate in countries characterized by high rather than low risk profiles.

Strength of institutional environment:

Institutions in a given country influence and govern the way that country operates, thus countries with stronger environments provides environments which are more conducive to organizations as well as individuals (Godinez and Liu, 2015). Stronger institutions facilitate business transactions by reducing transaction costs and increase quality of life of individuals. As a result countries with stronger institutions are preferred by for-profit organizations in their international expansion decisions (Marušić and Penev, 2015). Countries with weaker institutions provides an opportunity for social enterprises to achieve their social mission by increasing their quality of life, while at the same time will make achieving their economic mission more difficult. Thus it would be interesting to find out how social enterprises try to manage this tradeoff. Therefore The study propose following hypothesis.

H3: Social enterprises are more likely to operate in countries characterized by weak rather than strong institutional environment.

METHODOLOGY

Sample:

The sample is based on organizations listed on the directory of the European Microfinance Platform (2013). The directory lists, a total of 65 registered Non-profit MF organizations. Out of which 14 organizations had to be dropped due to lack of relevant data. Remaining 51 organizations were filtered for organizations with - international presence, European origin, and equity interventions.

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This resulted in a sample of 32 organizations, based on which a dataset of market entry decisions was built by pairing each organization with 207 potential countries and territories to enter. The final data included 6624 observations in total, out of which 649 were entry decisions/presence in market, while 5975 were non-entry decisions/non-presence in market.

Data collection procedures:

Most data used in the current study is based on secondary sources. The data set was created by the author based on multiple sources as presented in Table 1. Organizational data was collected from the European Microfinance Actors Directory (2013), published by the European Microfinance Platform. However, in a number of occasions, directory information was verified by examining the individual websites of the respective organizations. Furthermore, in cases of discrepancies and missing information, organizations were also contacted via email for such clarifications.

Variables used in the study:

Dependent variable:

Whether a given organization was operating or not in a given country was used as the dependent variable of the study. A dummy variable was created for this purpose, where the value "one" was assigned when an organization was operating in a country and value "zero" was assigned when an organization was not operating in a country.

Independent variables:

The study examined the influence of three macro environmental factors on market selection and operation of microfinance SEs as independent variables.

Level of development, was measured using country level data on Gross Domestic Product (GDP) per capita and Human Development Index (HDI) scores, both as proxies. GDP per capita data and HDI data relevant to all the countries were collected using the World Bank (2014) and UNDP (2014) data sets.

Country risk was measured using the OECD (Organization for Economic Corporation and Development) country risk index and the Euler Hermes Risk Index. In the former country risk is assessed using a quantitative assessment of country credit risk in combination with a qualitative assessment of political risk and/or other risk factors not taken into account by the quantitative model (OECD, 2014). The second indicator used is the Euler Hermes Risk Index (EHRI), which combines five dimensions in determining country risks, including - macro-economic status of the economy, structural soundness of the business environment, political environment, financial flows and cyclical

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risk indications (Euler Hermes, 2014). Here, the values ranged from 1 to 4, where higher values represent higher risks. For this indicator, only the most recent EHRI (2014) data could be obtained.

Institutional strength was measured using the rule of law and government effectiveness scores as published by the World Bank as proxies. Both the scales ranged from -2.5 to +2.5, representing lower to higher perceptions on institutional strength in terms of rule of law and government effectiveness. In order to avoid biased results from particular circumstances of any specific year; the researchers used the average figures from four data points (2000, 2004, 2008 and 2012) relating to all indices except EHRI where the most recent data was used. \

Control variables:

The study decided to control for two variables namely, clustering and government priorities, as the study wanted to highlight and isolate the impact of target country related factors. Clustering was measured the total numbers of other NPOs (in the sample) present in each specific national market. This was used as the proxy to determine the level of clustering of microfinance NPOs in the relevant countries. Government priorities were captured through an indicator of whether the target country was a colony of the home country of each organization. In order to determine whether a given country has been a colony of another country multiple internet based sources were used. This initial list was then reviewed and adjusted by an expert. Countries which were identified as colonies were assigned "one", while country which were not colonies were assigned "zero".

Table 1: Operationalization of variables

Variable	Proxy	Source	
Development	HDI	UNDP	United Nations Development Programme (2014)
	GDP per capita	World Bank	The World Bank (2014)
Country Risk	OECD Country Risk Index	OECD	OECD (2014)
	EHRI Country Risk Index	Euler Hermes Organization	Euler Hermes (2014)
Institutional Status	Rule of Law	World Bank	
	Government Effectiveness	World Bank	Kaufmann et al. (2014)
Cluster	Number of Other NPOs in	Data set.	2014

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	the country		
Home Government Bias	Colonial status	CIA Fact book, Wikipedia and expert opinion was used.	CIA (2014), (Wikipedia, 2014)

Methods:

Logistic regression model was used to analyze the potential impact of various factors on country entry/operations decisions. Unsurprisingly, the analysis revealed that development-related macro-economic variables in the target markets were highly correlated with each other. Table 2, provides a detailed account of all related correlations. Hence, the study proceeded with three different logistic regression models. Using separate models, while dealing with macro-economic data is not uncommon in the field and has been utilized in earlier research (Koch et al., 2009, Metzger et al., 2010, Berthélemy and Tichit, 2004, Nunnenkamp et al., 2009, Neumayer, 2003). The base model (B1) includes only the two control variables, home government preferences (via the colony indicator proxy) and clustering since they are assumed to be distinct from the intertwined conditions inherent to the target markets themselves. The remaining three models include the base model plus the additional variables one variable at a time, capturing level of development (H1a and H1b), risk (H2a and H2b), and institutional strength (H3a and H3b). There are no threats of multicollinearity (Hair et al., 2011), since highest value recorded for multicollinearity in the study is 1.429.

Table 2: Coefficients of correlations

	Mean	SD	Country Presence	Colony	Cluster	HDI	GDPLog	Risk (OECD)	Risk (Euler)	Rule of Law
Colony	,14	,342	,132***	1,000						
NPO Cluster	,05	,214	,424***	,111***	1,000					
HDI	4,322	4,636	-,155***	-,088***	-,366***	1,000				
GDPLog	,609	,163	-,212***	-,085***	-,500***	,873***	1,000			
Risk OECD	3,419	,579	,086***	,051***	,202***	-,605***	-,677***	1,000		
Risk Euler	5,361	1,732	,006	,010	,013	-,472***	-,549***	,718***	1,000	
Rule of Law	2,923	1,207	-,131***	-,046***	-,310***	,592***	,596***	-,612***	-,550***	1,000
Gov effec	-,334	,764	-,106***	-,041**	-,250***	,633***	,615***	-,647***	-,577***	,937***

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*Source: survey data, 2015; Notes: Significant at *p<0.1, **p<0.05, ***p<0.01*

Analysis and Discussion:

The results indicate that both control variables have a significant impact on market selection/entry decisions of SEs. First, the higher the home government preference for a particular target market, the more likely firms are to enter/select that market in their international market selection efforts. Despite having hybrid characteristics results reveals that SEs are influenced by their home government priorities just like typical NPOs. Further higher the number of other SEs present in a given country, there is a greater possibility for that country to be selected for entry/operation. Thus both control variables highlights the similarities of SEs to NPOs.

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Table 3: Parameter estimates and the regression results

Parameter		Base model	H1		H2		H3	
		B1	Model H1a	Model H1b	Model H2a	Model H2b	Model H3a	Model H3b
Home Gov Preferences (Colony)	β	0.979***	0,964***	0,962***	0,930***	0.998***	0.946***	0.962***
	SE	0.165	0.167	0.166	0.168	0,167	0.165	0.165
	VIF	1.010	1.017	1.015	1.011	1.015	1.011	1.013
Cluster	β	0.252***	0,231***	0,222***	0,223***	0.244***	0.235***	0.240***
	SE	0.009	0.010	0.010	0.009	0.009	0.009	0.009
	VIF	1.010	1.259	1.429	1.054	1.032	1.212	1.125
HDI	β		-0,911***					
	SE		0.314					
	VIF		1.258					
(log) GDP ppp	β			-0.453***				
	SE			0.095				
	VIF			1.427				
Risk (OECD)	β				0.062*			
	SE				0.033			
	VIF				1.046			
Risk (Euler Hemes)	β					0.123***		
	SE					0.040		
	VIF					1.019		
Rule of Law	β						-0.325***	
	SE						0.067	
	VIF						1.207	
Government Effectiveness	β							-0.243***
	SE							0.067
	VIF							1.122
Constant		-3.595***	-2,886***	-1.900***	-3,627***	-3.864***	-3.617***	-3.580***
		(0.078)	(0.222)	(0.350)	(0.198)	(0.146)	(0.081)	(0.80)

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Observations	6435	5888	6336	4768	6112	6592	6464
Cox&Snell R^2	0.144	0.148	0.148	0.146	0.146	0.147	0.146
Nagelk R^2	0.304	0.298	0.308	0.269	0.296	0.310	0.304
Log Likelihood	3218.572	3101.527	3128.252	2971.096	3171.180	3192.691	3195.392

*Source: survey data, 2015; Notes: Significant at *p<0.1, **p<0.05, ***p<0.01*

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Impact of target country development on country selection decisions of SE's was the focus of the 1st hypothesis. This was tested using two indices as proxies, HDI and GDP (PPP). Results reveals that HDI and GDP values are negatively related with a possibility of a target country been selected as a candidate to entry/operation. In other words lower the HDI and GDP values greater the chance of that country been selected for entry. 2nd hypothesis of the study examined the impact of target country risk and the particular country been selected as an international market. The study used two risk indices OECD and Euler Hemes to test the hypothesis. The analysis reveals that there is a positive relationship between target country risk and that country been selected for entry/operation. This means that SEs select countries which are comprised with greater risk profiles. Final or the 3rd hypothesis dealt with the relationship between target country institutional strength and the probability of that country selected as an international destination for entry/operation. Results reveal that there is negative relationship between target country institutional strength and that country been selected as destination for entry/operations. Thus it was found out that SEs tend to favor target countries which are institutionally weak in their international marketing efforts.

CONCLUSIONS

SE has been a growing phenomenon which has received significant attention over the last few years. Despite this, research on internationalization of SE has been very limited, thus creating a critical knowledge gap. Accordingly, the main purpose of this paper was to examine the impact of target country macro environmental factors on international market selection of SE.

The study reveals that SEs select target markets that are less developed, characterized by greater risk profiles, and governed by relatively week institutions. These findings are interesting, as on one hand they run counter-intuitively to logics often employed by for-profit organizations' while on the other hand quite agree with the operations of NPO internationalization, which is also very little researched area.

In this sense, the current study attempts to contribute insights into a relatively little researched area of SEs' internationalization, while presenting one of the first cross country analyses of SEs locational decisions. And while presenting interesting findings, it also paves new directions for further research into this new field of research. In particular, future studies should consider revisiting our findings in new contexts of SEs' operations. Moreover, studies should also examine SEs originating from different home countries. Future studies should also include variables internal to the organization, which may also impact market selection decisions of SEs. And, finally, there is also room to use alternative research designs such as qualitative analyses to examine the international market selection decisions.

 ISBN: 978-9963-711-37-6

LIMITATIONS OF THE STUDY

While the current study presents interesting findings, it also has some limitations that should be acknowledged. First, market selection studies from the FPO context reveal that such decisions are influenced both by external market environment related factors and internal organization-level factors. The current study only looked at external environment related factors, In addition, the study is based on a sample of microfinance SE's of European origin. Market selection decisions of similar institutions from other home environments, as well as within other areas of NPO activity such as medical assistance, educational capacity building, etc. may reveal different results. Finally, the use of data from secondary sources, not originally compiled for the purpose of our study has both advantages and disadvantages.

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 ISBN: 978-9963-711-37-6

BUSINESS MODEL INNOVATION AND NETWORKS: A CASE STUDY RESEARCH

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ABSTRACT

Firms need to consider not only how to better sell new products and services, but also how to capture value from providing new products and services. This means that without a suitable business model (BM), innovators could fail to either deliver or to capture value from their innovations.

The present paper investigates how small-medium enterprises (SMEs) the creation of inter-organizational networks impact on the BM of the participating small-medium enterprises. The research is based on interviews to entrepreneurs and advisors of eight Italian SMEs that established a network in the Italian sector of furniture. The analysis show that the companies' engagement in inter-organizational collaborations determines a substantial change in their BMs.

Keywords: *business model, networks, innovation, value proposition; small-medium enterprises.*

1. INTRODUCTION

In a customer-driven scenario, what is relevant are not only the products being sold, but also the entire way of transferring value to customers:

Businesses therefore need to be more customer-centric, especially since technology has evolved to allow the lower cost provision of information and customer solutions. These developments in turn require businesses to re-evaluate the value propositions they present to customers (Teece, 2010, p. 172).

The economic crisis that started in 2008 and is still ongoing in many European countries has significantly affected the ability of the EU companies to innovate. Indeed, firms need to consider not only how to better sell new products and services or how to address customer needs more astutely, but also how to capture value from providing new products and services. Without a well-developed business model (henceforth BM), innovators could fail to either deliver or to capture value from their innovations.

The present paper analyses the main features of the BM of an Italian network that operates in the field of furniture, and provides empirical evidence of how the establishment of a network drove SME

 ISBN: 978-9963-711-37-6

entrepreneurs to innovate their BMs. The investigated network represents an ideal case of how firms believe that innovation happens through a change in the way of doing business, specifically cooperating with other business partners. The focus of the research is on how the components of the BM proposed by Richardson (2008) – i.e. the *value capture*, the *value proposition* and the *value delivery system* – have been reinterpreted by the companies and adapted to the context of the network. We draw on the Richardson's "integrative framework for strategy execution" as it is based on an in-depth analysis of extant studies on BM components and allows to offer an holistic overview of how a firm creates and delivers value. Attention is also dedicated to the understanding of the process that brought the firms to establish the network, how entrepreneurs and managers of different firms knew each other, why they decided to cooperate and how they are managing these relationships.

Following Yin (2009), several methods have been used to collect data: semi-structured interviews, documental analysis and direct observation.

The research has been developed following a four steps procedure: *1)* Analysis of the literature related to BMs and networks; *2)* Analysis of the existing documentation in order to get a clear scenario of the network's environment; *3)* Elaboration of a qualitative survey to be used as a guideline during the semi-structured interviews with the main purpose of obtaining a deep understanding of the network *modus operandi*; *4)* Interpretation of the findings arising from the interviews. This procedure helps in answering the following research question: Does the creation of inter-organizational networks helps SMEs in innovating their BMs?

2. THE CONCEPT OF BUSINESS MODEL

A BM articulates the logic and provides data and other evidence that demonstrates how a business creates and delivers value to customers. It also outlines the architecture of revenues, costs, and profits associated with the business enterprise delivering that value. In short, a BM defines how an organization creates, delivers, and captures value, in economic, social, cultural, or other contexts (Teece, 2010).

While there is not a convergence around the definition of what BM consists of (Zott et al., 2011), previous studies converge in adopting a broad perspective of this concept. According to Porter (2001) a BM is not a strategy: it is seen as something more, it is a whole conceptual framework that helps to link the firm's strategy to its activities.

A BM "framework" can help to think strategically about the details of the way the firm does business (Richardson, 2008). Richardson identifies three components of the BM framework: *1)* The value proposition; *2)* The value creation and delivery system; *3)* The value capture. The *value proposition* generally refers to the reasons a customer will value a firm's offering. The term includes: the offering,

 ISBN: 978-9963-711-37-6

i.e. what the firm sells or what kind of services it provides; the intended customer or target market, i.e. to whom the firm would offer; the firm's reason of existence, i.e. how the firm would do what it is meant to do better than other competitors in order to attract customers. The *value creation and delivery* system can be referred to the organization and architecture of the business itself and describes the source of the competitive advantage. A draft of the value creation and delivery system is the value chain of the product and the value creation network of the organization, since the firm has to constantly interact with suppliers, partners, distributors and other players. The *value capture* deals with the revenue model and the economic model. The revenue model describes in particular the sources of revenue or any different way through which the firm receives money in exchange for its offer; the economic model concerns the coverage of costs, the margins and various financial aspects.

3. NETWORKS AS BUSINESS MODEL INNOVATION

In the last four decades, networks have been thoroughly studied by eminent scholars who analyzed the phenomenon in extremely heterogeneous ways (Thorelli, 1986; Thompson, 2003). In consideration of the exponential growth they had in the last two decades, firms are nowadays considering them not only as a tool of defense against competitors, but as a completely new way of doing business; networks are starting to play a fundamental role in the design or architecture of the value creation process. In short, companies are including cooperation with other firms in their BM (Stacchezzini, 2014).

Despite academic literature has thoroughly studied networks and BM, not much has been said about the link between them. This while network structures need to be adopted in a long-term perspective and the BM shall become the blueprint that describes how organizations cooperate in creating, capturing, and delivering value from new innovative services or products (Haaker et al., 2006). Actually, the network structure is expected to be a good option for the growth of the firms involved and for the communities where they operate. In fact, the attempt to cooperate, to share information, and to help one another would enhance the knowledge spillover mentioned above and trigger a positive loop in which the amount of information that is shared is such that innovation and new ideas would come up much easier than if each firm would run the business by itself. Specifically, network enhance contribute to innovation by encouraging high quality interactions among skilled people and this would benefit the entire process (Moretti, 2013; Lai, 2014). Network structures can also be a useful tool for today's firms in the process of internationalization (Zardini et al., 2013) since finding international partners would help to overcome the lack of knowledge that is currently limiting smaller companies. Indeed, international strategic partners represent a gateway to sources of local knowledge and ways to overcome resource constraints.

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Moreover, networking is extremely encouraged by political institutions given their great potential to enhance competitiveness, innovation and growth. In particular, the political institutions acknowledge the vital role of SMEs in the economy and make them cooperate sometimes can be the only option for their survival. Indeed, SMEs often have to face the problem of the lack of resources even though most of times the resource that misses is knowledge (Oviatt and McDougall, 2005).

4. CASE STUDY

4.1. Methodology

With the aim of providing empirical evidence to the research question, six semi-structured interviews have been conducted: one with the CPA who was the first promoter of the network project, one with the Architect who designs some of its products, and four with entrepreneurs who actively participate to the network with their firms (Table 1).

Each interview lasted one hour on average. The companies involved in the case study allowed consulting the documents associated with the organizations' BMs. The direct observations consisted of participating to the official meetings of the network, where entrepreneurs discussed activities, results, and future initiatives of the network. The investigation started in July 2014 and lasted four months.

Name	**Company**	**Role in the network**
Mr. Gianneugenio Bortolazzi	BHR Group	CPA, external advisor
Mr. Luca Bezzetto	Luca Bezzetto	Designer, external advisor
Mr. Maurizio Marchiotto	La Tre M Snc	Entrepreneur
Mr. Stefano Rossignoli	Rossignoli Srl	Entrepreneur
Mr. Loris Soave	Soave Loris	Entrepreneur
Mr. Loris Vaccari	Andrea Arredo	Entrepreneur

Table 1. *Details on semi-structured interviews.*

4.2. Context of the study

The Italian network's experience is representative of the reality of family-owned SMEs that cooperate in order to reach a critical mass that would enable them to respond to the challenges of their new environment.

In Italy, SMEs play a dominant role, in particular small and micro companies. Ninety-nine percent of the approximately five million Italian firms have less than 50 employees and 95% less than ten. 20% of the total Italian workforce is estimated to be employed by large corporate (250+ employees), 25% if we include also medium size firms (50-250 employees). This means that 80% of the entire Italian workforce is employed be SMEs. Besides, Italian SMEs face adversities not only because of the limited

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size, but also due to a number of causes like low capitalization; weak financial structure; lack of managerial skills and strategic vision; difficulties to internationalize; limited innovation; difficulties to cope with competitive pressures.

The networks are not only used to manage relations of technical and economical complementarities, neither as a short-term strategy. Firms are using them as a tool that enables change and innovation, to reinvent them with a new long-term strategy and, in particular, to renovate their BM. What is particularly interesting is that firms of modern networks are changing the way they compete in the markets; some of them address different targets, some are focusing on processes of the value chain that can involve international players, some others are able to face the international markets thanks to a better-structured organization. Empirical evidences show us that margins obtainable within the networks exceed those achieved by the single firms. One of the reasons that explain this phenomenon is the fact that the entrepreneurial strength of a company's business cannot be limited to the creativity of a single entrepreneur, but it requires, instead, fertilization with other companies (Lionzo, 2014).

Italian Style Furniture (henceforth ISF) is the result of that long process, in which various small entrepreneurs followed a certain *journey* together, which brought them to establish this furniture and décor network. Their objective is to remain loyal to the origins and traditions of the firms but at the same time to innovate. For ISF innovation is a necessity of change in the way of doing business, to find a new BM for the future, which will represent the strategic key for their success. Thus, innovation is one of the primary goals that this network seeks: in order to offer new solutions and to enhance the competitiveness in the international markets, the entrepreneurs have chosen a new way to structure their businesses, based on the concept of *sharing*. Hence, the partners share investments (and divide the risk), strategies and knowledge in order to see themselves as allied rather than competitors.

The companies have decided, in July 2013, to commit themselves in a formal network agreement, signed with a notary act, *ex D.L. 10 February 2009 n.5*, which granted the legal recognition to the network. The components of the network are (in alphabetic order):

- *Andrea Arredo di Vaccari Andrea e Loris S.n.c.*: furniture and furnishing production. The company has a long activity in the field of art furniture started from the father's craft, which was founded in 1960. The firm is specialized in producing solid wood furniture handcrafted in the sixteenth century style, Baroque and Venetian. The brothers Andrea and Loris Vaccari decided to follow their passion for the art furniture and started their own company in 2003.
- *Bertelè Leonardo S.r.l.*: furniture and furnishing production. The company was created in 1975 by the initiative of Leonardo Bertelè, The company now specialized in the production of kitchens, living rooms and bedrooms. These products are examples of the artifacts of one of the most important cradles of the Italian craftsmanship, Cerea (VR), the place where the company is located.

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- *Bulbarelli & De Mori S.n.c.*: furniture polishing and lacquer. The company was founded in 1993 as a Sole proprietorship after years of experience in the field of painting. It becomes a general partnership in 1999 by expanding knowledge of lacquer, decorations, and various processes of wood and glass. Their process of polishing and lacquering includes nitro cycles, acrylic, polyurethane, water cycles and full shellac cycles.
- *Centro Veronese del Salotto S.n.c.*: furniture production and sale. The business was founded in 1967 by Francesco Bazzani, who started the business of furniture making, upholstery and sale of exclusive lounges. Today, the activity is directed almost exclusively to private customers of the domestic market and some minor B2B experience. The company's offer includes furniture, accessories, dividing walls, paneling, sub-divisions, kitchen furniture, upholstered furniture and household appliances.
- *Gazzani Vittorio*: furniture production and sale. The business was founded in 1966 by his father and uncle, who started the business of construction, trade and sale of furniture. The business consists of the production and sale of furniture, rooms and wall units. The process is custom-made and discussed with the customer to meet his needs. Great attention is paid to the choice of wood and essences because each piece built would then appreciate in value over time. Other important features are the wide choice of finishes for the lacquer, the handmade decoration, polishing precious, sophisticated hardware.
- *La Tre Emme S.n.c.*: furniture polishing and lacquer. The company was founded in the '80s as a varnishing and lacquer, with processing of antique, hand finishing and inserts in gold and silver leaf. In the '90s, following the experience in the construction technique and refinement, the company started to operate in the furniture industry, working closely with architects and designers for international companies. In addition to this type of production, the company has created a line of products as a complement of the furniture, such as bioethanol fireplaces, leather furniture, leather and steel, and a line "ART" which consists of unique pieces created by Italian artists, using precious and sophisticated materials.
- *Pasquali Renato Pietro*: furniture restoration. The workshop was established in 1981 after earning expertise and technical skills in other workshops in the surroundings. The business is mainly in the field of wood restoration, both for the private sector and for construction sites (churches, palaces, villas, etc.). The production concerns mainly wooden manufactured furniture, new or rebuilt, and vintage wood.
- *Rossignoli S.r.l.*: furniture production and sale. The company has been in business for fifty years, producing furniture, ensuring art, quality and prestige to its customers with pieces expertly crafted by skilled artisans, using selected materials. Tracing the history of furniture, the company has

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faithfully reproduced the content of style furnishings from the '400 to the present. Attentive to new trends in the Italian market and following the desire to establish itself in the international market, the company has expanded its offer with appropriate products to meet the new customers' needs.

- *Soave Loris*: cabinet making and realization of inlays. The company originates in 1966, in a small workshop, began producing threads for furniture and providing turning services. The main activity is to produce threads and edgings for furniture; moreover, the firm can also create compositions of cabinetry designed to enrich all types of furniture, from classic to modern, as well as providing furniture complement.

4.3. Actions for innovating business models

ISF has created a common brand that is used for all the products that are made, even though each firm maintains its own independence. As explained by Mr. Bortolazzi, the brand of the network was designed as a *"true individual, which can play a leading role in the sector; it is considered like a human being that needs to survive and to stand out thanks to the reputation that it has built. Like an individual, it needs to get to know itself, its character, its processes and the strategies of the firms it represents"*. In nowadays environment, the growth and the value creation are increasingly linked to the implementation of innovative solutions in the way of doing business; ISF aims to become an example in the field of art furniture in Verona.

After its creation, ISF has started to think about what to do, since the network experience was new for everybody. The internationalization was the main goal since the very beginning and the idea was to produce something new, specifically for this purpose. According to Mr. Bortolazzi: "*we could not face the international markets with our traditional products, we needed something innovative. That is why I had the idea to merge two worlds, the one of wine and the one of furniture. So I suggested to develop some products for the wine sector. We were just born and already had to reinvent ourselves.*"

The idea was welcomed by architect Bezzetto who designed a corner wine, inspired to the painting *Saint Jerom in his Study*, by Antonello Da Messina. In this way, ISF had a product that was coherent with its ideals of sharing, art, culture, innovation, and open-mindedness. The wine-corner has been exposed at the International Home Show – MACEF 2013, in Milan and in the church of Santa Maria in Chiavica, in Verona during an art exposition. ISF took advantage of the international wine exposition *Vinitaly 2014*, to promote its corner wine together with the wine produced by *Vinità Italia*, a network of five wine producers from the regions of Tuscany, Veneto and Piedmont.

The wine corner has been realized by almost all the partners, each one with its specific tasks. Another creation addressed to the wine sector is the one of a wine cart, which has given the opportunity to gain visibility to the network, since the carts are used for winetasting and for the restaurants. The

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goal is to sell these carts in the international markets, mainly in the United States and probably, in the future, in Asia as well. Many other efforts have been made in order to make the network known in the international markets, but a crucial point has been when Architect Bezzetto has procured the first major order for ISF. It was a contract for the supply of furniture for an Arabic customer and its amount was definitely larger than what the single companies would have ever reached by themselves. Another product, more traditional, is the box, which is clearly easier to create and it can be thought also with a different use. The boxes represent a product that provides a steady income and profit to the network. It can be designed to fulfill different usages, like jewelry boxes or wine boxes for example, and be developed for the customers' exigencies without having particularly expensive investments.

ISF acknowledges that a crucial role in its structure is played by its network of people, who have developed a new culture and business education in order to learn the benefits of this new strategy, instead of competing separately. The firms no longer see themselves as rivals from whom they have to defend their know-how, but rather as precious allied with whom sharing knowledge and innovation seeking in order to build a stronger structure that is able to compete together in tomorrow's markets.

"The next important challenge will be in Jimo – China, next January," says Architect Luca Bezzetto. The project Jimo is a part of a major Chinese government's project, which consists in opening a permanent district of the *Made in Italy* of 20,000 square meters in the town of Jimo located in the North-East of China. The city is the second largest for the volumes of wholesale trades of the country and an important location where buyers from China, South Korea and Japan meet for their regular business.

Architect Bezzetto explains, *"ISF will have a space, within the Jimo China international trade, where it will show its products and potentially use the exhibition as a distribution channel in the country. The network will bring its latest innovative products, on which we are currently working. We are thinking to a product that would embrace technology and tradition and would be suitable for the Chinese market. Our project is still a draft, but we are working on it and we think we will be ready by January 2015."*

The entrepreneurs of ISF acknowledged that they have never been used to cooperate: a training program has played a fundamental role in enabling the entrepreneurs to get into the right mindset, before creating the network. Entrepreneurs do not need simply some business courses, but also to improve their soft-skills, like the ability to listen, to be cooperative, to improve their emotional intelligence, to trust one another, and to communicate in a proper way. Only with the right mindset a network can give the best result and last over time. The members of ISF have worked hard to build a great ship, which is now safe in the harbor, but this is not what the ship has been made for. Indeed, it is now developing the right structure to get ready to sail the seas of the business world and it surely has the right potential to do it, but most of all it has the right people to do it.

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4.4. The business model innovations

From the point of view of the three components of the BM's framework suggested by Richardson (2008), the firms have changed their approach to all three; the major changes are the following (see also Table 2):

1) *Value proposition*: the offering of ISF is different from what its single firms produce. Indeed, despite all firms operate in the sector of furniture, the network creates and sells its own products. Since its very beginning, the products were innovative and new for all the firms, like the wine-carts or the corner wine. The design is accomplished by architect Bezzetto, who is in charge of suggesting new products and make sure that they can be realized by the firms. As he says, *"creativity plays a fundamental role, but the idea of a new product is a mix of various components like culture, awareness of market exigencies opportunities, feasibility, and knowledge of what the network's firms can do"*. The single firms still continue with part of their production, however, when the entrepreneur decides to take part in one of the projects developed by the network, part of the companies' activities are allocated to the network and works with other entrepreneurs to develop the products. The target customer is someone who wants some extremely high quality and exclusive furniture. ISF is aware of the high quality it can offer and made it its competitive advantage. They represent the true made in Italy, where creativity, passion and devotion for art furniture are the assets that are associated with their products.
2) *Value creation and delivery system*: the value chain can include different firms, according to the necessities of the network, every firm does what it is most specialized. Depending on the product that the network decides to create, the tasks involved in the production are split among the firms, and formalized in a contract, as it will be descripted below. Indeed, the network is, for some reasons, both vertical and horizontal; in fact, it is developed on a vertical direction because some of the firms develop consecutive steps of the supply chain since there are firms those who produce, those who take care of polishing and lacquer, and those who sell. However there is more than one firm for each step of the supply chain, who could see themselves as competitors, so the network is also developed in horizontal. Moreover, some of the players like Centro Veronese del Salotto, control their entire supply chain, from the production to the distribution centers and shops.
3) *Value capture*: for what concerns the revenue model, ISF has developed a certain structure that allows to manage its earning and to carefully share them among the partners. Indeed, when the network decides to take a certain order or to produce a new product, the entrepreneurs make a meeting where the major details are set. In that occasion, the partners decide who makes what within that production process, what the cost for each firm will be, and the final price – calculated

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as a mark-up on the costs. Based on that decision, the entrepreneurs sign a contract that states what has been decided and the production starts. When the product is finally sold, the earnings are shared in the following way: *a)* The costs established by each firm are paid and an invoice is made from the single firms to the *"capofila"* (i.e., the firm in charge of the legal compliances) who will make the final invoice to the customer; *b)* A part of the profit, after the costs have been covered, goes to the network for the common expenses, like commercials, the website, and other costs. The percentage that goes to the network is established by the contract mentioned above; *c)* The remaining part of the profit is shared among the firms that participated in the production. The percentages used to split the profit are established in the contract. Mr. Loris Vaccari states that *"having a contract is particularly useful because business relationships and human relationships can sometimes lead to argument and discussions. The contract is signed by all the parties involved, when everyone agrees on what to do and how to split the profits once the work is concluded"*.

Value proposition	***Value creation and delivery system***	***Value capture***
• Whole new offering, different products from those of the single firms, designed specifically for ISF and jointly produced • Different target customers, mainly international • Same strategic positioning (high quality, exclusivity, luxury) • Use of the concept of "made in Italy" as a competitive advantage in the international markets • Perception of the network as a single entity (same brand, same website, same image to the markets)	• Reorganization of the supply chain, which changes from order to order in a more flexible perspective • Every task is developed by the enterprise that is more specialized in doing it • Common marketing and commercial solutions, same distribution channel • Knowledge sharing and production synergies • No outsourcing in the production process: the entire production is done by ISF	• Larger volumes sold to bigger customers • Higher economies of scale, which grant higher profits • Mechanisms of cost sharing agreed on contractual basis for each project • Production costs are shared between each member firm • Profits are contractually shared between ISF and the players involved • New business opportunities grant new sources of income and financing

Table 2. *Business model innovations driven by network partecipation.*

The BM of the member firms has undeniably changed, and the whole concept of *value* is transferred from the company to its customers in a different way or, for better saying, partially in the traditional way and partially through the network. The BM of the member firms has necessarily changed because their competitive strategy has changed. Almost all had a wider offering, some have developed innovative products in which every firm does a part, others kept the same products as before but took advantage of a higher purchasing power, and some others had complementary products that were sold through a single distribution channel. One of the most important decisions is what kind of

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orders to take from potential customers and which firms are the most suitable to develop a part of them. Indeed the networks' offering has been anything but routine work. The wine carts, the wine corner, the boxes, other furniture; all the products made so far have been remarkably different one from the other and for each one the partners had to take their decisions.

The partners are convinced that reinventing themselves is the primary goal of ISF and also the only way to succeed in the future; some effort must be done if they want to overcome this moment of crisis. Some performances have already been achieved and this gave more confidence that they are on the right way. Mr. Rossignoli says: *"it is not always easy to coordinate us because every firm has its own rhythm and its own exigencies; however, even if sometimes we tend to become argumentative during our meetings, we always try to mediate with diplomacy, to respect each other's interests and to try to reach a solution that fits everyone's exigencies. It is fundamental to respect others and understand their point of view".* Besides, Mr. Vaccari Loris highlights that *"the network plays a key role in our ability to make innovations; indeed, an idea conceived by the architect or by one of us, can be immediately welcomed by us entrepreneurs and we can realize it, the ideas that arise are also feasible from a technical point of view. We know exactly what we can do and what is out of our reach".*

5. CONCLUSIONS

The crisis of the last few years has strongly questioned the individualism of Italian SMEs and showed that when every entrepreneur thinks too much for his own domain of activities he risks to lose the main point, the global view of his company in the context. Today's environment is in a continuous and dynamic change within a complex pattern of relationships; there is no such a thing as an action that ends in itself, but it necessarily influences the entire context in which all companies operate.

ISF had a rather successful experience, considering its young history and the uniqueness of the BM in its sector. The open-mindedness of its entrepreneurs and their capability to cooperate have certainly granted new opportunities that would have never been achieved otherwise. Although the entrepreneurs of Italian SMEs have proven an undeniable individualism, they often tend to uniform their behavior to the one of other similar companies and to what other entrepreneurs do. ISF can now be considered a pioneer in applying the network BM to the furniture sector, however if it will become a successful case, many others are likely to follow the same path, start cooperating to develop new opportunities, enhance growth, innovation and competitiveness.

The research has practical implications as it shows that networks are not simple synergies among firms but, first of all, networks are relationships among people. The analysis highlights that technical skills are not the only ones that are required; it is fundamental to focus on the psychological, sociological, and cultural aspects. Today's entrepreneurs need to be not only good managers, but they

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need to have the right soft skills to deal with people with all kinds of backgrounds. Thus, this is particularly true when facing the international markets, where the firms have to relate to people with extremely diverse cultures. By doing so, firms learn to change together with their environment and to seize the new opportunities that it can give and networks can surely offer the right flexible structure to do it. In short, the creation of a network allows firms to innovate their BM. In this difficult moment, the entrepreneurs can use the crisis as an opportunity to reshape their firms' BM in a way that it will be more competitive in tomorrow's markets, because if the environment has changed and consumers' needs have changed with it, firms need to adapt consequently.

Considering the role of soft skills in orienting decision-making and action, future research may explore the role of organizational culture in shaping collaboration and trust within business networks.

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 ISBN: 978-9963-711-37-6

INNOVATION AND MARKETING STRATEGY FOR MEDIUM ENTERPRISES- AN INDIAN STUDY

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ABSTRACT

The Small and Medium enterprises today constitute a very important segment of the Indian economy. The development of this sector came about primarily due to the vision of Government policies framed right after independence which stressed to develop small enterprises. MSMEs sector has emerged as a dynamic and vibrant sector of the economy. The Indian economy is expected to grow by over 8 % per annum until 2020. Results indicate that as of 2007, there are about 26 million MSMEs providing jobs for 60 million persons. Out of this 28% are in Manufacturing and 72% in services.

As per the fourth Census of MSMEs report published in 2012, the total numbers of MSMEs in India are 36 million employing over 80 million people. It is the second largest employer after agriculture. It also accounts for 45 % of total industrial production, 40% of total exports and contributes very significantly to the GDP. Manufacturing segment within the MSME contributes to 7.09% of GDP.

In spite of these facts, they still face numerous problems which are further discussed in the main paper. They also have good opportunities which need to be tapped effectively for their overall growth. This is a research paper which gives guidelines for efficient Marketing strategy for medium enterprises in India.

Keywords: *MSMEs, Innovation, Marketing strategy, Manufacturing*

INTRODUCTION

Micro Small and Medium Enterprises is an integral part of the Indian industrial sector. The distinctive features of MSMEs are less capital investment and high labour absorption which has created unprecedented importance to this sector. As per the Development Commissioner of Micro, Small and Medium Enterprises (2001), the sector has the credit of being the second highest in employment, which stands next to agricultural sector. The nature of the businesses in this sector plays an important role to alleviate poverty and propel sustainable growth and equitable

 ISBN: 978-9963-711-37-6

distribution of income in India. MSMEs sector can be emerged as a dynamic and vibrant sector of our Indian economy. The Indian economy is expected to grow by over 8 per cent per annum until 2020. As per the 4th Census of MSMEs report published in 2012, the total numbers of MSMEs in India are 36 million employing over 80 million people. It is the second largest employer after agriculture. It also accounts for 45 % of total industrial production, 40% of total exports and contributes very significantly to the GDP. Manufacturing segment within the MSME contributes to 7.09% of GD. The total contribution of MSMEs to the GDP is 37.54%.These enterprises can be rightly called as the backbone of the GDP of India. In spite of their contribution, MSMEs have got good growth potential which can be tapped suitably by the Government effectively.

1.1CLASSIFICATION:

In India, the enterprises have been classified broadly into manufacturing and those engaged in providing or rendering of services. These categories of enterprises have been further classified into micro, small and medium enterprises based on their investment in plant and machinery for manufacturing enterprises and on equipment for enterprises providing or rendering services (Development Commissioner of MSME, 2009). The limit for investment in plant and machinery for manufacturing / equipment for service enterprises before and after October 2, 2006 are as under:

Table no. 1: Old definition (before October 2, 2006

Sector	Micro enterprises	Small enterprises	Medium enterprises
Manufacturing	Up to Rs.25 lakhs	Above Rs. 25 lakhs to Rs. 1 crore	Not defined
Service	Up to Rs.10 lakhs	-	Not defined

Table No.2:New definition (from October 2, 2006)

Sector	Micro enterprises	Small enterprises	Medium enterprises
Manufacturing	Up to Rs. 25 Lakhs	Above Rs. 25 Lakhs but does not exceed Rs. 5 Crores	Above Rs.5 Crores but does not exceed Rs.10 Crores
Service	Up to Rs.10 Lakhs	Above Rs. 10 Lakhs rupees, but does not exceed Rs. 2 Crores	Above Rs. 2 Crores rupees but does not exceed Rs. 5 Crores rupees

ISBN: 978-9963-711-37-6

2.0 REVIEW OF LITERATURE

The Micro Small and Medium Enterprises (MSMEs) play a vital role in the Indian economic structure due to its significant contribution in terms of output, exports and employment. For a developing nation like India, where the labour is abundant and capital is scarce, the small sector is a major source of employment for millions of people. Keeping in view the importance of MSMEs, the Indian government has included this sector in its five-year plans. The MSMEs are still hampered by the problems of finance, Strategic marketing, low quality, and innovations. Taking into account the enormous potential of MSME's, the entrepreneurs and the Government must act collectively to facilitate synergetic growth in this sector. Hence in this paper, we are considering Strategic Marketing and Innovation Performance as the two constructs for studying the performance of Medium enterprises of Indian origin.

2.1 Innovation

Innovation as a strategy is helping Indian organizations a lot in improving their productivity, profitability, customer satisfaction and an overall improvement in the performance of organizations. Some studies conducted in this area have found that this is one strategy based on which organizations can attain competitiveness. Competitive advantage occurs when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors. It is also, about how a firm puts the business strategies into practice. While a quality performance is imperative to attain the competitive advantage, innovation is the catalyst for further growth. It can be said that quality is doing things better; innovation is doing things differently. The classic definitions of innovation include the following:

1. The act of introducing something new: something newly introduced (The American Heritage Dictionary).
2. The successful exploitation of new ideas (Department of Trade and Industry, UK).
3. Change that creates a new dimension of performance (Peter Drucker, 2002)
4. The introduction of something new. (Merriam-Webster Online)

Businesses operate with the knowledge that their competitors will inevitably come to the market with a product that changes the basis of competition. The ability to change and adapt is essential for survival. Analysis of economic history shows that industrial technological innovation has led to substantial economic benefits for the innovating company and the innovating country. Indeed the industrial revolution of the nineteenth century was fuelled by the technological innovations (Paul Trott,2002). In the organizational context, innovation may be linked to performance and growth through improvements in efficiency, productivity, quality, competitive positioning, market share, etc. While innovation typically adds value, innovation may also have a negative or destructive effect as new developments clear away or change old organizational forms and practices. Organizations that do not

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innovate effectively may be destroyed by those that do. A key challenge in innovation is maintaining a balance between process and product innovations where process innovations tend to involve a business model, which may develop shareholder satisfaction through improved efficiencies, while product innovations develop customer support however at the risk of costly R&D that can erode shareholder returns.

One of the more comprehensive definitions of innovation offered by Myers and Marquis (1969) is 'Innovation is not a single action but a total process of interrelated sub processes. It is not just the conception of a new idea, nor the invention of a new device, nor the development of a new market. The process is all these things acting in an integrated fashion'.

Innovation =Theoretical conception + Technical invention + Commercialization

The conception of new ideas is the starting point of innovation. The process of converting intellectual thoughts into a tangible new artefact (usually a product or process) is an invention. Commercialization refers to combining of inventions by hard work by many people to convert them into products and services that will improve company performance. Therefore, it is the complete process that represents innovation. Then, innovation depends on inventions but inventions need to be harnessed to commercial activities before they can contribute to the growth of an organization (Paul Trott, 2002). Thus, innovation is the management of all the activities involved in the process of idea generation, technology development, manufacturing and marketing of a new (or improved) product or manufacturing process or equipment (Paul Trott, 2002). Innovation can also be considered as the combined activity involving creativity and commercialization. Creativity can be defined as the generation of new and useful/valuable ideas for products, services, processes and procedures by individuals or groups in a specific organizational context. Commercialization is the process or cycle of introducing a new product into the market.

2.2 Different types of innovations

Though the term Innovation has a general meaning, there exists specific meaning to the different types of innovations. In this context, there exists a classification of different types of innovations each one of which is explained below (Paul Trott, 2002; Narayanan V K, 2007; Garcia and Calantone, 2002):

1. **Product innovation:** The development of a new or improved product.
2. **Process innovation:** The development of a new manufacturing process.
3. **System Innovation**: involves changing the way business is done in terms of capturing value or the creation or alteration of business structures, practices, and models.
4. **Technological innovation:** are those innovations that embody inventions from the industrial arts, engineering, applied sciences and/or pure sciences.

ISBN: 978-9963-711-37-6

5. **Incremental innovation:** These innovations represent minor improvements or changes to the elements of an existing product or organizational technologies and practices.
6. **Radical innovation:** These innovations represent revolutionary changes that require clear departures from existing organizational practices and technologies.

We are making use of first four innovations as variables in our paper.Innovation pressures apply to large companies as well as small- and medium-sized enterprises (SMEs) (Vrakking and Cozijnsen, 1997). Scholars have noted that SMEs are often more fertile than larger firms in terms of innovation (Afuah, 1998). Their comparative advantages over large firms in innovation are their flexibility and speed of response (Acs and Audretsch, 1990; Dodgson, 1993). As a result, SMEs generally make a valuable economic and social contribution because of their innovative capacities.

Innovation activities are generally categorized as either incremental or radical. The distinction between these two different types illustrates how organizations approach innovation in different ways. A cumulative series of minor changes or introducing something similar to previous organizational practices is called an incremental or routine innovation, whereas an abrupt major change or doing something markedly different from what the organization had done before is called a radical innovation (Nord and Tucker, 1987; Urabe et al., 1988; West and Farr, 1990). Although there has been debate over which type of innovating activity is more important and effective, the more astute managers understand the necessity for both. James (2002) said that timing the introduction of radical innovations to stay ahead of competition, while simultaneously utilizing incremental innovations to maximize profits is a major challenge for contemporary business managers. Hamdouch and Samuelides (2001) also reported that in the service industry, the innovation process is both cyclic and cumulative, combining radical innovations and introducing incremental innovations to fill the gap between two radical innovations.

According to Pratali (2003), incremental technological innovations help improve company competitiveness with the ultimate aim of increasing company value. Incremental market innovation is about new ways of reading and serving current markets, which ensures firms to provide appropriate offers and yields greater avenues (Johne and Davies, 2000). In addition, Williams (1999) reported that innovative marketing aims at increasing product consumption and has a positive influence on firm sales. Furthermore, continuous work process innovation was regarded as the most important action for improving the short-term profitability (Soderquist, 1996).Terziovski (2000) also reported that an incremental strategy is the major driving force behind any improvement effort. Apparently, incremental innovation leads to the accumulation of day-by-day improvements and is the backbone of organizational performance.

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Adopting radical innovation has mixed results. Various scholars commented that radical or breakthrough innovations provide the engine for long-term growth (Leifer et al., 2001). Many small companies also succeeded in introducing more radical innovations because of their genetic makeup (Stringer, 2000). However, some argue that the linkage of radical innovation and performance is an S-curve shape because of diminishing research effort and resource inefficiencies (Foster, 1986). In many cases, the creative destruction effect of radical innovation may not be shown in a short term horizon and even release a negative impact on firm performance (for example, Freel and Robson, 2004).

The need to innovate is revolutionary rather than evolutionary, and it is a necessity for survival in dynamic and complex markets and in uncertain economic circumstances. But the development and implementation of disruptive innovation are not well understood (Leifer, 2001), and only a small number of companies manage to leverage and maximise their disruptive innovation capability. Yet, future success has much to do with a company's innovation capability. Without radical innovation, decline is inevitable (Hamel, 2002). A Deloitte Research (2004) study revealed that there is a vast gap between intention and actual disruptive innovation capability of firms. Developing distinct capabilities to bridge this gap should be an integral part of a company's strategy for growth. Recently published works (1990-2004) have mainly examined the success factors as key determinants of disruptive innovation. In addition to these classifications of innovation, "hidden innovation" is another new concept that relates to types of innovation, which was introduced by NESTA (2006). Hidden innovation refers to those innovations within low-tech sector organisations where common input and output measures of innovation (R&D expenditure and patents) are not suitable reflectors of innovation. Others have also acknowledged that innovation in MSMEs is not adequately represented by such traditional measures of innovation (Hansen, 1992; Le Bars et al. 1998; Kumi-Ampofo and Brooks, 2009).

3.0 STRATEGIC MARKETING:

Kotler (2003) defined marketing strategy as a set of business principles that an enterprise uses to serve its customers and achieve profitability. Armstrong and Kotler (2003) noted that marketing strategy is designed to guide an enterprise to use its resources to meet the requirements of target customers and realize marketing goals more efficiently than its competitors. Cravens et al. (2000) considered marketing strategy to involve four dimensions, including branding strategy, low-cost strategy, channel strategy, and innovation strategy. From this perspective, marketing strategy and product innovation are closely linked. Although different ideas regarding types of marketing strategy have been proposed, most researchers have explained marketing strategy via the incorporated aspects of 4P (Product, Price, Place, and Promotion) (Kotler, 2003). This study employed the incorporated idea of marketing dimensions proposed by Kotler (2003) and those ideas proposed by Thorpe and Morgan (2007), Hughes and

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Morgan (2007) and McCarthy and Perreault (2003) as measurement variables for the questionnaire survey and the product marketing strategy analysis.

Henry Mint berg's observation of strategic planning as an oxymoron is probably quite apt to describe the approach of Indian MSMEs towards business strategy (Fanersher, J. 2003). Few Indian MSMEs have formal strategic marketing plan that generally do not go beyond formulation of mission-vision statements. In most cases the process neither provides a sufficient range of strategic options to consider nor presents an engaging road map of a compelling future. A basic requirement for sound strategic planning is to formulate an action plan to achieve long-term objectives of MSMEs, which are derived from its mission and vision. The firms need to clearly identify their value drivers and develop appropriate metrics. MSMEs must demonstrate the necessary commitment, capability and discipline to generate, preserve and analyze data essential for continuous monitoring of their strategy implementation process. This process also has to be blended with a creative component (Friedman, S. 2000) (Gootee, B. H., 1998).

Generally, after analyzing marketing opportunities and threats in external environment and the evaluation of its own strengths and weaknesses, an enterprise will develop a strategy that

benefits itself. For example, Crawford (1994) observed that the so-called product design strategy indicated the method of new product design under the guidance of new product development strategies. Furthermore, Olson (1994) considered product design strategy to denote the effective allocation and arrangement of design innovation resources to accomplish firm goals. Furthermore, Sung and You (1999) considered design strategy to involve a practical reaction to design innovation within an organization. These literatures indicate that the design strategy is the method of achieving innovation design goals. By utilizing enterprise R&D ability, the design team can implement a design strategy by analyzing customer needs and the impacts of competitors in achieving enterprise performance goals (Hsu, 2006). Because of their innovative design, rapid response, and production flexibility, firms in the Taiwan computer and electronics industry have created numerous well known products and brands. It is important to understand how companies, with their current advantages and resources, employed different marketing strategies to realize their product marketing goals to achieve competitive advantage.

As human has to face 4 phases of life, a product also passes through 4 phases namely introductory followed by growth, maturity and finally declining phase when sale touches its lowest point. So Marketing Strategies are also formulated concurrently with product life cycle to face fierce competition. Marketing mix in terms of product can be enhanced by increase product line depth and width considerably according to market demand. (Kotler and Keller, 2008).Marketing as a strategy is a relevant phenomenon in which 4P's have been considered relevant factors to influence the performance

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of small enterprises (Romano et al., 1995).Only effective marketing could help MSMEs to gain competitive advantage via superior performance competitive marketing strategy and relationship marketing strategy (Yen and Chew, 2011). Marketing strategies, marketing mix and market Intelligence system in collaboration can benefit the small firms to a large extent while emphasizing on networking as an inherent tool of marketing (Gilmore et al., 2001). Customer orientation towards MSME products has been pointed out by Kwaku and Satyendra Singh (1998) through the performance measures in the form of success of new product, sales growth pattern and return on investment.

Strategic marketing management is a strategy aimed at achieving excellence in organisations. Strategic Marketing deals with the pricing, selling and distribution of a product. Using this strategy, a business unit can improve its market share for current products through market saturation and penetration, or develop new products for existing markets. (R.Srinivasan, 2014). Top management in Indian organizations though recognizes the importance of strategic marketing; paradoxically devote little time and effort to it. In the light of the ongoing liberalization process, there is an inherent need to change this trend. Planning for Strategic marketing assumes greater importance due to rapidly changing markets and their increasing complexity. (R.Srinivasan, 2014).

Strategy primarily deals with issues of long-term implications. In recent years, business organizations have gained the power to predict the future with reasonable accuracy using various performance management systems and harnessing the tremendous increases in computing power and communication technology. With this power, they can exploit the potential of the emerging scenarios (Anderson M. 1999).Most Indian MSMEs are either unaware of the power of these strategic frame works or do not show any inclination to use them for strategic marketing.

3.1 Research Gap

All the above studies identified the relevant variables and adopted various multivariate analysis techniques. The various dimensions of Strategic Marketing and innovations were thus explored related to various organizations. The studies have not taken into consideration the dimensions of strategic marketing like Environment Landscaping, 4Ps, Brand Positioning and Entrepreneurial Management together to see how innovation performances such as Technological innovation, Product innovation, Process innovation, System innovation and Innovation management of Medium enterprises will be affected. This research is likely to provide guidelines for efficient marketing strategy for medium enterprises in India. The parameters of strategic marketing and innovation are used for designing the measuring instrument. The sample size we are using is about 150 medium enterprises situated in two states of India.

3.2 Objectives of the Study

1. To design a measuring instrument and check for its reliability and validity.

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2. To develop a conceptual research framework using the constructs of strategic marketing and innovation.
3. To find the overall impact of strategic marketing on the innovation performance of Indian medium enterprises.

3.3 Research design

For further study, identified constructs describing strategic marketing and innovation performance will be used to develop a conceptual research framework depicting the relationship between them and also a set of hypotheses will be formulated. We have designed a new questionnaire taking into account the reliability and validity from the pilot test. A Likert rating scale is used in collecting the primary data. The questionnaire measures the perception of the top management regarding the strategic marketing and innovation performance of their organization.

4.0 CONCEPTUAL RESEARCH FRAMEWORK:

Fig 1 shown below is the proposed framework for our research work

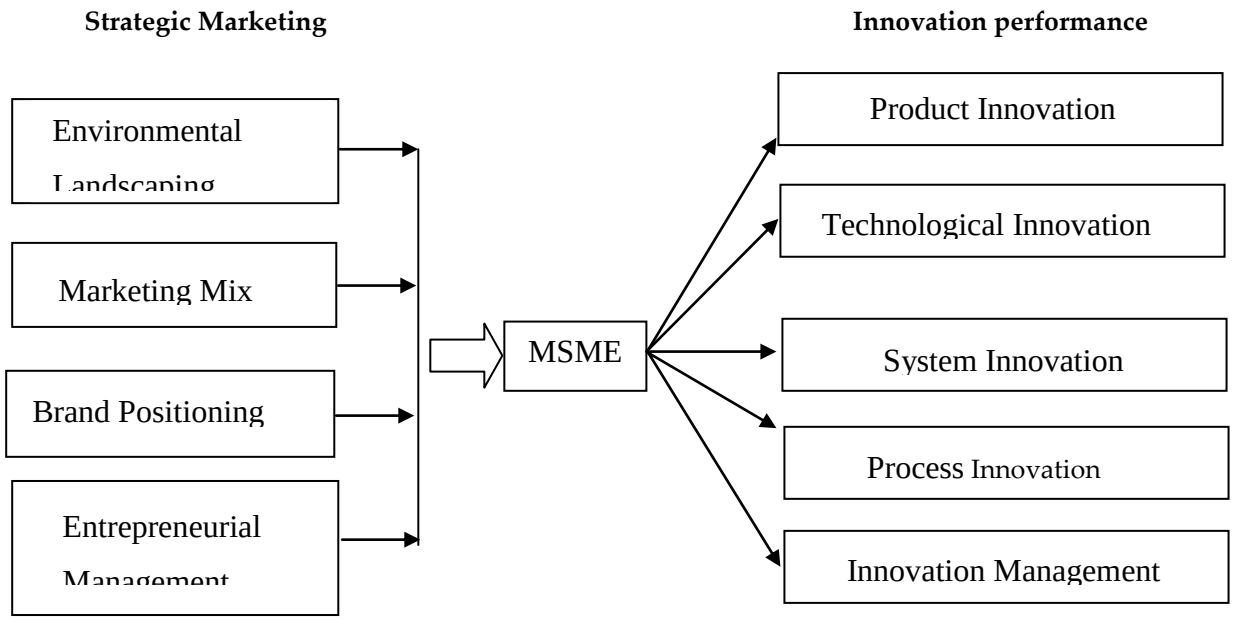

Fig1: Conceptual Research framework

4.1 Working Hypotheses

The hypotheses developed has to be conceptually clear, empirically based, must be specific in order to facilitate testing and must be deducted from theory (Krishnaswamy K N, *et al.*, 2006). This working hypothesis is stated in clear terms after an extensive literature survey. This working hypothesis is the tentative assumption made, in order to draw out and test its logical or empirical consequences and is very broad in nature. This hypothesis delimits the area of research and keeps the research in the right

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track. In the current research, the hypothesis is a predictive statement that relates two variables. A null hypothesis will be used in our paper.

Hypotheses 1: Strategic Marketing & Technological Innovation

H_0: The variables of Strategic Marketing (Environmental landscaping, Marketing mix, Brand positioning and Entrepreneurial management) have no impact on Technological Innovations of the organization.

H_a: The variables of Strategic Marketing (Environmental landscaping, Marketing mix, Brand positioning and Entrepreneurial management) have impact on Technological Innovations of the organization.

Hypotheses 2: Strategic Marketing & Product Innovation

H_0: The variables of Strategic Marketing (Environmental landscaping, Marketing mix, Brand positioning and Entrepreneurial management) have no impact on Product Innovations of the organization.

H_a: The variables of Strategic Marketing (Environmental landscaping, Marketing mix, Brand positioning and Entrepreneurial management) have impact on Product Innovations of the organization.

Hypotheses 3: Strategic Marketing & Process Innovation

H_0: The variables of Strategic Marketing (Environmental landscaping, Marketing mix, Brand positioning and Entrepreneurial management) have no impact on Process Innovations of the organization.

H_a: The variables of Strategic Marketing (Environmental landscaping, Marketing mix, Brand positioning and Entrepreneurial management) have impact on Process Innovations of the organization.

Hypotheses 4: Strategic Marketing & System Innovation

H_0: The variables of Strategic Marketing (Environmental landscaping, Marketing mix, Brand positioning and Entrepreneurial management) have no impact on System Innovations of the organization.

H_a: The variables of Strategic Marketing (Environmental landscaping, Marketing mix, Brand positioning and Entrepreneurial management) have impact on System Innovations of the organization.

Hypotheses 5: Strategic Marketing & Innovation Management

H_0: The variables of Strategic Marketing (Environmental landscaping, Marketing mix, Brand positioning and Entrepreneurial management) have impact on Innovations Management of the organization.

H_a: The variables of Strategic Marketing (Environmental landscaping, Marketing mix, Brand positioning and Entrepreneurial management) have impact on Innovation Management of the organization.

5.0 FINDINGS

During the sampling design stage, we identified organizations for administering the questionnaire for collecting the data. The criterion for selecting organizations was medium scale manufacturing organizations that have contributed towards economic growth by adopting any of the practices like strategic marketing/innovation.

5.1 Pre-testing the questionnaires validity and reliability

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Knowing that errors will creep into measurements in practice, it is necessary to evaluate the accuracy and dependability of the measuring instrument. The criteria for such evaluations are validity, reliability and practicality. We have used SPSS for finding Cronbach alpha values and they are shown in Table no.3 & 4.

Table no.3: Cronbach alpha for Independent variables of Strategic Marketing

Strategic Marketing Constructs	**Independent Variables**	**No. of Items**	**Cronbach Alpha**
Environment Landscaping	X1	12	**0.885**
Marketing Mix(4Ps)	X2	12	**0.755**
Brand Positioning	X3	12	**0.965**
Entrepreneurial Management	X4	12	**0.790**

Table no.4: Cronbach alpha for Dependent variables of Innovation Performance

Innovation performance Constructs	**Dependent Variables**	**No. of Items**	**Cronbach Alpha**
Technological Innovation	Y1	10	**0.837**
Product Innovation	Y2	10	**0.798**
Process Innovation	Y3	10	**0.815**
System Innovation	Y4	10	**0.620**
Innovation Management	Y5	10	**0.706**

Overall Cronbach alpha value for all items together: 0.858

From the above tables it can be seen that the measurement scale is highly reliable indicating even the lowest value of Cronbach alpha being **0.620.** For ensuring the validity further data reduction will be carried out by confirmatory factor analysis (CFA).

6.0 IMPLICATIONS

Our paper is a result of an investigation done on Indian Medium manufacturing firms taking Strategic marketing as Independent variables and Innovation performance as Dependent variables. The result found is satisfactory with respect to the validity aspects of the measuring instrument developed for measuring the two constructs. The paper shows the initial result for the sample taken into consideration. Further work will investigate possible relationships between Strategic Marketing and Innovations effecting on the performance of Medium enterprises. Also it involves investigation of critical factors of the identified constructs affecting the performance of Medium firms.

ISBN: 978-9963-711-37-6

The pilot study results show that Strategic marketing influences Innovations in organisations. This has to be corroborated taking a larger sample. For this purpose, we are considering nearly 150 medium enterprises for the main study.

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 ISBN: 978-9963-711-37-6

REQUIRING COLLEGE DEGREES FOR LOW-SKILLED JOBS: ACCOUNTING FOR EMPLOYER MOTIVATIONS

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ABSTRACT

Critical Management Studies (CMS) holds that structural features of contemporary society (e.g., the profit imperative, patriarchy, racial inequality, and ecological irresponsibility, etc.) turn organizations into instruments of domination and exploitation (Academy of Management, 2015). In an attempt to provoke reflection and debate consistent with the principles of CMS, this paper addresses the growing practice of employers inflating education requirements (i.e., utilizing credentialism) as an initial applicant hurdle for traditional low-skilled jobs. Employing a postmodern approach to understanding the phenomenon, this paper proposes three overarching narratives (i.e., public policy, human resource management, and human capital) as possible explanations of a firm's motivation to engage in such a practice. Under critical examination, arguments arise suggesting realities not adequately considered in each narrative. Finally, CMS concerns broader social and economic systems that managers and firms serve and reproduce (Adler, *et al*., 2007), and a contemplative discussion addresses a number of undesirable social and economic outcomes inherent within each narrative.

Keywords*: credentialism, low-skill workers, public policy, human capital, human resource management.*

THE PHENOMENON OF INCREASING EDUCATIONAL REQUIREMENTS FOR LOW-SKILL JOBS

At the turn of the 19th century in the United States (U.S.), high school degrees, which were held by less than 10% of the population, granted access to managerial positions and served as badges that conferred middle class respectability; similarly undergraduate college degrees were the possession of a tiny elite of professionals and wealthy (Collins, 2011). Today, a high school degree may be little more than a lottery ticket capable of buying a chance at a college degree. As such, an undergraduate college degree may be closer to the equivalent of past high school diplomas constituting a minimal requirement for workers to obtain even the lowest level job. For example, Rampell (2012) reported on a 45-person law firm in Atlanta, GA that now hires only people with a bachelor's degree, even for jobs that do not

 ISBN: 978-9963-711-37-6

require college level skills (e.g., receptionist, paralegals, administrative assistants, and in-house couriers). Ample evidence exists of an increasing number of jobs in the U.S. where task requirements have changed little over the past five decades, but where the educational requirements of a successful applicant have increased significantly (Vedder, *et al*., 2013). Frequently, employers now appear not to consider offering a job to any applicant who is not holding a college or university degree (Nocera, 2011). A recent survey of 2,600 hiring managers in the U.S. reported that 66% said they were now hiring college graduates for jobs that previously were filled with high school graduates (Kristof, 2013). Moreover, a survey of 50,000 U.S. employers found that the manufacturing and services/retail sectors, industries traditionally more accepting of high school degrees for employment, now place more value on undergraduate degrees than any other industry segment in the labor market (*The Chronicle of Higher Education*, December, 2012).

While jobs traditionally labeled "low-skilled" may require on-the-job training, the skills for these jobs are highly specific and have little relationship to a college or university degree. U.S. Bureau of Labor Statistics from 2010 reveal that jobs where a postsecondary degree is deemed necessary for successful performance are among the smallest occupational grouping in terms of the total proportion of employed U.S. workers (Vedder, *et al*., 2013). On the other hand, the three largest low-skill categories (office and administrative support, sales and related jobs, and food preparation and serving related jobs) employ 35 percent of all workers in the U.S. and are overwhelmingly dominated by positions not requiring postsecondary degrees (Vedder, *et al*., 2013). Most perplexing, of 41.7 million working college graduates in 2010, 48% were employed in jobs that required less than a bachelor degree (Bidwell, 2013).

A parallel situation may exist across Western Europe. O'Connor (2015) reported that, within the United Kingdom (U.K.) economy, jobs are shifting more toward the low-skilled end of the continuum and away from high skilled jobs; for every 10 middle skilled jobs that disappeared between 1996 and 2008, 5.5 replacement jobs were considered low-skilled jobs. A recent (2013) European Commission report concluded that roughly 20% of college degreed young persons (age 25-34) are employed in occupations that do not require degrees and that this percentage has remained stable from 2000-2010. The report also noted that for Europe as a whole, almost two-thirds of those in such a situation could be classified as "severely over-classified" for the jobs they hold. Perhaps an argument could be made that the data merely reflect the severe fallout for college graduates from the recession of 2008 (Page, 2012). However, the fact that the employment rate in Europe remained stable for the 8 years prior to the recession combined with strong evidence that employers have been inflating hiring educational requirements continuously over the past five decades suggests otherwise (see Rumberger, 1981; Court and Connor, 1994).

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A plausible alternative explanation for the phenomenon of growing numbers of overeducated and overqualified workers in low-skill jobs across the Western economies is an intensifying belief in the importance of credentials (i.e. credentialism). The concept of credentialism has been widely documented, theorized, and debated from perspectives as diverse as Max Weber's sociology of education, Marxian analysis of schooling, work, and credentials, and human capital economics (see Brown, 2001). In contemporary discussions, the term is employed to identify a situation where a change in the pool of applicants encourages employers to artificially inflate the education and skill requirements for recruitment to an otherwise unchanged job (Skott and Auerbach, 2003; Okay-Somerville and Scholarios, 2013). Baker (2011) argued that this practice has become so pervasive that management no longer considers educational credentials as supplemental to actual job experience but rather an initial dictate in the hiring process across the majority of jobs.

STATEMENT OF THE PROBLEM

Reflecting the concern of CMS for the structural features of contemporary society that turn organizations into instruments of domination and exploitation, the focus of this paper is to propose perspectives held by employers in capitalist markets that account for the practice of necessitating college and university degrees as a preliminary hurdle in the hiring process, even when associated with jobs requiring rudimentary levels of knowledge, skills, and abilities.

Because simple themes are difficult to find in any complex social phenomenon, management research is often directed toward attempts to weave discordant themes into complex patterns in hopes of achieving harmony (Larabee, 2006). From the objectivist tradition, a critical requirement is that a statement about a phenomenon be subjected to falsifiability through empirical testing, but from the postmodern perspective, a statement about a phenomenon assumes credibility if it is accepted, saleable, or valid for a larger audience (Berg, cited in Johnson and Duberley, 2005). That is, humans construct reality through linguistic concepts shared among communities rather than truly discovering reality as argued by the objectivist tradition (Lefkowitz, 2003). To the point, the language used in a discourse ultimately determines reality, and, as Schultz and Hatch (1996) argued, important issues and dialogues should address processes and motives by which reality is constructed and communicated. This paper pursues that objective by putting forth three narratives, each with a potential to account for the motivation of employers in Western economies to require postsecondary degrees for low-skilled jobs. A critical analysis is conducted against each narrative to identify unaddressed and conflicting realities. Finally, as encouraged by CMS, reflective thought is given to the potential of each narrative to produce undesirable social and economic outcomes.

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A PUBLIC POLICY NARRATIVE

The public policy narrative is filled with language such as "widen college access," "ensure quality," and "accelerate college completion." Within the U.S., this narrative is filled with language espousing that once again the U.S. should have the highest proportion of college graduates in the world. The U.S. Department of Education (2011) has asserted that the number of adults holding college or university degrees must increase by 50 percent (i.e., an additional 8 million) in order to meet President Obama's national educational objectives by the year 2020. Such a narrative is not foreign to Europe as witnessed in Pavlin and Svetlilk's (2014) discussion of the European drive to become a knowledge based society and economy as put forth by the Lisbon Strategy of 2000 and 2003 and supported by expansion of education with a stress on education at the post-secondary level.

Bankston (2011) and Pappano (2011) question if the language dominating this narrative contributes to evolution of a reality in which employers perceive that there is a college seat for virtually everyone with a high school diploma, the federal government is dedicated to ensure this reality, and the majority of workers should expect to have or to pursue a postsecondary degree. Such a perspective would be further legitimized by the fact that sixty-eight percent of all U.S. high school graduates currently go on to college (Menand, 2011), and among U.S. adults over the age of 25, one in four already have obtained a bachelor's degree or higher (U.S. Department of Labor, 2009). Further, in the 21 countries of the European Union, the number of workers with tertiary education between ages 25 and 64 now approaches 30 percent, and in Canada and the Scandinavian countries almost 66 percent of younger workers pursue education at the tertiary level (Pavlin and Svetlilk, 2014). A rational conclusion within the parameters of the public policy narrative is that if a job applicant does not possess a postsecondary degree or is not pursuing one, it must be due to some personal shortcoming that makes him/her an unattractive hire.

Critical reflection

Brittan (2000) asserted that when education is being promoted by so many governments and international organizations as the key to economic growth, it is time to ask critical questions. One such critical question is if an ever-increasing supply of college and university graduates available in the labor market may serve as motivation for employers to inflate qualification requirements at the time of hiring (European Commission, 2013) far beyond any learning associated with acquisition of the degree (Bankston, 2011). In a scenario set in the 1950s, where only about 5 percent of all Americans held a bachelor's degree, an advertisement for bartender might generate 15 applicants, all with a high school education but none with a college degree. Vedder, *et al*., (2013) provides an insightful application of *Say's Law* in observing that in such an environment, an employer would likely choose a criterion other than educational credentials (e.g., job experience) upon which to make the employment decision. In a

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present day scenario, four of those 15 applicants might have a college degree, and to minimize time and resources, the employer would interview only the four applicants holding a degree believing them to be a little smarter and more reliable than the other applicants. To be precise, where managers previously would not have dreamed of requiring a college degree for a bartender's job, they now have the luxury to do just that because the abundance of college graduates creates its own demand (Vedder, *et al*., 2013). Another question worthy of further deliberation is if the increasing commonness of the undergraduate degree promoted by the public policy narrative will devalue the perceived distinctiveness of the degree to an extent that employers are likely to demand even higher levels of education attainment (Collins, 2011). For instance, might increasing acceptance of the public policy narrative contribute inadvertently to an irreversible spiral of competition for educational attainment and mask the emergence of an unanticipated outcome wherein low-skilled jobs requiring a master's degree in "Janitorial Studies" would not seem peculiar (Vedder, *et al*., 2013)?

Implications

Given that CMS is concerned with broader social and economic systems influenced by managers and business firms (Adler, *et al.*, 2007), there are two important implications inherent to the public policy narrative: general social displacement and, at least in the U.S., student loan debt. Inflation of educational requirements creates an unreasonable competition for simple jobs between the lower educated worker and the middle-skill worker. As degreed and credentialed workers continue to flood the low-skilled labor market, those with fewer credentials (e.g., high school degrees and less) are bumped further down the economic ladder (Brynin, 2002) increasingly restricting the opportunities available to society's traditionally most disadvantaged groups (Berg, 1971). Lower educated individuals cannot be assumed as unwilling to work in jobs for which they are qualified, but unjustified credentialism removes opportunity for access to such jobs (Khalifa, 2012). The displacement of traditionally disadvantaged individuals from the lower economic rungs that they may have occupied creates an additional cost to society. That cost includes calculation of the ongoing and ever controversial demand for increased federal and state assistance and the societal ills that accompany unemployment and trying to survive among the pile-up at the bottom of the economic ladder.

Unlike Europe, where postsecondary education is generally financed by the state rather than the individual, within the U.S., student loan debt has reached one trillion dollars, double what it was in 2005, after adjusting for inflation (Nicoletta, 2015). Since employees with a bachelor's degree earn about 64% more than those with only a high school degree (U.S. Department of Labor, 2015), there is an incentive to incur debt. However, while the earnings are higher, there is also evidence that the economic impact of such debt is found in increased bankruptcy, extended dependence on parents, delayed marriage, postponed families, and delayed home-ownership (Brown *et al*., 2014).

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HUMAN RESOURCE MANAGEMENT NARRATIVE

The major premise underlying the human resource management narrative is that requiring an undergraduate degree for employment at any level is a reasonable practice for managing an employer's human resource because such a practice promotes "efficiency," "effectiveness," and "productivity" (Brown, 2001). From an efficiency standpoint, relying on the certification implicit within an undergraduate degree is perceived as enabling management to avoid expending huge sums of money in verifying a potential employee's basic competencies and assessing job related skills when faced with ill-defined and poorly understood terms such as "fit," "personality," "chemistry," and "culture" (Brown, 2001; Vedder *et al*., 2013). Manifesting signaling theory, the narrative promotes the practice as effective because it separates attractive applicants whose degree signals them to be of above average intelligence, persistent, disciplined, knowledgeable, skillful, and distinct from the supposed dullards, laggards, and slackers who might also apply for a job (Perri, 2002).

Individuals with greater cognitive ability have been found to learn faster, have greater absorptive capacity, and more effectively generalize their knowledge across dissimilar situations (Jensen, 1998). For these reasons, this narrative encourages a strong preference on the part of employers for college graduates, even in traditionally low-skilled jobs, by equating the achievement of an undergraduate degree with something like a four or five year IQ test (Menand, 2011). Thus, the displacement of non-degreed incumbents in low-skilled jobs by degreed job seekers proceeds on the assumption that non-degreed incumbents unquestionably possess lower levels of intelligence, fewer job relevant skills, and thus, must be less productive in their jobs (Connelly, *et al*., 2011). Overall, the narrative asserts that the practice promotes productivity because it contributes to aligning a firm's human resources with its business goals and objectives (Youssef and Stark, 2014).

Critical reflection

A distinguishing characteristic of CMS is a deep skepticism regarding prevailing concepts and practices of management (Adler, *et al*., 2007). Certainly, a question worthy of consideration is the degree to which the knowledge, skills, and abilities of a college graduate enable greater productivity in low-skilled jobs. Within the U.S., a strong belief by management in a correlation between an undergraduate degree and cognitive ability is likely the result of an involuntarily reference to the 10 percent of colleges and universities recognized for their highly selective admission requirements and their graduates' career trajectories. However, an seldom acknowledge fact is that the remaining 90 percent of colleges and universities in the U.S. are noted for admitting anyone with a high school degree (Piereson, 2011). Educational credentials have been argued to be cultural-political constructs that have little relationship with the technical demands of work (Brown, 2001; *The Chronicle of Higher Education*, 2009, November 8) and have little or no relationship to productivity (Berg, 1971). As such, one should not lightly ignore

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the body of literature (Cobb-Clark and Tan, 2011) suggesting an equal likelihood that the smartest person for a low-skilled job may be found among those applicants who by chance of nature and nurture bring to the job a unique blending of talent and perspective required for successful job performance, rather than an undergraduate degree. As a signaling tool, an undergraduate degree can only assure employers that an individual applying for a low-skilled job (1) demonstrated sufficient intelligence to meet the minimal requirements of a particular program of study at a college or university, and (2) developed the personal discipline necessary to show up for class and follow instructions.

Implications

Given that a central premise in CMS is that structural features of contemporary society such as racial inequality turn organizations into instruments of domination and exploitation (Academy of Management, 2015), the human resource narrative justifying college degrees in filling low-low skilled jobs merits extraordinary scrutiny. In the U.S., a postsecondary degree requirement for low-skilled jobs should be expected to affect a greater proportion of African-Americans and Hispanics than affect Whites (EEOC, 2006). *The National Longitudinal Survey of Youth* concluded that non-Hispanic Blacks and Hispanics are about twice as likely as Whites to drop out of high school by 25 years of age, while Whites are more than twice as likely as Blacks or Hispanics to have earned a bachelor's degree by age 25 (U.S. Bureau of Labor Statistics, 2013). To be precise, that data suggests that by 25 years of age, 30 percent of Whites in the U.S. can be expected to have received a bachelor's degree compared to only 14 percent of Blacks and 12 percent of Hispanics. Even though there may be no demonstrable prejudice or malice in the decision to require postsecondary degrees for a low-skilled job, such a management practice can only serve to perpetuate dominance and exploitation because the injustice involves a class of people who have been traditional objects of prejudice-based discrimination (Baumie & Fossett, 2005).

A HUMAN CAPITAL NARRATIVE

The heart of the human capital narrative contains the assertion that the uniqueness of the postsecondary experience implies that a college or university graduate is a preferred substitute for individuals with only secondary educational experience or less, and if one uniquely endowed individual is desirable, then many more such individuals should be even more desirable (Piereson, 2011). The narrative employs words such as "strategic," "alignment," and "value-added." Given that firm's stock of human capital is generally considered as the mean, or average, level of its human capital at any given point in time (Ployhart, *et al*., 2011), the narrative proposes that increasing the ratio of employees with college and university degrees compared to non-degreed employees contributes to enhancing the overall stock of a firm's human capital. That capital ultimately can be utilized in pursuit of organizational outcomes such as profitability, market share, customer satisfaction, and

ISBN: 978-9963-711-37-6

environmental sustainability (Becker and Gerhart, 1996; Heneman, *et al*., 2011). It is not difficult to understand why this narrative appears very compelling to employers; from a resource-value base theory, a competitive business advantage should be achievable through accumulation of employees holding college or university degrees provided those individuals and their degrees prove valuable, scarce, difficult to imitate, and relatively non-substitutable (Barney, 1991; David, 2008; Ployhart *et al*., 2011).

Critical reflection

The practice of credentialism, especially with regard to low-skilled jobs, would appear to be illogical and, most often, counterproductive. That is, such a practice appears likely to produce a "skills-mismatch" wherein the skills of overeducated and overqualified workers generally exceed the levels that can be utilized within jobs. Many labor economists, as early as the 1970s, argued such to be the case when they charged that the skill content of jobs was declining at the same time as educational attainment was increasing (Handel, 2003). The literature presents a strong case that asserts employees in such situations display deficits in various productivity-related dimensions of working behavior. For instance, because of their frustrations, overeducated employees do not compare well to appropriately job-credential matched colleagues. That is, they experience higher levels of job dissatisfaction (Tsang, et al., 1991; Verhaest and Omey, 2006; Fine and Nevo, 2008), display greater incidents of shirking and absenteeism (Vroom, 1964), and are less likely to participate in on-the-job training (Hersch, 1991; van Smoorenburg and van der Velden, 2000; Büchel and Mertens, 2004). Further, while constantly seeking positions better suited to their personal investment in human capital, overeducated employees demonstrate clearer intentions to leave their employer and do, indeed, change jobs more frequently than appropriately job-credential matched co-workers (Sicherman, 1991; Robst, 1995; Sloan, Battu, and Seaman, 1999; Verhaest and Omey, 2006). All of these outcomes inevitably suggest reduction of overall productivity in firms increasingly filling low-skilled jobs with employees holding postsecondary degrees (Büchel, 2002), and this fact has prompted employers in past decades to avoid hiring people considered overqualified for such jobs (Martinez, *et al*., 2014).

One might also consider that placing degree holders in low-skilled jobs theoretically implies an inefficient use of the human capital the individual might actually possess. That is, while there are certainly aspects of their education representing capital that might contribute to performance in a low-skilled job, that component is small when compared to the larger component representing capital that is unnecessary to the job and considered as surplus (Büchel, 2002). A policy of restricting employment in low-skilled jobs to applicants with a postsecondary degree should not be expected to result in productivity much beyond what can be attributed to basic on-the-job training, unless steps are taken to

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ensure that the job allows increased use of whatever surplus capital is represented in the degree (Oaky-Somerville & Scholarios, 2013).

Further, if business competitors have access to comparable stocks of generic human capital, it is logical to consider that in order to gain a competitive business advantage, a particular stock must be managed in a manner that is novel, incomparable, and produces non-replicable advantages that enables its translation into unit-specific human capital (Helfat and Peteraf, 2003). . Following Helfat and Peteraf's logic, if the organization fails to develop strategies that translate degreed employee human capital resources into unit specific advantages, then the practice of hiring overqualified individuals for low-skilled positions presents a problem of talent atrophy. That is, the practice is akin to purchasing a truckload of fully charged batteries from a public battery warehouse but having no prepared circuitry to utilize the energy stored in those batteries.

Implications

In *Progress and Poverty,* Henry George (1911) argued that as factors of production "labor" is human exertion (both physical and mental), "capital" is the physical products of human labor, and that they are not convertible into each other. Perhaps the conceptualization of labor and capital has become muddled in the human capital narrative and the mutual exclusivity of each is disregarded. A central conviction of CMS is that management is guided by a narrow goal (i.e., profits) rather than the interests of a larger society, and other goals such as justice, community, and human development should be brought to bear on the governance of economic activity (Adler, et al., 2007). Thus, an argument could be made that the growing language about labor as capital and the increasing emphasis on strategies to leverage that capital fully may motivate management, in large measure, to implement mechanisms capable of extracting from workers levels of labor at wages not reflective of employee contributions. The resulting social dilemma is either to advance the case for workers and employees required to have postsecondary degrees for entry into low skilled jobs to be equivalently rewarded for the value of their newly recognized capital or to design and implement continuously evolving strategies to further leverage that capital and thereby embrace the profit imperative.

CONCLUSION

This paper explored the motivations of management to hire college graduates for low-skilled jobs, proposing three narratives: public policy, human resource management, and human capital. The goal was to encourage critical reflection and debate given the societal and organizational implications of the practice and the narratives that may be used as justification.

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 ISBN: 978-9963-711-37-6

THE ROLE OF UNIVERSITIES IN ENHANCING THE COMPETITIVENESS OF AGRIBUSINESS IN PALESTINE: APPLYING PORTER'S DIAMOND MODEL

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ABSTRACT

The purpose of the research paper is to study the determinants affecting the competitiveness of agribusiness firms in Palestine and to discuss the role of Palestinian universities in enhancing the competitiveness of these firms.

Both quantitative and qualitative methods of research are used. Questionnaires are administered on a sample of firms working in agribusiness sector in Palestine during the period (November-December, 2014) to assess the determinants affecting their competitiveness, applying Porters Model. Semi-structured interviews are also conducted with four local universities and another three with the players in this sector to assess the quality and skills of agribusiness graduates they are offering and how can these universities enhance the competitiveness of agribusiness sector. A workshop in March, 2015 is conducted at Birzeit University to validate the methodology used and to draw vital implications by the attendances from the private sector and academia.

The main findings are the following: identifying the factors influencing the competitiveness of the agribusiness firms such as: skilled labor; availability and cost of infrastructure; cost of input, size of the local market; and firms' strategies in addition, to the related and supporting industries such as banks, and universities. As well, the quality of the related programs' graduates is assessed in order to recommend suggestions for developing agribusiness education, training and research initiatives so as to enhance the competitiveness of agribusiness sector.

Keywords: *Competitiveness, Agribusiness, Porter Theory, and Palestine*

INTRODUCTION

In Palestine, there are four categories of stakeholders and actors who are involved in Food and Agriculture. These stakeholders are:

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- Education implementers such as universities, colleges, and training centers.
- Education regulators, supporters and funders such as Ministry of Education and Higher Education, Ministry of Agriculture, specialized non-governmental organizations (NGOs), and many donor and development agencies (an example: FAO, ILO, UNESCO).
- Value Chains operators such as producers, industrialists, businessmen, exporters, farmers' associations, faire trade associations, and rural community organizations.
- Value Chains supporters such as Palestine Standards Institute; Palestine Trade and Export Centre, Palestine Union of Food Industries, banks, insurance and logistics firms.

Most of the abovementioned stakeholders believe that there is a gap between education outcomes (i.e. supply side) and market needs (i.e. demand side). Obviously, there are several root causes as well as implications of this problem in the education system concerned, which are to be found in two opposite trends and pace of evolution (World Economic Forum, 2012):

(1) ***Relative rapid evolutions*** in markets, technologies and knowledge & skills needs in F&A business involved food value chains, from farm to fork, from commercial farm production to export of processed and fresh food. The Palestine food industries are evolving rapidly with help from international business partners and some donors alike. Moreover, food industries become increasingly self-organizing (potential competitors are member in the same Industrial Association or business association), thus enhancing many forms of communication and cooperation. Because business is profitable in many cases, there is expansion (when consumer markets allow) and some innovation while new service oriented businesses are getting to the market. Even if most of these dynamics mostly exist without direct involvement of academic knowledge and services from universities and colleges, many business leaders expressed interest in cooperation with relevant education and training stakeholders.

(2) ***Slow evolution, if not stagnation***, in (old) educational systems, erratic curriculum and course contents development, too little use of available modern education technology and methods for both learning and teaching practices. Traditional organization and management of university faculties and departments, running education programs containing too little practical lessons for students and too little research by teacher-researchers, which cannot keep up with economic realities and rapid knowledge evolutions, where there are no established mechanisms to stay informed, to collect and analyze feed-back and to learn and update courses . Rather old course titles and lots of theoretical contents do not attract the imagination of young people and challenge them to build a future in food sector. Contrary to the food industry, the higher education industry in these domains is not really

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innovative and manifestly has a weak, sometimes disappointed, relationship with the current and potential employers of their male and female students/graduates.

THEORITICAL BACKGROUND

Agribusiness

Desmond and Siebert (2009) defined to include both farming-primary agribusiness and all transactions, processes, and services delivers which deal directly with primary producers-secondary agribusiness. This definition will include cooperatives, input, supply companies, financial institutions and other services, delivers, processors, etc. linking with the farmer.

According to D.W Block Associate agribusiness includes three major sectors — **Producers, Agricultural Input firms, and Agricultural Output firms**. Due to the globalization and the industrialization of agriculture many large agribusiness companies today are vertically integrated and may include all three of these sectors (D.W Block Associate,2014) in the current study this definition will be adapted

Competitiveness

Competitiveness could be defined as the progress and the productivity or even the superiority of being different by progressing and producing using tools as mobilizing capital, employment, technology and knowledge Nikolic et al. (2011), Peres and Viana (2012). Up to the knowledge of the researchers, one of the few studies that have taken technology into consideration was the study of Peres and Viana (2012) when they have studied the competitiveness of coffee in Brazil and Vietnam as an agribusiness of their countries. On another aspect, in his study Hussein (2007) argued that a sector can be competitive only if it performs well. Performance variables such as quality, reliability, and efficiency are priorities of competitiveness.

As stated in the study Zylbersztain and Fitho (2003), most of traditional studies have taken comparative cost and market participation of countries as the main variables in their study of Agribusiness competitiveness. It is obvious in research that there are many aspects and ways to define or even measure competitiveness. In this study researches will use Porter's model.

Why applying Porters

One of the well-known and prioritized approaches is the study of Porter (1990). According to many researches in studying competitiveness Porter model is the most popular one. In his study on

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competitive advantage, Porter (1998) identified six (6) factors as determinants of competitive advantage. These conditions are:

- Factor conditions: the nation's position in factors of production such as skilled labor, quality of production factors, natural resources, fuel, machinery and infrastructure, necessary to compete in a given industry;
- Demand conditions: the nature of home demand for the industry's products and services. These include nature of the local customers, internalization of the customers, concerns on ethics, the size and growth of the domestic market;
- Related and supporting industries: the presence or absence of supplier industries and related industries that is internationally competitive. These include availability and access to credit facilities, scientific research institutions, universities, telecommunication, electricity;
- Firm strategy, structure and rivalry: the conditions governing the establishment, organization and management of companies as well as the nature of domestic rivalry. These include investment in research and development, the source of competition in the local market and, approaches in human resource;
- Chance conditions: the occurrences that have less to do with circumstances in a nation and that are mainly beyond the influence and power of firms and local government. These include the significance of crime, HIV and AIDS in the country, the impact of the exchange rate and the political environment; and
- Role of Government: this includes the effect of the tax system, trade policies, and administration regulations. Moreover, government plays a vital role by influencing the above five (5) conditions, which could be either positive or negative. The policies formulated by government influences domestic investments, exports, which has a bearing on competitiveness.

Porter's (1998) diamond model provides a more qualitative description of factors for determining the competitive success of an industry in a specific country. Quantitative description can also be determined using the model, where different industries' competitiveness in a particular country can be compared. Furthermore, Porter's analysis can be used to determine the trends in the factors impacting on the competitiveness of an industry, if the analysis is made regularly. Figure 1 depicts Porter's (1998) diamond model.

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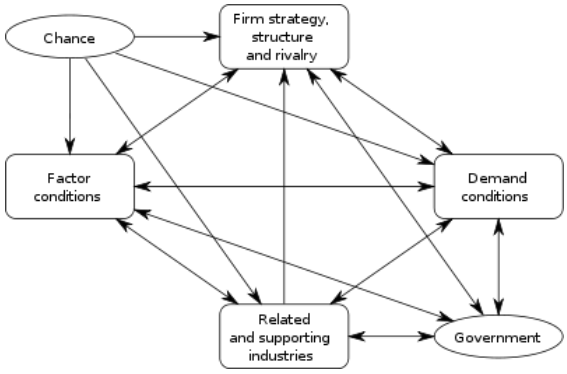

Palestinian Universities as the "Related and supporting industries" to competitiveness in the Palestinian Agribusiness

There is a huge global trend in the media and the academia of the importance of this sector- agri business. Moreover, there is a real urge and calls on universities to consider new paradigms for conducting research, extension and teaching on the issue of agribusiness competitiveness especially in the U.S (Harvison and Kennedy, 1997). Moreover, one of the major practical implications in the study of Nikolic at al. (2011) is empowering institutions which have to provide services in order to enhance the agribusiness competitiveness. In our study, those will be Palestinian universities. And their role in enhancing competitiveness of the agri business sector in Palestine.

Agribusiness in Palestine

Unemployment, poverty, inflation and lack of viable investment opportunities are just some of the economic hardships from which the Palestinian Territories suffer. Political instability has been a main obstacle in the economic development of Palestine. It is a major reason why donors have withheld economic assistance. This brings us to a key weakness in the economic development of Palestine; its dependence on donations for the growth and even mere survival of the economy. The main remedy for this is enhancing our agribusiness competitiveness. For instance according to Reuters report of the Jordan Valley, "More and more Palestinians are turning to date palms in the search for ways to make a living from West Bank land farmed by their families for generations. Today, many struggle to survive."(Perry, 2010). On the other hand, a recent study shows that over the past three decades, Palestinian agriculture has been subjected to increase international and regional The impact of this competition is in part evidenced by trend decline in the West Bank and Gaza Strip agricultural exports in one hand, and the increases in agricultural imports on the other. The empirical results indicate that the performances of domestic and import market shares could be increased through

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improving the productivities of the major production factors such as land, labor and capital. Applying this policy would enhance the competitiveness of Palestinian agriculture by increasing local production to replace farm imports from Israel. On the other land, future farm export competitiveness will be closely linked to improvements in production, marketing efficiency and removing non-tarrif trade barriers (NTBs) imposed by Jordan and Israel(Al Jaffari,2010).

Palestinian Universities

There are five Palestinian universities (four in West Bank and one in Gaza Strip) that are implementing academic education and professional training programs in food, agriculture and rural development related fields at Diploma, Bachelor and Master levels.

According to the count by the Ministry of Education and Higher Education (MoHE), a total of 1,115 students are enrolled in the various food and agriculture related professional and higher education studies, as being offered by the five Universities.

Related Business Support Organizations

Private sector development goes hand in hand with business support organizations (potential employers, themselves) offering various services to members and even non-members. Some important F&A value chain supporters are:

- Palestinian Food Industries Union (PFIU) ; a self-organized private sector organization with a membership in more than 10 types of food industries (meat processing; dairy; vegetable oils; fruit and vegetable products; bakery products; chocolate and sugar products..); the Union claims the food industry employs a total of some 15,000 workers

- Palestinian Fair Trade Association, (PFTA) ; a 2nd tier organization of some 43 village based farmers' cooperatives covering more than 50.000 dunum in the North of the West Bank; with the access to international Organic and faire Trade Markets through Canaan Faire Trade (re. 1.3) the 2,000+ male and female membership is involved in on-going training on quality standards and development of farm management, production systems and post-harvest handling of traditional food products such as olives, almonds, herbs

- Palestinian Trade Centre, (Paltrade) ; a private, 200 member Trade Promotion Organisation, with professional services for various industrial sectors including F&A (fresh and processed); employs 19 certified trade advisors and offers various packages to existing and new exporters; is involved in B2B

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trade missions, participation of members in international exhibitions, etc. cooperates with EU and Int. Trade Centre

- Palestine Standards Institute (PSI); semi-governmental body (since 1997); is involved in the development of National Standards in many sectors and industries; developed 3,350 standards, including 400 in food (including e.g. packaging); links up with international systems such as ISO, Codex, Arab Standards, Halal.. and adapt local (Palestinian) legal frameworks for implementation of international conventions such as EU Directives and Regulations. Also runs the calibration service for industries, laboratories, commerce… Is involved in the new quality control training course in the Centre of Excellence (re. model in 2.0)

PROBLEM

In Palestine, the market share of food products varies between 90% for meat products to 30% for dairy products with the average about 50% in the domestic market. The food industry exports mainly to Arab countries. Olive oil and other fair trade products have been exported to many countries around the world. The total investment in the sector is estimated to be 480 USD million (PFI, 2011). Although, the Palestinian Food Industries Association (PFIA) coordinates the food industries with almost 220 members and the labor force is estimated by 8000 workers, the cluster within the food processing sector is underdevelopment, and it is not well positioned from a competitiveness perspective.

The Palestinian agribusinesses firms are facing difficulties in selling their products in Israel due to the inability to obtain relevant authorization from the Israeli Ministry of Health, lack of Kosher certification of Palestinian food products, border crossings for trucks carrying food products have to go through lengthy security checks, and the Palestinian products have to use the Israeli vehicles for transportation within the Israeli controlled areas. By contrast, the Palestinians pointed out that the Israeli food products enter the Palestinian territory with relative ease, and that 99% of manufactured inputs and raw materials designated for the Palestinian food industry are imported from Israel (PFI, 2011).

Therefore, identifying the factors that influence competitiveness becomes imperative in order, to appreciate the position the firm is in, in relation to the factors identified and also propose appropriate measures and strategies for increasing competitiveness of the agribusiness firms.

OBJECTIVES

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This research study seeks to determine the factors affecting competitiveness of the agribusiness sector in Palestine. With such knowledge, appropriate strategies and interventions could therefore contribute to changing the situation. The objectives of this study are: to determine the competitiveness of the agribusiness sector in Palestine, and to identify the factors affecting the competitiveness of the agribusinesses. In addition, the role of universities in enhancing the competitiveness of agribusiness firms will be discussed.

Research Questions:

Question One:

What are the main factors and conditions influencing the Agribusiness sector in Palestine?

Question Two:

How can universities play a positive role in enhancing the competitiveness of this sector?

ORIGINALITY

This applied research discusses the role of universities in enhancing the competitiveness of agribusiness in Palestine using Porter theory (1998). Porter's diamond will be applied in the agribusiness in Palestine to identify the factors affecting the enhancement of these firms. In addition, the research will focus on the role of universities in enhancing the competitiveness of these agribusiness firms.

Identifying the factors that influence competitiveness is imperative in order, to appreciate the position of the firm in relation to its environment and to propose appropriate measures and strategies for increasing competitiveness of agribusiness firms. As well, the research will recommend the local universities to better fulfill the demand of these firm in terms of education and training.

METHODOLOGY

Research Design

An academic literature and some business as well as other appropriate literature sources search will be conducted. The quantitative and qualitative methods will be used. Employing both qualitative and quantitative data offers an opportunity to probe deeply into the issues raised by the research (Sekran & Bougie, 2013). Although questionnaires may be used as the only data collection method, it is

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usually better to link them with other methods in a multi-method approach (Labaw, 1980). The researcher used the semi-structured interview as a qualitative tool. The researcher will address the Palestinian universities in the West Bank to analyze the education and training programs offered and related to the agribusiness sector. The analysis of these programs will be based on its comprehensiveness, effectiveness, efficiency and relevancy to the sector .

Sampling and Data Collection

The total number of agribusiness firms in Palestine is 200. In the sample frame, all firms are listed in the Palestinian Food Industries Union. With a margin error of 5%, and 95% confidence level, the minimum sample size is calculated which is 90 firms. A random sample is selected. A self-administered questionnaire is used to gather the opinions of the agribusiness executives on issues that influence the agribusiness factor's competitiveness. The questionnaire is designed to have 6 sections, which defined Porter's (1998) determinants of competitive advantage, namely: factor, demand, related and supporting industries, firm's strategy and rivalry, government and chance conditions .

Semi-structured interviews are conducted. All four local universities are visited to collect data about their relevant education and training programs. The research team members assess and analyze these programs and recommend strategies for developing agribusiness education and training programs that bridge the gap between current offering and industry needs and thus enhance their competitiveness.

As part of this research methodology, a workshop was held on 17 March,2015 to present the main findings and to draw some implications that were induced from the discussion that took place among the audience and those were: University professors, Agribusiness personnel and The Palestine Food Industries Union at Birzeit University, Palestine.

Data Analysis

Data are analyzed quantitatively using a Statistical Package of Social Scientist (SPPS); constraining factors were rated with a mean of less than 3, moderate factors rated with mean of 3 and enhancing factors with a mean rate above 3 (5 being maximum mean). Moreover, the competitiveness of the sector will be determined by the obtained overall mean rate of the individual factors combined under each determinant of competitive advantage.

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A qualitative analysis are used to analyze the interview questions with local universities and private business associations to assess all relevant programs and to assess their relevancy to the agribusiness firms' needs .

RESULTS AND DISCUSSION

PROFILE

This section presents profile of the respondents in terms of year of location, establishment, number of employees, range of products, R&D and Factory automation.

Location

As shown in the table below, 17% of the agribusiness firms are located in the north of West Bank, 31% are located in the mid of West Bank and 52% are located in the north of West Bank.

Year of Establishment

Data shows that 55 (62%) agribusiness factories were established before 1994 (i.e. Palestinian Authority took over) and 35 (38%) factories were established after the year 1994.

Number of Employees

The results show that there is a wide range in the size of firms. The sample consists of a firm with one employee (i.e. micro sized enterprise) and a firm that hires 465 employees (i.e. large sized enterprises). The percentage of engineers working in the 90 surveyed firms represents 3.7% while the administrative employees represents 8.5% and the rest are labors.

Range Scope of Products

The wide range of firms' size reflected by the number of employees was reflected by the wide range of products. Some of the firms produce one product while the largest firm produces 170 products.

Research and Development

Unpredictably, only 4% of the surveyed firms have their own research and development unit at their factories. These R&D units exist in the large dairy manufacturing firms.

Factory Automation

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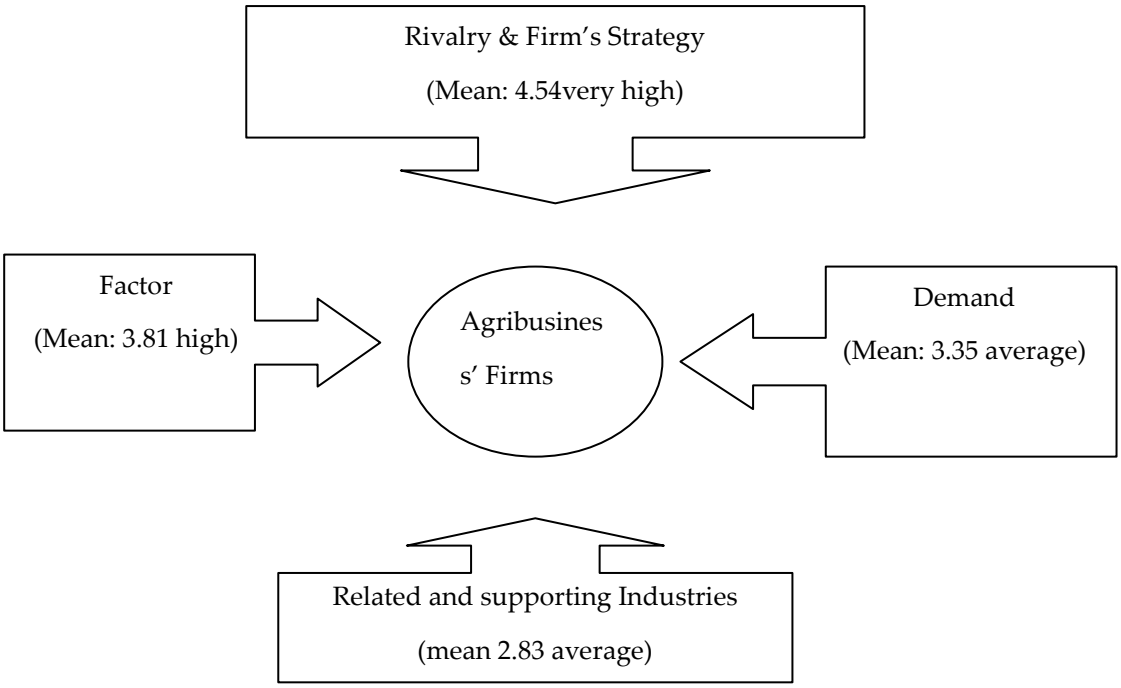
Table below presents the level of automation at the surveyed agribusiness firms. 35% of the firms have full automated productions, and only 4% have only manual production lines.

Porter's Diamond

Results of the survey, applying Porter's Diamond model in the Palestinian agribusiness context (please see table below), show that the highest factor is the "Rivalry and Firms' Strategy" with a mean of 4.54, followed by "Factor Conditions" with a mean of 3.81, then "Demand Conditions" with a mean of 3.35 and finally the "Related and Supporting Industries" with a mean of 2.83. Thus, results show that the agribusiness firms are working in a challenging environment figure below). Therefore, this implies the nature of agribusiness working environment which has many barriers such as high competition, average demand, limited networking and clustering, and relatively available infrastructure.



<u>Rivalry and Firms' Strategy</u>

Findings show that the average of all rivalry and firms' strategy items is 4.54 which is very high. Thus, the agribusiness firms are aware that the firms' internal management and financial procedures, competition with the Israeli and local products in addition to the firm's strategy are all playing a major role in holding back the advancement of the agribusiness in Palestine.

It is shocking that 95% of Palestinian Agribusinesses do not have Research and Development (R&D) departments this may serve negatively in enhancing this sector. To add, there are no sustainable firm

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strategies to encourage innovation and competitiveness of products offered to the market this issue was addressed in most of interviews that were done for the sake of this study.

Factor Conditions

Infrastructure costs are considered the main obstacles in the factor conditions according to the agribusiness firms. In most of the interviews, it was revealed that Israelis check points was the most important factor condition that plays a very negative role in enhancing and improving the competitiveness of the Palestinian Agribusiness products, a percentage of 97 of respondents agree on this.

As well, results show that political and economic situations, laws and regulations, infrastructure availability, and availability of technical skills come in the second most influential factor conditions according to the agribusiness firms in Palestine.

Interestingly, 70% of all companies and factories that were covered in this study see that the available technical qualities which are now available in this sector are insufficient in contributing positively to enhance the competitiveness of this sector. That will lead us to search for the root cause of this (i.e. is it the universities? is it the employers who search for a cheap labor?) According to Khdoori, AlQuds, and Annajah universities and Agribusiness College deans that were interviewed, many projects and trainings are now taking place to improve the graduates' qualities. This fact may serve as a green light that we really should continue in building curricula customized for the Palestinian market and empower graduates with the needed technical skills to champion this important sector to the Palestinian economy. By the end of the day, good companies will hire good and skilled employees to produce and market competitive products.

Demand Conditions

The Palestinian brand in the local market is considered the main influence in the demand conditions, followed by customer awareness about the Palestinian product specification, and global and local demand.

Surprisingly, the respondents show that the Palestinian brand name for the agribusiness products largely affect the agribusiness demand conditions globally, thus Palestinian firms could take this opportunity in expanding their businesses abroad. Therefore, it is an important implication for the opportunity in exporting Palestinian agribusiness products.

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Related and Supporting Industries

Results show that the related and supporting industries such as logistical firms, banks, insurance companies, and governmental institutions are considered main obstacles for job expansion and development. While, the respondents consider their relationship with universities as a moderate.

Findings of the survey and interviews show that there is a gap between what Palestinian universities offer and what agribusiness firms are looking for. 84% of employers of which the study covered think that the role of universities is still neutral. They believe that here in Palestine universities are passive in the agribusiness sector; they don't really support or actively partner with this sector. For instance, there are No spinoffs success stories recorded till now as The Dean of agribusiness college of Khdouri stated. Findings shows that 57% of Palestinian companies in the Agribusiness sector partner with universities only for workshops,5% for academic research and only 10% for training.

By looking on the other side, in this study only 26% of agribusiness companies even know about the fact that there are some local Universities which provide agribusiness related specializations. Whereas, only 38% of employers hire graduates holding agribusiness related specialization, given that this opportunity was not given for males more than males.

Relationship with Universities

Awareness of the Local Universities that Offer A&F related fields

Table below shows that74% of the respondents are aware of the agribusiness and related program offered by the local universities, 40% of them already hired agribusiness graduates and more than half of the hired graduates are female.

Statements	Percentage Yes	No
I am aware with the related programs offered by the local universities	74	26
I hired graduates that hold related specialization	40	60
I hired male graduates more than female graduates	46	54

There is a cooperative relation with agribusiness faculties

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The respondents were asked about their type of cooperation with the agribusiness faculties: 6% of the respondents mentioned scientific research, 11% in training, 62% in workshops and seminars.

Scientific Research	Training	Workshops and Seminars	Other Activities
6	11	62	21

The respondents were asked why they do not have cooperation with agribusiness faculties/ local universities from their perception reasons were as follow: The highest rank is the "needed years of experience", and then firms show that there is "no need", after that "graduates do have the needed technical skills, and then graduates "do not have the needed managerial skills"

Statement	Mean	Degree
Years of experience needed	4.13	high
No need	4.10	High
Do not have the needed necessary life skills	3.40	high
Do not have the needed necessary technical skills	2.71	average
Do not have the needed necessary managerial skills	2.40	low
Mean	3.35	average

On the contrary, agribusiness firms that hired agribusiness or related fields show that graduated need to go for further training, but they mentioned their high performance and achievement in comparison to others. They also admitted their advanced technical and life skills.

	Mean	Degree
Every specialized graduates go for additional training	4.69	Very high
Performance level of specialized graduates is more than non specialized ones	4.58	Very high
Graduates are empowered with the needed managerial skills	4.56	Very high
Achievement level and development level of specialized	4.44	Very high

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graduates is more than non specialized ones		
More training is needed for specialized graduates	4.33	Very high
Graduates are empowered with the needed technical skills	4.19	High
Graduates are empowered with the needed life skills	3.56	High
Mean	4.33	Very high

CONCLUSION AND RECOMMENDATION

The main conclusions are the following:

- 52% of the respondents are located in the northern part of west Bank
- 62% of the respondents were established before the Palestinian Authority took over in 994
- The majority of the respondents have no R&D unit
- The agribusiness firms are working in a very competitive environment
- 60% of the respondents do not hire agribsuiness graduates due to many reasons. On the top of these reasons are the lack of practical experience
- 40% of the respondents who already hired agribusiness graduates are highly satisfied with the graduates but they claim that further training is needed.
- Results show that the gap exists between the agribusiness firms and universities especially that many surveyed firms are not aware with what universities are doing

The main recommendations are the following:

<u>Macro Level</u>

- Ministry of National Economy
- Ministry of Agriculture
    - Working on ease the business environment by participating in:
        - Access to finance
        - Access to markets
        - Building the needed infrastructure at reasonable prices
        - Regulating the local market

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Meso Level

- Chambers and Unions
    - Taking the lead to bridge the gap between their members and local universities
    - Assisting in the awareness of developing links between their members and universities

Micro Level

- Agribusiness firms
    - Need to build their R&D units
    - Build cooperation with local universities through workshops, internships, ..
- Universities
    - Re-visit their agribusiness programs
    - Focus on applied research
    - Solving out problem

The main recommendation from the food industries that have attended the workshop,

1. IT and modern management practices shall be used.

2. Social responsibility and ethics should be considered.

3. Succession Plan for ensuring the sustainability of those firms should always be present and well revised roundly.

4. Universities shall consider the idea of establishing FOOD academies were students can study many fields to support food processing and manufacturing.

5. Universities may offer the R&D services for manufactories.

6. Banks may design loans and direct them for the sake of encouraging the sector under study.

7. Research entities by local universities shall be established in correlation with the needs of local and global market of this sector.

8. Trainings should be delivered to meet the goal of enhancing the competitiveness of Agribusiness.

9. Clustering Unions shall be there to contribute in this particular role.

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10. Government and pressure groups shall provide polices supporting those who work in the industry of Agribusiness.

FUTURE RESEARCH

The research team would recommend the following to future research:

- Surveying agribusiness firms working in Gaza Strip
- Investigating, in details, the needed technical and managerial skills for each program in order to provide specific recommendation per university

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 ISBN: 978-9963-711-37-6

PROGRESSION TOWARDS AN ENTREPRENEURIAL UNIVERSITY MODEL: THE CASE OF BIRZEIT UNIVERSITY (BZU)

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ABSTRACT

The transformation from a traditional teaching university into an entrepreneurial university is a current phenomenon, and the number of such transformations is increasing due to the reduction in the university funding from government and other sources and the emergence of a competitive market for education and research. This research paper is to analyze current characteristics of Birzeit University and to present the identification of what is necessary to become an entrepreneurial university.

Keywords: *Entrepreneurial University, Traditional University Birzeit University*

INTRODUCTION

These days, universities are facing different challenges such as globalization and internationalization of higher education, rising number of the student population, financial restrictions and the recent financial and economic crisis. The traditional university is usually engaged in two main activities: research and teaching. Knowledge is transferred to the community through students who are later incorporated into the labor market, by publications in scientific journals, which can take a considerable period of time. Entrepreneurial universities redefine the traditional roles of a university in the community as a knowledge creator through basic and applied research, technology and knowledge transfer agent, innovator, and supporter of economic development (Bercovitz and Feldman 2006). The new activities assumed by an entrepreneurial university aim to speed up the process of translating research into applications that can be quickly commercialized.

The transformation of a traditional university into an entrepreneurial university will play an important role in advancing the global knowledge-based economy (Lazzeretti and Tavoletti 2005). The role of an entrepreneurial university in the dynamic environment of the knowledge economy is to support economic development by increasing the amount and quality of research and quickly transferring such new knowledge to the community through education and entrepreneurship. It has been argued that, in

 ISBN: 978-9963-711-37-6

terms of organization, entrepreneurial universities are managed in such a way that they become capable of responding flexibly, strategically and yet coherently to opportunities in the environment.

Despite great obstacles over its relatively short, three-decade history, Palestinian higher education has served the Palestinian people well in meeting the rising demand of younger generations for tertiary education. The current consensus, however, is that demographic, governance, and fiscal pressures, coupled with inadequately defined priorities are undermining the system. Recognizing the urgent need to achieve a more effective, accessible, efficient, sustainable and accountable higher education system, Ministry of Education and Higher Education is embarking on designing a financing reform to achieve these objectives while maintaining the largely non-profit nature of the sector.

Birzeit University (BZU) was the first institution of higher education to be established in Palestine. It provides students with the opportunity to realize their academic aspirations and encourages them to be productive citizens and active members of their community. The university, with 10,000 students and 1000 staff, offers undergraduate, graduate, and postgraduate degrees through its nine faculties: Arts, Business and Economics, Education, Engineering, Science, Law and Public Administration, Information Technology, Nursing, Pharmacy and Health Professions, and Graduate Studies. In addition to its academic programs, the university has institutes and centers that are designed to develop and support community-oriented programs that contribute to the achievement of sustainable development in Palestine.

OBJECTIVE

The overall goal of this research paper is to highlight the importance of an entrepreneurial university; to analyze current characteristics of Birzeit University; and to present the identification of what is necessary to become an entrepreneurial university. S well, the paper answers the question on how to implement transformations in order to become an entrepreneurial university.

METHODOLOGY

The researcher used different sources and methods for data collection. With regard to secondary data, the researcher relied on surveying the literature relevant to the topic, including the statistics, publications by governmental and non-governmental organization, research papers, articles and editorials. Primary data: The researcher conducted interviews with BZU top management and administered a focus group of 10 senior university staff to assess BZU entrepreneurial position in terms of OECD survey questionnaire.

The OECD survey depends on (1) Leadership and ownership, (2) Organizational capacity, people and incentives, (3) Entrepreneurship development in teaching and learning, (4) Pathways for entrepreneurs,

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(5) Business external relationships for knowledge exchange, (6) The entrepreneurial university as an internationalized institute, and (7) Measuring the impact.

LITERATURE REVIEW

Defining the entrepreneurial university

Since 1998 when Burton Clark introduced the term entrepreneurial university, several scholars (Sporn, 2001; Etzkowitz, 2004; Kirby, 2005; Rothaermel et al., 2007) have used the term. Clark's seminal work on entrepreneurial universities identifies five elements of entrepreneurial behavior in many detailed case studies that he conducted during the 1990s of various university transformations. This five-element approach has become the benchmark and point of reference in the entrepreneurial-university literature over the past two decades. The elements defined by Clark (1998) are:

- ✓ A strong central steering core to embrace management groups and academics;
- ✓ An expanded development periphery involving a growth of units that reaches out beyond the traditional areas in the university;
- ✓ Diversity in the funding base, not only by use of government third stream funding but from a wide variety of sources;
- ✓ A stimulated academic heartland with academics committed to the entrepreneurial concept; and
- ✓ An integrated entrepreneurial culture defined in terms of common commitment to change.

The level to which the entrepreneurial culture is represented within the organization will depend on the degree to which actors in and around the university behave in accordance with entrepreneurial values and beliefs. In other words organizational attributes represented by structures, resources and strategies will be determined at the most basic level by entrepreneurial socio-cultural attitudes of university stakeholders.

University as an Entrepreneurial Organization

Etzkowitz (2004) puts forward five propositions concerning the entrepreneurial university concept, namely that such institutions are focused upon:

- ✓ The capitalization of knowledge;
- ✓ Managing interdependence with industry and government;
- ✓ Are nevertheless independent of any particular sphere;
- ✓ Are *hybrid* in managing the tension between independence and interdependence; and
- ✓ Embody reflexivity, involving continuous renewal of internal structures.

Such an organization is designed to maximize the use of effective entrepreneurial behavior appropriate to the task environment. Thus, a university becomes entrepreneurial in order to respond to the changes

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in its environment and to ensure socio-economic development, and improve its own financial situation. It has been argued that, in terms of organization, entrepreneurial universities are managed in such a way that they become capable of responding flexibly, strategically and yet coherently to opportunities in the environment (Rothaermel et al., 2007).

Entrepreneurial University Self Assessment Framework

It must be emphasized that there is no universal definition, concept or criterion of an Entrepreneurial University. Such a benchmark just would not be suitable for, or appropriate to, the needs of higher education institutions around the world. Too many variables (diverse cultures, dissimilar socio-economic contexts, different levels of country development, disparate organization missions & objectives, contrasting resources, etc.) would render any 'all-inclusive' model impotent. Nevertheless, examples of entrepreneurial universities do exist. What is interesting about these examples is how different they can be and yet still share some common underlying concepts and characteristics. Taking existing knowledge, models and best practice from 'experienced' entrepreneurial universities can help other institutions to achieve their own entrepreneurship ambitions. On this basis the European Commission together with the OECD have produced a framework to enable interested universities to assess themselves against seven key statements that characterize an entrepreneurial university. For each of the given statements, a university can assess itself on a scale of 0-5 and then using the guiding framework to determine priority areas for development/improvement.

In order to benchmark BZU and to determine priority areas for entrepreneurship development, the EC-OECD self-assessment framework was utilized as shown in figure (1). It has to be emphasized that the strategic development provisions are not comprehensive and certainly will not satisfy all the criteria within the EC-OECD self-assessment framework in the near future. Rather, the development provisions are based on the existing entrepreneurship activities at BZU, the institution's immediate needs, resource constraints and what is realistically possible to begin with.

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Figure 1. Entrepreneurial University Self Assessment Framework

The process of transformation to entrepreneurial universities is necessary and inevitable in order to ensure the development of university and society as whole. Considering the specific constitutional and political conditions in Palestine and the ongoing higher education reform, the transformation of universities will be a hard and long-term process. In the past ten years small steps forward have been made in reform of the higher education system. A much stronger commitment towards changes is needed within the academic community itself, since the universities have been slowly adapting to the new and changing environment.

RESULTS AND DISCUSSION

Imperatives to Promote and Develop Entrepreneurship at BZU

The main purpose to promote and develop entrepreneurship at BZU is to contribute to Palestine's national social and economic development. For BZU the needs are more specific:

- The need to achieve greater financial sustainability
- The need to differentiate BZU from other universities
- The need to improve students' employability

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- The need to develop 'job creators'
- The need to enhance education provision effectiveness

It is acknowledged that entrepreneurship development at BZU must be for both staff and students. Academic staff would benefit in particular from developing their enterprising teaching competencies and greater exposure to external stakeholders. It is also recognized that *all* students would benefit from sensitization in 'paid employment' and 'self employment', however, support for actual business start-up would only be appropriate for self-selected students.

The imperative for entrepreneurship development at BZU is further reinforced by a number of key challenges. First of all, the current provision of entrepreneurship activities are not catered for coherently, resulting in ineffective planning, organization, delivery and assessment. Secondly, not all the students are targeted for personal entrepreneurial development. Thirdly, there is *some* staff resistance (or fear) to change, especially to overcoming traditional educational practices. Staff anxiety to change is well appreciated as the following cursory assessment of their entrepreneurial character indicates a clear need for personal development in this area:

- Entrepreneurial competence: Poor
- Enterprising teaching capabilities Poor
- Practical experience base Adequate *(but not for all staff)*

In conclusion the imperatives provide sufficient grounds to pursue entrepreneurship development at BZU, systematically and coherently. BZU already offers a wide range of services, not only in entrepreneurship but also in technology transfer, graduate employment and industry linkages. These programs and interventions should form a good basis on which to develop an entrepreneurial university model for BZU.

Benchmarking the Entrepreneurial University Development Needs of BZU

Assessment results from focus group are presented in Table 1.

Table 1. BZU Entrepreneurial University Self-Assessment

Key statements (characteristics) of entrepreneurial universities	**Value**
Leadership & governance	3.50
Organizational capacity, people & incentives	3.20
Entrepreneurship development in teaching & learning	1.50
Pathways for entrepreneurs	2.30
University-business/external relations for knowledge exchange	3.80
Entrepreneurial university as an internationalized institution	2.00
Measuring the impact of the entrepreneurial university	1.20

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Some analysis for each of the seven statements indicate the following findings and development needs:

1. *Leadership & governance*

There is an ambition to further develop entrepreneurship within BZU but to date there is no *central* strategy for the whole university. On the other hand there is a high level of autonomy for the various colleges to pursue entrepreneurial activities. However, without a focal plan there is a lack of coordination of current entrepreneurship programs, so potential benefits to BZU may not be maximized.

Immediate EU development need: (i) A strategic model

2. *Organizational capacity, people & incentives*

Currently, the organizational capacity to instigate entrepreneurship programs rests very much with various colleges and centers. As a result, the financial sustainability of the programs is managed by the same colleges and centers. Despite these efforts, not all staff are aware of, or engaged in entrepreneurship development at BZU. Also there is no central *entrepreneurship policy* for staff incentives and rewards to actively support BZU's entrepreneurship agenda. However, it is recommended that any such policy should only be developed *after* widespread embedding of entrepreneurship has taken place within BZU.

Immediate EU development need☹i) A strategic model and (ii) Staff sensitization and training in entrepreneurship

3. *Entrepreneurship development in teaching & learning*

The concept of enterprising education teaching methods is fairly new at BZU, hence it is not widely practiced.

Immediate EU development need: (i) Sensitization and training of academic staff in enterprising teaching methods

4. *Pathways for entrepreneurs*

BZU already offers numerous programs for actual business start-up, technology transfer, incubation, etc. However, not all students or staff are aware of 'self-employment' as an alternative career. Likewise it is possible that not all staff or students are aware of the total entrepreneurship provision at BZU.

Immediate EU development need: (i) Sensitization and training of college staff in 'entrepreneurship careers' (ii) Widespread promotion of current entrepreneurship provision at BZU

5. *University-business/external relations for knowledge exchange*

BZU can demonstrate well established external relations with the local community, international agencies, other Palestinian universities, NGOs, and industry partners. Perhaps, however, direct links with *commercial* enterprises are weak; all other relations are also ad-hoc; the value and impact of current relations is not documented and once again not all staff may be aware of the existing contacts and networks.

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Immediate EU development need: (i) Widespread promotion of current entrepreneurship provision at BZU (ii) Development of a broad 'staff industry/community' placement program

6. *Entrepreneurial university as an internationalized institution*

Although BZU has some international relations, contacts and activities, it is deemed inappropriate to pursue a *systematic* policy for internationalization before other areas of entrepreneurship development at BZU are well-embedded. It is *not* suggested that internationalization cannot be pursued by an interested person or unit, indeed this action should be encouraged; rather it is proposed that BZU undertakes institutional development in entrepreneurship before adopting a central plan for internationalization.

Immediate EU development need: (i) Nil

7. *Measuring the impact of the entrepreneurial university*

Without an entrepreneurship development model and strategy, clearly the impact of entrepreneurship provision at BZU cannot be assessed and a means to gauge impact needs to be developed.

Immediate EU development need: (i) A strategic model (ii) Guidelines to assess impact of entrepreneurship provision at BZU

From the above analysis, based on the EU assessment framework, the following needs are listed for the entrepreneurial university development of BZU:

i. BZU entrepreneurial university development model
ii. Staff sensitization in key enterprise and entrepreneurship issues
iii. Sensitization and training of academic staff in enterprising teaching methods
iv. Sensitization and training of college staff in 'entrepreneurship careers'
v. Widespread promotion of current entrepreneurship provision at BZU
vi. Development of a broad staff 'industry/community placement program'
vii. Guidelines to assess impact of entrepreneurship provision at BZU

BZU ENTREPRENEURIAL UNIVERSITY DEVELOPMENT MODEL

As shown in Figure (2) to be an entrepreneurial university that requires not only the integration of entrepreneurship development needs emanating from the EC-OECD self-assessment framework, but also the amalgamation of the many entrepreneurship services and activities already being provided by BZU.

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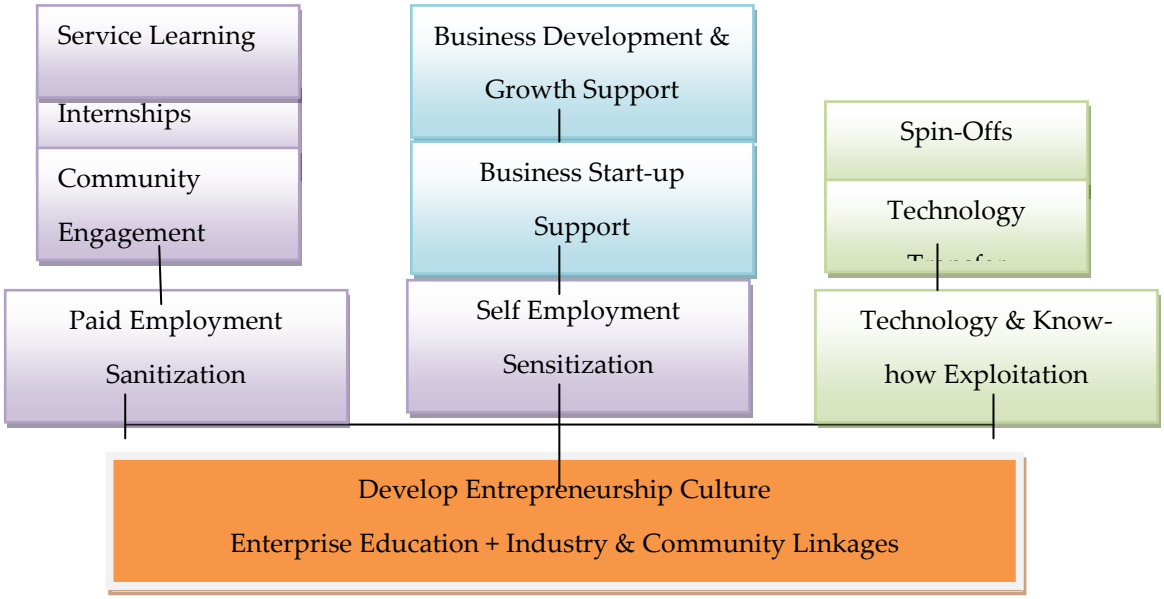
Figure 2. BZU – Entrepreneurial University Development Model



Intervention Key:

Development of enterprise and entrepreneurship at BZU begins at the base of the model with *all* staff practicing and employing *enterprising teaching methods*, as well as being engaged in appropriate external *relationships with industry and community* partners. These two elements are a prerequisite to developing a culture of enterprise within BZU, but also to creating academic and non-academic opportunities within the community and with key stakeholders. Furthermore, the development of entrepreneurial students strengthens their chances for *paid-employment*, as well as increasing the likelihood of individuals taking up *self-employment* as a career, and/or exploiting know-how by means of technology transfer and spin-off enterprises.

As a next step these development 'needs' have to be integrated into an overall strategy, together with key actions for implementation. The implementation of the BZU entrepreneurial university development strategy should be achieved primarily by a development team and, in general, the primary interventions in enterprise and entrepreneurship development would be made by the college deans, staff members and possibly the student body.

CONCLUSIONS

ISBN: 978-9963-711-37-6

Entrepreneurship and entrepreneurial activities are not new for BZU. The institution already provides many programs and services in entrepreneurship, community and industry linkages, student employability, etc. These interventions and experiences should afford BZU a good base upon which to progress towards the status of an entrepreneurial university. The key imperatives to strive for greater enterprise and entrepreneurship are the need for financial sustainability, student employability and effective teaching practices that reflect the world of work.

There is one weakness in the overall strategy, which is that it does not address any financial issues, for example, with respect to sustainability, desired income, investment requirements, etc. This would require a much more detailed project and target setting with individual units, colleges and centers that provide various entrepreneurship programs. However, faithful accomplishment of the recommended provisions should enable BZU to progress towards the desired entrepreneurial university status.

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 ISBN: 978-9963-711-37-6

INNOVATIONS IN SERVICES SECTOR - A FUNCTIONAL PERSPECTIVE

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ABSTRACT

Innovation can be understood that being new to the industry is sufficient; it need not be new to the world. 'Innovation is about putting good ideas into action, being creative and thinking laterally.'

Innovations provide opportunities to increase the efficiency and quality of the service delivery process, both in the front and the back office. It also facilitates the introduction of new service concepts. Mostly, firms emphases on technological innovations than organizational innovations. In service firms organizational innovations are important along with the service processes. Service firms needs to emphasis on the development and implementation of the innovations throughout the organizations.

Our paper focuses on innovation as a dynamic, continuous process with functional perspective. On the basis of service management literature and the case studies some of the main processes supporting the innovations are analyzed.

Keywords: *Innovation, Service Innovation, technological Innovation, Organizational Innovation*

UNDERSTANDING INNOVATION

Innovation in services is a critical issue. Literature studies mainly focus on the innovations in the manufacturing firms. Now the economy is looking more towards services sector, this kind of argument has, however, become unsustainable because it implies that the uninnovative features would apply to the majority of economy. (Howells 2000; Miles 1993).

Now a day, incremental and less tangible improvements are also considered as Innovations and the role of both everyday business activities as sources of innovations and market demands as their drivers have been acknowledged. (Lundvall 1992; Schienstock 1999; Schienstock and Hämäläinen 2001). To a large extent innovation theory has been developed by extending the research approach to innovation in the manufacturing industry to embrace innovations in services as well (Gallouj & Weinstein, 1997).

Innovation can be broadly defined as, "that it encompasses a set of ideas, practices, or objects which are new to the organization and relevant to the environment, which is to say to the reference groups of the

 ISBN: 978-9963-711-37-6

potential innovator (Knight, 1967; Rogers & Shoemaker, 1971). 'Innovation is about putting good ideas into action. It's about being creative and thinking laterally.'

Service firms normally do not use innovation terminology, rather they speak about customer satisfaction, quality improvement etc. when they are actually seeking to renew their products. (Gallouj 2002; Sundbo & Gallouj 2000; Preissl 2000). It is difficult to give and apply the common classification into product, process and organizational innovations in services, because of the characteristic of services, as these are both products and processes. Since there is no clear cut input and output in case of services, any change or improvement in a service other than to an industrial product as a new one is not easily recognized.

Innovation occurs most readily when there is a supportive organizational context that provides a kind of "glasshouse" environment. In order to create such an environment, it is necessary to align various levels of the organizational activity: individual, team, managerial, organizational systems, corporate culture, and cross-border. There are also important success factors for interfacing with customers to create products and services that meet both articulated and unarticulated needs.

A service innovation is defined to include changes in the service concept, production system, service delivery system and/or target markets. Service innovation usually involves changes in many elements of a service product within the organization. The most typical innovations are the improvements in the current service concept and the creation of tools for service production, whereas fewer efforts are done for systematic development of the human competences in a service organization. Most of the innovations are incremental in nature, foreseeing the competitive advantage. The innovations act as reactive responses to the direct needs of customers, partners, and changes in the competitive environment. Approach to innovation is based on improved performance of production processes associated with an improvement in capital ("technological approach").

CONCEPT OF SERVICE INNOVATION

In the early theories of service innovation, technological development was regarded as its foremost driver. Barras' model of the 'reverse innovation cycle' has often been mentioned as the first innovation theory which concentrated specifically on services (Barras 1986). This view suggests that innovation cycle in service sectors takes the form that communicates the traditional industrial cycle: process innovation precedes product innovation. New technologies developed by manufacturing are adopted in service organizations to increase the competence and effectiveness of their processes and thus, the quality of service. Later, new service products are developed. Barras' model is important due to its pioneering nature; though it does not contribute much for the concept development of innovation in services.

 ISBN: 978-9963-711-37-6

In literature a number of different organizational innovations in services have been discussed, but it is difficult to compare the various forms. A broad concept such as modulization (Sundbo, 1994) is difficult to compare with process innovations as discussed in Gadrey et.al. (1995), and the concept of modulization also goes beyond the concept of bundling, introduced by Normann (1984, 1991). The modulization concept has a strong emphasis on standardization as a key process in the realization of the innovation, which is against the characteristics of services. A better understanding of the processes and mechanisms underlying particular service innovations will help, for example, to explain the difficulty in imitating successful service innovators (Storey and Easingwood, 1998). From other studies it has also been concluded that certain innovations appear very difficult to imitate (Henderson and Clark, 1990; De Man, 1996). This bias in the innovation literature restricts the insight of the concept of innovations in service firms. For example, distinction between product and process innovations (Utterback, 1994) does not automatically provide any deeper understanding of the factors responsible for the successful development of service innovations.

As concept development in services, Innovations can be distinguished into three main categories, looking at the literature available. The 'first category' is the innovation process or the 'new product development' process in a service firm (De Brentani, 1989; Easingwood, 1986; Martin & Horne, 1993; Miles, 1996; Sundbo, 1998). The 'second category' is the role of information and communication technology in services (Barras, 1986, 1990; Freeman & Soete, 1997; Quinn, 1992). 'Third category' of service innovations focuses on the various forms of innovation, especially organizational and technological innovations (Gallouj & Weinstein, 1997; Miles, 1996; Normann, 1984, 1991). Research on organizational innovations is relatively undeveloped and the results have been inconclusive and inconsistent (Wolfe, 1994).

The general theoretical framework that has had the most impact on the neglect of innovations in services is probably the distinct: which consists of an economic structure with industry at the centre and services at the periphery. Manufacturing firms are considered as the engine of growth with services as induced activities, industry as a source of competitiveness with services as a "shelter" or "sponge". Innovation in services is thus accorded little significance. Schumpeter himself had a broad vision of innovation; contemporary research inspired by him is most often characterized by a significant leaning towards technology or industry (Gallouj, 1994).

WHAT DOES INNOVATIONS IN SERVICES MEANS?

Service activities are defined as an *operation* designed to transform some reality possessed and/or used by a consumer (or client, or user, or guest). It is carried out by a provider at the request of consumer, often with their co-operation but not leading to the production of a good capable of circulating in the

 ISBN: 978-9963-711-37-6

economy separately. This definition encompasses a wide variety of service operations and the situations, which may be different as a function: such as; goods or technical systems possessed by consumer or under consumer's control; coded or standardized information; the individual consumer with his/her diverse physical, intellectual, locational characteristics; organizations, with their various dimensions (technical, structural, collective competences and knowledge).

Production of service, therefore, organizes a solution to a problem e.g. a treatment, an operation, which predominantly does not involve supplying a good. It places a bundle of capabilities and competences(human, technological, organizational) at the disposal of a client and to organize a solution, which may be given to varying degrees of exactitude.

In case of quasi-products, services cannot be categorized as solutions in search of problems, rather, services compliment them. If service firms are flexible than knowledge of producers as well of consumers are combined in a different manner each time they are used, and thus forms "customized" services. Customized services are not possible in traditional industry (mass production or production of ranges of products). Sharing of knowledge is although also required with order-driven industrial production of single products ("dedicated" products). Presently, the customized aspect is more significant in services than in industry. In services it is considered as "co-production", a situation where consumers/clients participate in providing the service and therefore in individualizing solutions.

Considering production of a service equivalent to organizing the accessibility of a bundle of capacities to execute the solutions, innovation assumes two main forms:

1. Organizing the solution of *new problems* or even service products which are of varying degrees i.e. new to the market or new to the firm (ranging from mere improvements to radical new forms). Service products may also be "fashioned" by innovative service providers by anticipating changes in demand. The identification of problems may also result from the interaction between service provider and consumer.

2. A more efficient (in terms of productivity, relevance, or quality) way of organizing a solution to *the similar problem*.

Often in services it is difficult to differentiate between process innovation and product innovation. If service products designate the type of problems they treat, the types of innovation are truly product innovations (this almost always implies innovation or modification to the process as well) whereas the second type is simply process innovations (methods, organization, technical systems, etc.). The organizational aspect of innovation (which includes technical support) is more prominent in services, while not much research has been done on this.

 ISBN: 978-9963-711-37-6

Innovation activities are complex. Information technology development has played fundamental role in the transformation of many service activities and particularly for R&D. The rise of information systems in a broad sense, have to be understood at a number of stages. In growing number of service firms, technology (in common-sense usage) has penetrated into systems for dispensation and dissemination of the information, at instantaneous stage. Several services firm like, medical, education, banking, insurance have developed and adopted new technologies.

Information technology has opened up the number of potential for creating new types of services and developing new ways to provide services. At a subsequent level, the most significant impact of information technologies is that it has helped in creating new dynamics of service innovation. For most service firms this new era of innovation calls for new methods of design of existing or new services. The transformation of existing services and the design of new services imply novel range of competences combining knowledge about information technologies with the traditional knowledge of profession.

The challenges ahead lead to the institutionalization of improvised organizations which authorize greater autonomy in design. For some service firms it also leads to the establishment of separate R&D structures. At deeper stage the expansion of information technologies and information science is likely to transform the ways in which competences and bodies of traditional knowledge are "formalized" in the various professions.

METHODOLOGY

In our study, we have concentrated on innovations that are more or less representative for service firms. The study is literature based and the objective is to contribute to theory-building. Our aim is to explore and portray various forms of innovation in services and the supporting processes underlying those innovations.

Firstly we have tried to understand what innovations means. In second stage we have tried to develop frame work for the concept of service innovation. In doing so, we have studied extensively the literature on service management (Berry, Parasuraman & Zeithaml, 1990; Grönroos, 1990; Heskett, Sasser & Hart, 1990; Normann, 1984, 1991; Schneider & Bowen, 1995), literature on service innovation (Barras, 1986; Normann, 1991; Quinn, Paquette, 1990; Quinn, 1992), and on more recent work on organizational innovations in services (Gallouj & Weinstein, 1997; Miles, 1996; Storey & Easingwood, 1998; Sundbo, 1997, 1998, Tanuja Agarwala 2003, Javier Carrillo-Hermosilla & Gregory C. Unruh, 2006).

Some cases of successful and internationally well-known service firms were also used to narrow down the relevant concepts: *Volkswagen AG, GE, Dell, Citicorp, American Express, Federal Express, McDonalds, Nippon Life Insurance, Shouldice Hospital, Thomson Holidays and Taj Group of Hotels.*

ISBN: 978-9963-711-37-6

From international literature on services and service management cases were selected (Davidow and Uttal, 1989; Feigenbaum et al, 1988; Guile and Quinn, 1988; Heskett, 1986; Palmer, 1988; Zemke and Schaaf, 1989). It has helped us more in building on insights. The purpose is not building any causal relationship between the constructs. The main selection criterion of cases was that the firms should represent the main service sectors: business services as well as customer services.

In the last stage we have tried to describe the innovations within each functional perspective. In this part we systematically tried to explain how innovations in functional are connected and interlinked with each other.

TECHNOLOGICAL INNOVATIONS

Technologically new service products and processes and major technological improvements in services and processes are considered as “Technological” innovations. A Technological innovation is one which has been implemented or introduced in the market in the form of service product innovation, or for process innovation. It involves series of scientific, technological, organizational, financial and commercial activities.

However, there is an ambiguity in the term "technological" as it is not defined: it has shades of meaning which varies from one country to another and even from respondent to respondent. This raises the question - how the term "technology" be interpreted in services? Especially, does the development and implementation of innovative software have same technological characteristics as the development of new equipment? Does this mean that new auditing or management methods are technological in nature, in case of a management consultancy or education?

The industrial definition of technology cannot be applied in services as such. In services, the term "technological" possibly will be understood as “using high-tech plant and equipment”. Apparently, this suggests that there is nothing technical about the act of providing a service. Thus, this definition limits only up to the introduction of technologically new or improved plant or equipment in the service industries excludes some "technical" innovations applied in the process of services.

This conflicts the extent of the fact that innovation can also affect human resources or working methods and the organization in general? The “organizational" innovation is widespread and may result in significant improvements in the firm’s performance. Technological innovation also includes improved human capabilities embodied in organizations.

ORGANIZATIONAL INNOVATIONS

‘Organizational revolutions’ that are closely related to innovations in information technology has been described in number of ways by Quinn (1992). All organizational innovations are not directly related to

ISBN: 978-9963-711-37-6

technology, and a little research has been done on the same. In the sixties, number of 'social innovations', such as the retail chain store, the day nursery, the clearing-house, the Rotary Club and the summer camp, has been described by Ogburn & Nimkopf (1960). Richard Normann (1984, 1991) made a major contribution to this subject through his cases and illustrations. Although Normann offers interesting descriptions of new forms of organizational innovation, the approach is not very systematic. His category of social innovations includes four types. Two of them, client participation and new linkages or bundling, provides further scope of research. The description of the customer as co-producer is narrowly focused on self-service activities.

The concepts of the 'recombinative model' commence some ideas about creating innovations into the discussion of bundling and modulization. (Gadrey et.al., 1995; Gallouj & Weinstein, 1997). Three forms of organizational innovation that are specifically relevant to service firms are the multi-unit organization, new combinations of services and the customer as co-producer (Van der Aa, Wietze & Elfring 2001).

The concept of 'multi-unit organization' suggests that services takes place close to the customer. In most of the cases it is difficult to draw a definite line between the production and consumption of services; as a result, it leads to the growth of the firm which further leads to the reproduction of the service management system at another location, close to a new market. New units possibly will gain an advantage from a lower cost per unit and from the experience previously acquired in areas such as service-concept development, delivery systems, working methods, machinery and customer (relation) management. The 'reproduction formula' is the core of this form of innovation (Normann, 1984).

Standardization of processes in services and the service delivery system is important as it enables a service company to take advantage of economies of scale and to reduce costs (Sundbo, 1994). Institutionalizing of the activities and making the intangible tangible can be regarded as supporting processes in elucidating the new service concept. Understanding of the service concept is imperative, as it helps in training of employees and guiding the expectations of customers. The management of expectations is an important ingredient of quality management in services (Zeithaml & Bitner, 1996).

Internal benchmarking is another important process. This helps in modification and renewal of the established service concept in the multi-unit firm. New ideas can be tried out in a limited number of units. If and when the ideas appear to offer an improvement, these should be implemented in all the units.

Another form of organizational innovation is the creation of new service combination and service elements. New combinations may be connected with characteristics such as intangibility and simultaneity. Services with important 'search qualities' or 'credence qualities' can imply information asymmetries and uncertainties on the part of the customer (Nayyar, 1993).

 ISBN: 978-9963-711-37-6

Customers can reduce any uncertainties about buying and co-producing by being loyal to a known service provider and by paying a premium for reputation and good practice. This form of innovation is very similar to Normann's concept of bundling (1991), as well as resembling Sundbo's concept of 'modulization' (1994) and that of 'recombinative innovation' (Gallouj & Weinstein, 1997).

Innovation necessarily does not mean adding service activities to the existing service portfolio. From customer's perspective joint purchase of service components must offer some additional value on the purchase of the components from a number of separate service providers (Baker & Faulkner, 1991). Integration in services creates opportunities for differentiation and customization. 'New combinations' in services is not at all novel. The notion of linking or 'bundling' is not new, but the extent to which separate service activities are integrated, and how they are bundled, remains unclear (Normann, 1984). The customer can choose from a range of related services but real-time information at all locations on the availability and costs of the full range of service activities are important. This transparency may enhance the ability to attract and keep customers for as many services as possible.

The process of producing services is much more open as compared to that in manufacturing. The customers are significant part of the service process. The borderline between the activity of the producer and that of the customer is flexible. This flexibility provides the opportunity for new organizational arrangements. Opportunities for customers to change their role as co-producer are distinct from one service firm to another. The tasks can shift from service provider to customer in self-service concepts.

PEOPLE (HR) INNOVATION

Kossek (1987) offered six propositions that identify factors associated with the adoption of innovative HRM practices:

1. External environmental forces distinguish HRM innovations across industries;
2. Structural organizational characteristics may be related to HRM innovations;
3. HRM innovations that are easily packaged and marketed by consultants may be the most widely diffused;
4. Organizations often adopt HRM innovations in order to appear more legitimate;
5. Strong culture firms may adopt HRM innovations for different reasons than weak culture firms;
6. Finally, a company's history of success with past HRM innovations affects the prospect for acceptance of new ones.

ISBN: 978-9963-711-37-6

Kossek concluded that companies adopted new work practices for a variety of, often contradictory, reasons. In another study, Kossek (1990) proposed that, by implicitly focusing on quantity rather than quality of innovation, executives may be searching for HR 'fixes' when they should be trying to understand what influences employee acceptance of innovations and what makes for a successful HR programme. Open meetings that allow for significant local input regarding design and implementation will lead to innovations that are both better designed and more fully accepted. Systematic evaluation of the general influence of HR programmes is also critically important. Employers can improve the success rate of their innovative HR programmes by:

1. Providing clear, top-level support for HR innovations;
2. Ensuring that the HR department is not isolated from other departments; and
3. Making the entire company responsible for fair hiring practices and other HR programmes and functions.

According to Hiltrop (1996), these results do not prove that innovative or progressive HR practices *cause* better financial performance but only that the two may be related.

According to Kochanski and Ruse (1996), the HR function has been under pressure to reduce costs, to improve its services, to increase its impact and to provide a more satisfying work experience for its employees, even as the proven ways of organizing the people prove insufficient to meet the new challenges facing human resources. McMahan (1996), in his study of 130 large companies, found that, as corporations adopted new strategies and redesigned themselves to deal with the competitive pressures they were feeling, their HR functions were also redesigning themselves to support the changing business.

Since innovation is implemented by people, it's not surprising that HR functions should be an essential part of most organization's innovation initiatives, but this paper says that's not the case today:

"HR departments are not traditionally included in the innovation process when innovation is focused on new products and/or services. However, they have a critical role in establishing and maintaining innovative or adaptive cultures that can drive the change required success in the future. When HR focuses its attention on innovation, it is an opportunity for those professionals to have a direct impact on top-line growth and financial outcomes and assume an important role at the leadership table by assisting to drive top-line growth through innovation and bottom-line growth through risk control."

ISBN: 978-9963-711-37-6

The three areas of innovation where HR functions can play an important role: insight, collaboration and brainstorming. In addition, the HR functions have an opportunity to play the lead role in transforming the organization's culture to be more supportive of innovation - which, in turn, can help to decrease the risks associated with innovating.

SOME EXAMPLES OF PRINCIPAL INNOVATIONS

Concept of sales or service

- Introduction of own brand products/services
- Introduction of customer loyalty schemes
- Creating a new logo
- Installing an answering service for customers

Method of managing flows of merchandise, information and services

- Installing an "intranet" computer network
- Installing a system of exchanging computerized information with partners
- New method of managing deliveries
- Computer-assisted ordering

Organization

- Setting up a cooperative system with member Creating a management structure for a retailers'
- cooperative
- Reorganization of structures, revised job descriptions

Source: Insee, "Innovation Générale des entreprises du commerce", 2001

Volkswagen AG, the famous German auto manufacturer, turned to mySAP ERP Human Capital Management (mySAP ERP HCM) to manage its Innovative Personnel Service (IPS) project. The challenge was to implement this innovative HR program, with the objectives being to realign personnel administration time management and payroll process, and shift decision-making to local units. After making the decision for the SAP solution, SAP consulting seemed like the ideal implementation partner. Volkswagen gives special credit to SAP consulting's HR experts for the project's success.

ISBN: 978-9963-711-37-6

Corporations like **GE and Dell** have made continuous innovation an integral goal of their culture and people practices. HR leaders who have already recognized the key role that HR can play in driving innovation have learned that the first action needed wasn't to develop new HR programs but instead, to identify and attempt to minimize the things that can slow down or impede innovation.

The **Taj Group of Hotels** has just won the prestigious Hermes Award 2002 in the human resources category, and the prize is for the 'special thanks and recognition system', a programme so innovative and successful that it has been patented.

The Taj Group of Hotels won the Hermes Award 2002 for the **best innovation in human resources in the global hospitality industry**. The prize, an elegant statuette in Daum crystal, takes pride of place on the work desk of Mr. .Martyris - Sr.Vice President HR, who received the award on behalf of the Taj Group at a function held in early November 2002 in Paris.

Taj Group of Hotels won first place, for our **S**pecial **T**hanks **a**nd **R**ecognition **S**ystem (**STARS**) programme, which aims to recognize and reward excellence in the services provided to guests. Hermes is the only award for HR in the hospitality industry.

Taj Group of Hotels are the first company in the Tata Group to undertake the HR 'balanced scorecard', which links individual performance with company strategy. They plan to enter this programme for next year's Hermes awards.

In addition, the 'employee satisfaction tracking system' tackles an employee's problem areas and levels of gratification on a quarterly basis. The hospitality industry, as any other service industry, is all about people. Customer orientation is the driver of their system. The critical need of the HR function in any hotel is to anticipate guest requirements.

They have acquired five new hotels in the last three months. Their focus is not only on the right people, but also on the right attitude. The right attitude is far more important than just skills. Their training of an employee, from his entry to when he becomes a part of our talent management pool, proves this.

Retail banking has traditionally been a place where the road to innovation is blocked by numerous barriers: IT, corporate culture, operational limitations and more. But there is an opportunity to break from the past by moving to next-generation architectures and applications.

ISBN: 978-9963-711-37-6

CONCLUSION

To conclude, innovation is about change and the ability to manage change over time. Innovation can be about the successful exploitation of new ideas in the form of a new or improved product or service but it can also be about the way in which a product or service is delivered. Innovation can be about creatively marketing an existing product, or about changing the business model of a sector. Innovation facilitates the disintegration of service value chain, which creates opportunities for new entrants.

Innovation in so-called non-productive activities is not considered worthy for analysis. Innovations in services are not to be neglected. Innovation in services can be done through meticulously formulating the new problem solving solutions. It can be mere improvement or radical change. It may take the shape in the form of new processes, new markets or new organization design. Anticipation in demand also helps for the same. Solution can be organized in terms of productivity, relevance or quality. The functional aspect of innovation in services should be more prominent as services are mainly inter-functional as well cross-functional in nature. Innovations in services can also be adopted as organizational innovation or process innovation.

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 ISBN: 978-9963-711-37-6

TOWARDS HIGHER E-COMMERCE PARTICIPATION: SOCIAL NETWORK USAGE AND GOVERNMENT CONTROL

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ABSTRACT

This study investigates the impact of social network usage and government control on consumers' decision to purchase, trade, and pay bills online if such processes are made easier. The cumulative proportional odds model is estimated to fit the 2012 Global Internet User Survey (GIUS) data. The survey was administered to more than 10,000 Internet users in 20 different countries. Parameter estimates justify government control of the Internet and illustrate the positive influence of social network usage. Interestingly, country of residence, age, and gender are found to have insignificant impact on consumers' intention to use the Internet for e-commerce purposes. Managerial implications for both policymakers and marketers are discussed.

Keywords: *E-commerce; Social network; Government control; Online consumer behavior; Digital divide*

INTRODUCTION

The rapid expansion of the Internet has contributed to the transformation of how consumers learn, evaluate, and purchase products and services. Moe and Fader (2004) emphasized the importance of electronic channels as an avenue for firms to reach consumers and to generate sales. Electronic commerce (e-commerce) is broadly defined as the "buying and selling of goods and services, or the transmitting of funds or data, over an electronic network, primarily the Internet (SearchCIO)." According to Statista (2014), the worldwide B2C e-commerce sales alone accounts for more than 1.2 trillion US dollars in 2013. In addition, the popularity of eBay, a platform for consumers to trade goods among each other, illustrates the significance of e-commerce in the C2C sector. Astonishingly, 40 percent of worldwide Internet users have bought products or goods online via desktop, mobile, tablet, or other online devices. This amounts to more than 1 billion online buyers and is forecasted to rapidly grow.

Though electronic commerce aids firms in increasing their customer base by eradicating national barriers, it is vital for marketers to understand the customers' decision when choosing to

 ISBN: 978-9963-711-37-6

engage in online shopping. Using Technological Acceptance Model (TAM), Chen *et al.* (2002) found evidence that individual beliefs such as usefulness and ease of use are key determinants of consumers' preference for purchasing online. Jarvenpaa and Todd (1996) further determined that product perceptions, shopping experience, customer service, and consumer risk influence online purchase decisions. In addition, Burroughs and Sabherwal (2002) posited that socio-demographic variables such as income, education, Internet use, and Internet search play significant roles on e-commerce participation decision. Another stream of researches focused on the impact of the website itself (Dalleart and Kahn 1999; Lohse and Spiller 1999; Mandel and Johnson 2002; Moe 2003; Venkatesh and Agarwal 2006). In particular, Lohse and Spiller (1999) discovered a relationship between specific design elements of virtual stores and sales volume. Venkatesh and Agarwal (2006) also found that website use determines the "stickiness" of websites which ultimately affect purchase behavior.

More recently, the effects of social network usage on online consumer purchasing decisions have become an important marketing issue (Lueg *et al.* 2006; Muratore 2008; Okazaki 2009). Kozinets *et al.* (2001) argued that consumers are not only able to voice their opinions online, but are also able to access product information which influence their intention to buy online. This is supported by Dhar and Chang (2009) who claimed that online consumer socialization usually entails interactions about products and services. Undoubtedly, peer communication affect consumers' attitude toward advertising, shopping orientations, and decision-making process (De Gregorio and Sung 2010; Lueg *et al.* 2006; Mangleburg *et al.* 2004; Shim 1996; Smith *et al.* 2005). Therefore, social media usage remains a viable factor which helps determine whether consumers would increase their Internet use for e-commerce purposes.

On the other hand, the profound impacts of Internet on information flows generate concerns for governments, particularly China and Saudi Arabia. Boas (2006) described how these governments control the Internet. Although Saudi Arabia allows multiple, privately-owned Internet Service Providers (ISPs), all international connections to the global Internet must pass through a gateway controlled by the Internet Services Unit (ISU) of the King Abdulaziz City for Science and Technology. The principal objective of ISU is to block information that are socially and politically inappropriate. In the case of China, web pages are blocked dynamically based on keywords in the URL or in the actual webpage requested. Though Wallsten (2005) found that regulation has adverse effects on Internet services such as higher prices for Internet access and fewer Internet users, others reported evidences for consumers' concerns of information safety (Brown and Muchira 2004; Miyazaki and Fernandez 2001). Specifically, risk perceptions regarding Internet security have been found to deter both new and experienced users from shopping online (Miyazaki and Fernandez 2001).

 ISBN: 978-9963-711-37-6

Therefore, the objective of this paper is to examine if government control encourages or deters consumers from buying, trading, or paying bills online. In addition, this study also aims to question the impact of social network on consumers' intention to participate in e-commerce. For policymakers, findings would inform Internet controlling institutions whether censorship is supported by online purchasing consumers. Appropriate actions could help foster the e-commerce industry which would result in economic prosperity. For marketers, significance of social network usage on intention to purchase items online would justify spending on online community establishments.

The rest of the paper is organized as follows. In the next section, I describe the survey data utilized in the analysis. The proportional odds model is then described. Next, I present the empirical results. Finally, I conclude in the last section with discussions and conclusions.

DATA

The data employed by this study is the online interview survey conducted by the Internet Society. The 2012 Global Internet User Survey (GUIS) is a globally-scoped survey program administered to more than 10,000 Internet users in 20 countries during July and August 2012. Participants were asked about their Internet usage, usage details, and attitudes towards Internet-related issues. Demographic information including age, gender, and country of residence were also collected. In order to predict the tendency to participate in e-commerce, I use the data on social network usage, attitudes towards government censorship, demographics, and the self-reported likeliness to increase Internet use if shopping, trading, and paying bills online are made easier. After removing observations where participant's responses are missing, the final data set contains 5,539 responses. Detailed characteristics of respondents are shown in Table 1. Overall, participants are representative in terms of country of residence, gender, and age.

ISBN: 978-9963-711-37-6

Attribute	%	Attribute	%
Country of residence		**Gender**	
Argentina	7.55	Male	51.40
Brazil	8.38	Female	48.60
Chile	4.71		
China	8.67		
France	7.37		
Germany	7.75		
India	0.70		
Indonesia	0.05	**Age**	
Italy	8.79	18-21	6.19
Kenya	0.05	22-24	7.73
Peru	1.52	25-29	14.26
Philippines	7.26	30-34	14.93
Poland	8.03	35-39	13.02
Russia	8.54	40-44	10.72
Saudi Arabia	0.07	45-49	7.93
South Africa	6.90	50-54	6.99
South Korea	0.09	55-59	7.42
Spain	7.56	60-64	5.09
USA	6.01	65+	5.72

Table 1
Characteristics of respondents

MODEL

I utilize the ordinal logistic regression framework to investigate the impact of social network familiarity and preference for government censorship on the likelihood to engage in e-commerce activities. is the consumer 's response to the question: "I would use more internet if I could more easily engage in shopping, trading, bill-payment online." Let the probability that consumer indicates the - level of intention to participate in e-commerce, (=), is represented by . It follows that the cumulative probability of tendency to shop, trade, and pay bills online for consumer can be denoted by = (≤):

$$(_1) = \log\left(\frac{_1}{_2+_3}\right) \qquad (1)$$

$$(_2) = \log\left(\frac{_1+_2}{_3}\right) \qquad (2)$$

, where ($1 =$, $2 =$, $3 =$). This is commonly known as the cumulative logit link. Specifically, this methodology contrast the lower level of with the higher levels of .

As the dependent variables are interval in nature, the general ordinal logistic regression model is simplified to the proportional odds model. In essence, the two response functions denoted by equations (1) and (2) are assumed to have the same slope parameters. Additionally, this particular simplification constrains the intercepts to gradually increase ($_1 < _2 < _3$). Mathematically, equations (1) and (2) become:

$$(_1) = \log\left(\frac{_1}{_2+_3}\right) = _1 + ' \qquad (3)$$

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$$(_2) = \log\left(\frac{_1 + _2}{_3}\right) = _2 + ' \qquad (4)$$

The most notable advantage of this specification is the ease of interpretation of slope parameters, , which remain constant throughout equations. That is, the incremental impact of an increase in the independent variables on the log odds or logits.

Therefore, based on the proportional odds model, I estimate the following equation:

$$() = + * + * + * + \qquad (5)$$

, where are intercept terms. is a vector of demographic variables: gender indicator, age indicators, and indicators for country of residence. measures impact of social network usage. Social network usage of consumer , , is proxied by his/her response to the question: "How often do you use social media (e.g. Facebook, Twitter, LinkedIn, Orkut, Cyworld, VK, Google+, FourSquare, Pinterest)?" On the other hand, represents the impact of support for government control of the Internet usage. denotes consumer 's attitude towards government censorship which is proxied by his/her response to the question: "Do you agree that censorship should exist in some forms on the internet?" Parameterization of variables, and , is shown in Figure 1.

(SNU) Social Network Usage

Question: How often do you use social media (e.g. Facebook, Twitter, LinkedIn, Orkut, Cyworld, VK, Google+, FourSquare, Pinterest)?

Level	Response
1	Never - I don't use this
2	Less often than once a month
3	A few times a month, but less than once a week
4	Once a week
5	Several times a week, but less than once a day
6	At least once a day

(GC) Government Control

Question: Do you agree that censorship should exist in some forms on the internet?

Level	Response
1	Strongly disagree
2	Somewhat disagree
3	Somewhat agree
4	Strongly agree

** Possible response includes "Don't know/ Not applicable" but is omitted for the analysis.*

Figure 1
Parameterization of variables

ISBN: 978-9963-711-37-6

Parameter estimation was conducted using SAS statistical package. The LOGISTIC procedure fits the cumulative logit model for ordinal response data by the method of maximum likelihood.

EMPIRICAL RESULTS

Criterion	
AIC	9613.68
SC	9832.13
-2 Log L	9547.68

Table 2
Fit statistics

Model fit statistics are shown in Table 2. Here, denotes the maximized value of the likelihood function of the model. Akaike information criterion (AIC) is defined by:

$$= 2 - 2\log \qquad (6)$$

, where is the number of parameters to be estimated. As a smaller measure is preferable, it can be observed that AIC penalizes models which require a larger number of parameters to be estimated. For the model estimated, AIC is calculated to be 9613.68. The second criterion in assessing model fit is the Schwarz criterion (SC):

$$= \log - 2\log \qquad (7)$$

, where is the sample size. Notably, the Schwarz criterion not only punishes models with more parameters but also those attempting to fit large data sets. The Schwarz criterion is calculated to be 9832.13 for the estimated model.

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Parameter	Estimate	Std. Err.	Wald Chi-Square	P-value
Intercepts				
Intercept 1	-1.8790	10.2569	0.0336	0.8546
Intercept 2	0.3129	10.2569	0.0009	0.9757
Country of residence				
Argentina	0.4444	10.2567	0.0019	0.9654
Brazil	0.0736	10.2567	0.0001	0.9943
Chile	-0.0166	10.2570	0.0000	0.9987
China	0.1577	10.2567	0.0002	0.9877
France	1.0796	10.2566	0.0111	0.9162
Germany	1.1461	10.2566	0.0125	0.9110
India	0.6048	10.2606	0.0035	0.9530
Indonesia	0.1629	10.3227	0.0002	0.9874
Italy	0.7021	10.2566	0.0047	0.9454
Kenya	1.8618	10.3079	0.0326	0.8567
Peru	0.0461	10.2587	0.0000	0.9964
Philippines	0.2806	10.2567	0.0007	0.9782
Poland	0.7190	10.2566	0.0049	0.9441
Russia	0.3967	10.2566	0.0015	0.9691
Saudi Arabia	1.1277	10.2954	0.0120	0.9128
South Africa	0.5617	10.2567	0.0030	0.9563
South Korea	-11.1788	184.6000	0.0037	0.9517
Spain	0.5981	10.2566	0.0034	0.9535
Gender				
Female	0.0023	0.0275	0.0068	0.9345
Age				
18-21	0.1307	0.1049	1.5533	0.2126
22-24	0.0258	0.0954	0.0732	0.7868
25-29	0.0205	0.0732	0.0786	0.7792
30-34	-0.0307	0.0719	0.1820	0.6697
35-39	-0.0156	0.0748	0.0432	0.8353
40-44	-0.0386	0.0808	0.2289	0.6323
45-49	-0.0913	0.0926	0.9729	0.3240
50-54	-0.0682	0.0983	0.4807	0.4881
55-59	0.1208	0.0934	1.6743	0.1957
60-64	-0.1021	0.1126	0.8211	0.3649
Social Network Usage	**-0.1220**	0.0178	47.0437	<.0001
Government Control	**-0.1889**	0.0288	42.9556	<.0001

** Boldface denotes estimates which are statistically significantly different from zero at the significance level of 0.05*

*** USA is used as the base level for the country of residence variable*

**** Age 65+ is used as the base level*

Table 3

Parameter estimates

ISBN: 978-9963-711-37-6

Estimation results are illustrated in Table 3. It is crucial to emphasize that the log odds of the lower response level is modeled against its higher response counterparts as shown in equations (3) and (4). Consequently, an increase in the cumulative logits (or log odds) would imply a decrease in the dependent variable. A positive parameter estimate for an exploratory variable therefore would suggest that an increase in that particular measure would result in a decrease in the response level.

Results of parameter estimates show an inverse relationship between the log odds and social network usage (-0.1220). Therefore, if an individual presently uses the internet more often to access social network, he/she would be more inclined to agree that he/she would use the internet more frequently if shopping, trading, and paying bills online are made easier. Another focal variable of this study is government control. Remarkably, I found an association between preference for heightened government censorship and the tendency to use the internet for e-commerce purposes. This is evident from the statistically significant (p-value < 0.0001) and the negative parameter estimate for government control (-0.1889). On the other hand, both intercepts are statistically insignificant (p-value > 0.05). These figures indicate that extraneous factors not accounted in this model lack the potential to maleate consumers' intention to participate in e-commerce activities. This, in turn, strengthens the claim that social network usage and the extent to which the government controls the internet are the principal drivers.

Interestingly, results reveal insignificant impact of country of residence on the tendency to use internet for financial purposes as suggested by their statistically insignificant estimated parameters (p-value > 0.05). In other words, probability of using the internet more frequently if e-commerce experience is improved is indifferent for individuals living in different part of the world. In addition, gender is found to be statistically insignificant (p-value = 0.9345). Evidence for equal probability between males and females to engage in internet usage if the ease of e-commerce participation is encouraged supports the claim that internet fosters gender equality. Similar results are uncovered for age indicators (p-value > 0.05).

DISCUSSIONS AND CONCLUSIONS

Wallsten (2005) argued for an existence of the "Digital Divide," a phenomenon where people in richer countries use the Internet more extensively than those in poorer countries. More importantly, however, the author pointed out that growth rate of the Internet users varies across nations which results in a widening gap between rich and poor countries. Extant researches further claimed that this divide would impair competitive advantages of economically deprived countries as the Internet helps stimulating economic development (Hammond 2001; Ishaq 2001; Norris 2001; Steinmueller 2001). On the contrary, this research has demonstrated with a more recent data set that country of residence is not

 ISBN: 978-9963-711-37-6

a significant factor of Internet usage, or more specifically, e-commerce participation intent. This conclusion, in particular, also consistently holds for other demographic variables such as age and gender. As a result, digital marketers must not undermine the potential of consumers living in less-developed countries as they are equally likely to engage in online shopping, trading, and bill payments. In addition, practitioners should not exclude the ageing population from online digital marketing campaigns. Not only do these consumers possess high disposable income (Marketing Charts 2014), they are also equally likely to use Internet more if sufficiently encouraged.

Another implication of this study is the importance of social network communications. Results link consumers' social network usage frequency with higher likelihood to increase Internet use when shopping, trading, and paying bills online are made easier. Wang, Yu, and Wei (2012) explained that online consumer socialization through peer communication affects purchasing decisions both directly (conformity with peers) and indirectly (product involvement). Implications for marketers include implementation of product-related online communities and establishment of online information website. On the other hand, an alternative plausible explanation is based on the Technology Acceptance Model (TAM) developed by Bagozzi, Davis, and Warshaw (1992). By heavily engage in social network activities, consumers familiarize themselves with how to exploit the benefit of Internet (perceived benefit). Hence, consumers would form positive attitude towards using it which could ultimately turn into an actual usage. It is, therefore, essential for policymakers to establish marketing campaigns to promote social network membership prior to encouraging consumers to participate in online activities such as purchasing products, trading items, or carrying online financial transactions.

Finally, this paper contributes by tackling the controversial issue of government control of the Internet. Guillen and Suarez (2005) described different government efforts to control the Internet. For instance, government may restrict access by controlling networks and instituting registration requirements. Another methodology entails restricting content by filtering information, blocking forbidden sites, disciplinary actions, or virus attacks on banned sites. Threats of arresting those who access unauthorized information represent an alternative option for government control of the Internet. Though studies (such as Boas 2006; Wallsten 2005) had exhibited detrimental effects of regulations on Internet growth, estimation results of this study suggest otherwise. I find that consumers who desire to increase their Internet use in order to purchase, trade, and pay online demand greater government control. This study displays the often ignored benefit of government control which is the safety of private information flowing online. Risk perceptions regarding Internet privacy and security have been identified as a significant concern when consumers participate in electronic transactions (Miyazaki and Fernandez 2001). Policymakers and marketers alike are thus obligated to safeguard consumers' confidential information.

 ISBN: 978-9963-711-37-6

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 ISBN: 978-9963-711-37-6

REAL-TIME ANALYSIS OF AN EMBRYONIC OIL & GAS INDUSTRY - THE CASE OF CYPRUS

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ABSTRACT

Amidst a plethora of reliable international and hardly-so local literature, information and data, the research analyses and interprets theoretical, secondary and primary data gathered on the generic and Cyprus-specific oil and gas industry. The aim is to identify and investigate the forces and factors that affect the development of this very new industry; and to integrate them into a single provisional industry forces model. This schematic industry representation allows a comprehensive overview of the industry and additionally depicts some of the key interrelationship categorisations that constitute key factors in decision making at all levels. The value of the research lies in its real-time approach to data gathering and analysis; and aids in the understanding of the environment components, not simply as individual elements affecting their subject, but as a comprehensive system. And it shows that it is this exact systemic understanding of the constituent elements that will support and facilitate the proper development of the industry. The research bears also global/generic importance as it provides a rare insight to the issues and complexities of a country having to first deal with the discovery of hydrocarbons in its economic zone. This purely exploratory research methodologically rests upon a wide theoretical and secondary data research that is cemented and refined through an injection of primary qualitative work in the form of twenty expert and high-level interviews.

Keywords: *Oil and Gas, Industry Analysis, Environmental Analysis, Cyprus*

INTRODUCTION

Cyprus, with an economy traditionally resting on the tripod of hospitality/tourism, construction/development, and banking/professional services, has recently experienced a quake at its very economic foundations. The crisis that hit the country in this second decade of the millennium has forced all governmental, public and private sector institutions to comprehensively re-evaluate and reconsider even the fundamentals of the country's economic policy, regulation, planning and structure.

 ISBN: 978-9963-711-37-6

Amidst the gloomy turbulence of this predicament, the discovery of hydrocarbons within Cyprus' economic zone gave birth to optimism, discussion and much speculation. The perspectives, opinions, outlooks, predictions and positions on the subject varied (and still do) across the political, business and even technocratic spectrum; leaving the discerning observer bewildered and largely incapable of making much sense of the flood of information in the media and society at large.

At the same time, and with minimum exceptions (CERA, 2012; DEFA, 2012; HRDA, 2012) no scientific, or at least, reliable work appears to exist that investigates the matter with true data and Cyprus-explicit factors. The imperative, thus, of such a proper study is unquestionable in order to evaluate the information available, identify the reliable and useful information, and methodically interrelate it to construct logical and soundly based arguments and conclusions concerning the present and future of this new industry in Cyprus.

Scrutinising a plethora of reliable international and hardly-so local literature, information and data, this paper analyses and interprets theoretical, secondary and primary data gathered on the generic and Cyprus-specific oil and gas industry. ***The research aim is*** to identify and investigate the forces and factors that affect the development of this very new industry; and to integrate them into a single provisional industry forces model. This schematic industry representation allows a comprehensive overview of the industry and additionally depicts some of the key interrelationship categorisations that constitute key factors in decision making at all levels.

The value of the research lies in its real-time approach to data gathering and analysis; and aids in the understanding of the environment components, not simply as individual elements affecting their subject, but as a comprehensive system. And it shows that it is this exact systemic understanding of the constituent elements that will support and facilitate the proper development of the industry. The research bears also global/generic importance as it provides a rare insight to the issues and complexities of a country having to first deal with the discovery of hydrocarbons in its economic zone. ***This purely exploratory research work constitutes the first of a three-part study*** of the developing Cyprus oil and gas industry; with its aforementioned three distinct foci being: (a) the real-time industry analysis, (b) its indirect business effects, and (c) its strategic implications. ***Methodologically*** it rests upon a wide theoretical and secondary data research that is cemented and refined through an injection of primary qualitative work in the form of twenty expert and high-level interviews.

ISBN: 978-9963-711-37-6

LITERATURE REVIEW

Table 1: Oil and Gas Industry Outlook - Explicit and Implicit Theoretical Findings

Area / Subject	Publications (see reference list for complete citations)
The Role of Oil & Gas within the Wider Global Energy Outlook, Uncertainties and International Collaboration	Bentham, 2014; BP, 2014; Crandall, 2011; ExxonMobil, 2013; Florini, 2011; Global Energy Outlook, 2014; HIS, 2012; Hook et al., 2012; NEB Canada, 2013; Newell, 2013; Vandenbergh et al., 2012; WEO, 2013; Yergin, 2012
The Future of Global Oil & Gas	Bentham, 2014; Berman, 2012; Chew, 2014; Craft, 2007; Deloitte & Touche, 2014; Dodds and McDowall, 2012; Edwards et al., 2010; Emamverdi et al., 2013; European Gas Advocacy Forum, 2011; Evans and Farina, 2013; Ferentinos, 2013; Global Petroleum Outlook, 2014; GRI, 2012; Hafner, 2012; Herber and De Jager, 2010; Hobbs, 2011; IHS, 2012; KPMG Global Energy Institute, 2012; Langston, 2010; Liang et al., 2012; Lukoil, 2013; Ma et al., 2012; Maugeri, 2012; Mitchell et al., 2012; Moniz, 2011; Oil and Gas Industry Forecast, 2012; Oil and Gas UK, 2013; Patrylak and Donelly, 2013; Petroleum Equipment Suppliers Association, 2011; Potten & Partners, 2010; Pregger et al., 2011; Sieminski, 2013; UN Global Compact, 2012; WOO, 2013; Wood, 2012; AEO, 2014; AOGA, 2011; API, 2012; Bentley, 2012; Clarance and Cazalot, 2014; Earp, 2014; EIU, 2012; Frumkin et al., 2011; Gboyega et al., 2011; Glada, 2009; Global Insight, 2014; Hook et al., 2012; Houser and Bao, 2013; International Energy Agancy, 2013; Isabelle et al., 2010; Jaffe et al., 2011; Kalkman et al., 2013; Kumhof and Muir, 2014; Liss, 2012; Mitchell and Mitchell, 2014; Mitchell, 2013; Murray Fisher, 2013; OPEC, 2013; Seljom and Rosenberg, 2011; Wood, 2012; Xynteo, 2011
Business Planning for Oil & Gas	Deloitte and Touche, 2014; Marcel, 2013; Marcel and Heller, 2012; Mitchell et al., 2012; Parast et al., 2011; Parry, 2013; Sasson and Blomgren, 2011; UN Global Compact, 2012; Vrontis et al., 2012; Chebbi et al., 2013; Ebrahim-zadeh, 2003; Effiong, 2010; El-Banbi and Thyne, 2013; HRDA, 2012; LLC, 2013; MSC, 2008; Nikos and Panos, 2011; Norwegian Petroleum Directory, 2013; Standard & Poors Rating Services, 2013; Statoil, 2012; The economist, 1977; Thrassou and Vrontis, 2009; Walker and Sonora, 2005; Weijermars, 2012;
Technological and Environmental Factors Affecting the Global O&G Future	Allen et al., 2013; Benes et al., 2012; Bradshaw, 2010; Li et al., 2010; Maugeri, 2012; McGranaghan et al., 2008; Moniz, 2011; SGWG, 2003; Torriti, 2012; US Dep. of Energy, 2003; US Oil & Gas Outlook, 2014; VAASA ETT, 2013; BDO, 2013; Bolton, 2014; Brown, 2013; Bryce, 2013; Daly, 2013; DTU, 2013; Hamutuk, 2008; Huntington et al., 2012; Jackson and Smith, 2014; Sorrell et al., 2010; Wilson, 2012;
Geopolitical Factors Affecting the Global O&G Future	BP, 2014; Kolb, 2011; Maugeri, 2012; Mirchi et al., 2012; Pregger et al., 2011; Tsakiris 2014a, b, c; Atllah, et al., 2013; Shunnaq, 2013; Stevens and Hulbert, 2012;

Source: Research produced

An extensive review of existing contemporary literature, including the sources of table 1, leads to a number of conclusions regarding the present and future of the global oil and gas industry; and consequently that of Cyprus. These conclusions can be crudely categorised into 'explicit' and 'implicit' ones. The former stem from the factual findings and relate to such matters as reserves, production estimates, demand patterns, relative and absolute contribution by region and fuel, relative and absolute demand by region and fuel, technological advancements etc. These explicit conclusions are more direct,

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more specific and more quantifiable and their related data constitute the bulk of the existing researches' and secondary data's results. The ***major explicit conclusions*** are:

1. Primary energy consumption *growth* will slow with overall energy growth shifting from the OECD to the non-OECD countries
2. China shall significantly diminish its energy consumption and India shall equal China by 2035
3. Industry will remain the top primary direct and indirect consumer demanding over half of the energy growth globally, primarily in Asia. The 'other' sector (i.e. residential, services and agriculture) is expected to equal industry in energy volume demand around 2030.
4. All fuels will grow and most of all the renewables. Renewables overtake nuclear in 2025, and by 2035 they match hydro
5. Among fossil fuels, gas is the fastest growing and the only one to grow more rapidly than total energy. Oil is the slowest and coal mildly higher (this is also consequent to China's shift away from coal). By 2035 gas becomes the largest single contributor to growth
6. Energy is gradually decoupling from economic growth with energy consumption growing slower than the global economy. Energy intensity therefore i.e. energy per unit of GDP, declines.
7. Efficiency will continue to be a critical factor, with energy conservation behaviours and technologies helping OECD nations keep energy use constant while economies grow
8. Non-OECD countries on the other hand are predicted to increase energy use by 65% by 2040 compared to 2010, with global demand increasing by 35%.
9. New and improved technologies will allow for the safe development of once hard-to-produce energy resources (over the last few years "unconventionals" have included *oil sands*, *extra-heavy oil* extraction technologies and *deepwater drilling* technologies, *horizontal drilling* and *hydraulic fracturing)*.
10. Oil and gas depletion appears to be less of a problem, even in the long term, than negative scenarios predict, with oil and gas production remaining extremely high for decades. Peak oil and gas predictions vary with estimates placing it anywhere from today to decades from now, and others simply rejecting the notion as inconsequential

The ***implicit findings*** are, conversely, more indirect and relate to the more obscure aspects of the oil and gas industry. They include matters such as vested interests, stakeholders, geopolitical factors, environmental factors, public notions and perceptions and more. The implicit factors are more complex, more multidimensional, more open to subjective interpretation and more unpredictable. Moreover, they are very much interrelated, so even if one was to understand them individually, it would still be practically impossible to merge and project them into a complete picture regarding their future.

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One important implicit conclusion of this theoretical research is that the subject is in fact both the focus of much controversy, but also of a surprisingly wide array of differing perspectives and predictions. This appears to be both the cause and effect of the inherently questionable validity and reliability of much of the supposed evidence regarding the industry, consequent to the numerous unknown factors involved, the subjectivity of many aspects of the industry, as well as the potentially questionable integrity of many works due to possible vested interests.

The above-mentioned unknown and/or unpredictable factors include primarily technological, economic, geopolitical and environmental factors; all of which are interrelated and collectively capable of rendering any prediction void at any point of time. All findings therefore are, consequently, and shall always remain, mere possibilities; and only time shall tell the true story.

Perhaps the most important differentiating factor of the oil and gas industry is that it is not simply an economic sector, but a key element of global international policies, strategies, geopolitical developments and power struggles at all levels. The relative weight of this parameter is probably greater than any other industry or sector in history and therefore predictions far exceed the strict industry context, transcending to levels and dimensions that require a multi-perspective understanding of the stakeholders, their individual interests and sought benefits, as well as the (practically impossible) ability to project these into the long term future.

Here in fact lies also the value of this research's generic theoretical research (literature review), which attains a comprehensive approach and incorporates both scholarly and (deemed) credible industry reports; while conversely and inherently also questioning the validity and reliability of both. There are just too many unknown factors involved, as well as a strong element of subjectivity on many aspects of the industry, and potentially questionable integrity of many works due to possible vested interests. Regardless of complexity and doubts however (in fact, perhaps, exactly because of these) the research bestows existing literature with a useful integrated perspective on the future of the oil and gas industry and fertilises the ground for further development, either generically, or in the direction of the laid down path of the uncovered research gap as hereby identified and prescribed.

METHODOLOGY

Regarding the generic and background part of the research, it is methodologically a desk research resting on extensive literature review and secondary data based work. *Regarding the core work of the research* i.e. the Cyprus oil and gas industry analysis, the research was clearly and *purely exploratory*. Though interesting and substantial works exist on the subject of the industry's economic effects in relation to other countries, their applicability or even adaptability to the case of Cyprus is much obscure. The research therefore drew the necessary knowledge from international paradigms, but thereafter the research

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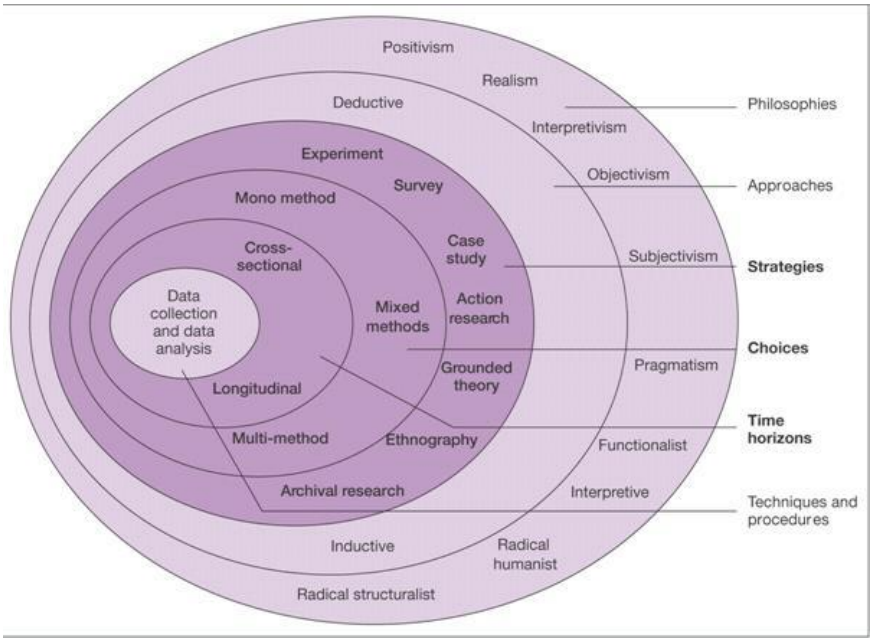
'sailed in completely unchartered waters'. The exploratory nature of the research; the strange phenomenon of the abandance of generic data, but complete lack of specific data; and the strong human factor affetcing the planning, predicting and decision making with regards to the Cyprus oil and gas industry, has therefore necessitated a rather extraordinary methodological combination; specifically, a combination of philosophies, namely *positivism* and *interpretivism*; and rather naturally from there, a mixed *inductive-deductive* approach; with interpretivism and the inductive approach bearing the greatest weight (Saunders et al., 2009, figure 1).

Figure 1: The 'Research Onion'



Source: Saunders et al., 2007, p.102

In practical methodological terms therefore, the research has relied (a) on the overlaying, interrelation and cross-comparison of the litearture review and secondary data research and analysis; and (b) on the findings of the primary research i.e. the interviews. Specifically, the research relied on four types of existing data and one research-specific method:

- Research/academic works (literature review)
- Studies' findings (published reports)
- Individual data (secondary data)
- Scattered information (general marketing intelligence)
- Interviews (primary research)

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The primary research (interviews) were deemed to be the most practical means to the above described ends. The interviewees' sample comprised of individuals considered to be experts in the field, though in different contexts. Specifically, the sample included academics, professionals, consultants and public organisations' decision makers and leaders. It is noted that the interviews have been conducted with the explicit understanding that the content of the individual interviews shall remain confidential.

FINDINGS - CYPRUS' MACRO-ENVIRONMENTAL OIL AND GAS INDUSTRY FORCES ANALYSIS

Economic forces

In the *macro-environmental context*, the primary economic forces at play regarding the subject of this research relate to (a) Cyprus' aim to maximise the direct and indirect profit from the hydrocarbon exploitation, (b) Cyprus economic urgency to alleviate its international debt the soonest, (c) the collective and individual economic interests of the local companies that are or are planning to be involved directly in the industry, and (d) the collective economic interests of the local companies that hope to benefit indirectly from the industry.

While all forces are pushing in the same direction, at least supposedly, there are some causes of concern; with the opinions regarding their severity ranging both in the public discussions and the interviews. One worry is that the/any government may make decisions that are disproportionately beneficial in the short-term, at the expense of the country's longer term benefits. Another concern is the possibility of individual economic interests of large local companies or the collective economic interest of many might affect political decisions regarding the industry, again against the country's best interests. It must be noted that this research has not come across any evidence supporting the above, though it would be, in any case, too early to observe such tendencies.

Political forces (local)

The political interests that manifest themselves into industry forces appear to exist within four distinct, albeit interrelated, contexts: *government, parties, lobbies* and *individuals*. The government is a major force and practically the key player 'in the game'. Inevitably however, the government, like any government, frequently needs to balance its own political ends with the country's benefits; the two not always coinciding. Beyond the government, there are the *political parties*, which despite their significant loss of public's trust over the past few years, they are still running the political show, affecting society and economy and all walks of life in many ways. This is true for all parties, irrespective of their participation or exclusion from any government.

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The above two irrevocably give rise to the *political lobbies* that pressure towards their own political, social and/or economic objectives. Lobbies in Cyprus are unofficial, informal and largely unstructured; but quite real. They exist through organised collections of individuals along sectoral, industrial, professional, political or other lines; and they often comprise not collections, but individuals bearing the appropriate political weight and displacement. Finally, the root factor of all the above is of course the *individual interests*. Individuals are the units that make up the governments, the parties and lobbies; and are therefore de facto the ones that set and realise the political plans and goals of all.

Sociocultural forces

For an industry such as the oil and gas one, that is quite technocratic and relatively consumer-removed, sociocultural forces would normally be a secondary factor. In the case of Cyprus however, a number of reasons have upgraded its relative and absolute importance, largely owing to a combination of psychological and communication factors.

Specifically, the developing industry has raised disproportionally the hopes of society that it will end the recession that hit the island's economy so hard in the second decade of the millennium. In other words, the people desperately needed good news after years of worsening ones and when they did come through the oil and gas industry they were paid unduly attention. The politicians, and generally people holding public positions, were quick to react to the above public attention, feeding it with information that was more often than not inaccurate and/or ill-founded and/or exaggerated; and in any case more or less untrue. These people, the majority with little or no knowledge on the subject, were, and many still are, quick to position themselves in expert-like communication; thus confusing and/or misdirecting the public. This misinformation was further enhanced by the media that naturally stepped up to feed the public hunger for news and knowledge on the oil and gas industry, inadvertently (or not) enabling the above.

Physical environmental forces and resources

The focus of this sub-section is specific; and while it is not this research's core subject, it is the single most important factor affecting the industry: *the actual feasibly (techno-economically) recoverable hydrocarbons in Cyprus' zone*. In other words, the amount, quality and technical characteristics of the hydrocarbons available, that will also define the absolute scale and specific nature of the oil and gas industry, as well as the infrastructure required and its time-horizons. The greatest methodological constriction, in fact, of this research is that at the time of it being conducted, these data are unknown and consequently the planning and prediction basis is extremely limited. *Conversely, this is one aspect of the value of this research, since it offers a real-time (as opposed to a posteriori) analysis and therefore it records*

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data as they exist exactly at this limited information stage. The human factor and industry forces therefore are recorded in their actual-time-reality, in the context of their current unknowns, perceptions, beliefs and conditions.

Technological and infrastructural forces

Cyprus currently has extremely limited infrastructure directly related to the oil and gas industry, and what does exist is mostly limited to the local market needs. The only notable exception is the new (November, 2014) €300m VTTV terminal project at Vasiliko. Depending on the findings of the exploratory drillings already underway though, the need may arise for significant direct infrastructural investment, including, potentially, an LNG plant (see previous sub-section). Regarding indirect infrastructure, particularly in terms of services and business, Cyprus is considered most advanced and able to satisfy these needs. Oil and gas technology, however, is practically non-existent in Cyprus, with the exception of IT that is the most easily accessible.

FINDINGS - CYPRUS' MICRO-ENVIRONMENTAL OIL AND GAS INDUSTRY FORCES ANALYSIS

Local industry profile

Semi-independent of the resources themselves (but much related of course) is the *structure of the industry in terms of planning and decision-making* (see also following sections). This is one of the less discussed aspects of the industry. However, the research findings have found it to be an important factor, at all stages; and perhaps the most important one currently. As one of the interviewees put it:

> *"At this point in time what is most important is not WHAT to do, but HOW TO DECIDE WHAT TO DO […]. We must ensure that the decision-making mechanisms exist and that they are clear, reliable and transparent […] and that is not the impression I have'* (research interviewee, Fall 2014)

This is actually a concern that was not unique to one, but many of the interviewees, and also a portion of the public debate. Another less visible factor to the industry is the *timeframe*. Though time is actually quite frequently a matter of discussion, it relates mostly to the eagerness of everyone concerned to see the industry's benefits the soonest. Undoubtedly, this is crucial to the country, and it will also affect how and when the industry develops. The underlying and less visible question though is not when the benefits will come but *the rate of industry development.*

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Local Industry Actors

The oil and gas industry of Cyprus, like any industry anywhere, even at its embryonic stage comprises a number of actors. Starting with the *core internal/local actors*, these can be identified at six levels or groups:

a) private individual

b) private collective

c) *public unofficial*

d) public official

e) general public

f) international companies

'*Private individual'* actors includes all the individual companies that have or are planning to have a stake in the industry. *'Private collective'* actors are the organisations that form primarily through the initiative and support of many individual persons and companies that have an interest or stake in the Cyprus oil and gas industry, and who (like in every such case) find strength in numbers e.g. the Oil and Gas Association of Cyprus. '*Public unofficial'* groups include those public organisations that form ad hoc regarding issues of the industry e.g. a protest group regarding environmental effects in a specific area. 'Public official' groups are those larger public organisations which are formed specifically for the oil and gas industry e.g. the Cyprus National Hydrocarbons Company; those that are adjacent to it e.g. the Natural Gas Public Company of Cyprus; as well as governmental departments and political parties that are large enough to directly or indirectly affect public policy on the industry. *'General public'* refers to society at large and its position, hopes, concerns, attitudes and beliefs in relation to the oil and gas industry. Finally, local industry actors also include the *international companies* that are participating or have a stake in the Cyprus oil and gas industry. They are key players, not simply because of their vested interests, but also owing to their knowhow and global weight.

Beyond the above, the research also notes the (hereby termed) '*peripheral actors'*. These comprise the individuals, companies and organisations that are not directly related to the oil and gas industry, but are or might be affected by it. The large spectrum of actors identified raises the need for a*ctor power balance.* This naturally includes the need for constructive *collaboration* between all the actors and for the benefit of all.

Capital and money markets

The subject of capital and money markets must be divided into two distinct parts. The first is quite easy to deal with and it refers to the direct investments for the operations of the international companies

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throughout the value chain. The second part is more complex and, at this stage of industry development, is also possibly premature. It refers to the capital and money markets accessibility of local companies that plan to participate in or support the oil and gas industry in Cyprus. The question of money in this case is relatively more important consequent to an economic crisis whose most noticeable effect is the exact lack of liquidity and the inability and/or unwillingness of banks to fund anything, but the most secure business ventures.

Labour markets and services

As already described above, Cyprus appears fully capable of supporting the industry in terms of business and general (non-industry-specific) infrastructure. The situation however is more complex regarding workforce and service companies that are more directly related to the industry. It is quite evident that Cyprus currently offers extremely limited human resources that are specialised enough to be put to immediate use. It is however, equally evident, that the (in spite of its many problems) entrepreneurially acute and adaptable economy of the island has already begun to prepare itself to specialise in the industry. While many rely on the government's agreement with the international companies to hire many locals, 'locals' in this case are also any EU citizens; and this is a reality that Cypriots cannot avoid. As one interviewee put it:

> *"The 'million dollar question' is not whether Cypriots shall be able to satisfy the industry's needs for labour, but whether the industry shall satisfy the Cypriots' need for jobs"* (research interviewee, Fall 2014)

The answer to this question, unfortunately, appears to not be the one that everyone in Cyprus hopes for, and so easily supported by many public speakers and writers. The research has paid particular attention to this question and the indications are that there will be some demand for local expertise, but it shall be lower than advertised.

International Geopolitical forces

The single most important international/geopolitical force affecting Cyprus' industry plans, unsurprisingly, appears to be the island's troublesome *relationship with Turkey*. With the 'Cyprus problem' at the epicentre of this relationship, the industry affects both the internal bi-communal aspects of the problem, as well as Turkey's evaluation of the island's importance. Beyond these more obvious forces however, the industry is affected indirectly, but equally strongly by Turkey's other geopolitical matters, which are not about Cyprus, but do include it (Tsakiris, 2014a,b,c).

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The geopolitical scene hosting the development of the Cyprus oil and gas industry however is of course not limited to the Turkey and its plans and relationships. A more comprehensive perspective on the region should really view this political 'canvas' as a set of complex interrelationships and power balances relating to the plans of the USA, the EU, Turkey, Israel, Egypt, other M. East countries and also some N. African and Gulf countries. The above combination of regional international relations and problems alone form a very complex, extremely sensitive and most dynamic geopolitical setting. Even these however, do not convey the full picture since one must also account for the EU and Russian factors, and their own energy and geopolitical plans and relations (Tsakiris, 2014b).

CONSTRUCTING A PROVISIONAL CYPRUS OIL AND GAS INDUSTRY FORCES MODEL

Constructing the Model

This section has brought together the theoretical, secondary and primary research findings to identify the forces affecting the development of the Cyprus oil and gas industry. These are hereby compiled into a single provisional industry forces model (figure 2). *The model incorporates the industry forces into a single schematic representation, allowing a comprehensive overview of the industry. The model additionally depicts some of the key interrelationship categorisations that constitute key factors in decision making; thus aiding in the understanding of the forces, not simply as individual elements affecting their subject, but as a system. And it is this exact systemic understanding of the constituent elements that will support and facilitate the proper development of the industry.*

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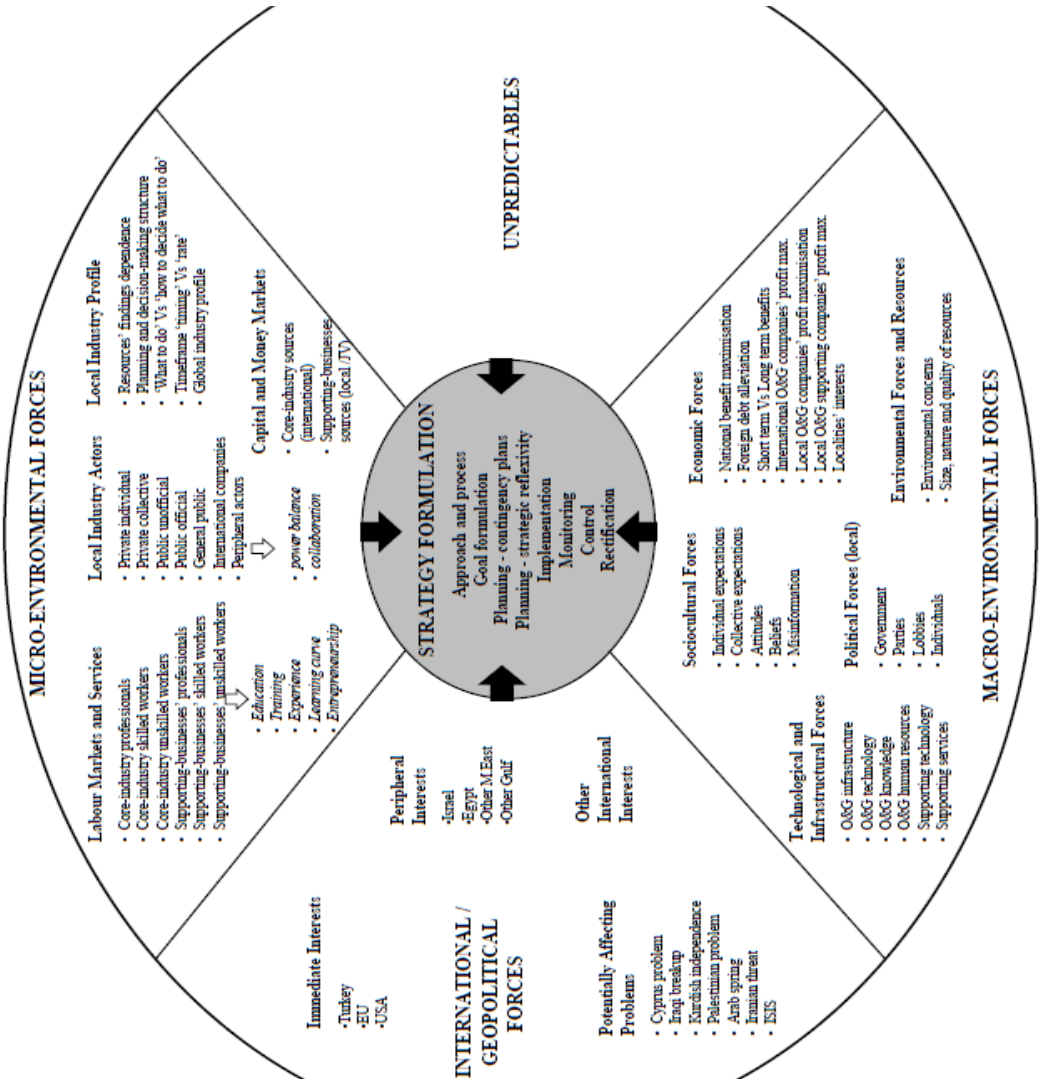
Figure 2 A Provisional Cyprus Oil and Gas Industry Forces Analysis Model



Source: Research-developed

The model depicts the condensed combination of the forces analysed above, separating the figure in four quadrants; one for each of the three forces' groups (macro-environmental, micro-environmental and international/geopolitical), plus one for the significant in number and importance unpredictable unknowns affecting the model. It is noted that the above-mentioned 'interrelationship categorisation' refers not to the interrelation between the quadrants or between the forces' group, but to the grouping of the individual forces within the groups.

Elucidating on the model, the micro-environment has been sub-categorised into four collections of forces, much as described in the previous section: (1) *labour markets and services*, (2) *local industry actors*, (3) *local industry profile*, and (4) *capital and money markets*. Conversely, the macro-environment has been sub-categorised into the: (1) *technological and infrastructural forces*, (2) *sociocultural forces*, (3) *economic forces*, (4) *political forces (local)*, and (5) *environmental forces and resources.*

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The combination of all the above also necessitated the introduction of a whole quadrant, simply termed 'unpredictables'. Far from a dramatic over-statement this category represents the true situation at this point in time, with micro- and macro-environmental forces that are so undefined and so atypical that at the end of the day unpredictability itself becomes a major parameter in any planning and decision making process. At the centre of the model lies 'strategy formulation' whose key components are the subject of another/separate part of this research.

The value of the model stems from the fact that this is not a generic, but a specific industry analysis and therefore the forces depicted and their corresponding grouping is a result of the research's findings for the specific industry. In practice, this means that there are forces that are not shown, owing to their relative small strength in the case of the Cyprus oil and gas industry compared to more generic models; while some forces maybe unique or rare, but are depicted owing to their relative weight in this industry.

A preliminary indicative hierarchy of forces

In the context of the above, the interrelation of the various forces has been deemed scientifically improper, since this is in fact an industry which (for all practical purposes) does not really exist as yet. The 'disorderly' nature of the forces, therefore, within the model is both purposeful and inexorable. Similarly, and based on the same scientific grounds, the research has refrained from providing a hierarchy of the forces in terms of importance or relative weight. The findings of the research have not concluded such hierarchy, at least not to a degree that is may constitute a scientific findings per se.

However, there are some strong indications that arise from the research as regards such a hierarchy; and in view of the extreme exploratory nature of the research *it was deemed valuable to hereby present it, as a 'starting point of consideration' for further research and public decision makers*. The research however explicitly states that *the following 'Preliminary hierarchy of the Cyprus Oil & Gas Industry Forces' (figure 3) is NOT solidly scientifically founded, but is instead constructed based on strong indications arising from the research. It is presented as preliminary, provisional and subject to further research.*

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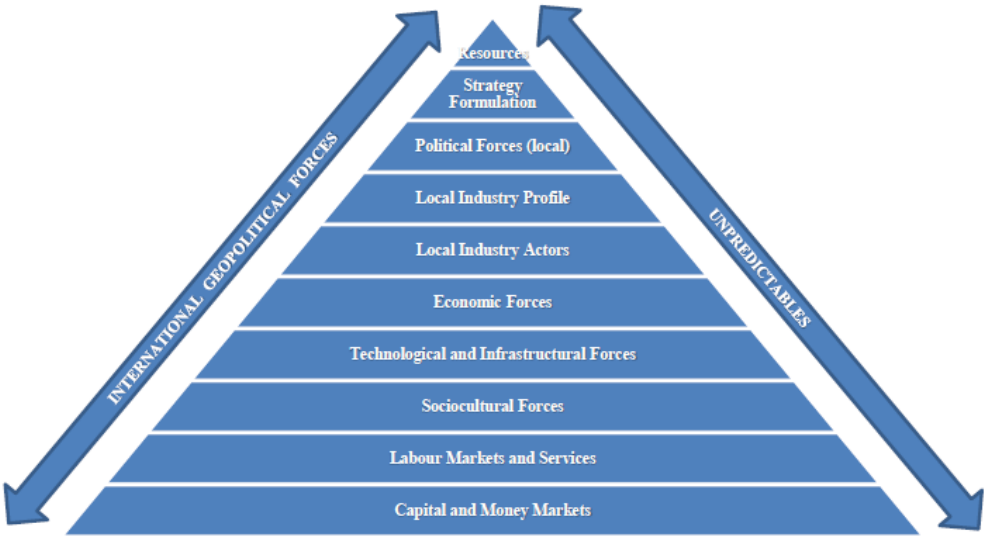
Figure 3: A Preliminary Developmental Hierarchy of the Cyprus O&G Industry Forces



Source: Research developed

Regarding this hierarchy, it is clarified that *it does not reflect the general importance of each force (which is in fact both relative and subjective), but its importance in the* <u>*development*</u> *of the industry in Cyprus.* In this hierarchy of forces, the major groupings of micro- and macro-environmental forces have been removed to allow for their integration into a single scale.

CONCLUSIONS

Regarding the specific-to-Cyprus oil and gas industry development the findings have quite confidently shown that the current perspectives, opinions, predictions and estimations are largely unreliable and ill-founded. In both the technocratic and business contexts, all available information is either simply speculative, or resting on international paradigms, albeit with no basis for such comparisons with the Cyprus case. The research therefore has refrained from predicting the development of the industry per se, scientifically constricting itself to the identification and interrelation of the industry forces and elements that currently are and ultimately will form the industry at maturity.

The research has found the industry's *microenvironment* to be unusually complex, with a large number of gestating public and private actors, whose degree of collaboration or conflict is much dependent on the country's proper strategic planning. The micro-environment also includes the employment actors who are much in line with the international ones, but much undeveloped as yet; the capital actors which appear to relate disproportionately to foreign funds; and the industry profile factors, who were found to primarily relate to reserves definition/quantification, timeframe and timing, and planning and structural decisions and competences.

 ISBN: 978-9963-711-37-6

The industry's *macro-environment* as also found to be unique, with a disproportionate relative weight compared to most industries. Sociocultural, internal political, external political, economic, environmental and technological forces were found to be not only hugely more important than to most industries, but also much more dynamic and incessantly changing than any other industry; thus constituting the oil and gas industry, more complex, more unpredictable and in greater need of proper planning.

'Focusing out', the research has found the oil and gas industry to be a complex and multidimensional integration of factors, forces and elements, matched only by its very scale and significance in world development. It is, no doubt, a unique and mystifying industry with aspects that far exceed traditional industries, both in scale and importance. Even more so, in the case of Cyprus, whose unique combination of unknowns, regional sensitivities, political complexities and economic conditions create a most challenging and intricate industry context.

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 ISBN: 978-9963-711-37-6

THE INDIRECT BUSINESS EFFECTS OF THE CYPRUS OIL & GAS INDUSTRY - A PREDICTIVE REAL-TIME ANALYSIS

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ABSTRACT

Amidst a plethora of reliable international and hardly-so local literature, information and data, the research analyses and interprets theoretical, secondary and primary data gathered on the generic and Cyprus-specific oil and gas industry. The aim is to investigate the potential indirect effects of the industry on the Cyprus business/economy; and to preliminarily, provisionally and predictively identify their individual elements and degree of consequence. The value of the research lies in the fact that it is the first scientific Cyprus-specific research on the subject; and in its real-time approach to data gathering and analysis. The findings predict the indirect economic/business effect to be substantial, albeit dependent on the actual reserves to be discovered, on certain thresholds being crossed, and on proper planning and implementation. Even so, the effect is estimated to be much lower than the expectations created by various industry actors over the past few years. These findings are most important to high-end decision making regarding this embryonic industry; but bear also global significance as a paradigm for newly-developed oil and gas industries. Methodologically, this is a purely exploratory research that rests upon a wide theoretical and secondary data research; cemented and refined through an injection of primary qualitative work in the form of twenty expert and high-level interviews.

Keywords: *Oil and Gas Industry, Indirect Economic Effects, Indirect Business Effects, Planning, Cyprus*

INTRODUCTION

Cyprus, with an economy traditionally resting on the tripod of hospitality/tourism, construction/development, and banking/professional services, has recently experienced a quake at its very economic foundations. The crisis that hit the country in this second decade of the millennium has forced all governmental, public and private sector institutions to comprehensively re-evaluate and reconsider even the fundamentals of the country's economic policy, regulation, planning and structure.

 ISBN: 978-9963-711-37-6

Amidst the gloomy turbulence of this predicament, the discovery of hydrocarbons within Cyprus' economic zone gave birth to optimism, discussion and much speculation. The perspectives, opinions, outlooks, predictions and positions on the subject varied (and still do) across the political, business and even technocratic spectrum; leaving the discerning observer bewildered and largely incapable of making much sense of the flood of information in the media and society at large. At the same time, and with minimum exceptions (CERA, 2012; DEFA, 2012; HRDA, 2012) no scientific, or at least, reliable work appears to exist that investigates the matter with true data and Cyprus-explicit factors. The imperative, thus, of such a proper study is unquestionable in order to evaluate the information available, identify the reliable and useful information, and methodically interrelate it to construct logical and soundly based arguments and conclusions concerning the present and future of this new industry in Cyprus.

Scrutinising a plethora of reliable international and hardly-so local literature, information and data, this paper analyses and interprets theoretical, secondary and primary data gathered on the generic and Cyprus-specific oil and gas industry (O&GI). ***The research aim*** is to investigate the potential indirect effects of the industry on the Cyprus business/economy; and to preliminarily, provisionally and predictively identify their individual elements and degree of consequence. ***The findings*** predict the economic/business effect to be substantial, albeit dependent on the actual reserves to be discovered, on certain thresholds being crossed, and on proper planning and implementation. Even so, the effect is estimated to be much lower than the expectations created by various industry actors over the past few years. The ***value of the research*** lies in the fact that it is the first scientific Cyprus-specific research on the subject; and in its real-time approach to data gathering and analysis. Its findings are most important to high-end decision making and planning regarding this embryonic industry; but bear also global significance as a paradigm for newly-developed oil and gas industries. ***This purely exploratory research work constitutes the second of a three-part study*** of the developing Cyprus oil and gas industry; with its aforementioned three distinct foci being: (a) the real-time industry analysis, (b) its indirect business effects, and (c) its strategic implications. ***Methodologically*** it rests upon a wide theoretical and secondary data research that is cemented and refined through an injection of primary qualitative work in the form of twenty expert and high-level interviews.

LITERATURE REVIEW - THE EFFECT OF OIL AND GAS INDUSTRY ON LOCAL ECONOMIES AND BUSINESS

ISBN: 978-9963-711-37-6

Table 1: Oil and Gas Industry Outlook - Explicit and Implicit Theoretical Findings

Area / Subject	Publications (see reference list for complete citations)
The Role of Oil & Gas within the Wider Global Energy Outlook, Uncertainties and International Collaboration	Bentham, 2014; BP, 2014; Crandall, 2011; ExxonMobil, 2013; Florini, 2011; Global Energy Outlook, 2014; HIS, 2012; Hook et al., 2012; NEB Canada, 2013; Newell, 2013; Vandenbergh et al., 2012; WEO, 2013; Yergin, 2012
The Future of Global Oil & Gas	Bentham, 2014; Berman, 2012; Chew, 2014; Craft, 2007; Deloitte & Touche, 2014; Dodds and McDowall, 2012; Edwards et al., 2010; Emamverdi et al., 2013; European Gas Advocacy Forum, 2011; Evans and Farina, 2013; Ferentinos, 2013; Global Petroleum Outlook, 2014; GRI, 2012; Hafner, 2012; Herber and De Jager, 2010; Hobbs, 2011; IHS, 2012; KPMG Global Energy Institute, 2012; Langston, 2010; Liang et al., 2012; Lukoil, 2013; Ma et al., 2012; Maugeri, 2012; Mitchell et al., 2012; Moniz, 2011; Oil and Gas Industry Forecast, 2012; Oil and Gas UK, 2013; Patrylak and Donelly, 2013; Petroleum Equipment Suppliers Association, 2011; Potten & Partners, 2010; Pregger et al., 2011; Sieminski, 2013; UN Global Compact, 2012; WOO, 2013; Wood, 2012; AEO, 2014; AOGA, 2011; API, 2012; Bentley, 2012; Clarance and Cazalot, 2014; Earp, 2014; EIU, 2012; Frumkin et al., 2011; Gboyega et al., 2011; Glada, 2009; Global Insight, 2014; Hook et al., 2012; Houser and Bao, 2013; International Energy Agancy, 2013; Isabelle et al., 2010; Jaffe et al., 2011; Kalkman et al., 2013; Kumhof and Muir, 2014; Liss, 2012; Mitchell and Mitchell, 2014; Mitchell, 2013; Murray Fisher, 2013; OPEC, 2013; Seljom and Rosenberg, 2011; Wood, 2012; Xynteo, 2011
Business Planning for Oil & Gas	Deloitte and Touche, 2014; Marcel, 2013; Marcel and Heller, 2012; Mitchell et al., 2012; Parast et al., 2011; Parry, 2013; Sasson and Blomgren, 2011; UN Global Compact, 2012; Vrontis et al., 2012; Chebbi et al., 2013; Ebrahim-zadeh, 2003; Effiong, 2010; El-Banbi and Thyne, 2013; HRDA, 2012; LLC, 2013; MSC, 2008; Nikos and Panos, 2011; Norwegian Petroleum Directory, 2013; Standard & Poors Rating Services, 2013; Statoil, 2012; The economist, 1977; Thrassou and Vrontis, 2009; Walker and Sonora, 2005; Weijermars, 2012;
Technological and Environmental Factors Affecting the Global O&G Future	Allen et al., 2013; Benes et al., 2012; Bradshaw, 2010; Li et al., 2010; Maugeri, 2012; McGranaghan et al., 2008; Moniz, 2011; SGWG, 2003; Torriti, 2012; US Dep. of Energy, 2003; US Oil & Gas Outlook, 2014; VAASA ETT, 2013; BDO, 2013; Bolton, 2014; Brown, 2013; Bryce, 2013; Daly, 2013; DTU, 2013; Hamutuk, 2008; Huntington et al., 2012; Jackson and Smith, 2014; Sorrell et al., 2010; Wilson, 2012;
Geopolitical Factors Affecting the Global O&G Future	BP, 2014; Kolb, 2011; Maugeri, 2012; Mirchi et al., 2012; Pregger et al., 2011; Tsakiris 2014a, b, c; Atllah, et al., 2013; Shunnaq, 2013; Stevens and Hulbert, 2012;

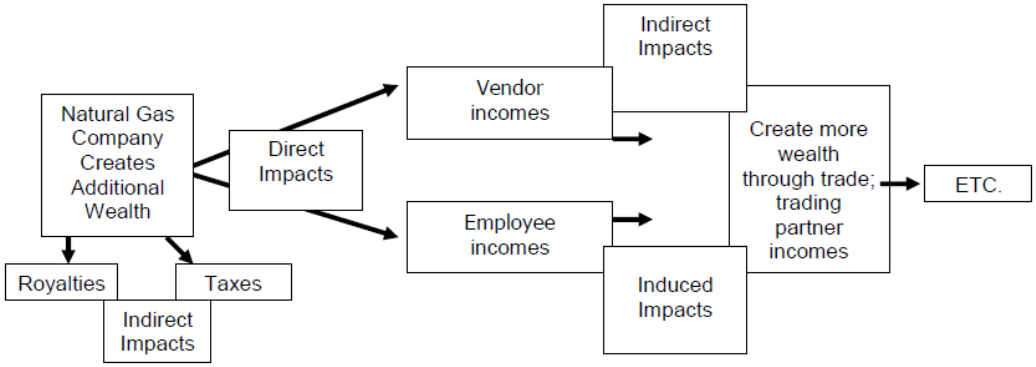
Source: Research produced

An extensive review of existing contemporary literature, including the sources of table 1, leads to a number of conclusions regarding the present and future of the global O&GI; and consequently that of Cyprus. These conclusions can be crudely categorised into 'explicit' and 'implicit' ones. The former stem from the factual findings and relate to such matters as reserves, production estimates, demand patterns, relative and absolute contribution by region and fuel, relative and absolute demand by region and fuel, technological advancements etc. These explicit conclusions are more direct, more specific and more quantifiable and their related data constitute the bulk of the existing researches' and secondary data's results.

 ISBN: 978-9963-711-37-6

The presentation of the undertaken theoretical research is prohibited by the length limitations of this paper. The findings of this literature review are therefore hereby summarised, based primarily on the works of API, 2012; Walker and Sonora, 2005; AOGA, 2011; Peach et al., 2009; MSC,2008; Norwegian Petroleum Directory, 2013; Wood, 2007; Effiong, 2010; Gboyega et al., 2011; Hamutuk, 2008; as well as many of the reports reviewed for the preceding sub-section (table 1). These works have provided valuable, reliable and sometimes very detailed studies on the nature and degree of effect that the O&GI has on local economies and business. Many of these works related to USA states and/or counties, but also European countries such as Norway and the UK, and other noteworthy country-cases such as Nigeria. They provided both qualitative and quantitative data, as well as models of success and failure.
As the direct applicability of these findings to the case of Cyprus is questionable, their value lies in their identification of the various ways through which the economy and businesses are *potentially* affected by the O&GI. The various international paradigms have shown that if the industry is properly structured and developed, then its indirect benefits to the economy are very substantial. These stems from all the activities throughout the industry's value and chain and all directly and directly related services. Fig. 1 (developed in relation to La Plata county, Colorado, USA; by Walker and Sonora, 2005) is a typical depiction of these benefits.

Figure 1 The Economic Effect of the Natural Gas Industry on the Local Economy



Source: Walker and Sonora (2005)

Moreover, the benefits are multiplied through the income received by the businesses and employees of the above, as well as through indirect taxation, property value increases, infrastructural and other upgrades etc. In the best case scenarios, the benefits are seen throughout many industries and even new industries are developed to serve the oil and gas one. Fig 2 depicts a positive example of the utilisation of oil and gas funds towards development of the industry through comprehensive planning and (essentially 'multi-dimensional') reinvestment towards wider socio-economic benefits (on Norway, by Wood, 2007).

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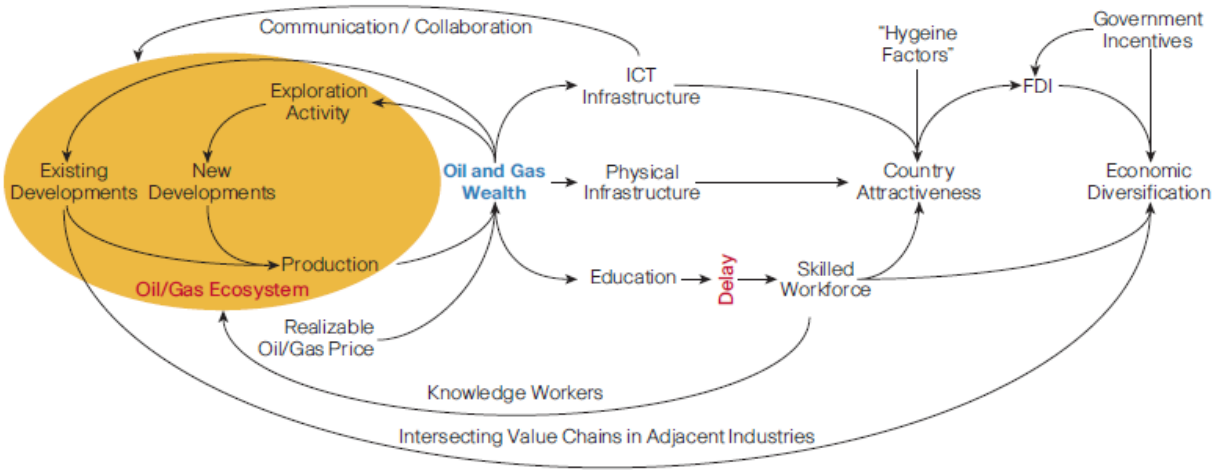
Figure 2: Source and Use of Oil- and Gas-Derived Funds



Source: Wood (2007)

The successful models appear to bear two versions, with the two ends of the spectrum being typically represented by the USA and the Norway paradigms. The former is typical of the free evolution of the industry with the needs and benefits being related mostly to the private sector. Accordingly, planning, investment, education, employment etc. are direct derivatives to the needs of the industry, with state intervention relating almost totally to geopolitical factors. The latter (Norway model) is typical of the more centralised planning, with the state undertaking the role of planner, coordinator and key-player as well. This model is very sensitive to social issues, fair wealth distribution long, term outlook and coordinated development both vertically and horizontally. Both models appear very successful and un-coincidentally reflecting the wider socioeconomic philosophy and attitude of their respective countries. Though more models also exist, there is one, less successful, model which may very well constitute the 'antinode' of the above. This is typically represented by Nigeria and its failure to rip the true benefits of hydrocarbon discovery and to benefit the wider economy. Again unsurprisingly, this is apparently consequent to the political system which allowed disproportionate control of hydrocarbons by the government and has been accused for corruption and incompetence. Though more than the these three models exist (e.g. Venezuela), these three more or less appear to define the area within which the O&GI will most likely develop in the case of Cyprus. Which one depends on ability, will, planning and other external and uncontrollable factors.

The research, thus focuses its attention to: (a) gathering all existing data on the case of Cyprus, (b) undertaking primary research to enhance the theoretical and secondary data findings, and (c) applying the generic/global findings onto the Cyprus-specific ones to draw preliminary, predictive, explicit conclusions on the potential effect of the Cyprus embryonic O&GI on the local economy/business.

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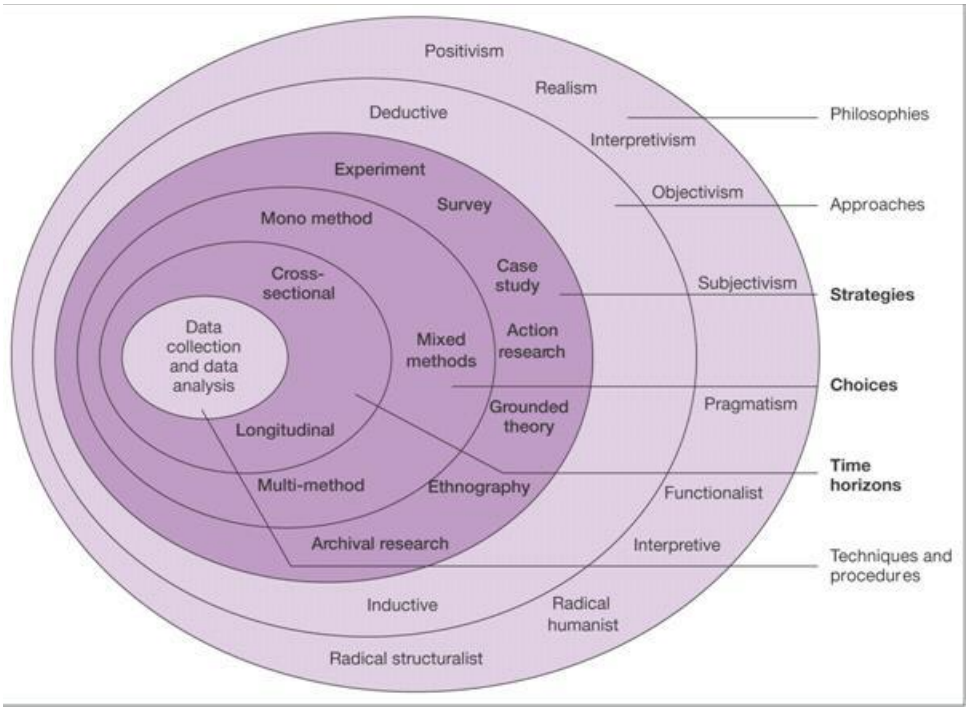
METHODOLOGY

Research Philosophy, Approach and Methods

The exploratory nature of the research; the strange phenomenon of the abandance of generic data, but complete lack of specific data; and the strong human factor affetcing the planning, predicting and decision making with regards to the Cyprus O&GI, has necessitated a rather extraordinary methodological combination; specifically, a combination of philosophies, namely *positivism* and *interpretivism*; and rather naturally from there, a mixed *inductive-deductive* approach; with interpretivism and the inductive approach bearing the greatest weight (Saunders et al., 2009, figure 3).

Figure 3: The 'Research Onion'



Source: Saunders et al., 2007, p.102

In practical methodological terms therefore, the research (conducted between January 2014 and February 2015) has relied (a) on the overlaying, interrelation and cross-comparison of the litearture review and secondary data research and analysis; and (b) on the findings of the primary research i.e. the interviews. The primary research (interviews) were deemed to be the most practical means to the above described ends. The interviewees' sample comprised of individuals considered to be experts in the field, though in different contexts. Specifically, the sample included academics, professionals, consultants and

ISBN: 978-9963-711-37-6

public organisations' decision makers and leaders. It is noted that the interviews have been conducted with the explicit understanding that the content of the *individual* interviews shall remain confidential.

FINDINGS - EXISTING DATA ON CYPRUS REGARDING THE SECONDARY ECONOMIC IMPACT OF THE O&G INDUSTRY

At the (real) time of conducting the research published material has been uncovered in many forms (business reports, interviews etc.), but with the exception of 'semi-scientific' reports, such as those by the '*Human Resource Development Authority of Cyprus*' and the '*Cyprus Energy Regulatory Authority*' (HRDA, 2012; CERA, 2012), no significant and/or reliable material was uncovered, and no true academic research appears to exist; at least recent enough and substantial enough to be reliable.

The Human Resource Development Authority Report

The HRDA (2012) report is, by the very nature of the organization, focused on the potentialities of the Cyprus O&GI in terms of human resource i.e. employment. The report focuses on direct employment by the industry nonetheless, and does not appear to consider the indirect and induced employment opportunities, or potential opportunities from 'out of the box' entrepreneurial activities. Moreover, the study is based on a rather general international literature review and secondary data work, with a rather weakly-founded adaptation to the Cyprus case. In other words, no explicit primary research appears to have been done on the case of Cyprus. Another (potentially significant) limitation of the report is that it was produced on the assumption that gas exists in significant amounts (still to be proven), and that it will be transferred through pipes to Cyprus were it will be liquefied at an LNG plant. This is the apparent strategic aim of the government indeed, but only subject to techno-economic feasibility, itself depending on the reserves to be discovered.

Having said the above, the report is relatively well-developed, well-based (in the context of its methodological limitations) and specific. It is not a work that methodologically this research can accept as a foundation to build on, but it is a useful tool and starting point in determining the human resource potentialities stemming directly from the O&GI development in Cyprus.

The findings of the report support that during the preliminary stages and exploration the employment opportunities for locals are rather limited. During construction of infrastructure and plants the opportunities are seen as excellent, while during operation the opportunities are seen as good. Note that the above do not relate to the terms actually used in HRDA's corresponding table as these are stated in the context of the numbers given for each stage, while our terms refer to the more representative combination of the factors involved. Broadly speaking, 'limited' is in the range of 'tens' of local employees, 'good' in the range of (even) hundreds, and 'excellent' in the range of (even) thousands.

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Quite interestingly, HRDA's study also investigated the spectrum of professions likely to be required by the O&GI and also their relative demand. These include engineering professionals, management and business professionals, technical staff, supporting staff and even caterers etc. Though the step towards identifying these appears to be more of a leap of faith rather actual research results, they are based on international experience and do constitute a welcome input in the absence of Cyprus-focused works. It should also be noted that the report incorporates the works required for the local network of natural gas distribution etc.; and the assumptions are consistent with DEFA's estimates as well (DEFA, 2012).

The HRDA (2012) report, faithful to its role, further presents the likely needs in terms of education and training in Cyprus towards an O&GI orientation. It recognizes that the degree to which local shall be employed by the industry is directly related to the knowledge, competencies and experience of the local workforce. Accepting that this is quite developed in Cyprus but unspecialized to the needs of the O&GI, HRDA provides its comprehensive perspective of what needs to be done to bridge this gap; providing also a list of the education and training needs of Cypriots. The report (HRDA, 2012) finally underlines the need for coordination and collaboration between the various responsible authorities of the state and economy, as the only and proper means to maximizing effectiveness while minimizing costs.

The Cyprus Energy Regulatory Authority Report

This report (CERA, 2012) bears methodologically very similar characteristics to the above-presented one (HRDA, 2012). This is largely natural and expected as both organisations (to their credit) were compelled to provide some initial insights, evaluations and directions in the context of the developing O&GI, but had to do it in limited time and with even more limited information. The CERA report however has a broader, strategic perspective and attempts to provide some guidelines as to the proper way the industry must developed at political, organisational and strategic level.

To begin with, CERA takes a stand in terms of the ultimate goal which it states to be the development of Cyprus into a regional energy centre and its geostrategic strengthening (in energy terms) through the creation of an LNG plant.

Towards this aim, CERA calls for a number of required decisions that will in parallel meet the objectives of:

(a) The exploration, development and exploitation of Cyprus' hydrocarbons
(b) The speedy introduction of natural gas to the local market towards electricity production
(c) The formation of a transparent regulatory system/context [*Greek 'πλαισίου'*] that will ensure such things as EU regulation obedience, safety, consumer protection and true competition
(d) The formation of a wider economic system/context [*Greek 'πλαισίου'*] to ensure Cyprus' benefits without discouraging investors

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CERA further called for the creation of new organisations/authorities/institutions [*Greek 'φορείς'*] to support the successful exploitation of Cyprus' hydrocarbons (including a State Hydrocarbon Company and a National Hydrocarbon Fund) as well as the construction of much required technical infrastructure for natural gas. The various proposals were also placed in the timeframe of the infrastructure development and are depicted in various forms of preliminary technocratic schematics.

In the context of government and organisation, CERA also makes a special note that the various organisations involved in the industry need to collaborate and coordinate with each other etc., but that their roles need to be separate and discrete.

Further to the role and importance of the various governing and regulatory organisations, CERA also touches upon the opportunities and potentialities arising from the O&GI for other sectors, and specifically the banking, the construction and the professional services sector. This is included in the report, albeit neither justified nor developed further. The report does extend somewhat on the subject of jobs' creation though, stating that the industry shall provide opportunities for scientific and professional workforce. It also advises the support for education, research, innovation and knowledge development that will ultimately create business and employment opportunities within and/or for the O&GI. However no quantification of the expectation is made and no justification is provided for these.

THE INDIRECT O&GI IMPACTS ON THE CYPRUS ECONOMY AND BUSINESSES

The findings regarding the indirect impacts are a result of the above-presented combination of theoretical and secondary research that provided (a) an understanding of the scale and needs of the industry, but more importantly (b) the international paradigms on the subject. These were refined and adapted to the Cyprus case through the primary part of the research, as well as by the findings on the industry analysis. The outcome is a list of expected economic areas of positive indirect impact, plus a few potential areas of negative economic impact (table 2). To maximise the value of the findings, the research has also indicated the *estimated degree* of the various indirect impacts to the economy, assuming a mid-range (optimistic Vs pessimistic) scenario in terms of actual resources size and nature. It is further noted that *the research table uses the term 'impact' to describe the economic effect both in monetary and employment terms*, since the two are interrelated and impossible to segregate at this point in time.

ISBN: 978-9963-711-37-6

Table 2: The Business and Employment Indirect Impacts of the Cyprus Oil and Gas Industry on the Local Economy

ECONOMIC IMPACT CATEGORY	ECONOMIC IMPACT	ECONOMIC IMPACT'S TYPES	ESTIMATED DEGREE OF IMPACT*
Infrastructure (Construction)	LNG Plant		High
	Refinery Plant		High
	Other processing plants		High
	Logistics	*Port developments*	High
		Storage facilities	High
		Pipe system	High
Infrastructure (Operation)	LNG Plant		Moderate
	Refinery Plant		Moderate
	Other processing plants		Moderate
	Logistics	*Port developments*	Moderate
		Storage facilities	Low
		Pipe system	Moderate
Industry Explicit	Core International Companies	*Technical offshore*	Low
		Technical onshore	Low
		Business/org. support	Moderate
	Supporting International Companies	*Technical offshore*	Low
		Technical onshore	Low
		Business/org. support	Moderate
	Supporting Local Companies	*Technical onshore*	Moderate
	Logistics	*Shipping*	Moderate/High
		Infrastructural	(see above)
Industry Implicit (Excluding infrastructure construction business)	Professional Services	*Banks*	Moderate
		Insurance	Moderate
		Accounting	Moderate
		Legal	Moderate
		Health & Medical	Low
		Other miscellaneous	Low
	Infrastructural Services	*Telecommunications*	Low
		IT	Low
		Technological	Low
		Transportation	Moderate
	Supplies	*Materials*	Moderate

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		Machinery/equipment/parts	Moderate
		Office supplies	Low
		Food & Beverage & Catering	Moderate
		Other miscellaneous	Moderate
	Hospitality	*Accommodation*	Low
		Entertainment and Arts	Low
		Food & Beverage	Low
		Personal care & exercise	Low
	Real Estate	*Offices*	Low
		Housing	Low
		Land	Low
		Storage	Low
		Construction contractors	Low
		Construction consultants	Low
		Construction suppliers	Low
	Government Services	*Registrations*	Low
		Licences and Permits	Low
		Procedures	Low
		Other miscellaneous	Low
	Retailing		Low
	Education	*Primary*	Low
		Secondary	Low
		Tertiary	Moderate
		Professional	Low
		Technical Training	Moderate
Public sector	Government Departments		Moderate
	Public organisations		Moderate
	Private sector support		Low
Potential Negative Economic Impacts	Environmental	*Drilling*	
		Logistics	
		Processing	
	Actual degrading of touristic product		
	Image degrading of tourism product		
	Political turbulence		
	Military crisis		
	The 'Dutch Disease'		

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** assuming a mid-range (optimistic Vs pessimistic) scenario in terms of actual resources size and nature*

Source: Research-developed

The findings are interesting and rather different to society's expectations, as built mostly by actual and/or supposed experts, leaders and decision makers. In terms of *structure*, the impact is close to most formal and informal estimates, predictions and outlooks that have 'seen the light of day'. The '*ripple effect'* throughout the economy appears also, in form, close to expectations and in line to the international paradigms. However, both the *collective absolute* and *individual relative scale* of the impact's various components is different; with the (more important) former one, appearing to be falling short of expectations.

It is absolutely clear and absolutely natural that the degree of these effects/impacts is directly related to the size and nature of the hydrocarbons available. This correlation nonetheless, though proportional, it is not constant. The reason is that *there are certain thresholds, which if reached they justify significantly greater investments and positive effects on the economy* than just before the threshold is reached. Typically, while the currently confirmed approx. 3tcf of natural gas is a moderately good number, and more findings are welcome, once the threshold of approx. 6-7tcf is reached then the construction of an LNG plant shall probably be justified. A small increase in resources available therefore, might result in an additional multi-billion euro investment. Another example would be the possible creation of regional technical and/or business offices in Cyprus by the international companies once Cyprus reaches a certain threshold that establishes it as large enough market for them. For this reason the actual quantification of the 'Estimated degree of impact' in the above table was avoided as that will vary depending on the resource findings. Moreover, it is notable that though the list itself will probably remain mostly unchanged in whichever scenario, the relative weight (degree) of these impacts might if certain thresholds are reached (or not).

CONCLUSIONS

Through the identification and evaluation of the individual potential indirect business/economic impacts to Cyprus, the research has concluded that the effect shall be substantial, albeit dependent on (1) the actual reserves to be discovered, (2) on certain thresholds being crossed, and (3) proper planning and implementation. Still, it is estimated to be lower than the expectations created by various industry actors over the past few years. Moreover, the research identified some potentially negative economic effects of the industry, their realisation being partly dependent on proper planning and control, and partly on external and possibly uncontrollable factors (mostly geopolitical).

ISBN: 978-9963-711-37-6

The research has further succeeded in developing the first scientifically-based Cyprus-specific, albeit unquantifiable, outlook on the indirect impacts of the industry on the local economy. The conclusions identified and specified the expected economic areas of positive indirect impact, plus a few potential areas of negative economic impact (table 2). To maximise the value of the findings, the research has also indicated the estimated degree of the various indirect impacts to the economy (in both monetary and employment terms), assuming a mid-range (optimistic Vs pessimistic) scenario in terms of actual resources' size and nature

A major conclusion is that the indirect benefits' expectations of economic, public and wider social entities, from the developing O&GI, as expressed both formally and informally, appear to be exaggerated. The research has provisionally predicted that the benefits shall probably be significant enough to give a much needed economic 'injection' to the ailing Cypriot business world, but they will not, alone, bring about the economic resurrection many are describing. The above appear to be true both in terms of business in economic terms, and in terms of employment. The benefits are expected to be higher during the (potential) construction phase of the industry's infrastructure, with the (potential) LNG plant being the most notable example (through even in this case the actual benefits are likely to be significantly less than those widely expressed). During maturity (operation), the benefits are expected to be significantly lower than the construction phase, though over time, and with the Cypriots becoming increasingly more experienced in the industry, these will probably increase. At no time, though, are they expected to reach the numbers flooding the media from both official and unofficial sources. It was also found that the correlation between 'resources available' and 'impact', though proportional, it is not constant. This is consequent to thresholds, which if reached they justify significantly greater investments and positive effects on the economy than just before the threshold is reached. Moreover, the relative weight (degree) of the impacts will also depend on whether these certain thresholds are reached (or not).

The research also concludes that in terms of *structure*, the impact is close to most formal and informal estimates, predictions and outlooks that have 'seen the light of day'. The 'ripple effect' throughout the economy appears also, in *form*, close to expectations and in line to the international paradigms. However, both the collective absolute and individual relative scale of the impact's various components is different; with the (more important) former one, appearing to be falling short of expectations. It was also found that the correlation between 'resources available' and 'impact', though proportional, it is not constant. This is consequent to thresholds, which if reached they justify significantly greater investments and positive effects on the economy than just before the threshold is reached. Moreover, the relative weight (degree) of the impacts will also depend on whether certain thresholds are reached (or not). Finally, as a matter of completeness, the research also included some additional potential

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economic impacts, which are nonetheless, negative. These are not anticipated; they are however possible and their neglect is likely to effect their fulfilment.

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 ISBN: 978-9963-711-37-6

STRATEGIC IMPLICATIONS OF AN OIL & GAS INDUSTRY STUDY – THE CASE OF CYPRUS.

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ABSTRACT

Amidst a plethora of reliable international and hardly-so local literature, information and data, the research analyses and interprets theoretical, secondary and primary data gathered on the generic and Cyprus-specific oil and gas industry. *The aim* is to predictively and prescriptively define the industry's strategic implications; both at the public policy level and the business context. *The findings* regarding public management underline the need for transparent and synergistic collaboration between all industry actors, as the means to achieve the obvious associated advantages, but also to prevent these forces from becoming opposing, and consequently destabilising ones. Further implications were identified with regards to employment, incentives, education, funding, but also in relation to communications and perceptions. Regarding implications for businesses the research calls for proactivity, identification of opportunities, pursue of the 'first movers' advantage'; as well as a number of specific actions and approaches. *The value* of the research lies in its real-time approach to data gathering and analysis; and aids in the design and decision making regarding the industry for policy makers and businesses. The research bears also global/generic importance as it provides a rare insight to the issues and complexities of a country having to first deal with the discovery of hydrocarbons in its economic zone. This purely exploratory research *methodologically* rests upon a wide theoretical and secondary data research that is cemented and refined through an injection of primary qualitative work in the form of twenty expert and high-level interviews.

Keywords: *Oil and Gas Industry, Strategy, Public Policy, Planning, Business Development, Cyprus*

INTRODUCTION

Amidst the gloomy turbulence of the economic crisis predicament, the discovery of hydrocarbons within Cyprus' economic zone gave birth to optimism, discussion and much speculation. The perspectives, opinions, outlooks, predictions and positions on the subject varied (and still do) across the

 ISBN: 978-9963-711-37-6

political, business and even technocratic spectrum; leaving the discerning observer bewildered and largely incapable of making much sense of the flood of information in the media and society at large.

At the same time, and with minimum exceptions (CERA, 2012; DEFA, 2012; HRDA, 2012) no scientific, or at least, reliable work appears to exist that investigates the matter with true data and Cyprus-explicit factors. The imperative, thus, of such a proper study is unquestionable in order to evaluate the information available, identify the reliable and useful information, and methodically interrelate it to construct logical and soundly based arguments and conclusions concerning the present and future of this new industry in Cyprus.

Scrutinising a plethora of reliable international and hardly-so local literature, information and data, this paper analyses and interprets theoretical, secondary and primary data gathered on the generic and Cyprus-specific oil and gas industry. ***The research aim is*** to predictively and prescriptively define the industry's strategic implications; both at the public policy level and the business context.

The value of the research lies in its real-time approach to data gathering and analysis; and aids in the understanding of the environment components, not simply as individual elements affecting their subject, but as a comprehensive system. And it shows that it is this exact systemic understanding of the constituent elements that will support and facilitate the proper development of the industry. The research bears also global/generic importance as it provides a rare insight to the issues and complexities of a country having to first deal with the discovery of hydrocarbons in its economic zone. ***This purely exploratory research work constitutes the third of a three-part study*** of the developing Cyprus oil and gas industry; with its aforementioned three distinct foci being: (a) the real-time industry analysis, (b) its indirect business effects, and (c) its strategic implications. ***Methodologically*** it rests upon a wide theoretical and secondary data research that is cemented and refined through an injection of primary qualitative work in the form of twenty expert and high-level interviews.

ISBN: 978-9963-711-37-6

LITERATURE REVIEW

Table 1: Oil and Gas Industry Outlook - Explicit and Implicit Theoretical Findings

Area / Subject	Publications (see reference list for complete citations)
The Role of Oil & Gas within the Wider Global Energy Outlook, Uncertainties and International Collaboration	Bentham, 2014; BP, 2014; Crandall, 2011; ExxonMobil, 2013; Florini, 2011; Global Energy Outlook, 2014; HIS, 2012; Hook et al., 2012; NEB Canada, 2013; Newell, 2013; Vandenbergh et al., 2012; WEO, 2013; Yergin, 2012
The Future of Global Oil & Gas	Bentham, 2014; Berman, 2012; Chew, 2014; Craft, 2007; Deloitte & Touche, 2014; Dodds and McDowall, 2012; Edwards et al., 2010; Emamverdi et al., 2013; European Gas Advocacy Forum, 2011; Evans and Farina, 2013; Ferentinos, 2013; Global Petroleum Outlook, 2014; GRI, 2012; Hafner, 2012; Herber and De Jager, 2010; Hobbs, 2011; IHS, 2012; KPMG Global Energy Institute, 2012; Langston, 2010; Liang et al., 2012; Lukoil, 2013; Ma et al., 2012; Maugeri, 2012; Mitchell et al., 2012; Moniz, 2011; Oil and Gas Industry Forecast, 2012; Oil and Gas UK, 2013; Patrylak and Donelly, 2013; Petroleum Equipment Suppliers Association, 2011; Potten & Partners, 2010; Pregger et al., 2011; Sieminski, 2013; UN Global Compact, 2012; WOO, 2013; Wood, 2012; AEO, 2014; AOGA, 2011; API, 2012; Bentley, 2012; Clarance and Cazalot, 2014; Earp, 2014; EIU, 2012; Frumkin et al., 2011; Gboyega et al., 2011; Glada, 2009; Global Insight, 2014; Hook et al., 2012; Houser and Bao, 2013; International Energy Agancy, 2013; Isabelle et al., 2010; Jaffe et al., 2011; Kalkman et al., 2013; Kumhof and Muir, 2014; Liss, 2012; Mitchell and Mitchell, 2014; Mitchell, 2013; Murray Fisher, 2013; OPEC, 2013; Seljom and Rosenberg, 2011; Wood, 2012; Xynteo, 2011
Business Planning for Oil & Gas	Deloitte and Touche, 2014; Marcel, 2013; Marcel and Heller, 2012; Mitchell et al., 2012; Parast et al., 2011; Parry, 2013; Sasson and Blomgren, 2011; UN Global Compact, 2012; Vrontis et al., 2012; Chebbi et al., 2013; Ebrahim-zadeh, 2003; Effiong, 2010; El-Banbi and Thyne, 2013; HRDA, 2012; LLC, 2013; MSC, 2008; Nikos and Panos, 2011; Norwegian Petroleum Directory, 2013; Standard & Poors Rating Services, 2013; Statoil, 2012; The economist, 1977; Thrassou and Vrontis, 2009; Walker and Sonora, 2005; Weijermars, 2012;
Technological and Environmental Factors Affecting the Global O&G Future	Allen et al., 2013; Benes et al., 2012; Bradshaw, 2010; Li et al., 2010; Maugeri, 2012; McGranaghan et al., 2008; Moniz, 2011; SGWG, 2003; Torriti, 2012; US Dep. of Energy, 2003; US Oil & Gas Outlook, 2014; VAASA ETT, 2013; BDO, 2013; Bolton, 2014; Brown, 2013; Bryce, 2013; Daly, 2013; DTU, 2013; Hamutuk, 2008; Huntington et al., 2012; Jackson and Smith, 2014; Sorrell et al., 2010; Wilson, 2012;
Geopolitical Factors Affecting the Global O&G Future	BP, 2014; Kolb, 2011; Maugeri, 2012; Mirchi et al., 2012; Pregger et al., 2011; Tsakiris 2014a, b, c; Atllah, et al., 2013; Shunnaq, 2013; Stevens and Hulbert, 2012;

Source: Research produced

An extensive review of existing contemporary literature, including the sources of table 1, leads to a number of conclusions regarding the present and future of the global oil and gas industry; and consequently that of Cyprus. These conclusions can be crudely categorised into 'explicit' and 'implicit' ones. The former stem from the factual findings and relate to such matters as reserves, production estimates, demand patterns, relative and absolute contribution by region and fuel, relative and absolute demand by region and fuel, technological advancements etc. These explicit conclusions are more direct, more specific and more quantifiable and their related data constitute the bulk of the existing researches' and secondary data's results.

 ISBN: 978-9963-711-37-6

The ***major explicit conclusions*** of interest to Cyprus are that: primary energy consumption *growth* will slow with overall energy growth shifting from the OECD to the non-OECD countries; China shall significantly diminish its energy consumption and India shall equal China by 2035; industry will remain the top primary direct and indirect consumer; all fuels will grow and most of all the renewables; among fossil fuels, gas is the fastest growing and the only one to grow more rapidly than total energy; energy is gradually decoupling from economic growth; efficiency will continue to be a critical factor; non-OECD countries are predicted to increase energy use by 65% by 2040 with global demand increasing by 35%; new and improved technologies will allow for the safe development of once hard-to-produce energy resources; and oil and gas depletion appears to be less of a problem, even in the long term.

The ***implicit findings*** are, conversely, more indirect and relate to the more obscure aspects of the oil and gas industry. They include matters such as vested interests, stakeholders, geopolitical factors, environmental factors, public notions and perceptions and more. The implicit factors are more complex, more multidimensional, more open to subjective interpretation and more unpredictable. Moreover, they are very much interrelated, so even if one was to understand them individually, it would still be practically impossible to merge and project them into a complete picture regarding their future.

One important implicit conclusion of this theoretical research is that the subject is in fact both the focus of much controversy, but also of a surprisingly wide array of differing perspectives and predictions. This appears to be both the cause and effect of the inherently questionable validity and reliability of much of the supposed evidence regarding the industry, consequent to the numerous unknown factors involved, the subjectivity of many aspects of the industry, as well as the potentially questionable integrity of many works due to possible vested interests. The above-mentioned unknown and/or unpredictable factors include primarily technological, economic, geopolitical and environmental factors; all of which are interrelated and collectively capable of rendering any prediction void at any point of time. All findings therefore are, consequently, and shall always remain, mere possibilities; and only time shall tell the true story.

Perhaps the most important differentiating factor of the oil and gas industry is that it is not simply an economic sector, but a key element of global international policies, strategies, geopolitical developments and power struggles at all levels. The relative weight of this parameter is probably greater than any other industry or sector in history and therefore predictions far exceed the strict industry context, transcending to levels and dimensions that require a multi-perspective understanding of the stakeholders, their individual interests and sought benefits, as well as the (practically impossible) ability to project these into the long term future.

ISBN: 978-9963-711-37-6

Here in fact lies also the value of this research's generic theoretical research (literature review), which attains a comprehensive approach and incorporates both scholarly and (deemed) credible industry reports; while conversely and inherently also questioning the validity and reliability of both. There are just too many unknown factors involved, as well as a strong element of subjectivity on many aspects of the industry, and potentially questionable integrity of many works due to possible vested interests. Regardless of complexity and doubts however (in fact, perhaps, exactly because of these) the research bestows existing literature with a useful integrated perspective on the future of the oil and gas industry and fertilises the ground for further development, either generically, or in the direction of the laid down path of the uncovered research gap as hereby identified and prescribed.

METHODOLOGY

Regarding the generic and background part of the research, it is methodologically a desk research resting on extensive literature review and secondary data based work. *Regarding the core work of the research* i.e. the Cyprus oil and gas industry analysis, the research was clearly and *purely exploratory*. Though interesting and substantial works exist on the subject of the industry's economic effects in relation to other countries, their applicability or even adaptability to the case of Cyprus is much obscure. The research therefore drew the necessary knowledge from international paradigms, but thereafter the research 'sailed in completely unchartered waters'. The exploratory nature of the research; the strange phenomenon of the abandance of generic data, but complete lack of specific data; and the strong human factor affetcing the planning, predicting and decision making with regards to the Cyprus oil and gas industry, has therefore necessitated a rather extraordinary methodological combination; specifically, a combination of philosophies, namely *positivism* and *interpretivism*; and rather naturally from there, a mixed *inductive-deductive* approach; with interpretivism and the inductive approach bearing the greatest weight (Saunders et al., 2009, figure 1).

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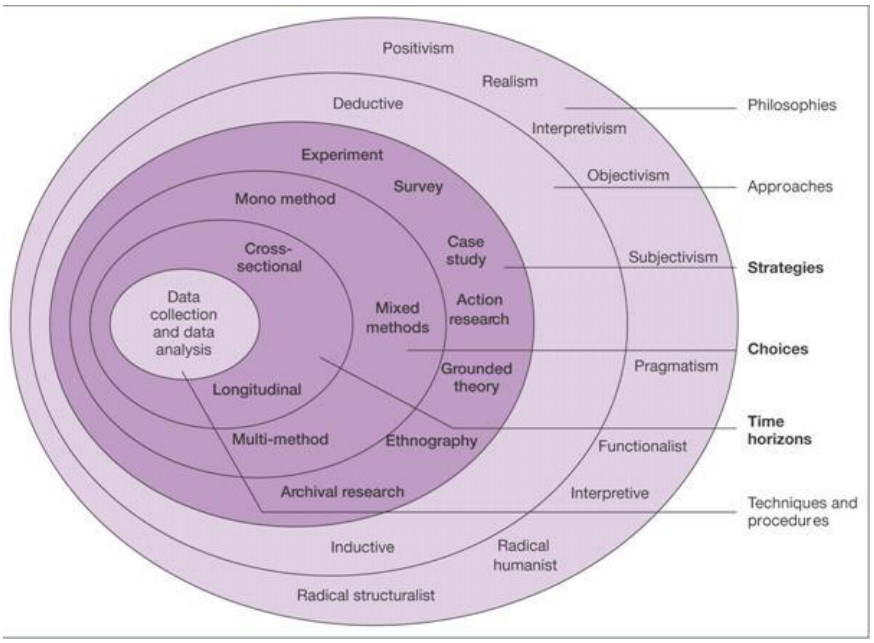
Figure 1: The 'Research Onion'



Source: Saunders et al., 2007, p.102

In practical methodological terms therefore, the research has relied (a) on the overlaying, interrelation and cross-comparison of the litearture review and secondary data research and analysis; and (b) on the findings of the primary research i.e. the interviews. Specifically, the research relied on four types of existing data and one research-specific method:

- Research/academic works (literature review)
- Studies' findings (published reports)
- Individual data (secondary data)
- Scattered information (general marketing intelligence)
- Interviews (primary research)

The primary research (interviews) were deemed to be the most practical means to the above described ends. The interviewees' sample comprised of individuals considered to be experts in the field, though in different contexts. Specifically, the sample included academics, professionals, consultants and public organisations' decision makers and leaders. It is noted that the interviews have been conducted with the explicit understanding that the content of the individual interviews shall remain confidential.

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FINDINGS – STRATEGIC IMPLICATIONS

Drawing also on the findings of the first two parts of this research (Thrassou, 2015; and Thrassou et al., 2015) and utilising also the minimal existing semi-scientific literature on the subject (HRDA, 2012; CERA, 2012; DEFA, 2012) the research has reached a number of explicit conclusions.

Procedural Strategic Implications for Policy Makers

Forces and matters directly and indirectly pertaining to strategic decisions have been essentially presented throughout the first two parts of the research (Thrassou, 2015; and Thrassou et al., 2015). The whole spectrum of macro and micro-environmental forces, including the international geopolitical ones, are, after all, the defining constituent parameters of strategy formulation. It was deemed however important to the research to present one last (third) aspect that binds everything together into a model. Specifically, while the above identify and define the factors leading to strategy formulation, what practically applies them is the strategic *process* itself. The research therefore closes its extensive descriptive aspect, on a semi-prescriptive note, presenting the process issues that need to be incorporated in the application of the findings towards Cyprus' oil and gas industry development.

To start with, the industry's *strategic goal formulation* process must be both clear and explicit. It must furthermore incorporate the inevitable political goals or restrictions, as the industry cannot be moving officially on techno-economic grounds, but shifting direction consequent to hidden political factors. If indeed the industry's development is to be collectively supported by all actors and stakeholders, the goals must be true and communicated to all. The opposite approach is likely to lead to confusion, complexity, lack of trust with consequent loss of support, and ultimately vulnerability and susceptibility to mistakes.

Following goal formulation (the 'what') the actual *strategic plan* (the 'how') must also incorporate the array of forces presented in this research. The complexity of these forces though, combined with their dynamic (ever-changing) nature means that unpredictability is a limiting strategic factor inhibiting the planning process. To counteract this problem, planning must be scenario-based, whereby the most likely potentialities must be identified, evaluated and planned for, so that upon their realisation immediate *contingency plans* shall be ready for implementation. Moreover, the industry plan itself must incorporate the element of '*strategic reflexivity*' (Vrontis et al., 2012), not simply in the form of contingency plans, but also through the development of industry structures, processes and decision making and implementation mechanisms that are capable of immediate reaction to changing conditions.

Planning nonetheless is just one side of the strategic coin, with *implementation* being the other. Cyprus in fact is not unaccustomed to good plans that either remain in office drawers or are badly implemented. It

ISBN: 978-9963-711-37-6

is therefore essential that the strategic plan is realistic and practicable, and not an idealistic construction to satisfy external audiences, but which is doomed to fail. The plan itself therefore must foresee the country's inherent limitations, be it political, administrative, experiential, or other; and either ensure their eradication or account for their existence. It is also obvious that the necessary knowledge bases, organisational and administrative structures, and infrastructure must all be fine-tuned to the plan's frequency, thus ensuring harmony of actions, synergistic operations and positive end results.

Within the plan, embedded must also be the very *monitoring and control process* to ensure its proper implementation, instant identification of problems and deviations, and swift corrective action. This implies in its turn excellent communication between all stakeholders, both functional and strategic, but also the existence of flexible and adaptable processes to ensure this competency.

In prescriptive terms, these strategic imperatives indicate that the greatest responsibility for the proper industry development lies at the governmental hands of the government. Though this may be somewhat self-evident, the statement is also misleading. It is the government's responsibility to ensure a proper strategy, however it is not necessarily the government's responsibility to develop it. The government's primary responsibilities are in fact to:

(a) create/adapt the different bodies who, through their *individual* specialisations, shall hold the necessary *collective* knowledge and competences to support the proper industry development;
(b) regulate and coordinate these bodies to ensure their smooth, effective and efficient functioning, synergistically and with the common good in mind;
(c) ensure the independence of the bodies who are supposed to be independent; and ensure all bodies not only support each other, but also act as monitoring and control mechanisms for each other;
(d) to the best possible degree, streamline the goals and activities of the above bodies with their respective private sector collective orgs (associations etc.) to maximise collaboration and minimise conflict.

There is no 'best strategy' for the success of the oil and gas industry in Cyprus. Internationally, differing strategies have been successful but their all shared certain principles, such as extensive and proper planning, monitoring and control, streamlining of private and public goals, accountability and more as above described. There is no right strategy, but there are wrong ones.

Contextual Strategic Implications for Policy Makers

The imperative for a proper strategic approach, philosophy and process does not negate, though, the need for a number of other actions. To begin with, a special note is made to the need for transparent and synergistic collaboration between all industry actors, including, but not limited to the 'private

 ISBN: 978-9963-711-37-6

individual', 'private collective', 'public unofficial', 'public official', 'general public' and 'international companies' ones. Beyond the self-evident advantages of collaboration, in a still-forming industry, especially in a country with a business culture such as Cyprus', these forces, unless streamlined to collaborate from the start, they are likely to become opposing, and consequently destabilising forces. The foundation of constructive coexistence therefore must be laid and cemented by policy and decision makers the soonest.

Another policy implication demanding attention regards the industry's employment of local workforce. While this has indeed claimed prime attention at all levels and across institutions, the research has found that its scale and nature has not been well understood, and therefore the danger exists for all efforts already under way to maximise this effect, to be ineffective. Both the scale of HR demand and its nature must be better defined, possibly in collaboration with the international companies and consultants, and though international paradigms. Public and educational programs, must thereafter be adapted to this to ensure not just good education and training, but also appropriate education and training that incorporates the need for hands-on experience as well. Practically, this calls for a more extensive and specific work by the appropriate authorities (HRDA etc.), but a model of industry management that draws from the Norwegian paradigm described earlier. In this context, the workforce must be proactively developed to lay down the foundation for a horizontal and vertical servicing of the industry in the years to come. In essence, every effort must be made to ensure that what can be offered locally and by locals is indeed so offered.

Adjacent, but separate to the above, is also the need for policy makers to develop the proper context, through incentives and education, not just for individuals, but, perhaps more importantly, businesses to develop to work within or in support of the oil and gas industry. This is likely to create better and longer term conditions for local economy development, with export potential as well. In this context, the possibility of funding and/or financial guarantees may solve the major (currently) liquidity problem of local businesses potentially aiming to penetrate the industry. Practically, this is also reinforced through the above practical recommendations of proactive development (see preceding paragraph).

Finally, on a different note, this research, irrespective of its factual findings and conclusions, has noted the rather extreme gap between reality and public perceptions regarding the industry. While they are mostly not to be blamed for this, policy makers must correct misperceptions and communicate the real-time situation to the public. This is not simply a matter of ethics and 'contract with the people'. It is a matter of ensuring that society is appropriately and accurately informed so that economic/business developments are based on true facts and not misperceptions. The closer to reality the assumptions are, the better the economic effects in the longer term. Moreover, the better informed the public, the less opportunity is provided to individuals and collectives to exploit situations for their own economic or

 ISBN: 978-9963-711-37-6

political benefits, and the higher the probability of social and political harmony; all ultimately working for the benefit of the economy.

In practical terms, this means that public organisations, especially authorities and the government must start making public updates on the industry, with accountability and based on facts. This communication channel shall provide a point of reference to businesses and the public and secure formal and reliable knowledge. Moreover, in the context of business and individuals' support, an appropriate organisation may undertake the role of one-on-one communication with any interested party towards information on all aspects and developments of the industry.

Strategic Implications for Businesses and Individuals

Owing to the industry-wide perspective of this research, the findings regarding the implications for businesses and individuals are less explicit. Some implications however, have been identified and are hereby presented. To begin with, the above policy-related implications are directly related to this section's focus as well and should be correspondingly noted and adapted by businesses and individuals.

Further to the above, one implication to note is the need for both businesses and individuals to be proactive in their pursuit of benefits from the developing industry. Businesses must identify opportunities and set the basis for their realisation as soon as now. In the very likely case where expertise and knowledge is lacking, collaboration with foreign companies is always a good option. This research has already identified a number of companies that have already taken this step and are ready to claim their 'first movers' advantage' and all the benefits that accompany this status. The 'first movers' advantage' is disproportionately important in Cyprus, as past experience with other successful industries (hospitality in the 1980s, professional services in the 1990s and real estate in the 2000s) has shown that those who moved first gained significant competitive advantages and dominated the industries in the longer term, even when significant competition both in quality and quantity joint the race.

Similar advantages are true for individuals aspiring to a career in the industry. The universities and colleges in Cyprus have already stepped up and offer an array of oil and gas related courses, programs and trainings at all levels; and an increasing number of individuals is taking advantage of this opportunity. However, the research's findings show that this is not enough. On the one hand, it is apparent that (the odds are) that the positions available for local professionals, at least in the operations' phase, shall be considerable, but not to the scale expected by many. This means that the 'first movers' advantage' is also true for the case of individuals as well, with those getting in first being more probable to succeed. Moreover the research has found that just a degree in oil and gas related fields may very

 ISBN: 978-9963-711-37-6

well not be enough. The specialised nature of the industry demands for practical knowledge and experience as well. Aspiring industry professionals therefore are advised to pursue internships or other forms of experience with the industry, perhaps abroad. This appears to provide an additional most significant competitive advantage. It is further noted that the international nature of the industry means that it is also, somewhat of, a 'closed circle', with companies offering their own training programs etc. and also with their own HR databases etc. Experience therefore with one of the 'major players' in the industry, possibly with a corresponding training certification and/or recommendation letter can take one a long way.

Finally, both businesses and individuals must note that the majority of benefits from the industry are likely to come not from direct involvement with the industry operations, but from support to the industry. This includes professional opportunities such as legal, insurance, consulting, as well as simpler goods and services, such as supplies and catering. While taking advantage of such opportunities may follow formal invitation and tendering processes, like in any other industry, networking and keeping 'an open eye' for opportunities carries its own weight. Both businesses and individuals therefore need to be alert and proactive in their pursuit of opportunities in the industry, and may need to build the right connections, associations and alliances to maximise their probability of success.

Transcending the technocratic perspective on things, we see a country (Cyprus) that has been blessed with a natural resource that has become reachable, just at the moment when it mostly needs it. It is still early to understand the scale of this blessing, but it is clear that small or large, whether it shall indeed be a blessing is not a matter of fate, but one of proactivity, thoughtfulness, planning, organisation, collaboration, ability and will. The line between the resource 'blessing' and the resource 'curse' is fine and obscure. It is up to all, as policy makers, as organisations, as businesses and as individuals to identify it, understand it and ensure the industry stays on the proper side of the line.

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 ISBN: 978-9963-711-37-6

TRADE UNIONS AND WORK-FAMILY ISSUES: THE CHALLENGE OF WORK-LIFE INTERFACE IN A UNION ENVIRONMENT

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ABSTRACT

The issue of work-life balance is increasingly present in trade unions, who advocate for improved working conditions and living standards of workers. Indeed, unions have adopted numerous resolutions on the subject of work-family balance over the years and they have negotiating with companies and public organizations in this field, and started to look at the situation within their own organization. Recently, unions have been called to redefine their role and become partners in innovation. As concerns the methodology, we have used semi-structured interviews and used a grid that had been validated in previous qualitative work on the work-family issue, but with other groups. Our results show that work schedules and working hours are often a challenge for union counselors. While they negotiate working time control for their members, they apparently have difficulty imposing some limits to the time they themselves put in for the union members. There is an implicit (sometimes explicit) rule that counselors should put in the maximum time required, even at the expense of their own family life. We also found a generational difference and younger counselors tend to move away from the traditional vision of previous generations and want their own work-family obligations to be taken into account within the organization. Professional idealism sometimes is thus confronted with the challenges of work-life balance.

Keywords: *work-life; work-family; union counselors; working conditions; working hours; working schedules.*

INTRODUCTION

The issue of work-life balance is increasingly present in trade unions, who advocate for improved working conditions and living standards of workers. Indeed, unions have adopted numerous resolutions on the subject of work-family balance over the years and they have negotiating with companies and public organizations in this field, and started to look at the situation within their own organization.

 ISBN: 978-9963-711-37-6

Recently, unions have been called to redefine their role and become partners in innovation. They have had to renew their expertise to deal with new management approaches: quality management, "just in time" or JIT method, etc. For many, it means abandoning the adversarial bargaining model to now agree with the bosses while continuing to defend the interests of member (Rheaume & al., 2008). In short, employers demand more, but often with fewer resources. Thus, union advisors are experiencing changes in their role because of the major changes in work organizations and in the world of work in general. According to Rheaume & al. (2000), it seems that these changes have an impact on union employees and representatives and their ability to control their work-family balance and preserve their mental health.

Indeed, while unions have acted upon the work-life and work-family interface over recent years, and have moved this agenda forward in the community, this may apply more to the workplaces unions represent than to unions themselves, as employers, and the situation of their own employees.

Our research aimed to close this gap by looking into the work-life practices of unions themselves, including working hours, work-family measures and expectations on this issue. Research has not looked into the situation of union counselors and union employees themselves, except for a few studies on psychosocial risks and mental health related to overwork; to our knowledge, there has not been work on work-life and work-family balancing for this group.

Also, there is interest in studying new types of professions on the work-life issue, especially professions of the new Knowledge Economy (Tremblay 2015), with their important challenges in terms of working hours work-family balance within unions, and even in other contexts of advocacy or militancy, is an important field to research.We thus center on working time, work requirements and their articulation with family and professional obligations to determine to what extent union counselors and employees can attain work-family balance.

METHODOLOGY

Given the lack of research on the issue, it appears important to start with a qualitative research, to better grasp the specific work environment and its major challenges. We have used semi-structured interviews and a grid that had been validated in previous qualitative work on the work-family issue, but with other groups (Grodent, Tremblay, and Linckens, 2013; Dodeler and Tremblay, 2013). We have conducted a series of 16 interviews with union counsellors and office staff of a Canadian union. Data were collected from December 2010 to March 2011, in interviews lasting from 45 minutes to 2 hours; these interviews were recorded, transcribed and coded according to the method of grounded theory

 ISBN: 978-9963-711-37-6

(Laperriere, 1997. Glaser & Strauss, 1967). The results confirm the interest of analyzing the work-life issue by taking into account the characteristics of a specific occupational group or professional ethos.

We present here a brief profile of the interviewees before exposing the results as concerns union counsellors' schedules, activities and their relationship to work and work-family balance. The union studied has some 300 000 members, divided almost equally between men and women and between the private and public sector. The organization represents some 4,400 workplaces. The union is very active on work-life issues and a few years ago, it even proposed the adoption of a law that would require every workplace to undertake a proactive joint (union-employer), to develop a formal work-family balance program responding to needs accurate and then ensure its implementation and monitoring. The vision of the union in terms of work-family balance favors women's presence in employment as well as a better sharing of responsibilities between parents. But what is it for union counsellors and office employees? Are the activist culture and the compulsory 42 hours week an obstacle to work-family for these union counselors and office workers? Before entering into the heart of the matter, we briefly present our interviewees.

We met eight trade union counsellors or advisers, six office employees, an assistant and a lawyer, eight women and eight men, for a total of 16 persons. There are three female union counselors, and five male counselors, an assistant and a lawyer for a total of seven men. However, women outnumber men in clerical work since there are six in this job category. Note that union advisors have a prescribed 42 hours workweek, while the work schedule is generally 32.5 hours for office workers. One person asked to work 4 days, but this was refused. Respondents were aged between 40 and 50 years and they usually have two and sometimes three children.

RESULTS: NATURE OF WORK

The nature of work is not the same for office workers and union counselors, as the latter are subject to more pressure and work intensification.

Union counselors have considerable autonomy in their work, at least on paper. However, jobs are very demanding, and overwork is common, although this can vary depending on the specific service where people work, and autonomy is often highly constrained by work obligations. The jobs are in various departments such as the department of labor relations, legal service, negotiation, education and mobilization, research, communications and representations, the women's committee, as well as political action. Union counselors must regularly prepare and write papers or reports as part of their duties. They are also asked to assess the economic and socio-political situation of their sector, region or

 ISBN: 978-9963-711-37-6

industry and the balance of forces in specific situations. Those who are at the forefront in the negotiation of collective agreements must be able to develop an argument and properly communicate the results to those requiring their services and provide useful information for the renewal of collective agreements. As in any labor organization, membership services are important and union counselors often live complex situations in their various responsibilities towards local unions, supervisors, courts, journalists, etc.

For all counselors and some office workers, work overload is common and it is due to the gap between the prescribed work and reality. In general, office workers work in teams and are supervised by a coordinator appointed for two years. Each team represents a service and is composed of the coordinator, union counsellors and office employees. Office workers provide the necessary support to all staff of the union but some office workers are more stressed than others depending on the service that employs them. For example, an office employee working in the health sector may be required to participate in counseling, more frequent reporting to another service, accounting and audit meetings. They may also be called upon to coordinate the entire IT infrastructure for conferences or other activities, which sometimes increases the working hours. When an office employee is requested to work outside the office, to attend various meetings, reconciling work and family may be more difficult.

WORKING HOURS

For union counselors, the work schedule of 42 hours is the (minimum) norm, but combined with the flexibility and variability of working hours. The workload may vary during the year and schedules are adjusted accordingly. In general, counselors have the feeling of having some professional autonomy, but they "should be available" at all times. It is often required to work evenings and weekends for meetings, union executive meetings and interventions in work teams or for activism and demonstrations.

Some tend to minimize the variability and flexibility of working hours by saying that permeability of professional and personal/family time is "occasional". But for others, it is quite different. For example, writing memoranda sometimes requires counselors to work evenings or weekends. Meetings sometimes end late at night, and union employees often have to "be present." This is a world of unexpected, as it is sometimes necessary to work beyond normal working hours to complete papers and documents or to appear before various committees (governmental, legal or others), or to release a statement later in the evening for distribution to striking workers or the media in the morning.

 ISBN: 978-9963-711-37-6

Union counselors often have to be available during holidays. It is not uncommon for them to have two or three phone calls per week in the first two weeks and the last week of their vacation (of 4 weeks usually). For office workers, the work schedule is 32.5 hours per week, but there is also some overtime for special events.

FLEXIBILITY

For union counselors, the flexibility of working hours is at the heart of the profession. The workload may vary over the year and even change from week to week. In general, one has the feeling of having some professional autonomy and a lot of flexibility. However, the boundary between working time and time off work is not as strict and clear as it usually is among office workers. Indeed, when there is emergency, "it is not uncommon to have to do things" but more importantly, it is often required to work evenings and weekends. Flexibility is advantageous because it allows you to stay home with a sick child if necessary on the one hand, but on the other, it is often necessary to sacrifice personal or family time for the union.

TELEWORKING

Telecommuting can be a way to get work done more quickly or to have better concentration for certain activities "because in the office, it is disturbing," or simply to get ahead or scan through the documents one did not have time to read at the office. But telecommuting is not accessible to all.

"Ah! yes! Especially when I need concentration to write, because the office is disturbing at times. In general, I do my reading at home, I take my written notes. However, I'm better at writing in a somewhat hectic environment. It's strange, but I'm a like that. (10)

"To my knowledge, none of my colleagues is telecommuting. Given the peculiarity of this service, with the media and all, the work is done by a team. That does not stop people from working at home after the meetings. (4)

PROFESSIONAL IDEALISM BUT ALSO PERFORMANCE

Commitment is very important in trade union work, and we see that even though many want more time for the family, it is not always easy to balance work and personal life. Being a union counsellor is also a personal commitment to the values of the labor movement, a greater involvement, which requires availability, and strong personal and professional aspirations. Rheaume et al. (2000) speak of a "high load ideality" in the profession. The theme of "passion for the job" is important and frequently referred to with union counselors and employees. Rheaume et al. (2008) indicate that their strong motivation is based on a triple ideal: the pursuit of self realization or the objective of "repair" due to a history of militancy ideal, a desire for commitment and concern for social change, as well as willingness to help

 ISBN: 978-9963-711-37-6

others in an perspective of "repair" in response to violence and injustice observed daily or at previous jobs. Within the union apparatus these ideals are constructed through professional development of knowledge, skills, leadership and expertise, as well as through the associative dimension, the most attractive aspect for many union counselors. Finally, there is the motivation, the commitment, the notion of militancy within the union structure. Union counselors like to feel they play a role in changing society and work. Our respondents' comment confirm Rheaume & al. (2008)'s work which indicates that this type of work is the source of pleasure and pain.

"That's why I say I think I believe those values. I carry with me the desire to change, the desire for a world where people are not afraid to be unionized where they can be unionized as they wish. (3)

"Exciting and fascinating, but you still need to keep an area of life for yourself, in order not to burn or kill yourself. Not so long ago, counselors who spent their life in the office were glorified. It has changed a little bit. It is no longer valued not to have a personal life now. (6)

Several trade union counselors we interviewed have been recruited or have chosen this work as a result of their involvement as a union activist in their previous company or organization.

"Basically, I'm an activist. That's interesting. Well, I did not go through psychoanalysis, but perhaps we'd find something... (6)

"In the end, this work led to separation in my marriage. That's what happens. And hey, I came to Montreal after three years working in the regions. I was recruited to take care of a new group. (6)

This occupation is something of a paradox. It is a work which is a source not only of passion but also of difficulties and sometimes intense suffering. Although counselors recognize that passion is perhaps not present in everyone, the strong common vision and practices and expectations are deeply embedded in most counselors, so they do not give themselves the same good working conditions as those that they claim daily for all other workers. For some, the culture of the organization is almost sectarian in its practices and methods. If the spouses and families do not share the same expectations and passions as trade union counselors, it may be difficult for the family to understand and lead to family problems and quarrels.

"It is a work of passion, the work of passionate people. If you have them talk a little about their work ... you'll also meet people who are disgusted. But it is a work of passion worse and that is why it is often difficult to reconcile work and family. The difficulty I had with my ex-wife is that she did not understand how I could go on to a demonstration on the weekend when I had spent the whole week working with union members, answering phone calls, working like crazy. ... (6)

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"You know, I do not want to be negative here, but there is a somewhat sectarian side to our practices and work, you know ... If you knew how long it took to get cigarettes out of the office, you would be impressed. But ... you know when I say that it is a cult that is ... I mean we have shared visions. (7)

This commitment is also found among office workers. If, for union counselors, it can be a source of suffering to see the devaluation of the role of union representatives and counselors in today's world, it is the same for many office workers who share this vision of the role of unions. Sometimes the social dimension of unions is questioned, and this can hardly be experienced by employees of the organization.

A MODEL OF IDEALIZATION DIFFICULT TO AVOID

Beyond the pursuit of a personal ideal, the organizational culture is imposed upon all. This culture promotes a great social commitment, which stems from the very mission of the labor movement. Union employees feel important as they defend the status of men and women workers in society. They are working not only for their personal fulfillment, but also to advance the cause of workers.

Once reserved for men, the position of union counselor conveys the image of the proud and strong man, whose work is important and challenging. This image evokes a person of power, almost invincible. We find this mentality more in some areas, such as metallurgy, a predominantly male sector, in contrast to the health sector, mainly female:

"In the labor movement, union counselors used to be men. They saw themselves as knights: "we are strong, we never fall, we are never sick we never cry. " That was the reality before, and we were proud of that. Today, work-family balance is increasingly important, not just for women who are more numerous, but men also ... some try to make us forget old mentality, the vision of the knight, but it is still present in male sectors. (7)

For a union counselor, overwork, irregular hours that extend during evenings and weekends, this is typical of the union environment. The work environment implies, as a reference point, that to be a good counselor or a good union representative you "must put the hours" and "must put in the time".

"When I was an office worker for mobilization, I had a really huge workload, completely disproportionate, so I had a very high level of stress, I was able to organize my schedule for several aspects and for family responsibilities, but ... the burden was very heavy (12)

Many say that a union representative or counselor must have a "crazy schedule" to demonstrate that he is working hard. We must also sometimes deal with jokes from fellow workers especially if you are in a "lighter" job, with lower workload.

 ISBN: 978-9963-711-37-6

"There are many here who need to have crazy schedule to show that they work hard. I'm sorry, I am as strong and as good but I'll manage the work in a decent time frame. (2)

In order to better reconcile work and family, some counselors will refuse a promotion because it is a "crazy job" with "a huge workload " . Thus, the coordinator position is not attractive as it is associated with a high workload and it is multi-faceted, political and technical, not to mention the personnel management, which results in overwork. It is therefore difficult to take such a position when you have a family and young children.

WORK AND FAMILY RECONCILIATION IN UNIONS: THE OTHER SIDE OF THE MIRROR

Work-family balance has become more prominent in the discourses and negotiations of trade unions, as regards both the external negotiations and the internal discussions. It is certainly difficult for union conselors to criticize the organization that employs them, since their work is simultaneously a source of satisfaction and suffering due to the idealisation of activism that characterizes it. Newcomers to the profession however seem to present to the older generation a different picture of today's activism and commitment to work. This brings the older counselors to reflect on their own practices within the organization. They then realize that they are defending the cause of work-family balance, but they do not necessarily follow the same principles their own workplace. There is a clear break between the objective of "not overworking people to burnout" and the fact that it is "the choice of work we made." Moreover, no one can really criticize the union counsellors' and employees' requests regarding work-family balance issues in the organization as they are themselves the spokepersons on this issue in firms and in society. And yet ...

"This is a debate currently on the table, but it is a choice ... I say that we must do something to avoid putting everyone in burnout but it is still the choice of work we made. At the same time, we must have time with our children but the work is so overwhelming... What can I do? (4)

" It is very delicate issue. Who will take the blame for saying that our counselors call for measures of work-family balance? And it is incompatible with the nature of our activism, nobody will want to wear the hat for saying things like that. However, in some cases, they will disguise the requests for work-family behind other requests to get the message across! (7)

The ones who are organized and those who feel they can impose their limits more easily with respect to work-family tend to trivialize what other people live. The discourse of the committed activist tends to

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be internalized by all the counselors to the point of not recognizing that a colleague may have work-family issues. Everyone is just so busy, that this issue seems to be put aside.

Beyond the "correct" speech on work-family balance that colleagues can present amongst themselves, the vision of others in the workplace, all this says a lot about the innuendos that are conveyed as to what should be a "good" union counselor. Some are surprised to find that colleagues will criticize while this is not the case with their vis-à-vis on the employers's side in negotiations.

This is an environment that is "extremely severe" towards colleagues. Counselors mention that they made jokes to make sure they get the message across as to what a good union counselor should do, and work-family arrangements are not necessarily a part of this. It goes without saying that this situation can create tensions between colleagues.

With regard to taking leave, whether it be a family or personal need, colleagues can make disparaging remarks among both union counselors and office workers. It is not uncommon that an counselor must cut short his vacation because of an urgent matter or a strike.

"But between us, I heard that someone who takes all his leave is looked at negatively. It's kind of scary here, you know. Yet we do have vacation time and various forms of leave…but you are not expected to take them… (6)

The younger counselors and employees have a different attitude. We met a few who indicate they have a different vision of union work. Thus, while in previous generations, workaholics were put on a pedestal, we now see young workers concerned about their quality of life and less willing to sacrifice everything to show that they are "good union employees or counselors". They aspire to balance work and family and expectations seem more legitimate for the majority of them. Younger counselors thus present aa wind of change: they consider their lives outside the office to be important, they work seven hours and then devote themselves to their family and they require flexible schedules to reduce stress. However, this vision is definitely not yet dominant in the union environment. There are intergenerational tensions around this issue.

"The older people complain that young people are only doing their seven hours a day and then it's over. But I'm not ready to take on young people, saying: "No, you have to suffer, yes this is our work, this is militancy." I'm not sure I want to defend this traditional vision. (10)

CONCLUSION

In sum, balancing work and family is a challenge in most contexts, but it is definitely more the case when you are union counselor or employee, even if this is an organization which puts forward the

 ISBN: 978-9963-711-37-6

importance for employers to take on work-family issues. Although in practice this union has established over the years various measures and forms of leave to better reconcile the work and family spheres of its own employees, the strong organizational culture of commitment and militancy still weighs heavily on the involvement and working hours which shoule characterize a good counselor or union employee.

Colleages have a very harsh and negative vision of those who come in late and leave early to deal with family obligations. As we have seen, the performance culture that also comes from society and requires that one be a good parent, a good housewife, a good wife-husband, weighs heavily on the shoulders of office workers and union counselors. The younger workers aspire to a better balance between work life and personal life and try to impose their limits on older employees, for whom the notions of "workaholics" and professional commitment are core values of the union organization.

Since there is interest in studying new types of professions on the work-life issue, especially professions of the new Knowledge Economy (Tremblay 2015), with their important challenges in terms of working hours work-family balance within unions, and even in other contexts of advocacy or militancy, is an important field to research. We found that union counselors are strongly influenced by the ethos of the profession (advocacy, commitment and long hours), something similar to what has been observed in another type of workplace, that of lawyers (Tremblay & Mascova , 2013). However, it is somewhat paradoxical here since union counselors negotiate better working conditions and work-family measures for other workers but seem to forget this issue in their own work environment.

In other words, the "strong work ideal " (Rheaume & al., 2008). is very present among employees of the union we studied. We also saw that the strong organizational culture of activism and commitment is seen as essential to counselors and clerical staff and this poses a challenge in terms of working hours for counselors in particular. For example, counselors feel they enjoy considerable autonomy in regard to the organization of their working time, but in reality, the long hours and the workload required by the union make work-family balance a quite difficult objective in this work context.

We actually even found a denial of thisspillover of work into family and personal life. The ethos of the profession or the "strong work identity " (Rheaume & al., 2008) may partly explain the paradox of this difficult work-family balance within the labor movement, while the union is constantly negotiating for better work-family balance for its members, by negotiating on reduced working time, reorganization of hours and schedules. Reconciling work and family within a union appears to be a very challenging exercise for the faily even though, over the years, the union has put measures in place and developed various forms of leave (parental leave, vacations, sabbatical, etc.) to try to facilitate employees' lives. As we have seen, organizational culture weighs heavily on the shoulders of counselors and employees who

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want to be seen as having a "good performance" ; they must demonstrate commitment while undergoing criticism from colleagues if they appear to spend too much time out of the office, for family reasons. This research may open a space for discussion and begin a process of transformation in union work. Indeed it is paradoxical that such an organization aiming at better working conditions for workers in general does not seem to be able to apply the same principles and objectives to its own environment.

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 ISBN: 978-9963-711-37-6

DISCRIMINATION IN MANAGING FOOTBALLERS: EVIDENCE FROM ITALY

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ABSTRACT

The paper aims to prove how discrimination based both on nationality and on race affects the labor market of professional footballers and the strategies of football club managers. The method concerns an analysis of existing literature on discrimination in sport and a quantitative analysis based on an exploratory approach that compares the wage differences of Serie A footballers with the performance of each group of players. Analysing Serie A clubs, the results validate the existence of discrimination against Italian and white players. On the contrary, considering separately small and big clubs, the findings related to small club highlight discrimination against foreigners and black players. This paper highlights the existence of a discrimination strategy applied by managers of professional football clubs.

Practical considerations can be made with reference to the error typology on managing football clubs: big clubs tend to overestimate the foreigners and blacks contribution to disadvantage of Italians and whites; small clubs are inclined to overrate Italians and whites contribution to disadvantage of foreigner and the black footballers. To reduce discrimination, clubs have to link remuneration contracts of players with their performance.

Keywords: *Discrimination, Race, Nationality, Wages differences, Management, Labor market; Football clubs*

INTRODUCTION

The issue of discrimination has been considered significant by the governing bodies of football movement both at European and global level.

During the XXXVII Ordinary UEFA Congress held in London in May 2013, UEFA and its member associations have adopted a resolution to enforce the goal of eliminating racial discrimination from football. This initiative has produced the important financial support to the FARE (Football Against Racism in Europe) organization; UEFA and FARE bodies have cooperated in staging events and producing publications. They also have contributed to send a message of zero tolerance against all

 ISBN: 978-9963-711-37-6

forms of racism and discrimination in favor of the respect for diversity during Europe's biggest football matches.

The present study aims to contribute to the debate arose in both Italian and international contexts, and it focuses on the topic of discrimination based on race or country of origin in the labor market of professional football players. The analysis was carried out on a group of Serie A football players for the seasons 2010-11, 2011-12 and 2012-13, and it has important implications with regard to the behavior of managers of professional football clubs, whose strategies can be influenced by systematic errors arising from discrimination on the conscious and/or unconscious level.

The article is structured as follows. After the introduction, section two provides the survey on the literature of discrimination in sport, dividing the studies in two subtopics, sport and forms of discrimination. Section three describes methodology and research assumptions. Section four proposes the empirical analyses and the research findings. Section five discusses the results, by including implications on research. Section six analyses the limitations of the study and suggests future research.

LITERATURE REVIEW

Studies on discrimination in sport can be systematized both in terms of sports discipline and of forms of discrimination (Eitzen and Sage, 1978). With regard to sport, there are numerous studies on baseball and basketball leading to results that do not always coincide.

Concerning baseball, Medoff (1975) finds no statistically significant differences in wage distribution between white and black players. Studying the retribution of 212 non-pitchers, Christiano (1986) notes that in some cases the prizes to older players are influenced by race. Still, in a second study the author concludes that the discrimination data found in the analysis of 1977 season is not confirmed in the following years (1988). Bellemore (2001) surveys the years from 1960 to 1990; although, he finds out established forms of discrimination against black players, he shows that it diminished during the seasons in which the number of teams participating in the most important leagues increased. On the basis of official data of Major League Baseball for the period 1990-2004, Groothuis and Hill (2008) do not detect any significant correspondence between the racial and duration of the careers of black batters.

However, in professional basketball several conflicting results have been detected.

Several empirical studies agree that, with the same level of productivity, blacks are paid less than white players (Kahn and Sherer, 1988). In this regard, Brastow and Bodvarsson (1999), in their empirical study based on Becker's approach (1971), conclude that the level of racial discrimination in the National Basketball League has been lowered as a result of the reduction of monopoly power in 1988, when new

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teams joined the league. Other studies (Kanazawa and Funk, 2001) attribute the wage difference of black players to the increase of audience that would result from the higher level of presence of white players; as a result, the marginal revenue of white players exceeds that of black players. Brown, Spiro and Keenan (1991) find no empirical evidence of the assumption that the frequency of fans is inversely proportional to the minutes of game played by black players, concluding that black players are required a better performance than whites to join the National Basketball Association.

Only a small part of the literature has dealt with the effects of racial discrimination in football and soccer. Mogull (1973, 1981) carries out studies concerning wage discriminations in the National Football League. He finds no empirical evidence of wage discrimination for NFL players. Kahn (1991) conducts the survey for the season 1989/90, by selecting a sample of over 1000 players: through the use of a statistical regression, he comes to the conclusion that the wages of African-Americans footballers are 4% lower compared to those of whites. In 1998, Gius and Johnson identified the first case of wage discrimination to the detriment of whites: through the use of log-linear wage regression and a chow test on a sample of 938 players for the 1995/96 season, they observe that white players were paid 10% less than the African-American players. Referring to racial discrimination in professional soccer, in 1988 Maguire notes that Black English players have experienced evident or implicit discrimination; on the basis of data from the Rothmans Football League directories, he concludes that for the season 1985/86 discrimination exists in British soccer.

Based on the data of 39 clubs observed in sporting seasons 1978-1993, Szymanski (2000) confirms the existence of discrimination in English Professional Soccer that the market is not able to avoid. He highlights that, on average, a club without black players pays a premium price of 5% compared to a club that does not discriminate. Racial discrimination is more expensive for clubs at the top of the ranking, because the total expense for players is higher.

In a further study, Szymanski and Preston (2000) investigate the cause of racial discrimination in the English football, referring to the seasons between 1974 and 1993. They find no evidence of any link between the selection of black players and match attendance, concluding that discrimination is rather imputable to the prejudice of some owners of the clubs. Frick (2007) finds a slight and irrelevant form of wage discrimination against foreign footballers.

An innovative test to value the discrimination in English football has been based on the analysis of effects of race in relation to the probability of joining market during the period 1968-2001 (Goddard and Wilson, 2009). This test reveals that the most talented black players tend to be hired in clubs belonging to the

ISBN: 978-9963-711-37-6

highest divisions, while those black players with talent have a smaller probability of becoming professionals compared to the white ones.

In a further study, Goddard and Dobson (2011) highlight the reduction of racial discrimination in English professional football in the last years, and they conclude of not being able to assert that it should have disappeared because of the permanence of a distortion in the market of black footballers.

From the previous analysis, it is possible to assert that other studies do not investigate the existence of a discrimination strategy used by professional football clubs to achieve their goals.

In this perspective, it comes to light the lack of researches of a correlation between discrimination forms against football players and strategies implemented by clubs.

Due to the existence of this gap and the absence of results univocally interpretable in the international literature, this study will investigate whether discrimination influences Italian top league wages in the seasons 2010/2011, 2011/12 and 2012/2013.

METHODOLOGY

The present analysis is based on the hypothesis of the existence of a positive linear correlation between total wages in a professional football club and team's performance. In the formula:

$P = f(W)$

W represents the total cost of salaries and P is the annual team's performance.

The hypothesis, demonstrated in other works with reference to Great Britain (Szymanski, 2010), has been verified for the Italian market. The diagram below (figure 1) shows the existence of a moderate degree of the correlation (Pearson's coefficient is equal to 0,71) for the seasons surveyed:

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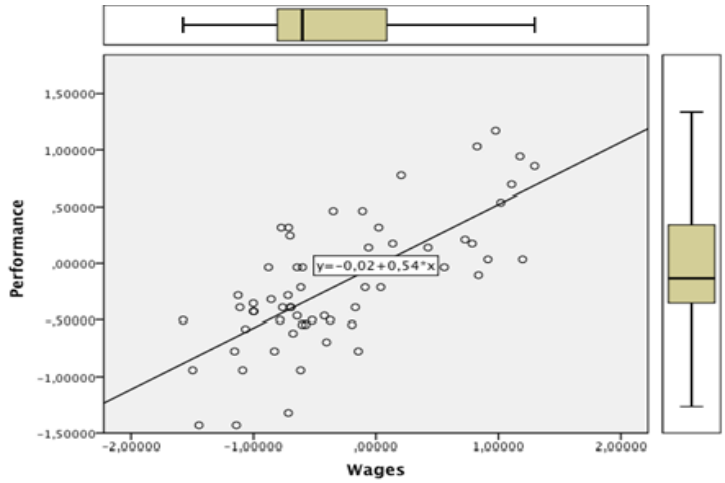
Figure 16- Correlation (Wages; Performance)



As in other studies, the values for the performance have been calculated using the natural logarithm of logit function applied to the points earned on the total points available.

The values of the total cost of wages have been calculated as the natural logarithm of the ratio between the total cost of wages of each team and the average of the current season.

In order to understand the methodology of this survey, it is possible to assume that each team is composed of n players: n_a players have a characteristic and n_b players do not have it.

In this case the formula shall be: $n = n_a + n_b$

N_a represents the share of players having the characteristic analyzed (n_a/n), P_n represents the overall team's performance and P_{Na} represents the contribution of group A to this performance.

If it is possible to demonstrate statistically that in a certain season teams with a higher N_a have had a better performance, it should follow that the average of retributions of group A members (μ_a) should be significantly higher than the retribution of group B members (μ_b).

In this perspective, there shall be no discrimination if:

- the positive incidence on the performance by group A determines an higher wages retribution on average;
- the irrelevant incidence on the performance by group A does not determine any difference on retribution;

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- the negative incidence on the performance by group A determines a significant difference on retribution in favor of group B.

On the contrary, there is evidence of discrimination if:

- the positive incidence on performance by group A does not determine any difference on retribution or determines a significant difference on retribution in favor of group B (discrimination against A);
- the negative incidence on performance by group A does not determine any difference on retribution to the detriment of A or determines a difference on retribution in its favor (discrimination against B);
- An irrelevant incidence on performance by group A determines a difference on retribution in its favor (discrimination against B) or a difference on retribution in favor of B (discrimination against A).

The following matrix (1) synthesizes all the forecasted cases:

Matrix 1 – Theoretical discrimination hypothesis

Incidence on the performance of A	Retribution $\mu_a > \mu_b$	Retribution $\mu_a = \mu_b$	Retribution $\mu_a < \mu_b$
positive	No discrimination	Moderate discrimination vs A	Discrimination vs A
irrilevant	Moderate discrimination vs B	No discrimination	Moderate discrimination vs A
negative	Discrimination vs B	Moderate discrimination vs B	No discrimination

The analysis has been carried out on two different features, (race and nationality), on three consecutive seasons (2010-11, 2011-12 and 2012-13), and with reference to all the championship's teams (T), the cluster of big teams (B) and that of small teams (S).

ISBN: 978-9963-711-37-6

With reference to the calculation of means, due to the incompleteness of data concerning the retributions of all players of division A, a sample survey has been carried out.

The comparison among average retributions has been done starting from players' individual retributions; such approach could not be applied for esteeming the contribution to the team's performance by group A members.

It has not been possible to calculate the contribution to the performance by group A as summation of the contribution to the performance by every single member of group A.

This is due to two main reasons: nowadays, there is no indicator of footballers' individual performance which is adequately reliable and general so as to be applied to all the roles of players on the field; the team's performance is hardly ever definable as a summation of the performances of every single footballer.

Therefore, the present work has determined the contribution to the performance of the single footballers by ascribing to each of them a share of the team's result depending on the number of matches played during the analyzed seasons.

The empirical analysis

The research has been carried following two steps. In the first, it analyses the annual wages of a group of Serie A football players divided by nationality and race, with reference to the seasons 2010-11, 2011-12 and 2012-13. For this purpose, we used a database provided by *Gazzetta dello Sport*, the Italian newspaper leading for sales specialized in the sport industry. In the second, wages were compared with the performance achieved by the teams in which the footballers have played. For data relating to attendance and performance of the teams we have used the database in the site http://www.transfermarkt.it.

With regard to the first step, it is important to specify that the group of players has been selected within the total population of footballers who have played at least 10 matches in the season. Moreover, the group is representative of about 90% of the total population of footballers who have played at least one game in each season.

Since an important correlation exists between the level of footballers' net remunerations and the total expenses for the wages of their clubs (Pearson's coefficient for three championships was estimated as equal respectively to 0,75 by the first one and the second one and to 0,69 by the third), the virtual population has been divided in two subgroups of big and small clubs. Small clubs are those clubs investing less than 30 million Euros for players wages.

 ISBN: 978-9963-711-37-6

The table 1 illustrates the clubs composition with reference to the two selected player features.

Table 6 - Footballer groups composition

	Season 2010-11			Season 2011-12			Season 2012-13		
	Sm. cl.	B. cl.	All cl.	Sm. cl.	B. cl.	All cl.	Sm. cl.	B. cl.	All cl.
Italians (I)	125	73	198	128	60	188	127	45	172
Foreigners (F)	93	67	160	95	86	181	107	75	182
Total	*218*	*140*	*358*	*223*	*146*	*369*	*234*	*120*	*354*
Blacks (C)	25	20	45	22	19	41	27	22	49
Whites (W)	193	120	313	201	127	328	207	98	305
Total	*218*	*140*	*358*	*223*	*146*	*369*	*234*	*120*	*354*

The study on the groups has been led comparing the means of the wages of footballers belonging to the groups subjected to the analysis. The difference between the mean of group A and group B is significant if it is 5% over the mean of all players. Practically, the range value is calculated as the difference between the 5% more and 5% less of the mean of all players. Table 2 illustrates the results obtained on the population of all the Serie A clubs in the three seasons analyzed:

Table 7 - Results on all clubs (wages in million of Euros)

	Season 2010-11				Season 2011-12				Season 2012-13			
	pl.	mean	mean of all pl.	range of 5%	pl.s	mean	mean of all pl.	range of 5%	pl.	mean	mean of all pl.	range of 5%
Foreigners	160	1,1259			181	1,0773			182	0,89		
Italians	198	0,8917			188	0,7895			172	0,801		
Differences		***0,2342***	0,9964	*0,0996*		***0,288***	0,9307	*0,0931*		***0,089***	0,8469	*0,0847*
Blacks	45	1,3638			41	1,1471			49	0,901		
Whites	313	0,9436			328	0,9036			305	0,838		
Differences		***0,4202***	0,9964	*0,0996*		***0,244***	0,9307	*0,0931*		*0,0631*	0,8468	0,0847

With reference to "nationality", it is possible to notice that in all the seasons considered, the mean of the retribution of foreigner footballers has been higher than Italians, and all the differences of the means are significant because they are greater than the value of the range of 5%. The same result is recorded with regard to "race", except for the season 2012-13, in which a relevant reduction of the wages gap has been verified, as demonstrated by the irrelevance of the differences. The case in which foreign footballers should perceive a wage higher than Italians can be explained by the specific characteristics of labor market of professional players in Italy: clubs are generally ready for paying a premium to a foreign footballer in the conviction that he is able to influence more incisively the final result of the club.

It is important to notice that the differences between the wages of white and black footballers and between Italian and foreign players quickly decrease from 2010-11 to 2012-13.

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Such a reduction can be partially explained by the total contraction of investments in talents by Italian clubs due to the effect of a generalized crisis.

The analysis on the group of small clubs is synthesized in the following table (3):

Table 8 - Results on small clubs group (wages in million of Euros)

	Season 2010-11				Season 2011-12				Season 2012-13			
	pl.	mean	mean of all pl.	range of 5%	pl.	mean	mean of all pl.	range of 5%	pl.	mean	mean of all pl.	range of 5%
Foreigners (F)	93	0,4543			95	0,4062			107	0,4175		
Italians (I)	125	0,4545			128	0,4338			127	0,4672		
Differences		*-0,0002*	0,4544	0,0454		*-0,0275*	0,4220	0,0422		***-0,05***	0,4445	*0,0444*
Blacks (C)	25	0,4148			22	0,3641			27	0,4539		
Whites (W)	193	0,4595			201	0,4284			207	0,3726		
Differences		*-0,0447*	0,4544	0,0454		***-0,064***	0,4221	*0,0422*		***0,0813***	0,3820	*0,0382*

With particular reference to "nationality", an opposite trend seems to emerge with the wages of Italian footballers constantly superior to the others. Nonetheless, only in the season 2012-2013 the difference between foreigners and Italian wages of players is significant.

In the season 2012-13, the other examined character highlights a trend inversion, because on average the wages of white ones are lower compared to those of black footballers. Analyzing the significance of the wage difference, it is present in the last two seasons.

Table 4 illustrates the results of the analysis on big clubs group:

Table 9 - Results on big clubs group (wages in million of Euros)

	Season 2010-11				Season 2011-12				Season 2012-13			
	pl.	mean	mean of all pl.	range of 5%	pl.	mean	mean of all pl.	range of 5%	pl.	mean	mean of all pl.	range of 5%
Foreigners (F)	67	2,0582			86	1,8186			75	1,564		
Italians (I)	73	1,6404			60	1,5485			45	1,744		
Differences		***0,4178***	1,8403	*0,1840*		***0,2701***	1,7076	*0,1708*		***-0,18***	1,6315	*0,1632*
Blacks (C)	20	2,1224			19	2,0537			22	1,55		
Whites (W)	120	1,4491			127	1,6558			98	1,6498		
Differences		***0,6733***	1,5453	*0,1545*		***0,3979***	1,7076	*0,1708*		*-0,0998*	1,6315	0,1632

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As for the group composed by all Serie A clubs, the mean of black players salary is higher compared to white players; in the same way, the average of the wages of foreigner players is higher compared to Italian ones, with the exception of the season 2012-13.

Concerning "nationality", it is highlighted that in all seasons the difference between the wages mean of the groups of players is significant. In the season 2012-13, the salaries of Italians are on average superior to those of foreigners and the wages of black players are on average inferior to those of white ones. With reference to this last group, only in the season 2012-13 the difference between the two wages mean is not greater than 5% of the mean of all players.

The second step of the research aims to measure the contribution that each analyzed character has given to the performance of the clubs.

It has been estimated the impact of foreigner and black players on the results of each team. For this purpose, it has been determined the total number of the players' presence in the pitch of each team and, successively, it has been calculated the share attributable respectively to foreign and black players. The performance has been determined as a share of the points achieved on the total of the attainable points in a twenty teams championship.

Based on the above-mentioned data, the incidence index on the performance has been calculated as Pearson's coefficient between the presences share attributable respectively to foreign and black players and the result achieved by the clubs in the three analyzed seasons.

As for the first part of the research, the analysis has been done distinguishing also between big and small clubs.

Next table (5) illustrates the results of the analysis on the clubs of the Italian Top League (Series A) in the seasons 2010-11, 2011-12 and 2012-13:

Table 10 - incidence index on the performance

	2010-2011		2011-2012		2012-2013	
	Non ital. (S)	Black (N)	Non ital. (S)	Black (N)	Non ital. (S)	Black (N)
All the clubs (T)	**0,51**	**0,71**	0,07	0,36	0,31	0,38
Small clubs (S)	0,32	0,49	0,16	0,44	**0,50**	**0,61**
Big clubs (B)	**0,73**	**0,89**	**-0,57**	0,28	**-0,81**	-0,29

On eighteen examined cases, the index assumes a value superior or equal to 0,5 in six of them and a value inferior to -0,5 in two: this means that, in eight cases on eighteen, a higher share of foreign and black players seems to have influenced to a certain extent the teams result.

Particularly, in the season 2010-2011, foreign and black players have deeply influenced the performance, above all that of big clubs. In season 2011-12, a radical change of direction is recorded to the extent that, for big clubs, an increase of foreigner players seems to have involved a worsening of teams results. In 2012-13, small clubs have demonstrated to choose foreign players better than richest clubs.

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INTERPRETATION OF FINDINGS

Once verified the hypothesis that in the Italian professional soccer higher remunerations tend to correspond to a better teams' performance, it should derive that, in presence of a significant contribution of foreign and black players to clubs performance, a higher share of clubs expenses in salaries would be attributable to those players' groups.

The following matrix (2) classifies the results relative to black and foreign players concerning the three seasons analyzed:

Matrix 2 - All clubs discrimination cases

Incidence on the performance of blacks or foreigners (All Clubs)	Retributive differences (All Clubs): In favour of blacks or foreigners	Not significant	In favour of whites or italians
positive	2010-11 (T/C) 2010-11 (T/F)		
irrilevant	2011-12 (T/C) 2011-12 (T/F) 2012-13 (T/F)	2012-13 (T/C)	
negative			

It can be observed that the central column of the matrix shows the cases in which the wages differences are not considered significant. With reference to the analysis on race group in the season 2012-13, an irrelevant incidence on the teams' performance of black players corresponds to a not significant wage difference, and so we can avoid to consider it as a discrimination case.

In the first quadrant the results related to blacks and foreigners in the season 2010-11 with reference to all teams (T) are reported; there is no discrimination because a significant incidence of the list of colored players (C) and foreigners (F) corresponds to a significant wage difference of the group (higher than the range of 5% of the mean of all players).

For the remaining cases, a moderate discrimination is present in the fourth quadrant, where significant wage differences exist in favor of blacks and foreigners in absence of a real incidence on the team's result. Therefore, it can be affirmed that there is moderate discrimination against white footballers in the season 2011-12, and against Italian footballers with reference to the seasons 2011-12 and 2012-13. In order to focus the analysis on the behavior of big and small clubs, these ones have been investigated separately.

The results have been reported in the matrix 3 exclusively with reference to big and small clubs:

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Matrix 3 – Big and small clubs discrimination cases

Incidence on the performance of blacks or foreigners (Big and Small Clubs)	Retributive differences (Big and Small Clubs): In favour of blacks or foreigners	Not significant	In favour of whites or italians
positive	2010-11 (B/C) 2010-11 (B/F) 2012-13 (S/C)		2012-13 (S/F)
irrilevant	2011-12 (B/C)	2010-11 (S/F) 2010-11 (S/C) 2011-12 (S/F) 2012-13 (B/C)	2011-12 (S/C)
negative	2011-12 (B/F)		2012-13 (B/F)

Based on the matrix reports, it is possible to notice that in Italy the professional football labor market does not reveal any discrimination indicator in 67% of the cases examined (8 on 12), while they are present in 33% of cases (4 on 12).

The analysis of the 33% can be divided in two cases of moderate discrimination: one against white players and the second one against Italians, respectively with reference to big and small clubs in the season 2011-12 (a significant wage difference linked to an irrelevant group's incidence performance of the clubs); two cases of strong discrimination related to Italian players of big clubs in the season 2011-12 (a negative incidence on performance by group corresponds to a significant wage difference in favor of foreigners), and to foreigner players of small clubs in the season 2012-2013 (a positive incidence on performance by the group of foreigner players is related to a higher remuneration of Italian ones).

The study can be useful to investigate possible behaviors of managers of professional football clubs influenced by systematic errors (Lombardi *et al.*, 2014) related by some kind of discrimination at conscious and/or unconscious level.

With regard to the difference between big and small clubs, the analysis allows to assert that big clubs managers make the same number of discrimination errors as small clubs directors.

Interesting considerations can be made with regard to the error typology: big clubs tend to overestimate the foreigners and blacks contribution to disadvantage of Italians and whites; on the contrary, small clubs are inclined to overrate Italians and whites contribution to disadvantage of foreigner and black footballers.

Focusing the attention on the temporal distribution of errors, it can be observed that they are concentrated in the seasons 2011-12 and 2012-13, when the crisis started affecting the whole sector of professional soccer (from the season 2011-12 until the season 2012-13 the expenses for wages reduced

 ISBN: 978-9963-711-37-6

from 875,5 million Euro to 866,3 million Euro). Effectively, in the season 2010-2011, it has been recorded no evidence of discrimination for all the categories considered. Therefore, in crisis periods, discriminating processes tend to get worse: on the one hand, big clubs, although reducing the retributive differential between Italian and foreign footballers, keep on favoring international markets, still acquiring talents not able to guarantee a competitive advantage (the contribution in the performance is negative); on the other hand, small clubs intensify the scouting activity in emerging markets, obtaining the greatest profit from the difference between foreign and black players remuneration and their contribution on performance, which will tend to be transformed into economic advantage.

CONCLUSION

This work has aimed to investigate the phenomenon of discrimination in the professional football and with particular reference to the Italian premiership, which constitutes one of the top five of the European League. The analysis has focused on the remunerations of Serie A footballers and has been led on three different profiles: the salaries have been examined in the perspective of players "race" and "country of origin" (outline of the discrimination's typology) for three consecutive seasons (temporal outline) on the total of clubs belonging to the competition and, in different way, on the target of big and small ones (dimensional outline of the companies belonging to the League). As in other researches on the topic, it has been used a theoretical framework that presupposes the existence of a positive correlation between level of wages and contribution of each category of players to the total performance of the club in which they play. Subsequently, we have analyzed the cases in which a high difference was generated between level of remunerations and degree of contribution to the group performance: such inconsistency has been interpreted as an evidence of discrimination and has been subjected to a critical examination to include the possible reasons within the bounds of the strategies of the professional football clubs managers.

The analysis has highlighted the following main results. Under the perspective of the discrimination typology, it has been found a systematic discrimination to advantage or disadvantage of the examined categories, having verified that big clubs tend to overrate foreigners and blacks contribution to disadvantage of Italian and white players, while small clubs tend to overrate the Italians and whites contribution to disadvantage of foreign and black players. Considering all clubs, the incidence on discrimination behavior of big clubs is greater than that of small ones; under the temporal perspective, it has been observed an increase of the discriminating phenomena in the last two years, when, for the first time, clubs involved in the competition reduced the total cost of salaries.

 ISBN: 978-9963-711-37-6

The research demonstrates that discriminating processes are strictly connected with business models (Trequattrini *et al.*, 2012) of managers of Italian football companies and differ depending on the dimension of the club: big clubs seem to prefer foreign and black famous footballers supporting high costs and paying important salaries, in order to increase their relational capital value (Trequattrini *et al.*, 2014) exploiting negotiations effects on media, increasing revenues from stadium tickets, merchandising and TV rights; small clubs purchase preferably unknown foreign and black footballers in emerging markets, supporting contained costs and paying low wages, in order to improve the economic and financial performance and also to exploit the possible future appreciation of players purchased.

In order to avoid this discrimination strategies carried out by managers of professional football clubs, it is possible to suggest to football bodies to impose on football clubs a higher correlation between wage contracts of players and their contribute to team's performance (Trequattrini *et al.*, 2015). Therefore, it is possible to assert that discrimination can be interpreted as a shape of underhand imperfection in the labor market of Italian footballers, since its existence is functional to the pursuit of economic objectives of companies that operate in the industry. Such consideration underlines the limits of the present research and opens the field to new future analyses: if the hypothesis that discrimination is functional to economic aims of professional football clubs is correct, it derives that retributive differences of footballers should be correlated not only to the sporting performance but also to the financial results of such companies, putting into discussion theoretical models that presuppose for them just one objective, represented, alternatively, by maximization of profits or maximization of wins.

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 ISBN: 978-9963-711-37-6

EMERGING PATTERNS OF UNIVERSITY ROLE IN ENTREPRENEURSHIP: AN INTERNATIONAL COMPARISON

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ABSTRACT

This paper aims to investigate the new role universities are gaining as entrepreneurial entities in support of the surroundings environment, in order to comply with the request for global competitiveness. The main purpose of the study is to describe how Italian universities conceive and implement an entrepreneurial culture through their curricula and to conduct a two-way comparison with the Singaporean higher education system. The methodology consists of a multi-method approach, based on a comparative analysis making use of a narrative style and a content analysis on Italian and Singaporean entrepreneurship programmes. The end point of the paper is the differences analysis between Italy and Singapore, in order to understand which environmental factors can promote entrepreneurial universities development and innovative teaching programmes. The study of programmes on entrepreneurship offered by a leading international reality investing in entrepreneurial education, such as Singapore, can set an useful model for countries not well-advanced on this issue. Future researches will aim to investigate environmental factors influencing government authorities to invest on entrepreneurship in order to encourage the entrepreneurial culture enhancement and the creation of new businesses with a better chance to survive in a global market.

Keywords: *Higher education system; entrepreneurial university; entrepreneurship; Italy; Singapore; environmental factors; governments authorities; investments.*

INTRODUCTION

The economic outcome-based concept of the creative destruction (Schumpeter, 1942) considers that an entrepreneur creates value by carrying out new combinations of the existing reality causing discontinuity, under conditions of task-related motivation, skills, expectation of personal gain, supportive environment.

 ISBN: 978-9963-711-37-6

Focusing the analysis on the last condition, this paper aims to investigate the new role that universities are gaining as entrepreneurial entities in support of the surroundings environment.

The main purpose of this study is to describe how universities conceive and implement a new entrepreneurial culture through their curricula.

In recent years, the paradigm of entrepreneurial university has emerged. In this perspective, universities are changing their strategy, their structures and their own culture. New educating ways for universities and learning for students have arose, stimulating the entrepreneurial mindset and actions of both parties to improve the local economic development.

In order to understand the main causes promoting an entrepreneurial education, the analysis means to compare the entrepreneurial curricula activated by Italian public universities and the education on entrepreneurship of Singapore universities, with particular reference to the experiment of Nanyang Technological University (Hampden-Turner, 2009). The end point of the paper is the analysis of differences between Italy and Singapore, in order to understand which environmental factors can promote the entrepreneurial university model and innovative teaching programmes.

The research utilises a multi-method approach (Hair *et al*., 2013), based on a comparative method making use of a narrative style and a content analysis on the Italian and Singaporean entrepreneurial curricula. The variables analysed are the organization of entrepreneurial programmes, the scientific subjects of curricula and the students' assessment. Data are of secondary nature and are collected using databases and consulting websites of each considered university.

The goal of the study is to contribute to the debate arose in Italy and in the international context on the need of university to became more entrepreneurial. Therefore, the research questions are the followings:

Q1- Which environmental factors can promote and enable the entrepreneurial university model?

Q2- Which are the main characteristics an entrepreneurial university and its curricula must have in order to educate the future entrepreneurial class?

The article has the following structure. After the introduction, the second section presents a literature review on the entrepreneurial university model. The third section describes the methodology. The section four is divided in three sub-topics, Italian and Singaporean approaches to entrepreneurship education and the two-way comparison. The section five provides primary conclusions and insights of factors promoting entrepreneurial education.

ISBN: 978-9963-711-37-6

THE ENTREPRENEURIAL UNIVERSITY PARADIGM IN THE CURRENT SCENARIO

Evolutionary trends and complexity of the economic behaviours have been generated a need of innovate the basis of education. Academics and economists (Raines and Leathers, 2003; Geiger, 2004) have understood the potential of market competition to influence the mission of higher education. Universities compete with others to attract funds and students; in this perspective, these institutions have to change structures, curriculum, job-opportunities they offer to comply with the request of the market (Stabile, 2007; Trequattrini *et al*., 2012a; Vrontis *et al*., 2007).

Marshall (1895) believed that the older sophism form of education needed to be supplemented in order to achieve a liberal education, which shapes "the mind to use its best faculties in business and to use business as a means of increasing culture".

In the last years, the thought that academic study of business offers a social function is confirmed and a new trend in higher education role has emerged.

The mission of university classical model has been overcome in favour of the new paradigm of entrepreneurial university (Kuratko, 2005; Mueller, 2006; Fayolle and Redford, 2014).

In the modern knowledge economy (Foray and Lundvall, 1998; Trequattrini *et al*., 2012b), universities have to consider a third mission: supporting the innovation process, the economic growth and the construction of strong relationships between other actors of the economic system, such as Governments and firms.

This new pattern is succeeding for several reasons: an important one is the decrease of public funding to university institutions. According to the triple helix model (Etzkowitz and Leydesdorff, 2000), an academic entrepreneurial approach is needed to transfer and to commercialize knowledge through patents, licensing, academic spin-offs and start-ups, in order to achieve economic and social benefits (Etzkowitz, 2003, Mok, 2015).

The entrepreneurial university activities are based on three main pillars: commercialization of knowledge and institution of spin-offs and start-ups; supply of professional services; creation of entrepreneurial curricula.

With reference to teaching activity, it is possible to consider entrepreneurial university as a natural incubator providing support structures and knowledge for students willing to be entrepreneurs (Etzkowitz, 2003; Guerrero and Urbano, 2012).

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In the economic literature, the entrepreneur is seen as an innovator contributing to the process of creative destruction (Schumpeter, 1942); however, an entrepreneur needs a supportive context. The role of an entrepreneurial university is to create the conditions to develop an entrepreneurial mindset.

Universities need to become entrepreneurial themselves in order to be able to teach students entrepreneurial values and attitude and to focus their curricula in, and not about, entrepreneurship (Markowska, 2011).

An entrepreneur needs to learn different competence and capabilities rather than postulated knowledge. In particular, he requires an interdisciplinary approach to gain value in a dynamic environment (Johanninson, 1991; Haynie and Shepherd, 2009).

Universities with the aim to structure a curriculum in entrepreneurship have to consider three common sources of entrepreneurial knowledge (Aldrich and Martinez, 2007): previous work experience, advice from experts in order to acquire tacit knowledge, and imitation.

However, the acquisition of knowledge and entrepreneurial competence is not sufficient to guarantee students the ability to use them and the belief that they have access to them (Markowska, 2014). It is possible to identify different drivers to improve entrepreneurial behaviour that curricula have to consider, such as development of:

- decision- capacity belief (Lombardi et al., 2014);
- self-identification as an entrepreneur in a social structure;
- direct interactions with role models, particularly alumni entrepreneurs;
- ability to overtake failure and errors and define adaptive goals.

For this reason, the development of an entrepreneurial propensity through classes highlighting pedagogical profiles is relevant (Krueger, 2007). Therefore, curricula on entrepreneurship support a relevant role of entrepreneur in the community (Stryker, 1980).

Finally, the promotion of entrepreneurship is the purpose of European policies, stating that education and training are key drivers to improve innovation and economic growth.

Scientific and practical communities (Clark, 1998; Cooke, 2002; Trequattrini *et al.*, 2014c) agree with the need of an entrepreneurial university for creating new businesses; they have focused studies on positive regional development effects obtained by creating education programmes on this issue (Klofsten and Öberg, 2011).

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However, the previous analysis shows the lack of studies investigating environmental factors that lead governments to invest in the higher education system for developing curricula on entrepreneurship.

Furthermore, teaching entrepreneurship has not yet sufficiently reached an elevate level in higher education institutions, particularly with reference to interactive learning approaches, multidisciplinary collaboration and experience-based teaching models (European Commission, 2008), owing to the lack of a leading model to implement new programmes on entrepreneurship.

METHODOLOGY

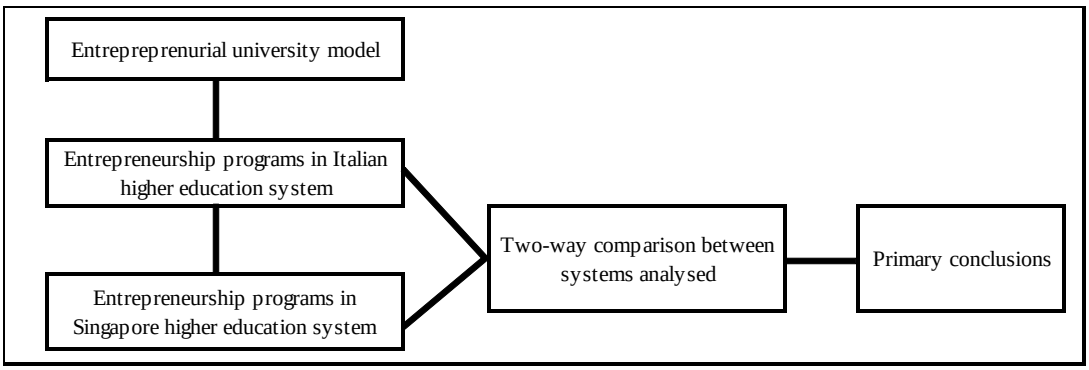
This study presents a qualitative research utilising a multi-method approach (Hair *et al.*,2013), based on a comparative method, making use of a narrative style and a content analysis.

The method consists of a comparison of different systems having similar characteristics, focusing the analysis on specific aspects of remarkable relevance for their effects.

The paper aims to find an explanation of how an innovative way of teaching entrepreneurship to students can affect regional developing systems.

The structure of the research is represented in the following figure (1).

Figure 17 – Framework of the research



After the examination of the emerging paradigm of entrepreneurial university, the study investigates the diffusion of higher education curricula on entrepreneurship in Italy.

Public universities have been analysed with reference to the academic year 2014/2015. Furthermore, the Italian system has been compared with Singaporean one. The assessment of the level of teaching entrepreneurship is based on a two-way comparison, through a content analysis, between the Italian university's approach to entrepreneurship and the Singaporean higher education programmes. The end point of the research is to define differences analysis between Italy and Singapore, in order to

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understand which environmental factors can promote entrepreneurial universities development and innovative teaching programmes.

The variables analysed are: the organization of an entrepreneurial programmes; teaching profiles of curricula; students' assessment; financial profiles. Data are of secondary nature and are collected using databases and consulting websites of each university considered.

FINDINGS AND DISCUSSION

Research findings are based on the following elements: the systematization of the literature; the investigation of Italian higher education approach to entrepreneurship through an analysis of curricula activated by public universities; the study of the Singaporean government and universities involvement in entrepreneurial education programmes; the comparison of the two systems.

The role of entrepreneurship in the Italian higher education system

In the last few years, many reforms have affected the Italian university system and have had an impact on all parties involved in the administration and management of universities. Particularly, the introduction of accrual accounting, made by delegated legislation n. 240/2010, is considered a tool to make Italian universities more entrepreneurial.

In order to investigate if Italian universities are working to became entrepreneurial entities, in a first step, the study aims to identify how many Italian public universities focus an education curriculum on entrepreneurship during the academic year 2014/2015.

The higher education system in Italy consists of 96 universities, dived into 67 public and 29 private institutions. In 2013 (www.anvur.org), public universities welcome the 92% of all students of the higher education system (about 1.75 millions); private universities (of which 11 telematics) register the 8% of students.

From the analysis of the Italian public higher education institutions, slightly less than 12% of them have activated an entrepreneurship programme.

As shown in the next table (1), five universities have offered a master's degree focused on economics and entrepreneurship or entrepreneurship and innovation.

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Table 11 – Entrepreneurial master's degree (Italian public universities)

University	Degree	Curriculum
Free University of Bozen	Master's degree	Entrepreneurship and Innovation
University of Cassino and Southern Lazio	Master's degree	Economics and entrepreneurship (English programme)
University of Isubria/Varese	Master's degree	Global entrepreneurship economics and management (English programme)
University of Molise	Master's degree	Entrepreneurship and Innovation
University of Palermo	Master's degree	Entrepreneurship and quality for the agrifood system

For each curriculum, the followings features have been analysed:

- scientific subject areas;
- mode of delivery;
- teaching language;
- assessment of students;
- relevance given to psycho-pedagogical issues.

With the exception of the University of Palermo skilled in agribusiness entrepreneurship, curricula are generally focused on the relationship between entrepreneurship and innovation or between global economics issues and entrepreneurial approach to them.

Considering scientific subject areas of teaching, great importance is given to Economics of Innovation, Applied Economics, Econometrics of competitive and regulated markets. Quantitative and statistic methods for management are offered with the aim of analysing data coming from markets and future entrepreneurial activity through statistical and mathematical software. Business Administration area, referring to managerial accounting, is not examined in all university programmes. At the same time, the analysis of curricula points out a lack of subjects related to psych-pedagogical classes or laboratories for students.

 ISBN: 978-9963-711-37-6

All curricula include an internship or stage period during the studies, even if laboratories and workshops have to be implemented.

With reference to the mode of delivery, classes are focused mainly in lectures, case discussion and seminars. Only few Universities, such as Insubria-Varese, offer visiting in companies and local areas to understand the regional economics and policy.

Teaching languages are both Italian and English; this demonstrate the need for Italian entrepreneurs to be oriented toward business internationalization.

Students' assessment can be different from each classes because of peculiarity of subjects. On average, written exams with class discussions, individual and group assignments are preferred.

From the analysis of curricula, the Free University of Bozen seems to have implemented a well-focused master's degree programme on entrepreneurship. This programme provides access requirements for students through the assessment of advanced skills in at least two languages, through a motivational letter or video and the submission of a start-up project. Peculiarities of this programme are the specific study of entrepreneurial issues through classes and laboratories for new products development, industrial and sales marketing, corporate finance for growth of small and medium enterprises and venture capital.

Furthermore, as shown in the next table (2), three public universities have activated advanced master's degree for postgraduate students.

Table 2 – Advanced master's degree for postgraduate students (Italian public universities)

University	Degree	Curriculum
Polytechnic of Milan	Postgraduate advanced master's degree	Advanced Master in Innovation and Entrepreneurship
University of "Cà Foscari" Venice	Postgraduate advanced master's degree	MasterLab in Digital Economics and Entrepreneurship
University of Bologna	Postgraduate advanced master's degree	Executive master in entrepreneurship /new business creation

Advanced Masters are specifically designed for students motivated to start their own business and who want to turn a project into a concrete, structured and feasible plan. These Masters are structured through interactions on national and international levels with other business schools. For example, University of Bologna Executive Master offers: three fundamental mandatory courses, which are Administration and Control, Corporate Finance and Strategy; three specialized courses devoted to the

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creation and growth of new businesses, such as Business Plan, How to Create a Start-up and Business Coaching; three optional courses that participants can choose within the educational offer of the programme based on their business's interests. At the end, this programme grants the possibility of a stage period in an International Start-Up School to discuss with other entrepreneurs at a global level.
Also the MasterLab in Digital Economics and Entrepreneurship of the University of Venice is well-focused on give students capabilities related to digital and social media strategies, digital advertising and e-commerce. Very interesting are cross field laboratories to improve awareness of emotional and social skills suitable for entrepreneurial contexts, project management and lean thinking abilities.

Entrepreneurial universities in Singapore

The Republic of Singapore is a modern city-state and represents one of the world's major commercial hubs, the fourth largest financial centre. The globalised and diversified economy of Singapore depends heavily on trade, especially manufacturing, which accounted for around 30% of Singapore's GDP in 2013, that was about 297,9 billion USD.

In the last two decades, many reform measures have been adopted by the Singapore government because of the status of an over dependence on foreign direct investments and multinational companies for technological upgrading. For this reason, Singapore's government has emphasized a higher priority in nurturing local entrepreneurship, particularly start-ups in high-tech areas. The reforms were employed to transform the university system and drive it to engage in the promotion of innovation and entrepreneurship, by encouraging more university-enterprise cooperation.

In this perspective, the comparison study is focused on the analysis of the three main universities in Singapore which have significantly contributed to the advancement of R&D and entrepreneurial activities.
National University of Singapore is a leader in teaching and research activities and aims to become an entrepreneurial university. A university-level cluster, called NUS Enterprise, was formed to achieve this goal through the promotion of entrepreneurial education for youths and adults. There are two programmes for undergraduate and graduate students providing internship opportunities in overseas universities, companies and venture capital firms.
Singapore Management University have developed agencies to promote technology transfer and foster entrepreneurship education and culture within the campus. In 2012, this university launched the Master of Innovation: a new postgraduate degree programme which selected both young graduates and the working professionals employed in private companies. Moreover, the Singapore Management University collaborates with a high number of small and medium enterprises to promote entrepreneurial management and to offer enterprise consulting.

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Nanyang Technological University has conducted a number of collaborative arrangements in teaching and research with different industry partners within or beyond Singapore. Since 2002 it has been started a Technopreneurship and Innovation Programme, that is the fusion of two concepts: high-tech knowledge intensity and entrepreneurship and innovation.

This programme, known as Singapore experiment (Hampden-Turner, 2009), has a non conventional organization. Participants start to spend a week in an Outward Bound exercise, similar to a military training. After this period, the programme moves into the Nanyang University with a tour of the campus, monuments and new products and start-ups launched by previous classes, because the aim is to find in the past inspiration for the future. When students start the classes they are assigned to teams, in order to engage with other class members. They are educated referring to subjects directly functional for their future business.

It is possible to argue that professors utilise new tools to educate students to be more entrepreneurial. They teach encouraging the error and correction system, the concrete operations rather than the abstract thought, the relevance of soft skills, such as emotional and social awareness, to innovate and to persuade investors and customers of a business idea.

The collaboration of Nanyang Technological University with local public institutions also showed the important role of universities in serving the development of the country.

As demonstrated by the Global University Entrepreneurial Spirit Students' Survey 2011, compared to other countries, Singaporean students are more likely to found business in a team rather than as a sole entrepreneur.

In light of the analysis of Singaporean universities programmes on entrepreneurship, it is possible to find a common level of activities provided, as summarized in the table 3.

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Table 3 –Entrepreneurship programmes activities (Singapore's university system)

Lectures and seminars about	Entrepreneurship in general
	Family firms
	Financing entrepreneurial ventures
	Technology entrepreneurship
	Social entrepreneurship
	Entrepreneurial marketing
	Innovation and idea generation
	Business planning
Networking and coaching offerings	Workshops/networking with experienced entrepreneurs
	Contact platforms with potential investors
	Business plan contests / workshops
	Mentoring and coaching programmes for entrepreneurs
	Contact point for entrepreneurial issues
Provision of resources	Technology and research resources (library,web)
	Funding / financial support from University/Polytechnic

By nurturing this group of students through various programmes, it is hoped that entrepreneurial mindset can help to materialize the students' aspirations to be real entrepreneurs in future.

Universities in Singapore have responded more positively in working in entrepreneurial education, especially when they see the mutual benefits of the strong connection built between the university sector and the industry, in terms of patents and revenue generation from participating in knowledge transfer activities.

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A two-way comparison

The pressure for globalization and for becoming knowledge-based economies are particularly intense both in Singaporean and Italian economies. In the face of scarce natural resources, manufacturing sector has dominated the two economies and the need to invest in technological innovation emerged. Considering that standard products gravitate quickly to low cost suppliers in China, in India and in other emerging economies, only innovation can give high wage and make rich economies by temporary monopolies that new products grant.

From the comparative analysis, it is possible to argue that entrepreneurial curricula in Singapore offer a more innovative approach than Italian programmes.

In order to teach entrepreneurial competence, it is needed to adopt interactive learning approaches, multidisciplinary collaborations, psychological trainings, subjects regarding the use of new technologies and social media for marketing and the way to achieve funds.

A framework highlighting the main differences between competences provided by curricula in Italy and Singapore has been exposed in the next table (4).

Table 4 –Comparing Italian and Singaporean programmes

Competence provided by courses	Italy	Singapore
Establish and achieve goals and objectives		X
Generate new ideas		X
Develop new products and services		X
Perform financial analysis	X	X
Reduce risk and uncertainty	X	X
Take calculated risks	X	X
Make decisions under uncertainty and risk		X
Manage time by setting goals		X
Develop soft skills		X
Start a new firm		X

These differences are primarily due to the role of government in defining policies to pursue.

For Singapore government teaching people to be innovative is an issue more urgent than creating innovative products; it invests in higher education system to improve entrepreneurial education, in order to promote new start-ups and also other businesslike situation coming from the interaction between government-universities-firms cooperation. Singapore government has adopted this strategy

ISBN: 978-9963-711-37-6

to deal with the quest of global competitiveness: investing in entrepreneurial education. It identifies for students steps to take to be entrepreneur by offering specific entrepreneurship universities programmes.

The Italian higher system is lied in a context characterized by public spending reviews and research funding decreases; the Government is putting pressure on universities to increase their applied research activity, intensify their interaction with industry and attract funding from external entities. Although exist the awareness of the need to allow universities to be more entrepreneurial, Italian government provides no incentives to universities adopting programs on entrepreneurship.

Italian universities have recognized the relevance to introduce specific activities to improve the cooperation with enterprises and local area entities. In this way, they are starting to offer specific entrepreneurship programmes, without a clear public policy.

PRIMARY CONCLUSIONS

The research aimed to define the new role universities are gaining as entrepreneurial entities in support of the regional economy development.

In the last few years, the interest in investigating the necessary conditions for creating new business has emerged. To comply with the request of global competitiveness, the promotion of innovation and entrepreneurship starts by encouraging more university-enterprise-institution cooperation (Etzkowitz and Leydesdorff, 2000).

Scholars (Cooke *et al*., 2011) agree with the need to foster an entrepreneurial mindset through providing programmes on entrepreneurship in order to contribute to economic growth and regional development. However, which environmental factors can promote entrepreneurial universities development and innovative teaching programmes have not been defined.

Through the comparative analysis between Italian public universities and the Singaporean best practices, the study has highlighted that different environmental factors influenced the way of develop the entrepreneurial university model and programmes on entrepreneurship.

In this perspective, it is possible to argue that an important role is played by government investments through focused policies able to give higher priority in nurturing local entrepreneurs, promote more awareness of successful entrepreneurial role models and remove bureaucratic impediments to start-ups and businesslike activities.

ISBN: 978-9963-711-37-6

This research has defined that universities have to improve entrepreneurial programmes in order to obtain an high degree of reciprocal exchange with the future entrepreneurial class and realize projects and provide services to contribute of local economic development.

To achieve this goal, it is important to offer innovative teaching programmes and incubators providing students new tools to implement and fund an innovative business idea.

Future researches will aim to investigate all cultural, social, economic and legal factors influencing authorities, such as Singaporean government, to invest on entrepreneurship promoting an education enhancement, with the aim to increase the creation of new businesses with a better chance to survive in a global market.

ACKNOWLEDGMENTS

This paper is the joint work of the four authors: the "*methodology*" paragraph is by Raffaele Trequattrini, the "*introduction*" and "*primary conclusions*" paragraphs are by Rosa Lombardi, the "*findings and discussion*" paragraph is by Alessandra Lardo and the "*the entrepreneurial university paradigm in the current scenario*" paragraph is by Benedetta Cuozzo.

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 ISBN: 978-9963-711-37-6

A METHODOLOGICAL APPROACH FOR EVALUATING STATE AIDS TOWARDS SME'S FOR R&D AND ENVIRONMENTAL PROJECTS

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ABSTRACT

The aim of this paper, is to propose the development of an evaluation model about State Aid to SMEs in Greece, regarding funding for the implementation of R&D and environmental protection projects, which are two of the main criteria for granting funding (EU, 2001 and 2006). We argue that the proposed model could stand as a theoretical and empirical approach in public funding evaluation by the policy makers, regional and national authorities and a practical guide for investing by SME's based to their emerging needs. The methodology followed to this research, is based on the Logical Framework Analysis (Logical Framework Analysis - LFA), resulting in the understanding of the gap that exists between strategic planning and reality (design-reality gap). Findings show that general improvements should be included in the design of state aids for R&D and environmental protection projects of the Greek businesses, including two main sets of measures: a) Initiatives regarding the operational framework of aids with the introduction of individual specific measures and b) Reforming the role of the financial system under the context of aids operation, introducing integrated structures and services. Further analysis of measurements has confirmed that initiatives should be enacted in order to improve certain procedures relating to the operation of State Aids additionally. These initiatives are specified in three separate phases regarding the implementation process of aids.

Keywords: *State aids, public funding, SME's, R&D, environmental protection, funding of innovation, evaluation of state aids, Logical Framework Analysis.*

INTRODUCTION

Strengthening of competitiveness, beyond the emphasis on entrepreneurship and innovation, will be built on a model that promotes sustainable development and sustainability, aiming to maximize the benefits for economy, society and the environment (OECD, 2009). Business financing ensures the necessary liquidity, implementation of investment projects, promotion of innovation and

 ISBN: 978-9963-711-37-6

competitiveness in generally (Pisarredes, 1999). Financing opportunities have significantly increased, due to the development of the financial system (Lemmon and Roberts, 2010; IFC, 2009; Leary, 2009) and the establishment of a number of grants programs for business by the European Union. However, relevant researches (IEIR, 2012; 2013, Ardicetal., 2011; Chava and Purnanandam, 2011; Duchinetal., 2010; Allen and Garletti, 2008; Beck et al., 2008) showed that the main obstacles in business funding are bureaucracy, the existing legal framework and economic instability, proposing as improving measures the elimination of bureaucracy, better targeting of programs and actions and the establishment of a transparent system in the way of investments' evaluation and selection for funding.

The aim of this paper is to propose the development of an evaluation model for state aid to SMEs in Greece, regarding funding for the implementation of R&D and environmental protection projects, which are two of the main criteria for granting funding (EU, 2001 and 2006). We argue that the proposed model could stand as a theoretical and empirical approach in public funding evaluation by the policy makers, regional and national authorities and a practical guide for investing by SME's based to their emerging needs.

The research provides an important "structural" information for the nature of investments and financing by the Greek SME's, allowing evaluation of the real added value for society, economy and the environment. As a basis we focus to the mutual benefits that have the funding programs in the areas of R&D and environmental protection.

LITERATURE REVIEW

Generally for state aids

State aids, in accordance with Article 107, p.1 of the Treaty on the Operation of the EU (2012), means any economic advantage to entities that perform economic activity which cumulatively:

- Are granted through state resources, directly or indirectly, in any form,
- Is a favorable treatment only for certain enterprises and industries,
- Affects the inter-linked trade and distorts or threatens to distort competition between EU member states.

Examples mentioned as possible forms of state aids are, grants, tax and insurance exceptions and relieves, guarantees, interest subsidies, state contributions or participation in business capital, debt cut, their conversion into capital share, privatizations with more favorable market conditions, a favorable debt settlement, a favorable estimate by government agencies etc.

ISBN: 978-9963-711-37-6

The European Council conclusions in recent years (European Commission, 2001; 2002; 2004; 2006; 2008), ask for the reduction and orientation of state aids towards horizontal objectives of general interest. As a main state of the conclusions is "less and better aid", while urges member - states to investigate prior approval if the intervention through aid is the most appropriate way to address this problem. It also proposes the development of a system to evaluate individual measures and state aid schemes in order to investigate their impact on competition and effectiveness. In the Action Plan for State Aid (European Commission, 2005), the Commission has announced that "*to help new start for the Lisbon Strategy, the Commission will enhance, where necessary, economic approach to state aid analysis. An economic approach is a mean to better focus and target certain state aids towards the objectives of the new Lisbon Strategy.* "

When assessing whether an aid measure is compatible with the common market, the Commission balances the positive impact of the aid measure to the intended objective of common interest against its potentially negative side effects, by distortion of trade and competition. The evaluation is taken place in three phases before the adoption of the state aid measure. The first two stages assess the positive effects of the state aid and the third, the negative ones, weighting the positive and negative results. The evaluation should answer the following (European Commission, 2001):

1) Is the aid measure focused on a clearly defined objective of common interest? (e.g. growth, employment, cohesion, environment)?

2) Is the aid well designed to deliver the objective of common interest, namely, facing the proposed aid the market failure or other objective? (Is state aid an appropriate measure of act? Does create an incentive, namely does the aid change the behavior of business? Is the aid measure proportional, namely could the same behavioral change be obtained with less aid?)

3) Are the distortions of competition and effects on trade limited, so that the overall balance to be positive?

Greece gradually, following the general policy of the EU in the field of state aids, has reoriented its objectives in the specific field from sectored to horizontal, while reducing the level of total state aids, shifting the emphasis from supporting specific individual enterprises or sectors towards tackling horizontal objectives such as employment, regional development, environment, training and research (Ministry of Finance, 2007). Meanwhile, Greece directs over 95% of aids to manufacturing, to horizontal objectives of Community interest (regional SME's, research and development, employment - training of employees, environment, etc.). This means that it has virtually eliminated sectored aids, which is outside the scope of the European Union.

 ISBN: 978-9963-711-37-6

State aids for R&D

Promoting R&D and innovation, is an important objective of common interest. The Article 163 of the EC Treaty (2012), defines that "*the Community aims to strengthen the scientific and technological bases of Community industry and to encourage the development of its international competitiveness, while promoting research activities deemed necessary* .". The objective through state aids for R&D, pursuant to Regulation (EC) No.364/2004, as amended by (EC) No. 70/2001, is to improve economic efficiency, in order to contribute to sustainable growth and employment. Thus, state aids for R&D will be compatible if they can lead to additional R&D and innovations and if the distortion of competition is not considered contrary to the public interest, which the Commission equates for the purposes of this framework with economic efficiency. The purpose of the framework is to ensure the success of this objective and in particular, to enable member states to target better the aids to the relevant market failures. Note that, this framework applies also to state aids for R&D in the environmental sector, since there are many synergies that can be exploited between innovation for quality and performance and innovation, to optimize the use of energy, waste and security (European Commission, 2006; 2008).

State aids for environmental protection

According to the relevant EU legislation (European Commission, 2002; 2008), environmental protection is an important objective of the European Union policy. The level of environmental protection is not yet sufficiently high and needs to be improved. This is particularly due to the fact that enterprises do not fully bear the cost of pollution caused against society. To address this market failure to provide a higher level of environmental protection, governments may use regulatory tools so that businesses are obliged to pay for the pollution they cause (eg. taking tax measures or through emissions trading schemes), or implement certain environmental standards. In some cases, state aids can be justified as an incentive that will motivate private businesses to invest more for the environmental protection or will relieve some of them from a relatively high financial burden with a view in implementing a more rigorous, comprehensive environmental policy. At the same time, EU environmental guidelines serve as a guarantee that precludes the granting of frivolous or excessive state aids which not only distort competition, but also hinder the achievement of their own environmental objectives. State aids can contribute to individual businesses by the possibility in changing their mode of operation, by applying processes more environmentally friendly or investing in more "green" technologies (European Commission, 2002; 2008). In the Action Plan for state aids, the European Commission (2005), notes that measures should promote sustainable development, irrespective of the correction of market failures. It is also mentioned that, environmental protection can provide opportunities for innovation, create new markets and increase competitiveness through efficiency in the use resources and create new investment opportunities.

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The main objective of state aids control in the field of environmental protection is to ensure, first, that state aids measures will result in a higher level of environmental protection compared to what would have been achieved without the aid and secondly, that the positive effects of the aid will outweigh the negative effects in terms of distortions of competition (European Commission, 2002; 2008).

Aiming to improve level of environmental protection, member states may use state aids to create incentives at the company level in order to achieve a higher level of environmental protection than required by Community standards or in the absence of Community standards, in order to strengthen environmental protection (European Commission, 2008). Member states may also set national standards or impose environmental taxes in higher level than required by community legislation. In this context it is necessary to revise the rules on state aids for environmental protection in order to achieve the objectives set out in the Action Plan for State aids, in particular to ensure better targeted aids, improved economic analysis and more effective procedures. In addition, it should be taken under consideration the progress in environmental policy and in environmental technologies and rules should be adjusted according to previous experience (European Commission, 2005).

Evaluation of State Aids and public funding

Financial support for SME's at the governmental level, plays a crucial role on the improvement of the national competitiveness. Thus it is necessary to set up the right direction of the national policies and corresponding financial support of SMEs. Each of the interim and final evaluations is an essential component of publicly or privately funded programs, for effective management and policy implementation (Rossi et al., 2004; Patton, 1997). Evaluation is a powerful tool for decision makers, only if it is correctly structured, managed, and applied. However, in reality, many agencies struggle to implement evaluation programs (Kasimati, 2002; European Commission, 1997; Vedung, 1997).

Several approaches in developing evaluation methods and models, regarding public funding, have been developed, especially regarding funding towards SME's for R&D activities. Ojanen et al. (2002) tried to promote effective R&D management by utilizing Malcolm Baldrige National Quality Award (MBNQA) criteria at the project level. Berg, Leinonen, Leivo, and Pihlajamaa (2002) created a simple method for assessing the quality of R&D by defining the maturity level of R&D, which represents the success and effectiveness of R&D. Their model assessed how effectively the strategy process of the company supports the R&D and how the objectives of R&D are defined. Many authors have applied Total Quality Management philosophy to R&D management (Bellary & Murthy, 1999; Chatterji & Davidson, 2001; Kiella& Golhar, 1997). Hottenrotta and Lopes-Bento, (2014), used econometric methods for evaluating international R&D collaboration of SME's supported by targeted public funding. Cerulli and Potì (2012), also used econometric evaluation, concluding that future works should go beyond the use of single methods, especially when they are thought of to steer future policymaking. The existing

 ISBN: 978-9963-711-37-6

approaches, however, have a simple structure and do not consider the hierarchical relationship among various factors affecting the performance of R&D projects.

Another part of the literature has assessed the effectiveness of various financial assistance schemes by taking different output measures into account, including the impact on technology use (Wallsten, 2000), productivity and efficiency (Bergstrϕm,2000), survival probabilities (Jarmin, 1999) and employment performance(Girma et al., 2003). As noted by Girma et al. (2003), the evidence is mixed. Subsidies are often ineffective and costly due to crowding out effects and since government involvement may be distorted by the desire of interest groups or politicians to maximize their own utility (IMF, 1995). Dai and Cheng (2015), investigate how the effect of public subsidies on corporate R&D investment varies if firms get different levels of public subsidies. They employ the generalized propensity score method, which allows for a continuous treatment. Thus, they were able to analyze the non-linear relationship between a firm's R&D investment and public subsidies, in order to identify the optimal level of public subsidies.

According to a European Commission study (Technopolis & MIOIR, 2012), regarding the state of the art of methodological practices for the evaluation of innovation support, analyzing 15 evaluations of different types of ERDF co-funded measures, when the new generation of programs for 2014-2020 is being developed, proposes several evaluation methods. Some of these are: Social Network Analysis, benchmarking, monitoring data on R&D expenditure and outputs, surveys, analysis of learning and networking dynamics at a project and broader system level (interviews, case studies, etc.), bibliometric techniques, counterfactual analysis based on survey of beneficiaries and non-beneficiaries and case studies. Regarding funding towards SME's for innovation activities specifically, the study proposes use of structural business statistics, bespoke surveys of beneficiaries to allow for a counter-factual analysis and case study methods. Regarding Greece, Trigkas et al. (2012), applied a DEA method in order to evaluate the efficiency of innovation activities in a specific economic sector.

In our research, we apply Logical Framework Analysis (L.F.A.), focusing on R&D and environmental protection projects by SME's. A log frame (also known as a Project Framework) is a tool for planning and managing development projects (AusAID, 2000; CIDA, 1997; Akroyd, 1995a; 1995b). It looks like a table (or framework) and aims to present information about the key components of a project in a clear, concise, logical and systematic way. LFA can be a useful tool, both in the planning, monitoring and evaluation management of development projects. It is not the only planning tool, and should not be considered an end in itself, but using it encourages the discipline of clear and specific thinking about what the project aims to do and how, and highlighting those aspects upon which success depends (NORAD, 1988; Nichols, 1999; AusAID, 2000). LFA has been widely used regarding evaluation of co-

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funded projects in Greece. However, the methodology has been adopted in order to produce a top-down evaluation approach, by the national management authorities.

RESEARCH METHOD

The methodology followed to this research, is based on the Logical Framework Analysis (Logical Framework Analysis - LFA), resulting in the understanding of the gap that exists between strategic planning and reality (design-reality gap) (AusAID 2005, NORAD 1999). A funding program bases on input regarding available resources, implementation of actions and results. Its success depends to a large extent of external hypothesis that can lead to the failure of the program, despite the fact that it was implemented as planned. LFA, gives the possibility of evaluating programs based on, quantitative data (indicators) encountered by SME's (target group) and refer to the ratio of inputs / outputs (efficiency), achieving the program objectives and strategic planning (effectiveness) and the impact of the intervention on its direct beneficiaries (impact).

Our research follows a bottom – up approach, based on the collection of primary data from SME's themselves, in conjunction with the review of the procedures and particularities of the specific state aids and especially public funding, from the relevant sources. For this purpose a specially structured questionnaire was developed (Norussis, 2007), in electronic form using the Google forms application. The questionnaire was sent via email to enterprises of the Greek processing industries, trade, primary sector, energy production, constructions, transports, storage and financial services. A total of 36 completed questionnaires were collected, number able enough to draw conclusions considering the nature of research and the high level of technical knowledge that is required.

Especially in the context of this research, the following specific discrete implementation steps of Logical Framework Analysis, were developed, as shown in the next Table 1.

ANALYSIS PHASE	**PLANNING PHASE**
Target group Analysis	Create Logical Framework Matrix
Problem Analysis	Project Action Planning
Goals Analysis	Programming Resources / Costing
Strategy Analysis	

Table1: The Logical Framework Analysis steps

Target group Analysis

Greek SME's surveyed were included in that category. This interpretation starts from emerging business needs. According to the specific analysis results were initially evaluated and redefined needs, namely business and socio-economic requirements, in which the funding projects for R&D and

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environmental protection and their interventions, should meet. The analysis included SWOT analysis, regarding the utilization and development of state aids for R&D and environmental protection projects. The survey also used spider diagrams that help analyze and provide a visual summary of the capacity of stakeholders at institutional level (institutional capacity). For this purpose cluster analysis, based to K-means clusters, was chosen. Cluster analysis classifies the observations recorded in questionnaires to mutually excluded groups based on combinations of individual variables, in order to set a discriminant system regarding survey results in several groups, whose members show common attributes (Norussis, 2007; Siomkos and Vasillikopoulou, 2005). The aim was identify the individual problems – goals that public funding should achieve for R&D and environmental protection projects, respectively, according to the businesses themselves. Our analysis was developed in two stages: 1) regarding main problems affecting the operation of state aids and 2) the strategic objectives that SME's are aiming to, using state aids in relation to the proposal of relative improvement initiatives under the context of applying with specific measures. Thus we were able to develop a Problem Tree regarding public funding, based on an evaluation procedure.

Problem Analysis

The problem analysis applied in this research, recognizes the negative aspects of the current situation with respect to the use of subsidies by surveyed SME's, regarding funding for R&D and environmental protection projects, and establish "cause and effect" relations between the existing problems.

Goals Analysis

In this context, the evaluation of the objectives was performed at various levels (objectives, sub-objectives) in the form of a hierarchical structure, which shows the logical links between the objectives and corresponding sub-objectives. The hierarchy of objectives describes synthetically the various logics of aids that link individual actions to the general objectives of each aid, resulting in transforming the negative situation into solutions. Further, this phase is presenting a summary picture of the desired future state, based on a field of clearly recognized and hierarchically ranked problems. This hierarchy was made by the surveyed SME's according to their responses.

Strategy Analysis

Strategy analysis is consisted of parts of objectives analysis, which were included in the model and finally from the choice of suitable strategy in achieving these aims, that was used for the completion of the first column of the Logical Framework Matrix. Emphasis was given to the expected contribution to key policy objectives of aids for R&D and environmental protection projects, the benefits for target groups, namely business and society and the complementary to several other existing programs and relative aid projects.

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Planning Phase

In this phase the logical framework matrix was designed, which is a review of the model based on the results of the previous phase analysis. For the evaluation of R&D and environmental protection projects, but also for the planning of the resources required to implement them, a system of indicators was developed that notably takes into account inputs, namely the financial and / or administrative resources on which the outputs of program activities depend, in the effort of pursuing operational targets. Specific indicators were used as assessment tools at each level (outputs, results and impacts), for the evaluation of the achievement range of objectives as they were planned in the funding programs.

For the purposes of assessing aids for R&D and environmental protection projects in the period 2007-2013, a distinction was made between the following types of indicators: a) Input indicators b) Output Indicators c) Result indicators d) Impact indicators

Finally, the verification sources used come from all available forms and sources of information regarding their response in relation to the individual indicators such as relevant national and European sectoral policy, guidelines regarding state aid in specific sectors, national strategic financing policy in the specific fields, specificities of individual financial tools and funding agencies regarding the way they operate, etc. In this research, the indicators that were used and included in the questionnaire come from all the above sources of verification.

RESULTS

Initially, it should be pointed out that, for practical reasons related to better presentation of the results in this work, a summary of the main findings of the research was provided, based on the methodology used. The results are specified and detailed in Table 2 and Figure 5 on the Logical Framework Matrix developed and the final proposed evaluation model.

Analysis phase

The first set of results concerns the analysis of individual problems listed regarding the operation of state aids, both at firms' level and more widely. The cluster analysis and K-means, highlighted as more important three categories of aids' problems for R&D and environmental protection projects that are based in general and the particular business environment. The main problems were classified according to the following categories: a) Bureaucracy – Institutional problems b) Economic - political environment problems c) Business environment problems.

Based on the results obtained, we can argue that the removal of bureaucracy and improving - simplification of the institutional framework and legislation governing state aids, have been ranked as of great importance (1 = great importance, 5 = not at all), with respect to the assessment provided by the surveyed enterprises. The lack of transparency, corruption, political and economic instability achieve the

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highest score by SME's and can form the second main group of problems related to the overall political and economic environment. Finally, the group of firms that faces problems related to state aids are also distinguished, in terms of the business environment, as they mainly correlate problems with the operation of the banking system (1.11) and the requirements that aid programs presuppose of the business itself (1.22). These three categories are the main problems affecting the operation of state aid and should be the relative improvement initiatives under the context of introducing specific improvement measures.

Specifying further these measures, the analysis of additional problems that should be addressed was done, by assessing further the individual measures that could be taken into account regarding the operation of state aids. These measures, are indeed already implemented but there is no relative evaluation, which is very important as it is a key point of this research. Hence, it is proposed that the general improvements which could be included in the design of state aids for R&D and environmental protection projects of the Greek enterprises to include two main sets of measures:

Measures for the technical operation of state aids and more specifically

- Removal of bureaucracy in the way of submission and implementation proposals
- Expansion of business expenditures covered by the aids
- Expansion of entrepreneurial activities eligibility for funding based on true business activities
- Better targeting of actions and programs launched based to the SME's emerging needs
- Provision of bonuses for newly established and consistent businesses
- More frequent possibility of investments' planning submission for funding

Measures for reforming the role of the financial system with integration of structures and services such as

- Establishment of funding/managerial agencies other than banks and the banking system
- Establishment of a control system regarding evaluation and banking credits awarding for businesses' investments
- Development of tailor made funding from the banks (with specific terms) regarding the specific projects
- Creation of one-stop shop services in business funding issues
- Development of a transparency system regarding evaluation, integration and investments' control

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• Improving capital leverage of national and EU funds

Elaborating further the analysis in relation to the particular measures that have to be taken in order to improve the functioning of aids, according to the evaluation provided by the surveyed enterprises, results highlighted three categories of measures concerning the bureaucratic operation of state aids programs. These categories cover all their operation stages and more specifically, the preparation and publication of a contract notice, the submission of investments' business plans, the process of evaluation and selection for funding of projects, the control and certification of investments and finally the payment process of funding.

The analysis of the strategic objectives that SME's achieve through public funding programs follows, using cluster analysis and the related spider diagram. The objectives were grouped into six main pillars, based on the objectives of the related operational programs along with the implementing policies for the strengthening of R&D and environmental protection. These pillars include:

1. **Development of innovations: (**Improving the quality of products and services, upgrading the internal organization of business, acquisition of knowhow and sophisticated technology at a lower cost).
2. **Reduction of costs - strengthening competitiveness: (**Reduction of production and services costs, creation of a friendly and flexible internal business environment, adaptation to market changes and response to the economic crisis, access to adequate liquidity
3. **Enhancement of extroversion: (**Stimulate extroversion, based on real competitive advantages of enterprises, development of partnerships and collaborations/networks, maintenance and increment of the market share of the firms, achievement of a greater number of public contracts based on purely environmental targeting, creation of a strong company image and strengthening of Corporate Social Responsibility).
4. **Environmental protection: (**Saving energy and improving energy efficiency by penetration of renewable energy sources into the energy balance mix of the enterprises, rational management of resources and integration of environmental commitments and requirements regarding health and safety of employees and customers, design and production of new, ecological oriented products, with respect to the environment, simpler and cleaner production methods)
5. **Creation of employment – Investments: (**Expansion of the production scale through investments in contemporary machinery and equipment, improving investments in human capital through education and lifelong learning).

The results are presented below in the respective spider diagram.

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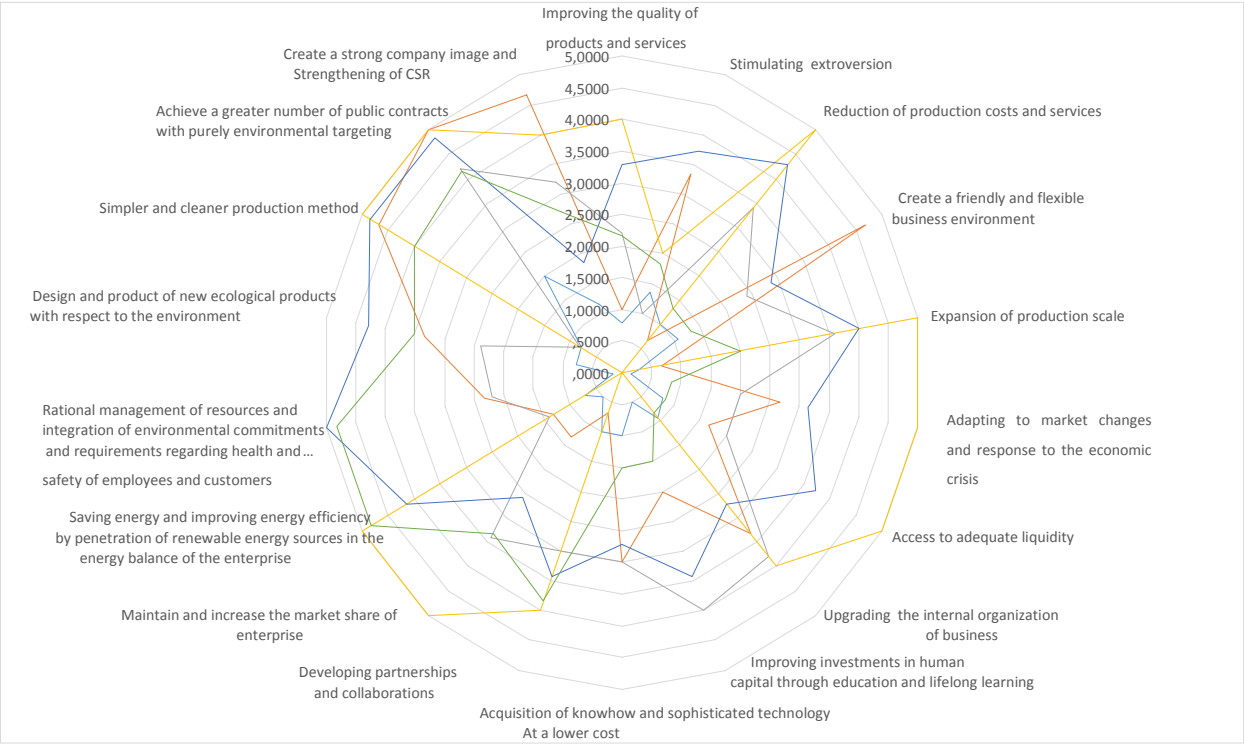

Figure 1: Spider diagram categorization of aid objectives for R&D and environmental protection and their achievement range by public funding according to the surveyed enterprises

Basically the above categorization of aims that must be achieved by public funding for R&D and environmental protection projects towards the Greek enterprises, together with the measures for improving the way they operate, constitute the tree of the problem regarding the improvement of funding. This derives from the simultaneous ranking of objectives and measures, by the surveyed enterprises. Hence, this assessment should be taken into account during the configuration of public funding programs, in order to improve their operation and improve their effectiveness. In this way, we manage to keep the analysis of possible funding aims at a constant base of a field of clearly recognized priority problems.

Planning phase

The completion of the first column of the Logical Framework Matrix, as mentioned, is based on the above strategy analysis according to the goals that were set and the categorization of individual measures that should be taken, relating to funding programs operation. The column of hypothesis used, bases on a SWOT analysis and more specifically on the weaknesses and threats that were identified and the opportunities that exist and can compensate for any problems. Hence, we can distinguish the following categories of hypothesis:

• Weakness of funding to help acquire knowledge about how to boost innovation and environmental protection by the firms.

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• Weakness of funding programs to promote environmental protection projects by Greek enterprises.

• Weakness of public funding with respect to their targeting in promoting a central common strategic choice for Greek enterprises for developing innovations and projects for environmental protection.

• Weakness of public funding derived from the operation of the financial system and the economic crisis.

• Weakness of public funding regarding their institutional operating framework and the political environment

The determination of the indicators that were used in the matrix is presented following. These indicators are based on the results of the analysis of the questionnaires used in this research. Thus, according to these results, the following indicators are distinguished:

• Input indicators: These indicators refer to the available resources at each level of support that public funding offer to the firms (administrative, institutional, business, etc.).

• Output indicators: These indicators measure the activities performed by firms, directly under the context of public funding programs for R&D and environmental protection projects. The activities are the first step towards realizing the operational objectives regarding the intervention of public funding programs.

• Result indicators: These measure the direct and indirect effects of each intervention. Provide information for changes, for example, in the behavior, capacity or performance of direct beneficiaries and are measured in physical or monetary units.

• Impact indicators: These refer to the benefits of an operational program, both in their specific intervention level and its general thematic fields.

Findings also show that, the majority of enterprises (25%), invested up to 100.000 € in R&D and environmental protection projects, with enterprises investing an amount ranging from 300.000 - 500.000 € to follow at a percentage of 17%. Relative percentages (11% and 14%) also concern, enterprises who state that their investments in these projects were among 100.000 - 300.000 € and those who have not made any investment, respectively. At lower rates, of 8% respectively, are business sectors that were surveyed showing larger amounts of investment of more than 500.000 € and 1.000.000 €.

Elaborating further our analysis regarding the inputs used in the form of funding, it is observed that the majority of enterprises in the sectors' surveyed (77.4%), directed their funding towards experimental development projects, with applied research projects to follow (59.3%). Showing a significantly lower percentage (11.1%), follow enterprises that moved towards investments related to basic research. Especially for projects related to environmental protection, of the total expenditures amount, a 19.04% was invested by enterprises towards this direction, which corresponds to approximately 119.000 € on average. In relation to the allocation by source of funding, the 61.17% of the amounts provided by the

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NSRF and the investment law and the 36.26% of European sources. Finally, about the 40% of enterprises received funding via NSRF and the Greek investment law and only a 6% from European sources directly. This fact leads us to the conclusion that a relatively small proportion of enterprises fostered by European sources were able to achieve a significant amount of funding. This is because the European funding programs are usually managing larger budgets. Hence, we can argue that Greek enterprises need smaller and more flexible European funding, according to their emerging needs, constituting a way to confront with competition from bigger European companies.

According to the answers given regarding the type of concrete results that businesses have achieved with the use of public funding for R&D and environmental protection projects, the majority stated that this led to the improved products and processes (44%), establishment of quality control systems and certifications (ISO, ECO labeling, CE etc.) in a percentage of 33%, collaboration with Universities and Research centers in Greece and abroad (31%), with finding new markets in Greece and internationally and with participation in actions for acquiring knowhow and training of personnel to follow with a rate of 22% of businesses respectively. A little lower in the ranking stand the employment growth, under the context of jobs creation and the protection of intellectual property rights (patents, etc.), with rates of 14% and 11% respectively. Regarding the further quantification of outputs, an effort was made to record the number of individual concrete results that businesses achieved.

There is a great importance within the results in the next category of questions relating to the evaluation of individual funding programs in relation to the type of the aids, their contribution to the achievement of businesses' objectives, the programs' overall implementation process, problems they present and the improvement proposals from the surveyed enterprises themselves. Based on the results, surveyed enterprises consider that the aid received during the period 2007 - 2013, contributed almost positive to the majority of their business objectives. Particularly, much of this positive effect was translated into their capability to adapt to market changes and overcoming the economic crisis (1.44), have access to the necessary liquidity (1.72), the improvement of quality of products and services (1.81), the acquisition of knowhow and sophisticated technology at a lower cost and improvement of investments in human capital through education and lifelong training (1.83 respectively), to create a friendly and flexible internal business environment and expand the scale of production through investments in machinery and other equipment (1.92 respectively), upgrading the internal organization of the enterprise (1.94) and maintain and increase the market share of the enterprise (1.97). In this evaluation also, targets that have some relation to environmental protection are lower in the ranking, but in general we can see that they were assessed for their achievement with a relatively satisfactory rating. It is characteristic that, quite positively were evaluated the achievement of saving energy and improving energy efficiency by penetration of renewable energy sources in the energy balance mix of the firms, the rational

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management of resources and integration of environmental commitments and requirements regarding health and safety of employees and customers and the design and production of new products with ecological orientation (score 2.33, respectively). Finally, it is considered as really important the achievement of reduction of production costs of products and provided services, which contributes essentially to increase competitiveness.

In conclusion, we could argue that public funding impacts positively on achieving business objectives in almost all categories that business themselves pose and each individual program sets, as they are designed, such as:

- Ensuring liquidity and tackling the economic crisis
- Developing innovations in products and services
- Strengthening competitiveness
- Networking and stimulating extroversion
- Environmental protection

This fact can be considered as of exceptional significance, since it concerns the substance of the evaluation based on the design of public funding and the research itself; the transition from an actual to a desired situation, based on the design of funding and the results that finally achieved.

The following results refer to the main problems that surveyed enterprises consider that exist about the operation of the funding programs, through the relevant aids for their R&D and environmental protection projects in the period 2007-2013. These obstacles are divided into two main categories:

- The first category concerns obstacles to the operation of the funding programs in their own in relation to general business, economic, political environment.
- The second category concerns obstacles related to the operation of business themselves and their specific business environment.

According to the next Figure 2, the bureaucracy remains the main problem (87.5% of enterprises) faced by surveyed enterprises in terms of the utilization of the funds provided in the form of state aid. Moreover, especially in the context of the economic crisis experienced by our country, the operation of the banking system follows with a significant percentage of respondents (65.6%), with the requirements of the enterprises themselves and the operating framework and the relevant legislation to follow with rates of 62.5% and 59.4% respectively. These two factors can be said, that are also associated with the bureaucracy required by the relative programs and financial tools. Corruption, political and economic instability and transparency in the way of integration namely, are factors which are related to the

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broader political and economic situation that our country is experiencing throughout the recent years of crisis, following with rates of 43.8% and 34.4%. Finally, a characteristic is that the lack of information organizations regarding funding is second before last in the relative ranking with 34.4%, which is quite different compared with earlier similar surveys (Trigkas et al., 2014, 2012), which have putted it in the first place of the relevant indicators.

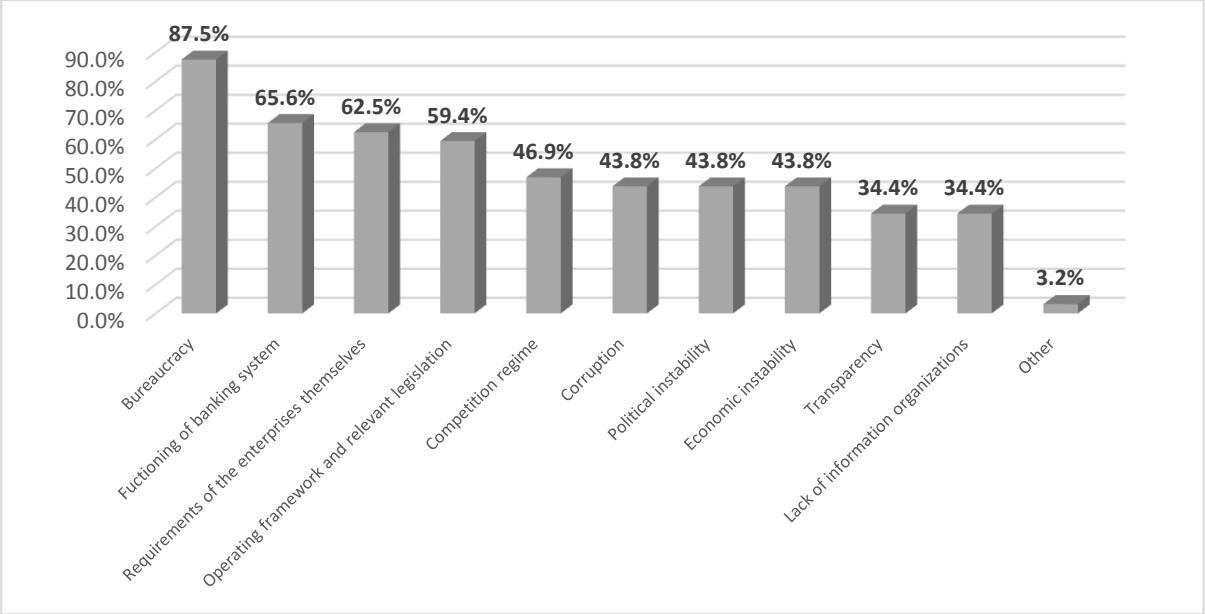

Figure 2: Main obstacles to the operation of state aid for R&D and environmental protection projects in period 2007 - 2013

Evidently, the obstacles are not only related to the operation and structure of funding programs only and the wider business and political and economic environment, but also with the firms themselves and their specific business environment. According to the results of the next Figure 3, the two most important obstacles regarding this matter is the lack of liquidity and specialized staff with 70% of responses for both of them. These results were more or less expected, especially in the context of the economic suffocation that Greek businesses experience nowadays. Many of the available types of funding require a high own contribution of capitals as a part of the total budget of the planned investments, which is very difficult for enterprises, if not impossible, to meet. Obviously, this is combined with the lack of liquidity and under active banking system of Greece in time of crisis, which in turn cannot provide the liquidity required.

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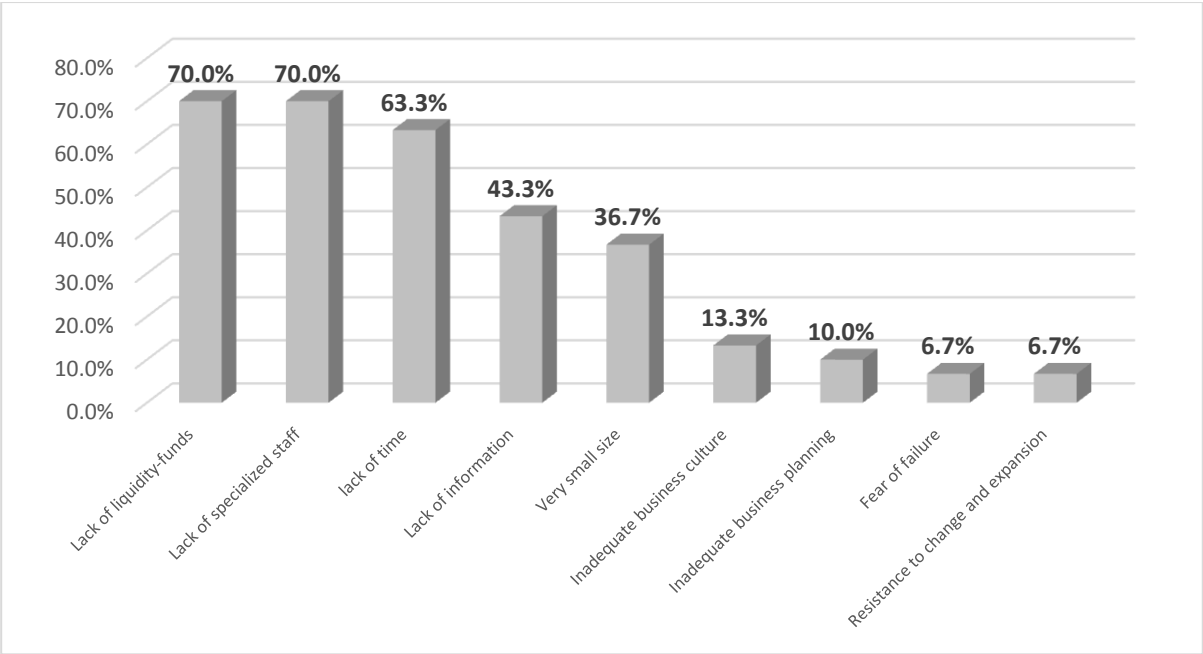

Figure 3: Main obstacles regarding the operation of enterprises in utilizing public funding programs for R&D and environmental protection projects during 2007 - 2013

According to all the above mentioned results, the Logical Framework Matrix for assessing public funding for R&D and environmental protection projects is the following:

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Project Description	Indicators	Vertification sources	Hypothesis
General Target: Achieving the aid objective and trouble shooting	Improving efficiency of projects Improving effectiveness of projects Evaluation of impact and results	Guidelines on State aid towards the SMEs Guidelines on State aid for R&D Guidelines on State aid for environmental protection projects European and National Policy	
Purpose: Developing innovations, environmental protection, extraversion, competiveness enhancement, employment creation, improving the institutional framework of aid and improving business environment	• Total amount of the budget was invested in R&D and Environmental protection projects Basic Research Applied Research Experimental Development Current Expenditure Capital Expenditure • Percentage of the budget which constituted state aid • Total expenditure for any environmental protection projects • Allocation by source of financing costs R&D and environmental protection projects • Type of innovation resulting from any R%D which developed • Environmental protection sector	Objectives of the NSRF and the individual Operational Programs based on the priority Axes Objectives of individual legislation strengthening Greek enterprises (investment law, etc.) Objectives of individual financial tools and funding agencies	• Weakness of aid to help acquire knowledge about how to boost innovation and environmental protection • Weakness of aid to promote environmental protection projects • Weakness of aid with respect to target to promote a central common strategic choice for Greek businesses to develop innovations and projects for environmental protection • Weakness of aid for the operation of the financial system and the economic crisis • Weakness of aid regarding their institutional operating frame of work and the policy environment
Results: • Better targeting of actions launched • More frequent possibility of investment requests • Provide <<bonus>> for newly established and consistent businesses • Removal of bureaucracy in the submission and implementation • Expansion of eligibility based on business activities • Expansion of enhanced expenditure • Create funding agencies / management other than banks	• Improve existing products / processes • Registration of Intellectual Property Rights • Finding new markets abroad • Finding new domestic markets • Partnerships with abroad and domestic Universities / Research Centers • Participation in actions for	• Studies, manuals and relevant research results according to R&D and environmental protection • The regular collection of data from evaluation researches should be made periodically • Copyright bases	**Business ability to implement environmental protection projects** • Sufficient amount of investments for environmental protection projects as a percentage of investments • Actions and innovations that aim to environmental protection, are positive evaluation criterion • Existence of relevant legislative framework and European directives for the integration of

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• Establishment of control in how to evaluate and award credit banks in investments • Establishment of special funding from the banks (with specific terms) for specific projects • Create one-stop shop services in business financing issues	acquiring knowledge / staff training • Installation of quality assurance systems / certifications • Establishment of new enterprises (spin offs)/ Development or and expansion activity • Increasing employment / job creation • Development / implementation / participation in environmental protection actions • Development / implementation / participation in ICT actions.		environmental protection in the business model. • Increasing ICT integration level in the functioning of aid **Potential innovation development** • Develop innovative culture • Ability for experimental development • Targeting of aid to capacity building and resources for strengthening the innovation system • Positive contribution of aid to business objectives • A significant number of dynamic enterprises in the development stage
Actions: Improving the quality of products and services – Upgrading the internal organization of the business – Acquisition of expertise at a lower cost and specialized technology – Reduction of production cost – Create friendly and flexible internalizing environment - Adapting to market changes and overcoming the economic crisis - Ensuring adequate liquidity – Stimulate extraversion based on competitive advantages- Develop partnerships and collaborations – Maintain and increase market share – Achieve a greater number of Public contracts with purely environmental targeting – Create a strong image and strengthening of Corporate Social Responsibility – Saving energy and improving energy efficiency by penetration of renewable energy sources in the energy balance – Rational management of resources and integration of environmental commitments and requirements regarding health and safety – Design and production of new projects ecological oriented – More simple and clean production method – Expansion of the scale of the production through investment in machinery and equipment – Improving of investments in human capital through education and continuing training		Differentiated by the subject of aid	**Full exploitation of the amounts of aid** • Ability to use European funds • Contribution of the NSRF and the investment law • Contribution of aid directly from the European structures • High percentage of aid from the European projects • Need of the financial system for developing new products and expanding its projects **Overcoming the economic crisis** • Specific measurable results from aids • Desire of business to develop an award scheme • Possibility to improve business taxation • Involvement of qualified staff in the evaluation • Ability of resubmission plans • Change the recovery of undue expenditure • Certification of costs based on actual progress of projects • Improving the scheduling of invitations

Table 2: Logical Framework Analysis Matrix regarding public funding for R&D and environmental projects in Greek SME's

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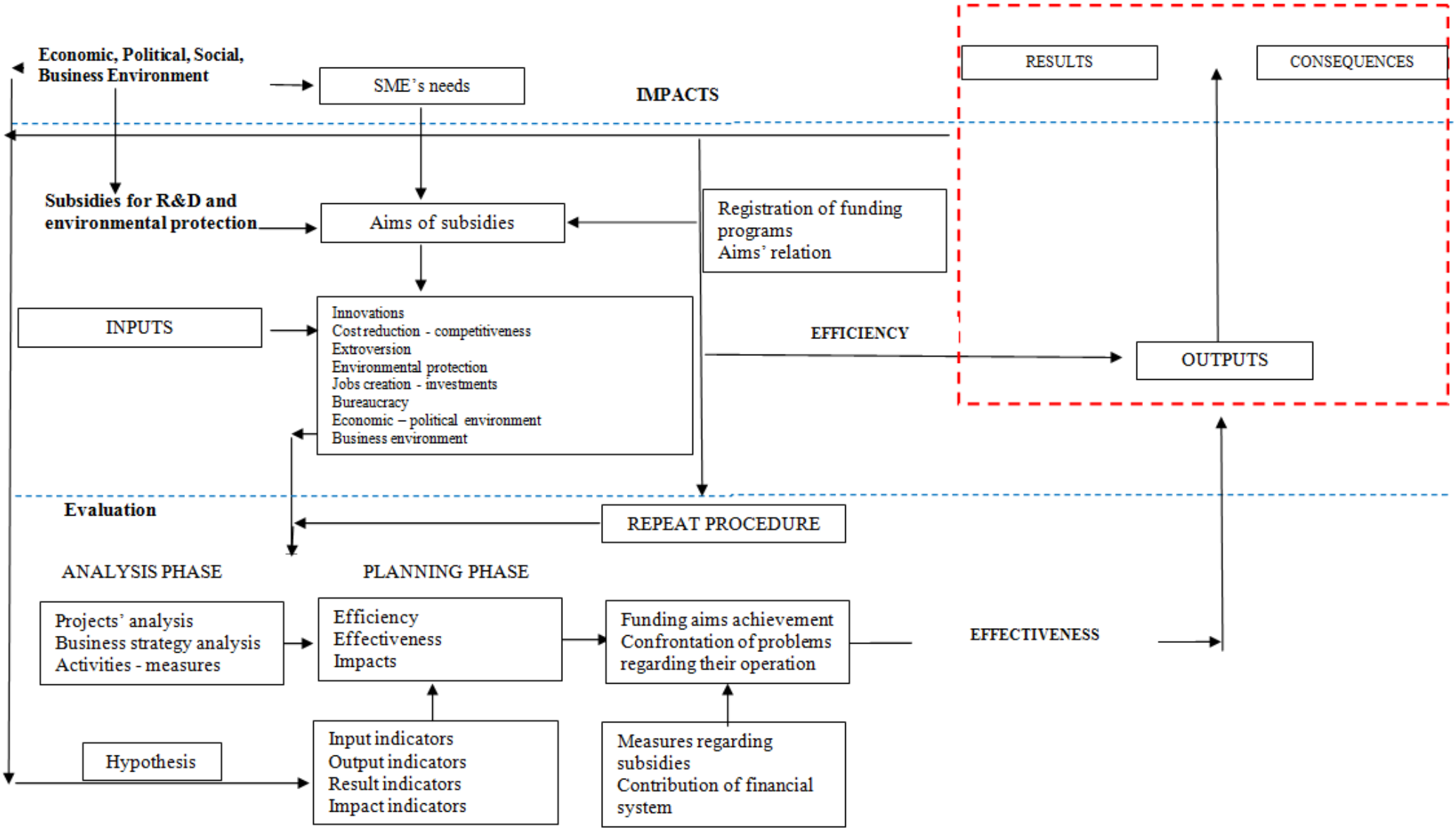

Figure 4: Proposed state aid assessment model for R&D and environmental protection projects

in a Dynamic Environment

DISCUSSION - CONCLUSIONS

Organized and targeted policies towards supporting SMEs should be set up in Greece, regarding their facilitation to funding access. These policies should address the contribution of funding in the form of state aids in truly achieving the objective or objectives that are aiming to. Especially in these times of economic downturn, the effectiveness of aids, is of extreme importance for Greek economy and market in order to grow. Awareness, information and integration of environmental protection in the business model of Greek SMEs, should be a priority for all the involved parts, and especially for the business themselves, as it is a crucial condition for access to public funding and support. Activities for environmental protection lie at the heart of European's funding policy; constituting fields towards investments of Greek SME's should be targeted in the years to come.

Our paper not only contributes to the existing literature by providing a different lens through which the heterogeneous effect of public subsidies can be analyzed, but also sheds light on how public subsidies can be optimized, based to a bottom up approach, according to SME's needs and business planning, taking under consideration strategic planning of different projects.

This research proposes an integrated evaluation model based on the Logical Framework Analysis methodology. The proposed methodology follows a bottom up approach, contrary to the assessments applied for state aids in general till now, which were based to a top – down approach. Furthermore, the research introduces an alternative in evaluating R&D and environmental protection projects, expanding the existing literature regarding the evaluation of state aids, providing also valuable information regarding the structure of R&D and environmental investments of SME's, under the context of enhancing their competitiveness in a recession environment. The developed logical framework matrix provides a summary of the crucial parts concerning State aids for R&D and environmental protection projects in a first-standardized shape. The use of the LFA matrix identifies the main problems relating to state aids, the objectives that should be achieved on the basis of business needs, the proposed measures and existing restrictions in achieving these objectives. It is actually considered as very important the categorization of performance, the effectiveness and impact indicators regarding the use of aids, since the relative know how exists in developing and measuring them. However there is still significant work that could be done for improving this procedure.

Furthermore, the developed model, provides a basis on which the relevant projects could be planned and prepared, stating clearly the expected objectives and levels of responsibility and accountability at central, regional policy making and business operating level. It also provides the basis on which more detailed operational business plans could be developed and the basis for the implementation of more detailed monitoring and evaluation procedures from the national and regional management

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organizations, as long as the basis for the establishment of an operational risk management plan, regarding state aids in the specific sectors.

The analysis of the specific problems listed with respect to the operation of state aids, both at business and policy level, concerns the problems of bureaucracy and the existing institutional framework for state aids for R&D and environmental protection projects, with respect to the general and the specific business environment. The proposal is that general improvements should be included in the design of state aids for R&D and environmental protection projects of the Greek businesses, including two main sets of measures:

- Initiatives regarding the operational framework of aids with the introduction of individual specific measures
- Reforming the role of the financial system under the context of aids operation, introducing integrated structures and services.

The further specialization of measurements evidenced that initiatives should be taken in order to improve certain procedures relating to the operation of State Aids additionally. These initiatives are specified in three separate phases regarding the implementation process of aids and are relating to:

- Procedures regarding the publication of a contract notice, the submission and management of investment projects.
- The evaluation process and integration of selected projects for funding and
- Assessment - accreditation of investments procedures along with the disbursement of funding.

Our research also highlights several other aspects, regarding the overall operation of the Greek business environment. The innovation system directs any inputs in basic infrastructures and research sources, not being able yet to use the opportunities provided through networking and implementing of open innovation models, strengthening business innovation capabilities based on knowledge (knowledge-intensive entrepreneurship). These latter fields should be the main target of the funding programs and aids for the next programming period, since they constitute a key weakness of the Greek innovation system, being also the main objectives in developing a targeted research policy at European level and nationally.

As basic interventions to improve aids were highlighted the necessary support and expansion of the financial support that they provide, the increase in available resources and the restructuring of existing weaknesses in order to be made more friendly and effective tools in the hands of SMEs, standing also as the main pillars for economic development and growth. The required bureaucratic procedures should be reduced by simplifying the requirements from the enterprises in combination with the simplification of the related institutional framework. This could therefore be achieved by introducing changes in the way that contract notices are issued, the investment's inclusion criteria, the evaluation procedures, the

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implementation of investment projects and finally the accreditation of investments and the reimbursement of funding. The above idea is necessary to be complemented by appropriate support structures and services that will contribute towards this direction. It should be emphasized that any reorganization that could be done, should be made in such form that it can relatively easily adopted by the Greek businessman, responding by his own to any requirements quickly and efficiently, without the risk of abandonment of investments, precisely because of these obstacles. The introduction and implementation of Integrated Information Systems throughout the whole operation framework of state aids, is a positive step towards this direction, but it must be combined with effective reduction of bureaucracy.

IMPLICATIONS - LIMITATIONS

The methodology, which was applied, and the developed model, constitute a decision-making tool at different levels and can be applied and used in individual projects and processes, at operational and central level. The model could contribute toward the continuous efforts that should exist, for a real evaluation of the aids based on the needs of businesses, which may be repeated at regular intervals, constituting a dynamic proposal to improve financing to businesses in generally. However, the model presents several limitations that should be addressed through further development of the methodology and improvement of its reliability, mainly taking under consideration all the existing external factors and hypothesis and regarding the development of specific indicators.

Obviously, as previously mentioned, this strategy framework should be also examined under various cost-benefit criteria and be considered in depth in terms of technical feasibility. However, this analysis is beyond the scope of this research, as this approach requires additional investigation and large requirements of financial resources and information sources.

Finally, there should be a further analysis and specification of the model, according the several sectors of economic activity of enterprises. In this way, the proposed model could be used as a basis for sectoral operational strategy and targeted funding at sectoral, regional and local level, contributing to the development of specialized financial tools and products of the financial sector.

ACKNOWLEDGMENTS

The present research was funded by the Research Committee of the Aristotle University of Thessaloniki, in the context of the Excellence Scholarships of Post-Doctoral Researchers – 2013. It is a part of an integrated research on developing an evaluation model regarding state aids towards Greek SMEs, for R&D and environmental protection projects.

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 ISBN: 978-9963-711-37-6

SOCIAL MEDIA AND CSR COMMUNICATION: AN EMPIRICAL ANALYSIS OF ORGANIZATIONAL AND MANAGERIAL ISSUES

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ABSTRACT

The purpose of this paper is to provide evidence about the role of the Social Media Manager in the Corporate Social Responsibility communication activity. We analyze how Social Media are actually implemented and managed in business practice and more precisely how the role of the Social Media Manager inside the organization is evolving using a case study of a coffee company located in Italy which has a proven track record in CSR related activities. In other words, the paper aims to analyze whether implementation of Social Media Managers in the firm is consistent to the path derived from the sensemaking and sensegiving framework proposed by Gioia and Chittipeddi (1991). From a practitioner perspective, the application of the sensemaking and sensegiving framework may help in the identification of the main challenges and benefits related to CSR Communication. The paper concludes by suggesting several recommendations for the further CSR communication implementation of the company analyzed and for business practice in general.

Keywords: *CSR Communication, Social Media, Case Study, Sensemaking*

INTRODUCTION

The topic of Corporate Social Responsibility (CSR) communication has grown significantly along the years even if, in comparison to the vast literature about CSR, it is still underdeveloped (Ihlen and May, 2011). With the advent of Social Media, there is an increasing and aborning attention in the literature towards the importance of Social Media in the CSR Communication (e.g. Colleoni 2013, Fieseler and Fleck 2013, Seele and Lock 2014). It has to be acknowledged that on one hand, Social Media have been highly successful in the creation of a host of opportunities for interaction and involving greater number of stakeholders in dialogue, while on the other hand such activities of the company invite reputational risks by giving voice to stakeholders (Du et al. 2010, Etter et al. 2011). In this background, it becomes even more important for firms to analyze the role of the Social Media Manager, who is responsible for managing conversation online, and developing the Social Media strategy in order to achieve positive results from CSR communication. This study adopts a sensemaking and sensegiving framework in order to analyze how the company develops and communicates its CSR strategy on Social Media and how it

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engages stakeholders in the conversation. We use as our case study illycaffè Spa, a leading coffee company in Italy which enables stakeholder engagement in different ways.

The remainder of this article is organized as follows: first, we briefly review CSR Communication and Social Media literature. Then, we introduce the basics of the sensemaking framework. Following that, we outline the methodology and provide details about the case developed for this study. After that we present the findings of the study by examining how the CSR communication implementation process of illy does match the sensemaking framework. Finally, we discuss the study's theoretical and managerial contributions, along with possible avenues for further research.

THEORETICAL BACKGROUND

CSR Communication and Social Media Marketing

CSR Communication, defined as "a communication that is designed and distributed by the company itself about its CSR efforts" (Morsing and Beckmann 2006), represents an important but, at the same time, challenging topic because it may breed skepticism rather than achieving goodwill about organization (Lindgreen et al. 2009, Ihlen et al. 2011).

However, as rightly pointed out by Ihlen et al. (2011), communication ensures constituting, increasing stakeholder participation and thus could overcome the veil of skepticism and reputational risks. Therefore, firms should have the capacity to communicate their CSR efforts by establishing congruence between social expectation and CSR agenda (Colleoni, 2013).

For organizations, "it is no longer sufficient to merely communicate CSR activities, they have to incorporate stakeholders into the CSR process and engage in dialogue" (Bartlett and Devin, 2011, p. 54). In the CSR communication process the risk of greenwashing and skepticism of stakeholders is indeed very high (Birth et al. 2008). In order to avoid them, Capriotti (2011) suggest moving from CSR Communication as a tactical tool for CSR management towards CSR Communication as a strategic part of CSR management.

As regard the communication tools used by firms to communicate their CSR activities, Du et al. (2010) refer to a tradeoff between controllability and credibility in communicating CSR and argue that the more controllable the source of communication is, the less credible the message will be perceived to be. In this regard they suggest the use of blogs and more importantly Social Media in order to create credible word of mouth about the organization's CSR among its stakeholder (Fieseler et al. 2009). In these lines, Korschun and Du (2013) also suggest that Social Media represent for firms an important opportunity to improve relationships with internal and external stakeholders and to strengthen their engagement, an aspect which represents a fundamental milestone in CSR literature. Driessen et al. (2013) further argues that Social Media have empowered consumers to connect, share and collaborate, creating spheres of

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influence that have fundamentally altered the way marketers engage in influencing activities. It has to be noted, indeed, a growing number of papers related to Social Media in the marketing literature, as pointed out by Pomirleanu (2013), and an increasing attention of firms towards Social Media (Nielsen 2012).

Sensemaking and sensegiving in CSR Communication

Sensemaking is considered a fruitful method to investigate the links between CSR Communication and Social Media (Nijhof and Jeurissen, 2006; Schultz et al. 2013). The most used framework used by scholars to analyze a phenomenon through sensemaking theory is the one provided by Gioia and Chittipeddi (1991) who analyzed the processes of a CEO in the initiation of a strategic change.

Tuan (2015) instead has adapted the Gioia and Chittipeddi's framework to analyze the CSR Communication strategy developed by a Social Media Manager (SMMr) considered as a middle manager because he/she is often closer to external stakeholders than are top managers (Dutton et al. 1997) (Figure 1).

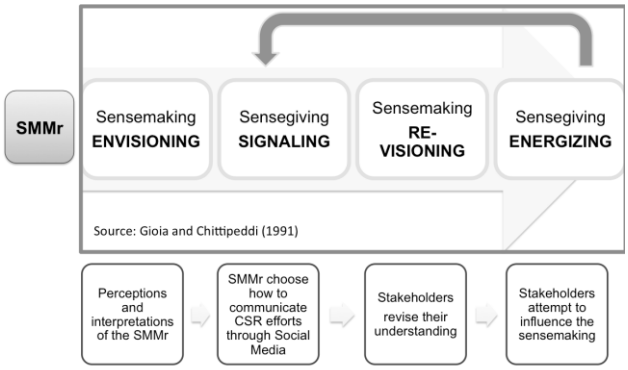

Figure 1. *Theoretical framework (adapted from Tuan 2015)*

As we can see in Figure 1, the framework is developed in four steps which progressed from an envisioning to an energizing phase. By relying on this framework we can follow the path of the SMMr in the definition of the CSR Communication Strategy. During "**Envisioning**", the SMMr makes sense of the situation and tries to understand how to communicate the firm's CSR strategy in order to gain legitimacy by stakeholders. It is followed by the sensegiving stage "**Signaling**", wherein the SMMr, by taking into account internal and external pressures, attempts to communicate to stakeholders through adopting CSR Communication strategies by employing Social Media. In the "**Re-visioning**" phase, stakeholders make sensemaking efforts by which they try to figure out the meaning of the CSR Communication provided by the firm and revises their understanding. The final stage "**Energizing**" is a sensegiving effort by the stakeholders wherein they attempt to influence the SMMr's strategy and perceptions. The loop arrow indicates that the stakeholders issues have an impact on the strategy definition. Stakeholders can

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influence the CSR Communication Strategy of the firm through comments, replies and posts.The phase of envisioning and revisioning are related to "cognition" and understanding, the other two are "influencing" and "action related".

We employ the above mentioned framework to analyze the case study and to follow the path of the SMMr in developing the CSR Communication strategy.

METHODOLOGY

For this study we use a qualitative methodology to address the research questions. Qualitative techniques are common in the study of sensemaking in organizational research (Craig-Lees, 2001) and it is particularly useful when concepts and contexts are ill-defined as in the case of CSR (Maon et al. 2009). Consistent with the explorative aim of this work, this paper employs a case study approach "that investigates a contemporary phenomenon within its real life context" (Yin, 1989). In order to improve methodological rigor and understanding, we obtain secondary data and conduct in-depth, semi-structured interviews with three managers in an Italian coffee company, illycaffè. In particular we interviewed in July 2013 and November 2014 three key company informants, the Global PR Director and Chief Sustainability Officer, the Social Media and Web PR Manager Global Pr Dept and the Social Media Manager Junior Global Pr Dept for one hour. We have decided to interview those key informants because they were the only persons in charge of strategic decisions related to the object of our study. The interviews lasted about two hours and were conducted inside the company. The interview guide was semi-structured and re-arranged during the interview on the basis of new insights that emerged in the conversation. The interviews were recorded and fully transcribed. The material was therefore analysed by drawing out a number of categories related to our research interests (e.g. CSR Strategy, Social Media usage, organizational structure, KPIs). Authors coded independently of each other the interviews and then discussed their classifications in order to provide case interpretations. Quotes in this paper are used to illustrate key research findings. Then, for triangulation purposes, we cross-check other data sources to reduce selectivity and reporting bias. A desk analysis of the company's marketing materials, company-issued internal documents, personal research notes, Balance Sheets, the 2012 and 2013 Sustainability Value Reports was conducted. We checked also the company's website, Social Media posts, press releases and information on external website. As regard Social Media, through the software Nvivo, we have downloaded all the tweets and Facebook posts from 2009 until November 2014. We have chosen only these two Social Media because they contain both text and images and they are the most used by the Social Media Managers. The website has been checked from April 2013 to November 2014 every two months in order to analyze the developments. This firm has been chosen as typical Italian firm, family owner, with a proven track record in CSR related activities as it has been recognized by independents

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arbiters like DNV (Det Norske Veritas) which in 2011 conferred its first-ever global Responsible Supply Chain Process Certification to illycaffè in recognition of its sustainability efforts.

FINDINGS

illycaffè Spa is a company in Trieste (Italy) founded in 1933 when the company founder Francesco Illy developed the modern espresso machine. It is a worldwide brand, the illy blend is now sold in over 140 countries, across 5 continents. The attention of the company towards CSR issues is embedded inside the company from its origin and it is not adopted for ceremonial reasons. As suggested by Kostova and Roth (2002), indeed, managerial practices that are only adopted for ceremonial reasons have low effectiveness. "In order to be sustainable, activities must be institutionalized into the organization and considered part of the culture, because they have been adopted as the long term strategy and decision making guide" (Maon et al., 2009, p. 83).

In Table 1 we have summarized the main events related to both CSR Strategy and Social Media usage of the company, thanks to the interviews and our sources of information previously presented. In the first column we can find the year related to the event, in the second column the main topic and in the third one the motivation. We can observe that the attention towards CSR is clearly evident from the foundation of the company and throughout the years.

illy indeed defines itself in the Sustainability Reports and on the website as a **stakeholder company** because it considers respect for the environment and people that nurture coffee a fundamental part of doing business and pursues the improvement of life through economic, social and environmental sustainability.

After having adopted a lot of certifications related to sustainability issues (i.e. ISO 9001, EMAS) illycaffè strengthened the governance and control mechanisms by establishing in 2010 a **Sustainability Committee** chaired by the Global PR and Chief Sustainability Officer. In illycaffè indeed the PR Department is managing CSR issues because, as the SMMr says, "*the main aim is to create connections with all the stakeholders because it is very important to have continuous interaction with them*." The presence of CSR function inside PR Department is the most common situation also in Swiss companies, as highlighted by Birth et al. (2008). The Sustainability committee is dealing with the elaboration of corporate plans and assessement of sustainability in processes and objectives, periodic monitoring of planned action, coordination of chain certification process, proposal to the strategic committee, define goals to improve sustainability. To share its business strategy with its stakeholders, in 2010 illycaffe established a Sustainability Manifesto, which, with the Code of Ethics represents illycaffe's commitment to responsible business management in economic, social, and environmental terms.

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Thanks to these efforts, in 2011 illy published the first release of the Sustainability Value Report which describes the strategies and actions illycaffè uses to implement sustainability in various forms: economic, social and environmental.

Nevertheless as regard the measurement of CSR objectives, the Chief Sustainability Officer said that "*we are still working on KPI internally and externally even if the certification identifies some specific KPI to follow. The Sustainability Committee has recently developed a road map in order to analyze the sustainability priorities and identify the most important ones. The next step will be to identify the parameters to measure the priorities to develop.*"

This quotation clearly demonstrates that, although CSR is well institutionalized inside the company, the measurement of the effect of CSR is not an instrument that is integrated into the overall strategy of the company yet.

When	***Topic***	***What***	***Why***
1933		illycaffè was established in Trieste	
1980		Riccardo Illy brings an innovative approach to marketing, distribution and opening up new markets.	
1988	CSR	Becomes the world's first major coffee company to purchase coffee directly from its growers, promoting quality by offering guaranteed margin and profit for achieving company standards.	Attention towards CSR
1991	CSR	Premio Ernesto illy para Qualidade do Cafè Para Espresso	
1996	CSR	Becomes the world's first coffee company to gain the ISO 9001 certification.	Attention towards CSR
2003	CSR	ISO 14001 Certification	
2004	CSR	EMAS Certification for rigorous environmental standards	
2005	CSR	EMAS Award for continually improving environmental standards	
2005	CSR	British Retail Consortium Certification	
2007	CSR	illy SustainArt to give evidence to emerging countries artists	
2007	CSR	Certification International featured standards for food security	
2008	CSR	Award for Sustainable Conduct in Brasil	
2009	SM	Facebook	**ENVISIONING & SIGNALING PHASE**: The Global PR Dpt understood the importance to communicate through Social Media in order to engage stakeholders (ENVISIONING) and started to adopt Social Media (SIGNALING)
2009	SM	Twitter	
2009	SM	YouTube	
2009	SM	FlickR	
March 2011	CSR	DNV Responsible Supply Chain Process Certification, the first company in the world	Attention towards CSR
2010	CSR	Sustainability Manifesto	Attention towards CSR
2010	CSR	Sustainability Committee chaired by the Global PR and Responsibility Director	Attention towards CSR
2010	SM	Blog illywords	To create a dialogue with stakeholders online

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June 2012	CSR	Adhesion to the Global Compact, voluntary agreement with the Ministry of the Environment and Protection of Land and See	Attention towards CSR
June 2012	CSR	1° Sustainability Value Report published on the website valuereport.illy.com	Development of CSR Communication
2012	SM	GooglePlus	
2012	SM	Instagram	
2013	CSR+SM	2° Sustainability Value Report, more integrated with Social Media	Development of CSR Communication
2014	CSR	World's Most Ethical Companies (the only one in Italy)	
June 2014	CSR+SM	3° Sustainability Value Report, more attention to stakeholder engagement in the development of the Report	Development of CSR Communication
October 2014	CSR+SM	Refilly	The idea came from costumers → innovation
November 2014	CSR	International Consumer Research and Testing evaluates illycaffè as the most worldwide sustainable company in the coffee industry	Attention towards CSR
2015	SM	Social CRM	In order to manage data related to stakeholders online and answer to their needs
2015	CSR+SM	Planet 20	**ENERGIZING PHASE → SIGNALING** Given that stakeholders didn't usually reply to Social Media posts related to CSR (ENERGIZING), illy created Planet 20 in order to create a fresh and direct dialogue with stakeholders and allow them to become aware of sustainability issues (SIGNALING)

* The Revisioning phase has not been mentioned in the table because we haven't analyzed in detail the stakeholders' point of view

Table 1. *Events related to CSR and Social Media*

As for integrating CSR into the overall strategy of the company, the PR Department acknowledged the necessity to open the firm to virtual dialogues with stakeholders using Social Media platform around 2008/2009.

"The decision to adopt Social Media raise from the PR department not from the Strategic Committee. We have noticed that our competitors and our clients were on Social Media so it was becoming indispensible to have a Social Media presence." - Social Media Manager

It was a bottom-up process which from informality became even more important and institutionalized and we can observe that the SMMr started the phase of **Envisioning** during this period. As we have previously noticed, during this phase the SMMr makes sense of the situation and became aware of the need to start using Social Media (SM) in order to communicate to stakeholders and to develop new techniques to communicate the firm's CSR Strategy. The phase of envisioning is followed by the phase of **Signaling**, in which the SMMr attempts CSR Communication strategies using Social Media to communicate to various stakeholders. We notice from Table 1 that they opened a Facebook page and a

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Twitter account around 2009 followed by a YouTube and a FlickR account. They started talking about CSR issues on these tools by relying always on the Sustainability Value Report quotations because they were certified. Nevertheless they noticed that when they talked about CSR issues they didn't receive any feedback from stakeholders. *"It is difficult to create engagement and interaction around CSR posts."* says the Social Media Manager.

We can therefore assume that it started the phase of **Re-visioning** by stakeholders which react to the CSR firm's strategy. We only assume because the phase of Re-visioning has not been explored since in this research we haven't analyzed stakeholders' point of view. Nevertheless, regarding this phase, the Social Media Manager said that*"we have noticed that the interaction on Social Media about CSR issues is not so high. The Value Report is more for experts, we have to find easier ways to communicate CSR topics."* It leads to the phase of **Energizing** which tries to modify the second phase of Signaling. By analyzing how the stakeholders react to the CSR Communication strategy the firm is starting to change strategy and they started to develop in late 2014 the project Planet 20 in order to communicate social and environmental issues in a friendly way.

"Until now we have focused on the corporate communication but we are trying to find more friendly ways in order to communicate CSR issues to stakeholders. The aim is to develop a closer connection with stakeholder about sustainability issues, the Value Report is still too hard to read for a customer. If they want to focus on specific issues they can read it otherwise it is important to find easier tools. For this reason we are starting to work on the project "Planet 20" which thanks to a friendly website, infographics and drawings help the customer to understand the environmental attention of illy products."

Planet 20 is an ongoing project based on the idea to create a planet that in 2020 will be greener, cleaner and happier. At the end of 2014 they have created a webpage inside the main website related to the project but in 2015 it will be more implemented. Thanks to friendly images and easy language, they communicate the sustainability efforts of the firm and they also try to teach how to be sustainable in our daily activities. Planet 20 will be the basis to develop the communication strategy of illycaffè.

5. DISCUSSION

The application of the sensemaking/sensegiving framework yields interesting insights into how CSR Communication is managed and helps to discover the challenges related to the adoption of Social Media for CSR purposes. Additionally, it is very interesting to see that illycaffè is, although CSR oriented from its origin, still updating its process to be more stakeholder oriented in its management of CSR activities. Even if research suggests that the use of Social Media creates greater engagement with stakeholders and better value both for the company and for the cause (Korschun and Du 2013), the managerial and operational issues emerging from CSR strategy has to be taken into account.

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We can highlight that, although illycaffè is a CSR oriented company, they are still using an informative strategy in the CSR Communication. As suggested by Morsing and Schultz (2006) there are three strategies to communicate CSR: informative, response and involvement strategy with higher degree of sensemaking and sensegiving. Even if illy is doing a lot of efforts to communicate CSR issues correctly, through various channels, it hasn't developed an involvement strategy yet.

After the first releases of the Sustainability Report, in order to take care of stakeholder needs and to engage them better (*energizing phase*), illycaffè tried to integrate it with Social Media. Nevertheless the value report is more static than dynamic and the communication on Social Media about CSR issues did not show a clear engagement strategy yet.

We have noticed that the greater attention towards Social Media were raised from the PR department around 2008. Theoretically this development could be linked to the adoption phases mentioned by Cosenza (2012). In the adoption phase, where we notice that the initiators are some employees who have an interest towards Social Media and started use them. After some years, we observe that the firm moves from a phase of experimentation to extended adoption phase where the Social Media becomes more institutionalized inside the organization gaining more credibility and visibility. This issue has been confirmed also during the interview. In fact, the decision to hire another person in June 2011 in the PR Department to manage the Social Media in concordance with the other Social Media Manager underlines the above mentioned institutionalized Social Media phenomenon.

"Social Media are managed by the PR Department because the main aim is to create reputation." - said the Social Media Manager.

As highlighted by some scholars, "the aim of corporate communication and public relations should concentrate on strengthening corporate reputation instead of building image" (Romenti, 2010, p. 307).

We can analyze more in detail the role of the SMMr in illycaffè by using the matrix provided by Tuan (2015) which presents four roles of the Social Media Manager by intersecting sensemaking/sensegiving and tactical/strategic communication.

The SMMr of illycaffè is still using Social Media in a tactical way, without defining in advance a clear strategy and guidelines. Until now they used automatic systems in order to inform colleagues from other departments, when they receive suggestion on Social Media. For example, "*we receive a lot of inputs from clients, for example the idea of refilly - a new ground coffee soft refill-pack, which uses less material than the traditional 250 gram and support the carbon footprint project - is born from our clients' idea about how to reuse the packs*."

The decision to implement a Social CRM in the coming months in order to continuously monitor customer base and add information from Social Media could be considered as a significant development. As pointed out by Baird and Parasnis (2011) firms should move from Social Media projects to Social CRM:

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"Social CRM approach takes Social Media programs a step further, moving beyond the domain of a single function, to implement a cross-functional network of integrated communities with customer-facing responsibilities, such as customer care and sales. This integrated approach treats the customer holistically and facilitates sharing customer insights derived from unstructured data captured through multiple social touch points, as well as structured data from traditional channels." (p. 31).

As regard the Social Media Metrics, *"the main problem is that social network are very complicated. They follow rules and algorithms that change every weeek so it is very difficult to define the KPI. We use some KPI related to the growing of the fan base but we know that it is not enough. It would be better to focus on quality than quantity. It would be better to analyze the KPIs related to engagement, participation than the number of followers."*

Literature highlights that it is important to have supporters of Social Media in senior management, as suggested by Katona and Sarvary (2014), also the SMMr of illycaffè said that "*for the PR Department the number of followers (500.000) is important as a signal to give to the board and to the firm."*

"In a year we grown up from 180.000 to 500.000 thanks to advertising investments. Now things are changed. Last year the cost for acquisition was 0.009 cent now is 0.20 cent, so it requires a lot of investment."

Peters et al. (2013) indeed have developed some guidelines in order to understand which metrics to use. The challenges explained by the Social Media Manager, the future objectives related to the adoption of a Social CRM and a change in the language in order to engage better stakeholders suggest us that the role of the SMMr in illycaffè is moving from an informer to a caring role (see Figure 2).

Figure 2. *Social Media Manager Matrix*

	Sensemaking	*Sensegiving*
Tactic	**REFLECTIVE** SMMr	**INFORMER** SMMr
Strategic	**RESPONDENT** SMMr	**CARING** SMMr

The informer SMMr is indeed "a manager who adopts Social Media in a tactical way in order to give sense to stakeholders about the firm's strategy" (Tuan, 2015). In this case the SMMr uses a *stakeholder information strategy* (Morsing and Schultz, 2006) in order to disseminate information about the organization and give sense to stakeholders about the firm's activities.

On the other hand the caring SMMr is "a manager who adopts Social Media in a strategic way with the aim to give sense to stakeholders about firm's strategy. This category is represented by managers who take care of stakeholder dialogues and who wish to pro-actively involve stakeholders in order to create a dialogue with them."

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Thanks to Pianeta 20, the new project they are going to launch, the communication will be more friendly and as a consequence there is a possibility to create a direct connection with stakeholders in order to develop more interaction.

CONCLUSION AND FUTURE RESEARCH

Theoretical and managerial implications

Our investigation offers some contributions related to the field of CSR Communication literature. First of all we have tested the theoretical framework and understood that it could be used by firms in order to investigate in which phase they are and how they can improve their performance. Firms should adopt a sensemaking and sensegiving process in order to understand stakeholders' needs and to adapt to them. As suggested by Metcalf and Benn (2012), indeed, the new key responsibility for leaders is sensemaking of the external environment as leaders must help the organization stay aware of and adapt to the rapid changes in its industry and new stakeholder demands.

A second set of theoretical implications is related to the adoption of Social Media to communicate CSR. Even if literature underlines the idea to use Social Media in an interactive way in order to create Virtual CSR dialogs, in practice it is not an easy task at least for the company analyzed.

A structured organization with people dealing with the Social Media management but also tools, like the Social CRM, can help the firm to create engagement with followers and develop an interaction. We have seen that Social Media need a continuous feeding (Peters et al. 2013) but the big data created in the online environment need to be stored in order to create a sharing knowledge inside the organization and to transmit information among departments. As suggested by Driessen et al. (2013), organizations without proper internal coordination risk to act incoherently on the issues raised by stakeholders. A firm should be prepared internally to manage virtual stakeholder dialogues in order to avoid bad performance and have negative effects on reputation.

Another issue which deserves attention is the type of language used on Social Media. From the case study we have learned that the CSR Communication on Social Media cannot be the same as in the website or in traditional media. Social Media are characterized by a fresh and dynamic content, so it is important to tailor the communication in a friendlier way also regarding issues related to the company's management. As highlighted by Lin and Lu (2011) "enjoyment is the most important factor affecting the behavior of Social Media users. By enhancing users' posting photos, films, and weblogs, and sharing links on their profiles, social networking sites service providers will be able to make users and their friends feel interested and have fun" (p. 1159). This result is confirmed also by de Vries et al. (2012) who suggest to use vivid brand post in order to engage fans and to increase the number of likes. Vividness can be achieved by the inclusion of dynamic animations, colors and pictures. A video for example is more vivid

 ISBN: 978-9963-711-37-6

than a picture because it stimulates more senses. This issue has been highlighted also by the Social Media Manager of illycaffè who has noticed an increasing attention of fans when they post a video on Facebook: "*Videos on YouTube and embedded in Facebook are working very well*".

Even if the case study design doesn't allow for generalization, it contributes to the overall literature about CSR Communication and Social Media by providing empirical evidence related to the role of the Social Media Manager and the benefits and challenges related to it.

Concerning implications to business practice in general, we think that the framework bears some interesting insights. First, it enables that business can attribute a clear role to the Social Media Manager. Then, it underlines the importance of a Social CRM and specific guidelines in order to manage the complexity related to the adoption of Social Media.

As highlighted also by previous literature, when a firm decides to go online, it should clearly define the objectives and the budget to be dedicated.

Future lines of research

This case study gives raise to different research lines which deserves further analysis. First of all, it would be interesting to analyze, how the Social CRM will be implemented and used by the Social Media Manager and how the information flow will develop.

Another possibility is to perform a multiple case study in order to test the model enabling to compare different companies from different industries. Further research is needed in order to analyze Social Media metrics which represent a very challenging topic for firms. Academic research still lacks empirical evidence about right Social Media measures to be used in order to understand how Social Media impact on the firm's results. This would be tha path of our future research.

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 ISBN: 978-9963-711-37-6

SERVICE ISSUES IN THE ITALIAN HEARING AID INDUSTRY

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ABSTRACT

Hearing loss is increasing, yet even with the availability and provision of free hearing tests and aids by qualified community-based professionals specialising in audiology services, hearing aid adoption remains low. This article contemplates the findings of an Italian study, reported elsewhere, which adopted a consumer behavior approach to identify reasons why hearing aids have a low acceptance level in Italy, despite their usefulness. Employing a combined service management and hearing-health literature review, we identify issues with the structure, culture and operation of the Italian audiology industry. We propose a conceptual framework and offer four theory building propositions that are related to this highly regulated service industries. These propositions require further investigation and evaluation. We contend that the adoption of a service approach as opposed to product focus by the audiology industry will improve hearing services and ultimately improve access and use of hearing aids, benefiting both the individual and the society.

Keywords: *Audiology industry, Product, Service, Hearing Aid, Consumer*

INTRODUCTION

It is estimated that as many as 40 percent of adults older than 65 years (Uchida et al., 2000) have some degree of aged related hearing loss (presbycusis), with this prevalence predicted to increase significantly over the next two to three decades (Shield, 2009). Presbycusis is a common problem that affects the well-being and quality of life of the individual, their family members, and their friends, causing considerable social, emotional, and communication dysfunction (Mulrow *et al*., 1990), with its impact on family life being described as profound. It affects the person's ability to communicate and age healthily (Aguayo and Coady, 2001), and has been found to be associated with increased mortality in men, behavioral disorders, cognitive difficulties and mood disturbance (Gopinath *et al*., 2012a; Gopinath *et al*., 2012b; Cox *et al*., 2005). Hearing aids have been demonstrated to be effective in ameliorating the effects of presbycusis and in particular, for the treatment of moderate hearing loss. Mulrow *et al.* (1990) have demonstrated important benefits resulting from the provision of a hearing aid by an audiology service,

 ISBN: 978-9963-711-37-6

specifically with improvements in a person's emotions, depression and communication. Further, according to Joore *et al.* (2003), in most cases of hearing impairment, hearing aids are the only existing option for hearing remediation. Hearing aids therefore have significant benefits to both the individual, their family and society.

The *Royal National Institute for Deaf People* reports that there are over 300 million people worldwide who are suffering from age-related hearing loss and that by 2050 it is projected that this number will be 900 million (RNID Market Report, 2004). Auditory disability ranks first on the list of chronic health conditions of older adults; it is the most common sensory deficit (Uchida *et al.*, 2011) and is becoming a major health challenge worldwide (Newman and Sandbridge, 2004). Some studies have been conducted which investigate the technical features of hearing aids (Palmer, 2009) and the experience of people who use a hearing aid (Oliveira et al., 2010). In their literature review, Knudsen *et al.* (2010) highlighted the importance of counseling during the fitting process, while Joore *et al.* (2003) explained that service provision requires an effective service network, extending from diagnosis to rehabilitation (Lusch and Vargo, 2006).

The study of Italian hearing aid adoption is important because: 20% of the Italian population is composed of over 65-years-old citizens (on average +10% in comparison with the other European countries), with the estimation of increase to 26% over the next 10 years (Nielsen, 2014); and, public spending for medical and electronic devices is considerable and was estimated to be between the 3 and the 5 percent of the public expenditure in health in 2013 (Censis, 2012). Presbycusis affects just over 13.24 percent of the Italian population, and equates to approximately 8 million Italians with some degree of hearing loss (Gruppioni, 2009). The audiology industry can be regarded as a service provision system that, in the institutionally regulated context of the Italian National Health Service (INHS), deals with people with hearing difficulties by providing them with goods (hearing aids) and professional services (hearing diagnosis, hearing aid fitting, education). The Italian audiology industry functions as a highly regulated business, where different professionals, service companies and manufacturing companies act to meet the needs of people with hearing loss. Free INHS hearing aids can only be obtained via qualified hearing practitioner services. Despite the availability of hearing health professionals and the provision of public financing by the Italian National Health Service for hearing aid procurement and fitting, only 15-20 percent of candidates accept a hearing aid (Gruppioni, 2009) and hearing loss often remains undiagnosed and untreated. This paper offer reasons for the low uptake of hearing aids in Italy and develops propositions requiring further investigations.

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MATERIAL AND METHODS

This article was prompted by the findings of an Italian study (Cobelli *et al.*, in press), which adopted a consumer behavior approach to explain why hearing aid acceptance levels in Italy are low, despite their usefulness. In this paper we offer an appraisal of the Italian audiology industry and its operation by expanding our consumer behavior considerations to include industry operational factors. We then develop a conceptual framework which is based on a multidisciplinary literature review that embraces both service management (Vargo and Lusch 2008; Czepiel, 1990; Grönroos and Voima, 2013; Dagger *et al.*, 2007; Svensson, 2002; Fyrberg and Jüriado, 2009) and hearing health literature (Kelly *et al.*, 2013; Laplante-Lévesque *et al.*, 2010; Knudsen *et al.*, 2010; Joore *et al.*, 2003, Gruppioni, 2009). Our interpretation draws on both prior related theory and research (in hearing health and services management. Further, we apply a service management perspective to analyze audiology processes and drive insights to issue that have an impact on clinical outcomes, including interactions and encounters (Czepiel, 1990; Grönroos and Voima, 2013), service networks (Svensson, 2002; Fyrberg and Jüriado, 2009), perceived service quality (Dagger *et al.*, 2007), sensory perceptions (Ugolini *et al.*, 2014). In developing the conceptual framework, we also drew on both the experiential and professional insights of two of the authors, one having personal experience with hearing aids, the other being the manager of an audiology company.

RESULTS

The Italian study, on which the present work draws, consisted of 51.4 percent female and 48.6 percent male, with an average age of 69.5 years. The percentage of respondents with diagnosed bilateral hearing loss was 77.8, whilst the remainder, 22.2 percent, had unilateral hearing loss. Overall, the research model explained 43 percent of the variance in a person's Behavioral Intention (BI) with Attitude, Subjective Norms (SN) and the interaction between Trust and SN being found to be significant. Specifically, there were four key findings: a person's attitude towards using a hearing aid was positively related to their BI to adopt a hearing aid; there was a negative relationship between a person's SN, and their intention to adopt a hearing aid; a person's trust in their health professional did not influence their attitude towards or intention to adopting a hearing aid; and trust in the health professional mitigated the relationship between the person's SN and their intention to adopt a hearing aid (Cobelli *et al.*, 2014). Applying these results on an industry level, some issues become apparent that both impact on the ability of these services to meet customer needs and act as barriers and impediments to aid acceptance. These issues can be grouped into 3 categories: structural, cultural and operational issues.

The ***structure of audiology industry*** is directly influenced by the various practitioners involved in hearing aid supply and service provision. Free INHS hearing aids can only be obtained through a

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process of diagnosis and assessment by qualified hearing practitioner services. There are five categories of community-based health professionals working in the area of hearing loss: general practitioners (GPs), otolaryngologists, audiologists, audio therapists and speech-language therapists. Medical practitioners, specifically GPs and otolaryngologists control the investigation and diagnosis of hearing loss pathology and the subsequent prescription of hearing aids to those who would benefit from the use of these devices. Audio-therapists, under the direction of medical practitioners, conduct diagnostic hearing tests to determine the person's hearing threshold. Once hearing loss has been diagnosed and hearing aids prescribed, those willing to adopt a hearing aid are then referred to an audiologist, the health professional who has the role of providing and fitting a hearing aid that will compensate for the person's hearing loss. Audiologists must identify how best to accommodate for the specific sound frequencies that an individual has lost. The audiologist serves as a distribution channel for hearing aids manufacturers, who produce them. Post-fitting of a hearing aid, the person requires education and hearing rehabilitation, and whilst rehabilitation is available, its quality and extent have been reported as both limited and variable (Kelly *et al.*, 2013).

All these practitioners operate largely in isolation to each other, so that a fragmented structure emerges, where the customer is the only who gets a overall vision of the process.

In other words, due to the absence of an effectively functioning service network between the different healthcare professionals, people with hearing loss in Italy must access five different health professionals in order to create the value of the hearing service they require (Vargo and Lusch, 2008). The consumer service experience is thus fragmented between different service providers compromising not only the quality of the service but also the consumer's understanding.

As a consequence, we consider the structure of audiology industry as provider determined and highly controlled, being one of the variables explaining low levels of hearing aids adoption.

Importantly, the literature evidences that the technical features of the product are of secondary importance to the person with hearing loss, as opposed to the service and support they require. Consumers have reported either receiving poor service from their audiologist or that the hearing aid's performance ability was overrepresented (Kochkin, 2000). To remedy this situation, Kochkin *et al.* (2010) have suggested the need for the right support, information, and counseling being provided to the consumer. Further, Kelly *et al.* (2013) have suggested that audiology professionals in dealing with their clients should move away from concentrating on the technical features of the device to focusing on the provision of assistance to support its successful use, including ongoing practical support and assistance to both potential users and actual users of hearing aids. Therefore, we suggest that the industry structure is one of the industry variables explaining the inability of audiology services to meet customers' needs and, in turn, the low levels of hearing aids adoption.

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Secondly, ***industry cultural issues*** arise because Italian law imposes considerable operational limitations, regulating audiologists as both *health professionals* and as product *resellers*. Audiologists must work independently of other health practitioners and cannot influence the prescription process. They can only provide and setup a hearing aid. Most work in small community-based private practices with their main source of income derived from selling the product rather than providing a service. As a consequence, this creates confusion in their roles and effectively equates them to pharmaceutical companies along with restricting interaction with other health professionals. The absence of coordination and communication among all the actors involved in the hearing aids provision process can result in misunderstanding and distrust in customers and caution and skepticism in prescribers. The consumer service experience is thus fragmented between different service providers compromising not only the quality of the service but also the consumer's experience. We contend that industry cultural issues influence consumer access to audiology services and, in turn, hearing aids. To increase adoption, inter-professional collaboration and co-operation is desperately needed, to create a spectrum of holistic consumer-centric hearing services.

Thirdly, the ***operational issues*** relate primarily to the public financing arrangements which determine the prescribing process and are based on a complex procurement procedure with emphasis on the physical good and its technical features. Hearing aids are prescribed on the basis of two different INHC fee amplification lists, where the prescription must specifically identify which device and listing is to be used. Further, the prescriber is required to give the consumer a list of all the hearing centers in their area and is forbidden to specify any. There is no stipulation with regards to the quality of the fitting or to the standard of service provided by the resellers. Additionally, up-to-date technologies are almost totally excluded from the listings and those which are listed are usually being superseded. Italian regulation does not however allow the prescription beneficiary to choose an unlisted higher-level product and to pay the additional cost difference to the reseller. Once the hearing impaired person has has been fitted with a hearing aid, they are required to be seen by the prescriber for response tests, designed to evaluate the aid's performance. The tying of public financing to product supply therefore impacts on the quality of the service and cost to the consumer and arguably influences hearing aid uptake.

DISCUSSION

Taking the structural, cultural and institutional issues together it is possible to derive a descriptive framework of their impact on consumer behavior (Fig. 1).

Figure 1 depicts that structural, cultural and institutional issues act as antecedents of audiology services quality, their ability to meet consumer needs and ultimately consumer hearing aid adoption behavior in Italy. Accordingly 4 research propositions and proposed:

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P1) there is a direct negative relationship between the structure of the audiology industry structure and the audiology services meeting consumer needs,

P2) there is a direct negative relationship between the industry culture of the audiology profession and consumer assess to audiology services that meet consumer needs,

P3) there is a direct negative relationship between public financing tied to product procurement and audiology services meeting customer's needs (institutional issues), and

P4) there is direct overall relationship between the ability of audiology services to meet customer's needs and the rate of hearing aids adoption.

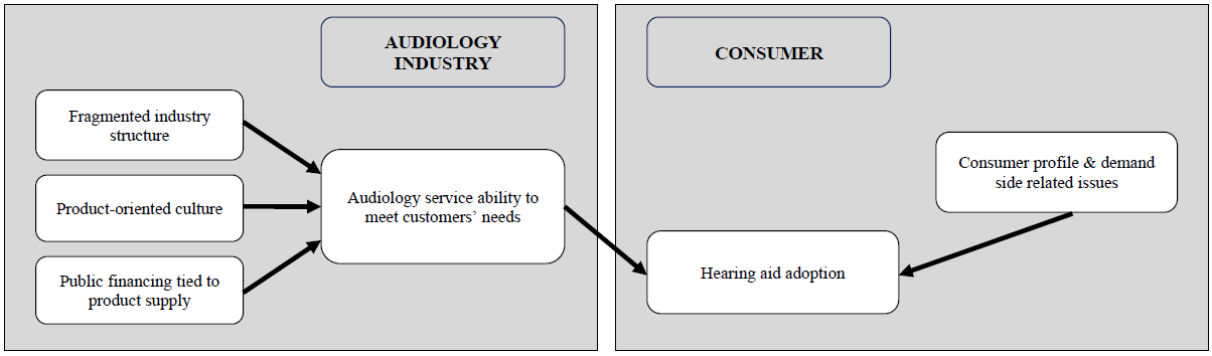

Figure 1. *The suggested framework. Hearing aid adoption is influenced by two factors: firstly the consumer's profile and the demand side related issues, and secondly the audiology service ability to meet customers' needs. In turn, the ability of service to meet customers' needs is determined by three issues: the fragmented industry structure, the product-oriented culture, and the public financing tied to product supply.*

CONCLUSIONS

Our analysis and propositions underline the importance of addressing the issue of hearing aid adoption in Italy from a service network perspective. Given the existing industry structure, hearing health service performance does not depend only on one single health professional, but on all those involved in the service chain. Since value creation is interactional (Vargo and Lusch, 2008) arguably, the quality of the existing service process can only be improved through a focus on maximizing the interrelationships and dependencies between all of the members of this "service network". Importantly, Kelly *et al.* (2013) suggest that people with hearing loss need not only reassurance on the availability of qualified health professionals to support and assist them in the context of their hearing needs but also access to enhanced auditory rehabilitation provided by a well-connected network of professionals. The fitting of a hearing aid should involve not only the product itself but also concomitant diagnostic and rehabilitation service elements. It si also important that this industry functions as service network where the all members, including the person with hearing loss, communicate and interact so as to minimize industry

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fragmentation and enhance the meeting of customer's needs. Laplante-Lévesque *et al.* (2010) and Knudsen *et al.* (2010) suggest that it is service elements which will be perceived by people as more important that the product itself. This is supported by the work of Vargo and Lusch (2004), who argue that goods only derive their value through use, that is through the services associated with them (Vargo and Lusch, 2004 and 2008). Whilst people are usually aware of their hearing difficulties and they are not concerned about the quality or cost of hearing aids, it is their uncertainty about the quality of the assistance and the availability of rehabilitation programs, once a hearing aid has been fitted, that is the main barrier to hearing aid adoption. Further, Grönroos and Voima (2013) point out that a business's activities have no direct impact on the actual value consumers assign to their services because they occur purely in a provider sphere without direct consumer interactions. Consequently, the co-creation of value can only occur in a joint value sphere, which requires service providers finding a way to access their consumers' value spheres enabling their engagement in the value-creating processes. As a consequence, industry changes must consider the development of a service culture that addresses consumer needs, rather than a provider-product focus. Hearing aids themselves should have only a marginal role in industry structure and financing. Primarily the focus should be on the service assess and long-term assistance and support for people with hearing loss, especially given that age-related hearing loss is progressive.

Any hearing health program must inform and reassure people with a hearing impairment that there is a network of interconnected professionals willing to work together with them from diagnosis to rehabilitation, to meet their hearing health needs. Essentially, improving the co-operation of all these service network participants is paramount to improving service provision.

Finally, from policy point of view public financing regulations of these aids must change and create an incentive for the industry from a product to a service focus. Essentially, improving the co-operation of all of the service network participants is paramount to improving service provision, especially since service value is created through consumer service experience (Heinonen *et al.*, 2010).

To achieve industry change, co-operation between the five Italian stakeholder professional association is therefore essential, so that a consumer centric multidisciplinary support and rehabilitation service can be developed. This will be challenging because these associations are individually powerful and act independently of each other and not as part of a cohesive service network (Pearce *et al.*, 2011).

This study has the usual limits of theory building. Much remains to be done in terms of developing suitable measures and of empirically testing our propositions. Regarding more specific limitations, notably the research has been conducted in only one country, Italy. Further studies need to be conducted in other locations and countries to ascertain the extendibility of the suggested propositions. The reasons for the low market penetration and adoption of hearing aids in Italy may be related to other factors

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associated with differences in the roles performed by Italian healthcare professionals when compared with other countries. Thus it may be required to include new and/or different variables in the suggested framework and additional proposition may be developed.

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 ISBN: 978-9963-711-37-6

ENERGY EFFICIENCY IN SUSTAINABLE DEVELOPMENT IN SOUTH AFRICA: A LEGAL ANALYSIS

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ABSTRACT

Claims associated with the environment increasingly influence the area of human and fundamental rights. It is widely acknowledged that a direct well-designed relationship exists between the search South African environmental and local government legislation. This study provides a theoretical literature review of energy efficiency, categories of and different perspectives on environmental rights in general. The notion of local for achieving environmental protection generally, and the protection of environmental rights. Since local government operates closer to citizens (the principle of subsidiarity) than any other level of government, it is obvious that it may be expected of it to also play an important role in the management and regulation of matters that affect the environment. This study questions the extent to which legislation governing the use of renewable and natural resources assist in developing sustainable building as provided for in environmental governance is also attended to in this literature review. This study highlights one way in which South Africa can become more energy efficient, namely by applying sustainable building in the local context. The South African National Standards (SANS) 10400-XA: 2011 finds its application specifically on environmental sustainability and energy usage in buildings.

Keywords: *Environmental right, local government, energy efficiency, renewable and natural resources, sustainable development and green building.*

INTRODUCTION

The following article will be based on how the regulation of renewable resources can promote energy efficiency in sustainable building. The problem will be addressed where after the different policies, documents and legislation will be discussed. After the discussion, a conclusion will be drawn. This discussion will consist of a literature review of relevant

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textbooks and articles. Primary and secondary source material will be subjected to critical analysis which will give rise to the conclusion.

THE PROBLEM OF RENEWABLE ENERGY IN SUSTAINABLE BUILDING

Buildings have a significant impact on energy use in the environment. Buildings, including office blocks, manufacturing facilities and homes account for more than 40 percent of the world's total energy consumption, according to the Green Building Council of South Africa (GBCSA) (Green Building Council of South Africa 2011 http://www.gbcsa.org.za and also Siemens 2010 http://www.us.siemens.com/sustainable -cities/index.html). The energy used by the ebuilding sector continues to increase, primarily because new buildings are constructed faster than old ones retired. For this reason it is argued that if sustainable building were to be constructed and implemented, the environmental impact of the built environment would be reduced (Green Building Council of South Africa 2011 http://www.gbcsa.org.za and also Siemens 2010 http://www.us.siemens.com/sustainable -cities/index.html). GBCSA developed South Africa's first voluntary sustainable building rating tool: the Green Star, which aims to calculate the environmental attributes of new commercial office building as well as the major base building restoration of existing office facilities (Davenport 2008 http://www.engineeringnews.co.za/print-version/sas-first-green-building-rating-tool). Another minus is that highly volatile energy rates make for difficult tracking over time.

RENEWABLE ENERGY VS ENERGY EFFICIENCY

Energy is the potential to do work of some kind, for example to move something, change something, to activate something or to stop something happening. Renewable energy deals with the supply side of energy, while energy efficiency deals with the demand side of energy (Murombo and Du Plessis *Energy Efficiency: New Strategies for improving South African Energy Laws* 3). Renewable energy is from an energy resource that is replaced by a natural process at a rate that is equal to or faster than a rate at which that resource is being consumed. Renewable energy is any energy source that is naturally replenished, like that derived from solar, wind, geothermal or hydroelectric action. Renewable energy is a subset of sustainable energy. South Africa has a high level of renewable energy potential. Energy efficiency is thus using less energy to provide the same service. Energy efficiency contests the assumption that we need

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more and more energy inputs to satisfy our social and economic aspirations, but energy efficiency is often treated dismissively. Energy efficiency is not as exciting as new sources of supply. Great engineering ventures of ultra-deep water oil exploration, giant pipelines snaking across the globe, colossal new coal mines, or returning to nuclear energy is more exciting. According to Barton the entrenched assumption is that there is a need for more fuel supply, and that South Africa's science, technology and engineering brilliance ought to be employed to go and get it. This assumption is most common in an environmentally orientated energy circles as to any other (Barton 2008).

Energy efficiency is not energy conservation. Energy conservation is reducing or going without a service to save energy. Turn off a light is energy conservation. Replacing an incandescent lamp with a compact fluorescent lamp is energy efficiency. Therefore it can be seen that South Africa have an energy problem and a soluble solution is needed to address this energy problem. A simple way of improving energy efficiency is to change behaviour. The efficiency of an appliance or technology is determined by the amount of energy needed to provide the energy service.

SOUTH AFRICAN ENERGY LAWS

The Constitution of the Republic of South Africa, 1996 (hereafter referred to as the Constitution) have fundamental human rights, amongst which are, to provide every person with the right to an environment that is not harmful to their health or well-being and a right to an environment that is protected for the benefit of present and future generations, (s 7(2) read in conjunction with sections 24(a) and (b) of the Constitution) and it is the state's duty to give effect to these rights. Section 7(2) of the Constitution places a positive and negative (a duty to desist) duty on the state to respect, protect, promote and fulfil the rights in the Bill of Rights (Brand D and Heyns C (eds) *Socio-Economic Rights in South Africa* (PULP Pretoria 2005) 257-258). Therefore the assumption that can be drawn is in fulfilling section 7(2) of the Constitution, the State must respect, protect, promote and fulfil the obligation that every person has the right to an environment that is not harmful to their health or well-being and an environment that is protected for present and future generation's benefit. In other words no person has the right to an absolutely clean and pollution-free environment.

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Local governments in South Africa are bound by national legislation, in addition to various environmental and local government laws, to regulate building. South African municipalities are subject to Schedule 4(B), read with section 156(1), of the Constitution, which states that municipalities (local government) have the power to execute law-making and executive powers in relation to buildings. The duty to provide every person with an environment that is not harmful to his or her health or well-being for the benefit for present and future generations is prolonged in section 4 of the Local Government: Municipal Systems Act 32 of 2000 (hereafter the Systems Act).

The National Environmental Management Act 107 of 1998 (NEMA) in South Africa provides for an environmental legislative and policy framework for the implementation of sustainable development – obviously including building. The principles that are set out in NEMA apply throughout the Republic of South Africa to the actions of all organs of state. These principles serve as a general framework and must be considered in environmental management and implementation plans, by any organ of state (section 2(1)(a) and (b) of NEMA). The objectives of NEMA are to give effect to s 24 of the Constitution by providing an environment that is not harmful to the health and well-being of the inhabitants of South Africa and to developing a framework for the integration of good environmental management into all developmental activities (Preamble of NEMA). NEMA makes provision that relates to sustainable development and local government. This can be seen in the broad spectrum of basic environmental principles of NEMA (section 2 of NEMA). The principles in section 2 of NEMA places a direct duty on the state (which includes municipalities) to respect, protect, promote and fulfil the social and economic rights in the Bill of Rights (section 2(1)(a) of NEMA).

STATE RESPONSIBILITY

The law of state responsibility requires establishing a link of causality between a culpable act and the damage suffered, and the damage must not be too remote or too speculative (Kiss A and Shelton, D; 2007). Pollution poses specific problems for several reasons. Firstly the noxious effects of a pollutant may not be felt immediately or in certain cases years after the act. The Chernobyl accident in 1986 is an example of this. It immediately caused 29 deaths, but directly or indirectly thousands of cases of cancer were produced over a long term. Coal, is the primary fuel produced and consumed in South Africa. Production and consumption of coal has serious effects on the environment, leading to air and water pollution, while also contributing to increasing concentrations of greenhouse gases in the atmosphere. In rural areas of South Africa, approximately three million households' burn fuel wood in order to meet their energy needs. Not only can the gathering of fuel wood prove unsustainable and lead to

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deforestation, but also, the fuel wood frequently is burned in enclosed spaces without adequate ventilation. This can result in harmful levels of pollutants in rural homes, leading to respiratory health problems and other ailments.

Secondly, some types of damage occur only if the pollution continues over time. That some substances cause little harm in isolation but are toxic in combination. The deterioration of buildings and monuments, for example, or, in certain circumstances, vegetation. Proof of causation also is made difficult by the fact that some substances cause little harm in isolation but are toxic in combination. Imputing responsibility to one source rather than another is difficult.

Thirdly, the same pollutant does not always produce the same detrimental effects due to important variations in physical circumstances. Example, dumping polluting substances in a river will not cause the same damage during times of drought as it will during periods where water levels are high. Wind or the lack of fog, or sunlight can modify the impact of air pollution or even the nature of pollution. It is therefore very difficult to impute injury to a single precise cause in order to impose responsibility. Long –range pollution poses unique problems in identifying the author of the harm and precludes relying on traditional rules of states of state responsibility.

Fourthly, the distance separating the source from the place of damage may be dozens or even hundreds of kilometres, creating doubts about the casual link even where polluting activities can be identified.

Fifthly to which extent are states accountable for the actions of private parties? The state whose territory serves to support the activities causing environmental damage elsewhere or under whose control it occurs is responsible for the resulting harm. The necessary element of an act or omission by the state agent is present, because the large majority of domestic activities capable of causing serious environmental harm outside the country requires prior approval or licensing under domestic legislation. The identity of the polluter pose problems. (For example, gas emissions from motor vehicles are harmful, including the fumes of each individual automobile. It is difficult to apply rules of responsibility and demand reparations from each driver, because the numbers are too great and the effects are significant due to the part played by nitrous oxide.

WHAT IS ENERGY EFFICIENCY?

When referring to energy efficiency, usually the discussion relates to building, industrial energy efficiency, the generation of energy, transportation and energy usage, consumption and technology. According to the National Energy Act 34 of 2008 energy efficiency is "the economical and efficient production and utilisation of energy carrier or resource"; whereas

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energy resources means the "non-value added material or mineral that can be used to produce energy or be converted to an energy carrier "and energy carrier is defined as "a substance or system that moves or carries energy in a usable form from one place to another". These definitions must be read in conjunction with a definition of renewable energy which means "energy generated from natural non-depleting resources including solar energy, wind energy, biomass energy, biological waste energy, hydro energy, geothermal energy and ocean and tidal energy". Taken into consideration the definition of "energy carrier" and "energy resource" both the definitions make reference to non-renewable and renewable forms of energy. In certain sectors the use of renewable energy is seen as one of the tools to become more energy efficient, however the renewable energy technology must itself be energy efficient during its own life cycle (Murombo and Du Plessis *Energy Efficiency: New Strategies for improving South African Energy Laws*).

REGULATION OF ENERGY EFFICIENCY

In the new constitutional dispensation, the government of the Republic of South Africa has been divided into three spheres. According to the Constitution these spheres are distinctive, interdependent and interrelated (section 40 (1) of the Constitution). The regulation of energy efficiency is governed on a national level by the Department of Energy and Energy Efficiency Directorate. On a policy level it is regulated by different Policies, strategies, targets and legislation and on local level by Municipal policies and by-laws.

SUSTAINABLE BUILDING

In order to clarify the origin, content and scope of sustainable building, the National Building

Regulations and Building Standards Act 103 of 1977 (hereafter NRBS) specifically regulates building in South Africa. The objectives of the NRBS are to promote uniformity in the law that relates to the erection of buildings in areas where the local government have jurisdiction. A further objective of the NRBS is to prescribe building standards and to regulate any matter that relate to building standards (Preamble of the NRBS). The Department of Trade and Industry promulgated in GG R711 no 34586 of 9 September 2011 country-wide regulations for sustainable development of buildings in South Africa. Although the NRBS does not

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specifically make reference to sustainable building, the Minister of Trade and Industry has the power to incorporate matters on sustainable development in the regulations that is made to the act. An example that this has been done and is manifested in the regulation (GG R711 no 34586 of 9 September 2011) which make reference to energy usage in buildings.

The South African Bureau of Standards (hereafter SABS) National Committee approves or disapproves the South African standards on building regulations and the South African National Standards (SANS) is developed according to the objectives of SABS (National Committee SABS 2011 www.sabs.co.za).

TAX INCENTIVES

Local governments may impose property rates and surcharges on fees for services that are provided by the municipality or on behalf of the municipality (section 229 of the Constitution). The taxation that a municipality charges is defined as taxation on property (section 229(1)(a) of the Constitution. Also see White Paper on Local Government, 1998 at 135). The property tax requires the owner of the immovable property within the jurisdiction of the municipality to pay tax (that is based on the valuation of the property) to the specific municipality (Bekink *Local Government Law* 432). Bekink argues that local governments should have latitude with regard to property taxes within their jurisdictions due to the fact that a municipality can reflect its own unique circumstances and local economic objectives (Bekink *Local Government Law* 344). The Income Tax Act in section 12i allows that a tax reduction to be given to companies that engage in the improvement of energy efficiency. This energy efficiency improvement must conform to the "reported savings" approach that is outlined in the National Standard 50010 for the "measurement and verification of energy efficiency savings" as it is issued by the South African Bureau of Standards.

Brownfield (abandoned vacant, derelict or underutilized commercial and industrial properties where precedent actions have resulted in definite or supposed contamination) (Ottawa http://ottawa.ca/sites/ottawa.ca/files/migrated/files/con025271.pdf 3) and Greenfield (sites that have not been built on prior to and are often rural or countryside areas) (Bamford, M *Brownfield vs Greenfield sites: What are the issues involved?* 1) efficiency improvements must adhere to certain criteria and must receive requisite verification by SANEDI. For the purposes of this study, the author will propose that should a person promote the principle of sustainable

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building on an immovable property, the municipality should encourage sustainable building through the decreasing of the property tax, or an alternative incentive, on the specific immovable property, like the incentive that companies (discussed above) can receive.

PRINCIPLE OF SUBSIDIARITY

Lower levels of government usually favour the devolutionist's principle of subsidiarity, the concept means that governance should take place as close as possible to the citizen (De Visser *Local government Bulletin* 16-17). Subsidiarity is widely invoked and supported, but in practice it is also highly contested and could be used to justify a variety of practical outcomes in different circumstances. This translates in the protection of lower spheres of government (local government) against the undue interference by the national government. Therefore, when implementing the principle of subsidiarity, it is argued that the lower level of government (local government) are closer to the citizens and can therefore establish and distinguish the needs of the citizens and address them as they come (De Visser *Local Government Bulletin* 16-17). The subsidiarity principle ensure the human right in the local government and add to the development of local initiatives and the civil society. Local governments are protected by the Constitution in s 156(4) and national and provincial governments are encouraged to transfer the functions to local governments where it is possible. This principle could provide a useful benchmark for assessing, and for reforming, program design and funding arrangements.

NATIONAL BUILDING REGULATION

SANS 10400-X finds its application in environmental sustainability in the national building regulations. The SANS 10400-XA: 2011 standard has been developed to promote energy efficiency in buildings (GG R711 no 34586 of 9 September 2011). The National Regulator for Compulsory Specifications (NRCS) is responsible for the administration of the technical regulations and to make sure that the building industry is on track concerning energy efficiency (Lemmer 2011 http://www.kznia.org.za/resources/docs/news/Energy_2011-09-22_Publication_New _standard.pdf). Municipalities are responsible for the approval of all

ISBN: 978-9963-711-37-6

building plans within its jurisdiction (Dekker 2008 http://www.saiay.org.za/NRB%20AND%20DTS% 20STANDARDS.pdf.) and therefore it can be expected of municipalities to use their legislative and executive powers in such a way that it will result in compliance with SANS 10400-X.

VOLUNTARY STANDARDS

SANS 26000/ISO 26000 provides guidance to organisations in relation to issues such as human rights, environmental management, climate change and community development. This is a voluntary guidance standard, and is not intended for certification purposes, however this standard can be used in how organisations and in this specific study how local governments can integrate social responsibility within their core activities and throughout their sphere of influence (National Committee SABS 2010 www.sabs.co.za).

CHALLENGES/OPPORTUNITIES

The barriers to energy efficiency in the South African building industry and possible solutions to the resistance to the implementation of energy conservation possibilities is addressed. The challenges that are foreseen is in order to achieve sustainable development, there is a need to move towards renewable and sustainable energy production that is coupled with improved energy efficiency. The implementation of policies and laws that mandate renewable energy has also been hampered by the misalignment between the South Africa's energy laws generally and environmental laws that aims to promote sustainable development. No synchronisation between the environmental laws, energy laws and the local government laws of South Africa exist. The contradictions between these "fields" of laws and policies have negative impacts on the effectiveness of the law in fostering pathways towards sustainable renewable energy. Local government for instance with the principle of subsidiarity is best situated to promote small-scale renewable energy projects, and also to promote the rollout of the national projects such as solar water-heating. Local governments are also best suited to promote or implement voluntary projects or standards such as SANS 50001:2011 (Murombo and Du Plessis *Energy Efficiency: New Strategies for improving South African Energy Laws*).

CONCLUSION

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There is a call for the transition to renewable energy and this must be concurrent with the instilling of energy use disciplines in the mind of energy users. South Africa accustomed to an environment of cheap electricity and therefore there had been no motivation to be efficient with energy usage.

There must be a mind-set change to promote energy efficiency and sustainable housing. There are various tools in order to achieve this: laws, policies, strategies, guidelines and voluntary projects. Promote and develop energy efficiency practices, norms and standards in different energy sectors, including industries, commercial buildings, households, transport and agriculture. Promote energy for sustainable development.

Facilitate information awareness and capacity building campaigns on energy efficiency and environmental issues. Mitigate negative impact of energy utilization on environment. Promote energy efficiency technologies, clean energy technologies including environmentally sound energy technologies.

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ISBN: 978-9963-711-37-6

TOURISM NORMS

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ABSTRACT

This paper focuses on the norms of both social culture and law, ruling the phenomenon of tourism, mainly in its international version. It puts the stress on cultural tourism, that is defined as the movement of persons to cultural attractions away from their normal place of residence, with the intention to gather new information and experiences to satisfy their cultural needs. It highlights the complex nature of tourism law, which is a non-autonomous complex branch of law as well as the complementarity and the political identity of cultural and juridical norms on tourism.

Keywords: Codification, Cooking, Cultural Tourism, French Law, French Cooking, International Tourism, Norms, Tourism Law, Tourism Management

INTRODUCTION: TOURISM NORMS, A MENU MADE OF CULTURE AND LAW

Tourism is not just a phenomenon of recent times; it has been called the largest growth industry since the end of World War II and it is a full-time industry, whose impact can be classified into the economic, environmental, social and cultural impact.

Tourism is travel for leisure, recreational and business purposes.

The growth of technological developments in air-transport and the new economical ways of packaging travel and accommodation brought prices down and rendered travel possible for a greater number of people. For most people, the word 'tourism' involves travelling, holidays and sightseeing.

It would be interesting to take an approach to this complex phenomenon, by focusing on its rich normative content. Indeed, political priorities and social concepts have led to the creation of law and culture on the matter. As a result, this paper aims at analyzing various norms of this social activity, that has been officially in the field of public policy independently of the eventual existence of a specialized ministry within the government. Not only does the paper focus on both juridical and cultural norms but it is also based on the comparative method of study and interpretation. This method fits in with the international dimension of tourism itself, as already implied. Although tourism is a unique phenomenon with many special forms, cultural tourism is going to be mainly analyzed, due to its mainstreaming status for the entire research scope of this paper, let alone the fact that norms of social culture are intrinsically connected with cultural tourism.

 ISBN: 978-9963-711-37-6

AN INTRODUCTION TO CULTURAL TOURISM EXEMPLIFIED BY COOKING

Cultural tourism (or culture tourism) is the subset of tourism concerned with a country or region's culture, specifically the lifestyle of the people in those geographical areas, the history of those people, their art, architecture, religion(s), and other elements that helped shape their way of life (Hunt, 1991). It includes tourism in urban areas, particularly historic or large cities and their cultural facilities, such as museums, archaeological sites, art galleries and theatres. It can also include tourism in rural areas showcasing the traditions of indigenous cultural communities (i.e. festivals, fairs, exhibitions, gastronomy, craft, rituals), and their values and lifestyle, as well as niches like industrial tourism and creative tourism. It is to point out that cooking may be a strong motivation to visit different places and countries. The gastronomic version of tourism has been explicitly institutionalized as a part of cultural tourism in the Specific Framework on Spatial Planning and Sustainable Development, in its both successive versions, in the Greek legal order.

It is generally agreed that cultural tourists spend substantially more than standard tourists do. This form of tourism is also becoming generally more popular throughout the world, and a recent OECD report has highlighted the role that cultural tourism can play in regional development in different world regions. It has been defined as *'the movement of persons to cultural attractions away from their normal place of residence, with the intention to gather new information and experiences to satisfy their cultural needs*'. These cultural needs can include the solidification of one's own cultural identity, by observing the exotic "other". The interchange of ideas, cultures and perceptions can do much to dispel ignorance and misunderstanding. The development of youth tourism in particular, will tend to generate long-term advantages, not only in relation to repeat journeys, but in a wider understanding of cultural differences.

IMPLICATIONS OF INTERNATIONAL TOURISM ON AUTOCHTHON NORMS

International tourism has far-reaching political and economical implications. There is also a social impact on the receiving areas of tourism which can have positive and negative effects. As a service industry, tourism has the capacity to create job opportunities for a large number of people. Moreover, tourist receipts and expenditures have an important effect on a country's national economy. The foreign exchange which tourism brings in has a beneficial impact on the country's prosperity and balance of payments. Therefore, governments and tourism developers should invest in tourism in the form not only of buildings or of improving the infrastructure but also of conservation and promotion of the historical and cultural heritage of their countries.

Culture is a key factor to tourism since the traditions of the indigenous, their customs, their way of life and mentality are most of the times the only thing which tourists look for in a destination. People

ISBN: 978-9963-711-37-6

should take care to ensure that their culture is properly preserved and cared, since the impact of tourism on it can be quite harmful. However, the negative effects of tourism on the indigenous culture of a nation can be minimized through intelligent planning for tourism development and through sensible management of tourists and tourist facilities.

The host population of a region has its own language, religion, values, rules and standards of behavior that should be respected by all visitors. Local communities must try to keep their identity. In certain destinations, mainly in those of the most underprivileged countries, the residents get to become servants of the tourists and this creates resentment between the local population and the visitors. Thus, tourism establishes the bases of a new form of colonialism, based on the foreign dependency (Doxey, 1975). It also can cause des-culturization of the local people who consider the culture of the tourists as superior. Of this form the indigenous cultures try to adapt to the customs of the visitors and they are possible to be ended up destroying the elements that at their moment represented greater the attractiveness for the tourists. Despite these difficulties, governments have ultimately to find a means of managing, if not completely eradicating these problems (World Tourism Organization, 1999). This is particularly the case where tourism-related problems impact on the sociocultural values of the society or on the environment (Budowski, 1976). These wider concerns are the responsibility of government and it may be that government is the only agent able to introduce the required remedial actions.

In this aspect, we all ought to respect the autochthon population, as individuals and as visitors, from our side while central and local governments should try to facilitate the contact between the travelers and the receiving population, to avoid formation of touristic ghettos and to promote plans so that the tourism benefits all the local people. Respect to the tourism is due to plan on global scale and to act of local way (Crompton, 1993).

LAW IMPLICATIONS ON TOURISM MANAGEMENT

Nowadays, hospitality managers are required not only to understand the day to day operation of their enterprise but the legal aspect of hospitality and tourism management. The legal system is a main system that regulates almost each part of the society, including tourism and hospitality industry. When one transacts with another, that person is essentially contracting with the other party. Law, in this sense, helps to safeguard the rights and obligations that these two contracting parties are entitled to. Without a properly functioning legal system, the society will flounder and people will be reluctant to enter into transactions with each other for fear of ending up with the shorter end of the stick. The tourism and hospitality industry is closely interlinked with the legal system. Business organizations, such as hotels, agencies and restaurants, rely on common law when dealing with each other. Law also comes into play when businesses interact with customers through the provision of goods and services. Tourism laws

 ISBN: 978-9963-711-37-6

have been made to enhance facility services, to bridge the gap between, regulate economic disputes, to promote goodwill understanding and preserve world peace. Taking into consideration all of the above notions we come to the conclusion that indigenous culture may be preserved through specific tourism legislation (Atherton, 1998).

Governments and local authorities should make in this case, an enquiry that will aim to record and then to monitor the residents' perceptions of the impacts of tourism (Brunt, 1999). Once these opinions have been collected, they can be tested for validity, as there are many factors which can influence a resident's view of tourism and its impact on a locality. To be of use to tourism planners, surveys of opinion have to be properly structured and stratified. As a continuing exercise, they can produce a stream of data, perhaps qualitative but nevertheless, important, as a means of trying to harmonize tourism development within a community. The basis for any management strategy is information (Atherton, 1991).

'French cooking': Is Tourism Law a legislative 'millefeuille'?

Tourism is regulated by law, much time before the adoption of a specific body of rules. Indeed, it has to do with the liberty of moving from place to place, without any bans imposed by the state. So, it is intrinsically connected with civil fundamental rights, like the freedom of motion. It has been noticed in a convincing way, in the level of French legal theory, that this law is older than it seems to, and that it can find out its own origins in the regulation of the liberty to go and to come. It has been added that since people have had the possibility of travelling, this question emerged (Jégouzo, 2012). That is why, tourism right is primarily classified into the field of public law (mainly constitutional law) rather than of private law. Of course, as already signalized, tourism has many rules of private law (civil law, commercial law, labor law), like the case of contracting between hotel companies and other tourism companies or hotel customers. The same representative of 'French cooking' legal theory denies the parallel of tourism legislation to millefeuille. If the French pastry has as its motto this sweet, famous on international scale, tourism law is not a legislative millefeuille, as proved by the fact that this body of rules has been recently codified. Indeed, France is the first and the unique state all over the world, to date, to adopt a 'Tourism Code'(Jégouzo, 2012). Anyway, it is to point out that the expression 'French cooking' has been consecrated to point out the particular legal framework on the use of nuclear energy in France, in opposition to the framework of other states.

As already implied, the fundamental right to tourism has also an intrinsic political dimension, implicating liberalism and potentially democracy. Authoritarian regimes have the tendency to ban this activity for their own nationals, mainly because they do not want to give them the opportunity to leave definitely the country. As a general rule, they do allow the entry of foreigners as tourists, in spite of the fact that an eventual osmosis between these tourists and the local population is likely to cause, even

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indirectly, destabilization of the host regime. These governments may also manifest a special interest on the matter, just like the dictatorship of Prime Minister John Metaxas, established in Greece in 1936, when a Ministry on Press and Tourism was created for the first time. The irony of the history is that two generations of governors passed by, till the resume of the institutionalization of autonomous Ministries, this time being separated one another (within a democratic government) for these fields of public policy…

A few years after the beginning of the twentieth century, some European countries, such as France and Greece, adopted the first rules establishing rudimental organizations for tourism, within Public Administration. So, tourism was no more just a fundamental right, even implicitly, but also an official competence of public agents.

Mainly after World War II states created their own body of rules on this 'democratized' mass activity. Some of these rules belong to public Law (i.e an ad hoc unit within a Ministry or a self-existent legal entity of public law, Tourism Police etc.) while the rest ones are classified into private law, as already signalized.

Nowadays, tourism law is regarded as a specific branch of law, namely is not merely a 'legislation'. However, it is to signalize that tourism is a transversal discipline (like cultural law), not an autonomous branch like public law in the strict sense (Constitutional Law and Administrative Law) or criminal law (being a part of public law in the wide sense) because it has not yet self-sufficiency for the interpretation of its regulatory body, mainly in case of legislative vacuums. So, it is led to borrow the available common legal tools from the autonomous (and much older) branches.

CONCLUSION: 'DO IT LIKE THE ALTERNATIVE DIPLOMACY WAY!'

The current analysis has highlighted the fact that various norms on tourism have a non-juridical origin whilst even rules of law are very useful for tourism management. The cultural norms on the matter have often a socioeconomic content like the following ones:

1. Cultural tourists spend substantially more than standard tourists do,
2. One's own cultural identity is solidified, by observing the exotic other identity.

Furthermore, the opinion that indigenous culture may be preserved through specific tourism legislation constitutes a crucial example of the intrinsic complementarity between cultural (social) norms and legal norms (juridical rules) relevant to tourism activities, particularly on international scale.

Besides this case of complementarity, it results a common identity, an identical nature, of cultural and juridical norms, exemplified by their political nature. It has been pointed out that mainly in the destinations of the most underprivileged countries, the residents get to become servants of the tourists and this creates resentment between the local population and the visitors. Thus, tourism establishes the

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bases of a new form of colonialism, based on the foreign dependency. In this sociopolitical framework, hosts are servants but also opponent to 'sovereign' foreign tourists. In a similar way, in constitutional terms, it is has been proved that the fundamental civil right to tourism is not merely a civil right but it is also a political one, among human rights against the state power. This complex status is valid, in spite of the fact that a tourist is, as a general rule, a non-political subject in the political context of the foreign country that he is visiting.

This reference to the political nature of tourism norms is comparable with the concept on potential agents of state diplomacy. Nowadays, according to the political culture in many countries, besides conventional diplomacy operated by professional diplomats, international relationships should be promoted by alternative dynamic forms of 'diplomacy'. For instance, this modern approach encourages officers of the armed forces to enact the role of informal diplomats in defense and security international affairs. Another form of alternative diplomacy has to do with archeological excavations in operation in foreign countries and with other similar international exchanges. So, people travelling for entertainment should not be considered as 'tourists' of a rather apolitical status but they should be encouraged to act as cosmopolitan citizens, comparable with the informal organs of alternative diplomacy.

As for cultural tourism, it is highly recommended to establish a unique Ministry on Culture and Tourism within government, as this measure was adopted for a short period of time in Greece. Culture, particularly cultural heritage, may be promoted by tourism and also it may drastically promote tourism development, mainly international tourism. Decision - makers should realize the norm that cultural goods and tourism are essentially the two poles of the same set of public values.

Last but not least, if many societies have imported the millefeuille gastronomy from France, states should prove that their own legislation is really not a legislative millefeuille, by adopting a Tourism Code, upon the French paradigm.

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 ISBN: 978-9963-711-37-6

HOW CAN CITIZENS DEVELOP AND EVALUATE LOCAL TOURIST SERVICES? THE CASE OF THE PROVINCE OF CUNEO (ITALY)

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ABSTRACT

This paper describes government-citizens relations in policy-making in terms of information, consultation and active participation and provides a framework of performance evaluation of tourist services offered by the Province of Cuneo, individuating priorities of interventions. Even if there is a large literature describing the role of citizens on government decisions and on evaluating performances of public services, it always refers only to a national context. This paper bridges this gap applying the previous two topics to the province of Cuneo and to a particular type of service: tourist services. In order to achieve these objectives, the used methodology consists of (1) a systematic analysis of literature concerning both the management of government-citizens relations and the role of citizens, in addition to the evaluation of tourist services; (2) the creation of a framework of government-citizens relations and public services evaluation applied to the Province of Cuneo throughout an exploratory study effected by a questionnaire submitted to 150 citizens; (3) the proposal of strategies for Bodies. The research findings both show how the citizen in the province of Cuneo is not very involved in the provincial governance and expresses a discrete degree of satisfaction towards tourist services. This is an exploratory study based on subjective answers and the framework finds application only to the Province of Cuneo. It could be developed by comparing successful and unsuccessful case studies and be applied to a lower level (i.e. urban level).

Keywords: *Government-Citizens Relations; Performance Evaluation; Public Services; Tourist Services; Evaluation of Provincial Services; Role of Citizens; Province of Cuneo.*

INTRODUCTION

There is a consensus among scholars about the fact that citizen participation is an important factor for success and prosperity of local government (Obasi and Lekorwe, 2014; Farina *et al.,* 2013; Mohammadi and Norazizan, 2010; Aref *et al*., 2009) because it both produces more efficiency in programs and supports good governance (Lowndes *et al*., 2001).

 ISBN: 978-9963-711-37-6

The development of local government ensures people's involvement in public matters, thus promoting their participation in government decision. Aldashev (2003) considers participation as a social behavior, while other scholars think of it as a step from passive to active involvement to full local participation (Ashley and Roe, 1998). A very important contribution in improving government actions can also be given by citizens in providing their degree of satisfaction with reference to performances of public services (OECD, 2013; Clifton *et al.*, 2008). There exists a large literature concerning the role of citizens in policy-making and also a few studies on performance measurement of public services but they are usually applied to a national context. This paper tries to bridge this gap developing these two important topics of public governance with reference to a local context: the Piedmont province of Cuneo. This is the third Italian biggest province. With regard to Piedmont Region it is the second province for population, the first province for life quality, the province with major agricultural vocation and with the lowest unemployment rate. This paper aims both at investigating government-citizens relationships in policy-making in terms of information, consultation and active participation and at creating a framework of performance evaluation of the public tourist services offered by the Province of Cuneo, identifying priorities of interventions. It begins with an overview on main roles attributed to citizens in policy-making in recent years. After a punctual description of its methodology, this paper offers an analysis and a discussion of results obtained throughout a questionnaire submitted to 150 citizens aiming at discovering government-citizens relations and their degree of satisfaction on performances of tourist services. Finally, the last paragraph is devoted to drawing suggestions and paths of action in order to improve citizens participation in policy-making and performances of public services.

THE ROLE OF CITIZENS IN POLICY-MAKING

In order to share financial resources, it is always more necessary to create suitable systems of performance measurement in order to verify whether the offered services are appropriate for the demand, whether they are qualitatively effective (Canny, 2013) and efficient in terms of the usage of available resources. The performance management is defined as the "strategic and integrated process that delivers sustained success to organizations by improving the performance of people who work in them and by developing the capabilities of individual contributors and teams" (Armstrong, 2000). Moullin (2002) and De Bruijn (2001) consider - as scopes of performance management - rationalization, more effective systems of financial accountability, transparency in operations and a remuneration policy based on performances.

In the last years several scholars have also studied whether there are limited evidences on drivers of performance of public services (Testa, 2009; Andrews *et al.*, 2006; Borgonovi, 1996). It's a common opinion that the improvement of relationships among users and service suppliers goes through the ability of the latter to listen, meet and anticipate citizens' expectations and needs (Viganò and Zanuso, 2009). In

 ISBN: 978-9963-711-37-6

particular, this topic is considered very important for peculiar kinds of services like health (Tardivo and Viassone, 2010; Giarelli *et al*., 2002), transportation (Wang *et al.,* 2008) and tourism (Jaafar *et al.,* 2014; Golinelli and Simoni, 2005; Hong, 2009; Franch *et al*., 2010). More specifically, different contributions of literature maintain that citizens' involvement and support for government decisions result in the creation of benefit (Kweit and Kweit, 2004), of social capital in communities (Leach *et al*., 2002), in the increase of capacity to solve problems (Roberts, 2002; Putnam, 1993). However, this participation cannot produce benefits because of its high costs of realization (Heikkila, 2007). There exists a variety of informal ways to involve citizens in public decisions: to call up community leaders in order to assess citizens' needs or to send representatives to attend meetings of community groups (Carr and Halvorsen, 2001). In order to favor a more transparent decision-making process, e-government tools have been developed (Thomas and Streib, 2003; Welch *et al*. 2005). Main roles assigned to citizens by OECD (2001) are:

- information, a one-way relation where local government produces and delivers information meant to be used by citizens. This first role of citizens is an objective shared among all OECD Countries. The access to information requires sound legislation and clear institutional mechanism for its application.

Citizens seek information from Government that is objective, complete, relevant, easy to find and easy to understand (Caddy, 2001);

- consultation, a two-way relation throughout which citizens provide feedback to local government. This role requires providing of information from local government towards citizens. With reference to this second aspect there exists large differences among different OECD Countries;
- active participation: this relation is based on partnership with government and in this case the citizen is actively involved in the policy-making process. This means that governments acknowledge the role of citizens in proposing policy options and shaping the policy dialogue (Curtain, 2003). It requires both the availability of local government to share the agenda-settling and the grant that citizens' opinion is taken into consideration in reaching a final decision. This role of citizens is rare and can be found in a very few OECD Countries. However, the opportunities for citizens to participate in the implementation of decisions have been not so visible until the second half of the 20th century (Roberts, 2004).

This citizens' involvement can be very important because:

- citizens can sometimes identify performance measurements often ignored by local governments (i.e. the quality of customer service) (Heikkila, 2007)
- citizens can be able to create a performance system for more responsive government (Dusenbury *et al.*, 2002).

Unfortunately, involving citizens in governmental decision-making is not a simple task and it turns out to be even more difficult if we focus our attention on the local context. This study tries to measure the level of citizens' involvement and understand main causes at the basis of its poor results and to investigate

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their degree of satisfaction on performances of tourist services. The measure of this last factor is very important (Alizadeh and Kianfar, 2013) and in literature several methods have been developed. Among the most famous models, there is the GAP model created by Parasuraman *et al*. (1985), that considers the service quality as a function of differences between expectation and performance along the several quality dimensions and it is based on a gap analysis (Tardivo et al., 2014). Anyway, most papers about the measurement of different services uses SERVQUAL (Corneliu, 2012) and SERVPERF models (Mohd et al., 2013). The first, developed by Parasuraman *et al*. (1988), measures the difference between customers' expectations and perception using a 22-item scale, representing 5 dimensions of service quality (reliability, assurance, responsiveness, empathy and tangibles). The second, developed in 1992 by Cronin and Taylor, employs the same questionnaire of the SERVQUAL one but it is composed of a single prospect (that of customers' perceptions) and it does not consider that of customers' expectations. In order to provide a global evaluation of the service it is necessary: to evaluate the quality of the service (by means of a 7-point Likert Scale) perceived by each customer involved in the survey; this corresponds to the average (Qj) of his/her ratings of the 22 items (Qij):

$$Q_j = \sum_{i=1}^{22} (Q_{ij})/22 \qquad (1)$$

to calculate the average of values of Qj registered for all users involved, so to assess the global user satisfaction of the service:

$$Q = \sum_{j=1}^{n} Q_j/n \qquad (2)$$

With particular reference to tourism, several studies have investigated the factors affecting customer satisfaction towards tourist services (Jaafar *et al.*, 2014; Franch *et al*., 2010; Hong, 2009; Golinelli and Simoni, 2005) and it is a common opinion that the quality of offered services is the rule (Viassone, 2012). While many researchers investigate causality between satisfaction and quality (Gallarza, Saura and Garcia, 2002) other ones analyze the relationship between service quality, satisfaction (Al-Ababneh, 2013) and loyalty (Oliver, 1997). In a sector characterized by high level of competitiveness - like tourism - the tourist has more alternatives and, if he's not satisfied, it is likely he won't come again (Viassone, 2012; Bowie and Chang, 2005). While both the satisfaction towards tourist services and towards a particular destination (Cassidy, 2002) have been provided by literature, scarce attention has been dedicated to the local level. Given all the previous considerations, it is very important to create suitable systems able to measure the satisfaction of citizens towards public tourist services offered at local level and to investigate their role in the decision-making process about them.

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RESEARCH METHODOLOGY

Despite the existence of both an extensive literature concerning interrelations between government and citizens and a few researches on performance measurement of public services, they are generally applied to a national context. This paper tries to bridge this gap developing these two important topics of public governance with reference to a local context: the province of Cuneo. The province of Cuneo is a territory rich both on the food and wine and the historic and landscape point of view. A very important role is played by two different types of tourism: food and wine tourism and mountain tourism. The first is favored by the presence of several local excellences such as 8 PDO (Protected Designation of Origin), 4 IGP (Protected Geographical Indication), 10 DOC (Controlled Denomination of Origin), 7 DOCG (Controlled and Guaranteed Denomination of Origin) and 141 PAT (Traditional Food Products) (CCIAA Cuneo, 2015). Starting from 2014 Cuneo boasts also an important Unesco site that is the district Langhe, Roero and Monferrato, the home of good wine and food. With regard to the second type of tourism, it is important to emphasize that Cuneo is the Piedmont province with the highest percentage of mountain villages out of Piedmont mountain villages; in fact 147 out of 515 mountain Piedmont villages are settled in this province (28.5%). These territories are deployed in the following main areas: Valli Gesso, Vermenagna, Pesio and Bisalta; Valle Stura; Valli Grana and Maira; Valli Po, Bronda, Infernotto and Varaita; Alta Valle Tanaro, Valli Mongia and Cevetta, Langa Cebana and Valli Monregalesi; Alta Langa and Langa, Valli Bormida and Uzzone. This province has been chosen since, in a previous study (Viassone, 2013), the author emphasized how it shows a low tourist demand if compared to an average offer, determined in particular by the index of the life quality at regional level, by the high environmental quality and by the high number of accommodations. Despite this tourism is considered a very strategic asset for the local development and 2014 shows positive results, with 3900 tourist firms, 1601 accomodations and 436 accomodations with the "Ospitalità Italiana" brand and an increase by 2.17% of tourist presences (CCIAA Cuneo, 2015). This paper tries to answer the following important questions:

Q1: How is the relationship between local government and citizens?

Q2: What is the level of citizens' satisfaction with reference to the tourist public services?

In order to deal with these important issues, after an accurate review of literature on the management of government-citizens relations and the role of citizens, the evaluation of the level of interrelations among local public government and citizens and the performances of local tourist public services is performed by means of a questionnaire submitted to 150 citizens with a reply rate by 84%. The choice of the sample has been created considering area of provenience, sex and age.

The sample is constituted by 126 citizens - 48% men, 52% women – whose age ranges between 18 and 70 years and living in the different areas of the province.

ISBN: 978-9963-711-37-6

The questionnaire has been sent via mail in the period 2011-2013 to the selected citizens and it is divided into three main parts: 1. general information; 2. government-citizens relations; 3. evaluation of the tourist local public services.

With reference to this kind of service, 5 peculiar aspects of the tourist sector are analyzed: supply, aggregative forms, technology, organization of events and communication.

The measurement items use the five-point Likert scale with reference both to the importance assigned to each aspect and to the level of user satisfaction towards the service. In this way, the respondents have the possibility of choosing among five degrees of preference and it is possible to evaluate their perception of each aspect/variable. This last part allows to individuate the map of priorities of tourist public services by crossing the judgments of citizens on the importance of different variables of the local public services and the level of customer satisfaction with reference to the same. The responses to the questionnaire have been analyzed with the SPSS software.

ANALYSIS AND DISCUSSION OF RESULTS

With regard to local government-citizens relations in policy-making, the level of knowledge of citizens about policies adopted to improve relationships among local government and citizens turns out to be low. Only 4.7% of the sample declares to know some of these policies and, with respect to this, most interviewees cite the opening of "integrated paths" for the collaboration of enterprise with a free accommodation and advisory service up to the starting up of the firm. The province handles the reception and technical evaluation of question according to the LR (regional law) 34/2008 by means of the Labor Policies' Service Office. Another service consists in the provision of funds for new entrepreneurship.

With reference to the first role of citizens (information), it's possible to notice how 40.9% finds accessing to information quite simple. The most difficult information to collect concerns balance, policy, finance, bureaucracy and strategies of government. Citizens declare to have not a good knowledge of the existent policies to favor the access of citizens to local information and policies supporting innovation (the only ones are internet, municipality websites). These policies could affect the citizens-government relationships by improving dialogue, rapidity and communication. With reference to the second role of citizens (consultation), the situation is similar: 89.7% of the sample declares a not good knowledge of these policies; the most well-known policies are those related to tourism, certificate, infrastructures. Despite a not high presence of policies to ensure active participation of citizens, they are present with reference to tourism and culture: 89% of the sample is not acquainted with new technologies. Generally Government tends to evaluate the impact of its policies throughout surveys, questionnaires, balances and debates.

Main difficulties related to the relationship between local government and citizens are:

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- a level of communication that should be improved. A not very high level of communication can damage not only poorly-informed citizens but also those local bodies that don't emphasize their initiatives enough;
- the not sufficient presence of tools throughout which citizens can express their opinion on the Government activity;
- high level of bureaucracy;
- poor interest towards direct involvement;
- a not high interest of citizens towards government questions;
- a not extensive knowledge of the will of citizens, funds and professional preparation;
- lack of tools and difficulty to access information;

With regard to tourist services evaluation, results are very interesting, in particular if we consider that this Province bases most of its tourism on food/wine and mountain activities. In fact, the three aspects which meet the highest degree of citizens' satisfaction are the quantity and quality of ski facility (21%), the valorization of local typical products (18.7%) and the restaurant offer (14.9%). The first two aspects are also considered the most important ones in the evaluation of tourist local services. In this case, two out of three important aspects considered as priorities in other studies (Tsitsiloni *et al.*, 2012) meet the highest level of satisfaction (food cuisine and hospitality/restaurants). Other aspects turning out to be very important are hygiene and care of public spaces (56.8%), the quantity of cultural events (38.7%) and the ability to organize them (38.5%); these are also the issues that show the widest gap between high importance and high satisfaction. The lowest level of satisfaction of citizens deals with season tickets for citizens in order to attend cultural events (17.5%), the presence of webcams near main tourist attractions (12.5%) and the presence of videos promoting the territory (12.5%). With reference to the five main aspects under evaluation, aggregative forms, technology and (also in its sub-aspects) organization of events result to be those getting the worst rating in terms of user satisfaction.

	Importance (% values)					Satisfaction				
Aspects of tourism public services	Low			High		Not satisf.			Completely satisf.	
Offer	1	2	3	4	5	1	2	3	4	5

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Existence of specific information points	3.9	11.8	29.9	37.8	16.5	8.1	37.4	42.5	9.8	3.3
Capillarity of counters for tourist accommodation	4.9	12.3	39.3	32	11.5	9.2	42	38.7	8.4	1.7
Presentation of the supply of tourist services on province website	4.1	10.6	30.1	37.4	17.9	8.6	25	47.4	15.5	3.4
Number and quality of accommodation facilities	5.6	7.3	36.3	33.9	16.9	10.9	26.9	41.2	17.6	3.4
Number and quality of museums/theatres	5.6	10.5	21	41.1	21.8	6.6	29.8	39.7	21.5	2.5
Number and quality of gyms/swimming pools	5.6	7.3	19.4	39.5	28.2	7.3	15.4	30.1	35.8	11.4
Number and quality of skiing facilities	4	6.5	21.8	31.5	36.3	4	9.7	24.2	41.1	21
Restaurants offer	2.4	4	12.1	41.1	40.3	/	9.1	19.6	56.2	14.9
Wellness offer	3.3	16.7	34.2	37.5	8.3	5	16.7	45.8	26.7	5.8
Health and care of public areas	1.6	6.4	17.6	17.6	56.8	4.1	29.5	39.3	23	4.1
Aggregative forms										
Presence of several ATL	1.7	8.7	43.5	37.4	8.7	6.2	26.8	52.7	12.5	1.8
Formation of cultural associations	3.3	13.3	45	30	8.3	3.5	32.7	43.4	17.7	2.7
Capillarity of tourist firms	4.1	8.1	38.2	38.2	11.4	2.5	22.7	52.1	17.6	5
Technology										
Presence of webcams near mean tourist attractions	8.8	20	36	23.2	12	12.5	33.3	41.7	10	2.5
Tourist-oriented local maps giving right to discounts	4.1	12.3	29.5	32	22.1	10.7	39.7	35.5	9.9	4.1
Events organization										
High occurrence of cultural events (concerts. theatre plays. etc.)	1.6	10.5	16.1	33.1	38.7	9.8	27.6	43.1	13.8	5.7
Capability of organizing cultural events at one's best	1.6	11.5	21.3	27	38.5	7.4	30.3	43.4	15.6	3.3
Organization of fairs	2.5	9	23	37.7	27.9	4.2	15.1	37.8	32.8	10.1
Season tickets for province inhabitants for cultural events (theatre, cinema, shows. Etc.)	4.1	15.7	22.3	30.6	27.3	17.5	30	40	9.2	3.3
Organization of sport events	0.8	7.5	22.5	44.2	25	7.4	19	46.3	19	8.3

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Creation of pure tourist routes	4.1	13.1	30.3	30.3	22.1	10.1	26.1	43.7	18.5	1.7
Communication										
Video production meant to promote the territory	7.3	18.7	30.9	22.8	20.3	12.5	31.7	38.3	11.7	5.8
Distribution of leaflets/magazines containing the list of scheduled events	4	16.1	26.6	32.3	21	8.2	27.9	35.2	22.1	6.6
Exploitation of local products	2.4	2.4	13.8	27.6	53.7	3.3	8.9	30.1	39	18.7

Table 1. *Citizens satisfaction towards aspects of tourism public services*

Considering all these aspects, 69.1% of citizens shows a discrete degree of satisfaction towards public tourist services; main problems deal with the lack of infrastructures and accommodation for foreigners, poor information, lack of attractions, scarce promotion and high costs.

These should be considered as important drivers that, if well managed, can create opportunities of improvement in the future. In particular, tourism infrastructures are important drivers of the tourism demand. In the same way, major attractions play a deciding role in determining the tourist attractiveness of whole territories, being the central element of advertising campaigns and key drivers local economic growth (Nowacki, 2013).

1 Completely unsatisfied	2 Poorly satisfied	3 Fairly satisfied	4 Satisfied	5 Totally satisfied
0.8%	7.3%	69.1%	20.3%	2.4%

Table 2. Citizens satisfaction towards tourism public services

Results show how the citizen in the province of Cuneo is not very involved in the local governance and the only meaningful percentage is registered with reference to the role of information (Caddy, 2001) because the role of consultation or active participation are not very diffused. Main tools of information are websites while the tools of consultation known by citizens correspond to evaluations at the end of the service (i.e. for the entry agency, the project "mettiamoci la faccia"). Active participation (Roberts, 2004; Curtain, 2003) can be achieved throughout participation to meetings, demand in order to get funds for projects, the plan of services and the participation of citizens to local councils. With reference to the evaluation of tourist public services (Jaafar *et al.*, 2014; Viassone, 2012; Franch *et al.*, 2010; Hong, 2009; Golinelli and Simoni, 2005), users generally express a "discrete" level of satisfaction, emphasizing some weakness that should be overcome: a lack of infrastructures and public transport – in particular during

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the night - , very expensive and repetitive events, insufficient preparation to accommodation for foreign tourists, scarce services for people with pets, for young people (for example there aren't clubs for young people like those in the province of Turin), a not high level of communication, high price of skiing facilities, the need of facilitations, information and valorization of historical monuments.

In particular citizens emphasize a not suitable visibility and promotion on mass media, TV and internet (except for some events like "Cheese", "Il salone del Gusto", "Vinum").

CONCLUSIONS AND PATHS OF ACTION

From this analysis, it emerges the figure of a poorly-informed citizen and the need to develop tools of communication between local government and citizens; this not high communication can damage not only citizens (Viganò and Zanuso, 2009) themselves but also the government that doesn't emphasize its initiatives adequately. This problem is stressed by the lack of occasions of confrontation.

The local government evaluates its policies by means of environmental and social balance, specific "ad hoc" gatherings of statistical data and questionnaires.

Main critical point in the tourist public service is the lack of cultural events and "young-oriented" clubs with reference to tourism. Starting from this result, it's possible to draw paths of action for the government of the province of Cuneo, reflecting main priorities put through by citizens with reference to tourism:

- the improvement of communication between local government and citizens throughout the enforcement of new technology that allows a faster dialogue;
- a structured work of valorization of the territory, characterized by a high capacity in "savoire faire" but in a scarce ability in "faire savoir";
- the improvement of the level of safety near main tourist attractions by means of webcams;
- policies capable of redefining the image of tourism in the province of Cuneo;
- individuation of incentives to adequate already-existing tourist structures to the ecologic needs and to define the development of new products;
- strategies of differentiation both of the winter and summer products/services;
- creation of plans of shared regional/local tourist developments with the participation of bodies, operators, non-governmental organizations and universities;
- the creation of tourist opportunities (local, events, etc.) for young people.

Although this work offers important issues, there are some limitations which should be taken into account. In fact, this is an exploratory study mostly based on subjective replies and this model finds application only to the Province of Cuneo.

 ISBN: 978-9963-711-37-6

In addition, it is possible to further develop this model of performance measurement throughout comparative successful and unsuccessful case studies.

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 ISBN: 978-9963-711-37-6

BARRIERS TO ENERGY EFFICIENCY FOR ITALIAN SMES: THE SUPPLIERS' PERSPECTIVE

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ABSTRACT

This paper addresses energy efficiency, intended as a major component of firm's economic sustainability and competitiveness. The study intends to explore the main barriers to energy efficiency for Italian small and medium enterprises (SMEs) according to the perspective of key actors in the energy industry: energy suppliers, as well as technology and services suppliers (i.e. energy service companies). In addition, it intends to investigate possible relationships among barriers. A qualitative approach is adopted to analyze the data collected though 27 face-to-face interviews. The findings suggested three major recurring associations among barriers: 1) low priority of investment and lack of knowledge about profitability; 2) high costs of investments and lack of government incentives; and 3) lack of energy metering and difficulties in identifying efficiency costs and benefits.

Keywords: *sustainability, energy efficiency, barriers, firms, energy suppliers, technology suppliers, services suppliers, energy service companies, SMEs*

INTRODUCTION

The major source of greenhouse gas emissions across the EU-28 is fuel combustion deriving from energy transformation (i.e. electricity generation), transport, and a range of industrial activities. In general, energy consumption is responsible for nearly 80% of all greenhouse gas emissions in the EU (EU, 2013). Therefore, improving energy efficiency is of uttermost importance to reduce greenhouse gas emissions. For this reason, energy efficiency has been included in the European Commission's 20-20-20 strategy, which aims to reduce the greenhouse gas emissions by 20% from 1990 levels, to increase the share of energy consumption produced from renewable resources to 20%, and to improve the energy efficiency by 20%. Improved environmental sustainability provides benefits for the whole community. In addition, from an economic perspective, energy is also one of the main costs for firms, thus influencing their competitiveness (Aranda-Usón *et al.*, 2012). It is clear that energy efficiency as key a driver of environmental, social and economic sustainability.

A thorough comprehension of energy efficiency requires multiple perspectives of analysis. In academic literature, energy efficiency has been investigated at least in engineering, economics, and managerial

 ISBN: 978-9963-711-37-6

studies. This paper adopts a managerial perspective on energy efficiency, intended as a major component of firm's economic sustainability and competitiveness. While several studies have addressed barriers to energy efficiency from users' perspective (e.g. Chai and Yeo, 2012; Trianni and Cagno, 2012; Trianni and Cagno, 2013), there is a need to further explore efficiency barriers from the supply-side perspective. In particular, with regard to energy efficiency relevant information asymmetries can still be found between the demand-side and the supply-side (Kounetas *et al*., 2011). As a result, suppliers play a major role in facilitating or preventing firms' decisions about energy efficiency investments.

Given these premises, the purpose of this study is to investigate the key barriers to energy efficiency for Italian small and medium enterprises (SMEs) according to the perspective of some key actors in the energy industry: energy suppliers, technology suppliers, and services suppliers (i.e. energy service companies). In addition, it intends to explore possible relationships among barriers. A qualitative approach based on face-to-face interviews with suppliers was adopted. The rest of the paper is organized as follows. The next section presents a literature review about the barriers to energy efficiency and the role of suppliers' in firms' efficiency decisions. Then, the method for the study is outlined and the results are presented. The paper concludes with the discussion, implications and limitations of the study.

LITERATURE REVIEW

Energy efficiency in firms

Sustainability has been described as the ability to meet "the needs of the present generation without compromising the ability of future generations to meet their own needs" (World Commission on Environment and Development, 1987, p. 45). Many different definitions of sustainability and sustainable development can be found in literature (Elkington, 1997). However, several authors agree that some of the most relevant dimensions of sustainability are the economic, social and environmental bottom lines (Dyllick and Hockerts, 2002; Steurer *et al*., 2005). These dimensions are usually referred to as the 'triple P': profit, people and planet (Elkington, 1997). In other words, sustainable development in firms may be described as "leading the firm in making balanced choices between profit, people and planet" (Masurel 2007, p. 191). Sustainable development in firms implies balancing future and present needs mainly through the use of resources, the orientation of technological developments, and the relationships with stakeholders (Masurel, 2007). In particular, energy efficiency can be considered as a means though which firms can pursue economic, social and environmental sustainability.

The term energy efficiency can be described as the "ability to use less energy to produce the same service or useful output" (Patterson, 1996, p. 377). Extant literature provides several different definitions of energy efficiency (Ang, 2006). According to the EU Directive 2006/32/EC on energy end-use efficiency and energy services, energy efficiency is a ratio between an output performance, service, goods or energy, and

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an input of energy. This general definition has been adopted also by Bloomberg *et al*. (2012). Through energy efficiency, it is possible to save resources by minimizing power consumption for the production of equal output, or to obtain more output for the same resources (Testa and Vigolo, 2014; Perez-Lombard *et al*., 2013). For example, in the industrial sector energy efficiency can be measured by the amount of energy required to produce one ton of a product. Energy efficiency is generally defined as the ration between the "useful output" of a process and the "energy input" into a process (Patterson, 1996, p. 377). However, there is no unique measure of energy efficiency, but rather a number of indicators, depending on the purpose and scope of energy measurements (Bunse *et al*., 2011).

In recent decades, national and international institutions have set ambitious goals regarding climate and energy. With reference to electricity, 36.5% of final electricity consumption in the EU derives from industry, 29.7% from households, 29.7% from service, 2% from agriculture and other sectors and 2.4% from transport (European Environment Agency, 2013). Therefore, in order to increase overall energy efficiency and sustainability, these subject should change their attitude towards energy consumption, as well as their consumption behaviour (Baccarani and Golinelli, 2008; Palm and Thollander, 2010).

In particular, energy efficiency in firms can be improved by a wide variety of technical actions, including investments in technology and energy management (Laitner, 2013). Investments in technology include, for example, the maintenance and upgrading of equipments as a consequence of the natural degradation of their efficiency; or the replacement of old equipment in favour of new technologies. As a result of technology investments, firms can experience not only an increase in productivity, but also a reduction in the number of waste products. Investments in efficiency include also investments in energy management, which can be described as "monitoring, measuring, recording, analyzing, critically examining, controlling and redirecting energy and material flows through systems so that least power is expended to Achieve worthwhile aims" (O'Callaghan and Probert, 1977, p. 128).

According to Cooremans (2012, p. 503), energy efficiency investments are strategic because they "help to create, maintain or develop a sustainable competitive advantage over time". In fact, consumers have become more concerned about their consumption choices and express favourable attitude towards to "green" products, i.e. produced in a sustainable manner (Bunse *et al*., 2010). For example, manufacturing industries have noted that improved environmental performance can both ensure a competitive as well as a reputational advantage (Sutherland *et al*., 2008; Bunse *et al*., 2010). Further, in the energy-intensive manufacturing industries (such as steel, pulp and paper, chemical) energy can represent up to 60% of operating costs (Bunse *et al*., 2011). Italy, for example, has approximately 440,000 industrial companies, of which 97% are involved in manufacturing activities (Cagno and Trianni, 2013).

Small and medium-sized enterprises (SMEs) represent the backbone of the European economy. In the Annual Report on European SMEs edited by the European Commission, SMEs are described as

 ISBN: 978-9963-711-37-6

"businesses which employ less than 250 staff and have an annual turnover of less than € 50 million and / or their balance sheet total is less than €43 million" (European Commission, 2014, p. 10). Across the EU28, there were 21.2 million SMEs in the non-financial business sector in 2013. Specifically, SMEs account for 99.8% of all enterprises, 66.8% of total employment and 57.9% of total value added generated by the non-financial business sector. Further, in Italy, SMEs represent 99.9% of total firms. SMEs are crucial also from the point of view of industrial energy consumption: as an example, according to recent estimations, SMEs cover about 60% of the Italian industrial energy consumption (Istat, 2004). Therefore, investigating the energy efficiency potentialities for SMEs is a priority.

With regard to sustainability, Wehrmeyer (2000) emphasized that SMEs seem to be more flexible than large firms, and should therefore better be able to respond to environmental challenges. However, SMEs are in fact still rather reluctant to include environmental considerations in their practice. This paradox can be explained by several factors such as less environmental visibility or exposure; small absolute environmental impact; lack of consumer demand for environmental improvements and the lack of an organizational network that supports environmental sustainability by SMEs.

To conclude, energy efficiency contributes to firm's economic sustainability (reduced costs, reduced risk of future liability cost; increased productivity), environmental sustainability (reduced CO2 emissions), as well as social sustainability (by ensuring resources and energy security for future generations, influencing customers about energy awareness, improving their own reputation in society (Bunse *et al*., 2010; Laitner, 2013). Therefore, economic returns of the investments are only a part of the global benefits that can derive from improved energy efficiency. With this regard, a study conducted on 81 projects for energy efficiency in industry showed how payback periods in derived from energy savings were less than 2 years, indicating annual returns greater than 50%. Further, when considering also non-energy benefits in the analysis of, the payback periods were reduced to one year (Lung *et al*., 2005).

Barriers to energy efficiency

Much of the literature dealing with energy efficiency has emphasized the need to reduce the so-called "energy efficiency gap"', a term coined by Jaffe and Stavins (1994) to explain the "paradox" of a slow diffusion of technologies apparently advantageous from the economic point of view. This highlights the importance of conducting studies in order to identify so-called "barriers to energy efficiency", i.e. "mechanisms that inhibit investment in technology efficient both from the point of view of energy and economic" (Sorrell *et al*., 2000, p. 27).

Different approaches to efficiency barriers can be found in literature. For example, the first theories that attempted to explain the existence of barriers to energy efficiency refer to "market failures", i.e. malfunctions of the market which include, for example, asymmetry information (Palm and Thollander,

 ISBN: 978-9963-711-37-6

2010). Specifically the problem of asymmetric information in a transaction occurs when one party has more information than the other, with important consequences especially in terms of quality of the decision to be taken (Gillingham *et al*., 2009, Chai and Yeo, 2012). This is often the case of energy decisions because energy suppliers, technology providers or services providers usually have more information than their clients. In addition, since energy efficiency is not "visible", asymmetric information is intensified. As a result, managers are more interested in the initial costs of the investment in energy efficiency, rather than on the related annual savings (Anderson and Newell, 2004). Another example of market failure is the "spillover effect" associated with the Research & Development, which results in an unequal distribution of risks and benefits between those who develop a certain technology and those who benefit directly (customers) and indirectly (competitors) (Chai and Yeo, 2012).

However, market failures only partly explain the energy efficiency gap. Several authors have tried to identify and classify other types of barriers. The classification proposed by Sorrell *et al*. (2000) includes economic barriers, behavioural and organizational barriers. In addition, the United Nations Environment Programme (UNEP) in 2006 classifies efficiency barriers into the areas of management, information, knowledge, finance and government policies. More recently, Trianni *et al*. (2013) and Cagno *et al*. (2013) classified barriers by source (external or internal) and actor or area involved. External barriers include barriers related to market, government/politics, technology/services, designers and manufacturers, energy suppliers, and capital suppliers. Internal barriers include economic, behavioural, organisational, competences and awareness barriers. Furthermore, with specific regard to Italian SMEs, Trianni and Cagno (2012) identifies skills, information, awareness and resources barriers, summarized in Table 1.

Barriers related to…	Types of barriers
Skills	• External
	• Internal
Information	• Poor information
	• Scarce information
Awareness	• Lack of personnel awareness
	• Lack of managerial awareness
Resources	• Lack of time or other priorities
	• Lack of capital
	• Low returns for energy efficiency investments

Table 1. *BARRIERS TO ENERGY EFFICIENCY (ADAPTED FROM TRIANNI AND CAGNO, 2012)*

In addition, Chai and Yeo (2012) emphasized the importance of focusing on the interconnections between barriers, leading to outline a theoretical mapping of existing barriers for each stage of the process of adopting energy efficiency measures.

The role of suppliers in firms' energy efficiency decisions

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Several actors are involved in the energy-related purchases and operational decisions of firms, such as energy providers, technology suppliers, energy suppliers, financial/capital suppliers and services suppliers (Cagno *et al*., 2013). Previous studies have found that high asymmetric information may exist with regard to technology providers (Palm and Thollander, 2010), who play a major role in providing solutions to energy efficiency problems. An important role in efficiency decisions is played by energy service companies (ESCOs), third parties able to support investments by entering into energy performance contracts, in addition to financing the customers, they also share the savings (Utilitatis, 2014). For energy suppliers it is difficult to compete with ESCOs for two main reasons: firstly, energy suppliers' business structure prevents them from responding rapidly to clients' different requests, whereas ESCOs are usually smaller, more flexible and dynamic. In addition, SMEs tend to consider energy suppliers only for their core business (energy providers) and not as potential services providers. However, energy suppliers are willing to take advantage of the vast network of customers to expand their business to energy efficiency solutions.

METHOD

The context of the study

Energy bills for businesses in Italy are higher than the European average, with obvious consequences for the competitiveness of domestic firms. In 2013, for example, electricity prices for Italian firms were higher than the European average for all categories of consumption. In particular, for the categories of 500-2,000 MWh consumption, one of the most representative for the Italian market, the prices were higher than the Euro-area average of 21% for net prices, and 26% for the gross price (Autorità per l'Energia Elettrica, il Gas e il Sistema Idrico, 2014). This situation can be explained by various factors, such as Italy's energy dependence and energy mix, as well as the sustainability of the Italian energy mix (Testa and Vigolo, 2014). Although the analysis of the Italian energy system is beyond the scope of this study, it is necessary to point out that structural factors as well as internal, business-related factors influence SMEs energy efficiency decisions.

Research approach

This exploratory study is part of a wider research about energy efficiency conducted through semi-structured interviews, which included both open-ended questions and Likert-type items. The analysis of open-ended questions is beyond the scope of this study. In this paper, we will focus on a qualitative analysis of the 24 items (barriers to energy efficiency) evaluated on a 1-5 Likert-type scales (where 1 = not at all important, 5 = extremely important). A qualitative approach is recommended to improve the understanding of the characteristics of a specific context in which decisions and actions take place

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(Meyers, 2013). Although the use of Likert scales is not common in qualitative research, we chose to use a fixed set of barriers selected from previous studies and adapted for SMEs (Chai and Yeo, 2012; Trianni and Cagno, 2012; Trianni *et al*., 2013), making it easier to compare responses. This approach was adopted by Thollander *et al*. (2013) in their study about energy efficiency in foundry industries. With regard to the use of a fixed structure, Tollander *et al*. (2013) stated that it "is crucial if the researcher can only meet the informant once, and hence the interview is not likely to be repeated", and this was the case in this study.

Sampling and data collection

Possible respondents were contacted in October 2014 during the Smart Energy Expo in Verona. This is an international business-to-business event aimed at presenting solutions, products and technologies for energy efficiency. The 2014 edition attracted 120 exhibitors, 150 represented brands and 9,000 professionals, who represented an ideal target for this research. Some of the interviews were conducted during the exhibition, while some other respondents who agreed to participate in the study preferred to be contacted later on. All the interviews were completed between October and December 2014. Based on their experience with business clients, respondents were asked to express their perceptions of firms' resistance towards energy efficiency. The face-to-face interviews were conducted by the researchers with the help of a trained assistant. Each interview lasted 30 to 40 minutes. In total, 27 interviews were conducted with energy suppliers, technology suppliers and service providers, which represent three groups of respondents. For confidentiality purposes, the actual names of the respondents have been replaced by letters.

Analysis

For data analysis, we followed the system approach adopted by Chai and Yeo (2012). This approach implies decomposing a system into its elements, i.e. taking into consideration the interplay of barriers to energy efficiency rather than looking at them in isolation. The information collected during the interviews was first analyzed separately for the three groups of subjects involved in the interviews. After that, the opinions of the three groups of respondents were compared to identify possible relationships and differences in perceptions.

RESULTS

Sample profile

The respondents were managers involved in the energy sector and included:

- 8 energy suppliers (e.g. gas and/or electricity providers)

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- 10 suppliers of technology solutions for the energy sector (e.g. micro-generators, heat-pumps, energy metering systems)
- 9 services providers (i.e. Energy Service Companies).

Recurrent themes

Since the aim of the study is to focus on key efficiency barriers, only responses equal to 4 and 5 (4= important; 5= extremely important) were reported in the Table 2 and used for subsequent analyses. We observed that some barriers were more likely to be found in the presence of other specific barriers.

With regard to energy suppliers, we identified the following relationships:

- Those companies who reported high costs of energy efficiency investments as a barrier also reported lack of governmental incentives and lack of information about energy contracts.
- Companies who found low priority of energy investments as a major barrier to efficiency also reported lack of internal competences about energy efficiency, lack of energy metering, difficulties in evaluating the profitability of investments, and difficulties in gathering external competencies.

	Energy suppliers								Technology suppliers										Services suppliers								
Barriers to efficiency	α	β	γ	δ	ε	ζ	η	θ	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S
1. Fear of technical risks/production losses				5																							
2. Investment costs		4	5		5	5		4	4	4	5	4	5	5	5	4		5		5	4		4				
3. Low priority of efficiency investments	5			4			5		5		5	4	4			5					4	4	4		5	5	5
4. Uncertainty about energy prices		5		4									5									4					
5. Lack of experience in technology	4				5							5	5		5	5				4	4	5					
6. Lack of information about energy saving technology	4			4					5	5		4	4	4			5	4		5		5			5		
7. Lack of internal competencies about energy efficiency	5			4			4		5						4	5		5			4	5					
8. Lack of energy metering	5	4		5			5		5		4				5	5		4		4	4	5	4		5	4	
9. Limited access to capital	4									4	5	4		4			5			5	4	5		4	5	5	
10. Lack of government incentives		5	4		4	5		4		4		4		4	4			5							5		
11. Weak policies and legislations	5												5	5					5	4			4				
12.Technologies not adequate															5												4
13. Technologies not available															5											5	
14. Lack of information about costs and benefits				4					5			4			5	4		4		5	4	4			4	5	
15. Information not clear by technology suppliers	5								5												4						
16. Lack of trust on information sources	5								4										5	4			4				

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17. Information issues on energy contracts	4	4	4		5	5		5								5									5		
18. Investment not sufficiently profitable		5									4		4			4					5	4	5				
19. Lack of interest			5		4								5							5					5		
20. Inertia			5						5													4					
21. Difficulties in evaluating profitability of investments	5			4			5		4			4	4			4						4	4		5	5	4
22. Lack of time	4												5	4		5						5	4		5	4	5
23. Difficulties in detecting efficiency opportunities	4							4	4			4			5	5				5		5			4		
24. Difficulties in gathering external competencies	4			4			5					4	5									4					

Table 2: *KEY BARRIERS TO ENERGY EFFICIENCY ACCORDING TO THE RESPONDENTS*

For technology suppliers, the following relationships emerged:

- Those suppliers who reported high cost of energy investments as a major barrier also reported lack of information about technologies, lack of capital, and lack of government incentives as relevant barriers.
- The companies who indicated low priority of energy investments as a major barrier to energy efficiency reported also a lack of experience in technology, difficulties in evaluating economic convenience of investments, and difficulties in identifying efficiency opportunities.
- Those suppliers who reported lack of internal competences about energy efficiency also reported lack of energy metering, and lack of external information about costs and benefits.

For services suppliers, we detected the following associations:

- The suppliers who identified low priority of energy investments as a barrier maintained that SMEs also face difficulties in evaluating economic convenience of investments and lack of time to think about energy efficiency.
- Those who mentioned lack of experience in technology, lack of energy metering, limited access to capital, and lack of external information about costs and benefits.
- High cost of efficiency investments, lack of proper regulation about energy efficiency, and lack of trust in external sources of information.

The top three barriers for each group of suppliers were derived from the sum of the scores assigned to each variable. For energy suppliers, the top-three barriers are lack of information about energy contracts, high costs of investments, and lack of government incentives. Technology suppliers identified high costs of investments and lack of information about technology as the two major barriers to efficiency, while they rated low priority of investments and lack of energy metering as the third. For services suppliers, the major barrier was low priority of investments in energy efficiency, followed by lack of capital and lack of consumption monitoring, respectively.

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Top barriers (see list of barriers in Table 1 for legend)	Energy suppliers	Technology suppliers	Services suppliers
1st barrier	17	2	3
2nd barrier	2	6	9
3rd barrier	10	8-3	8

Table 3. *THE TOP-THREE BARRIERS TO ENERGY EFFICIENCY*

Through a series of subsequent analyses, recurring patterns of responses among groups were identified. Some barriers were more commonly reported in the presence of other barriers. As shown in Table 3, the couple of barriers "low priority of investments + difficulties in evaluating economic convenience" appears in all three groups of respondents. The couple "high costs of investments + lack of government incentives" recurs in the responses by energy suppliers and technology suppliers, but not among services suppliers. Finally, the association "lack of energy metering + lack of information about costs and benefits" recurs in technology and services suppliers, but not among energy suppliers.

Related barriers	Energy suppliers	Technology suppliers	Services suppliers
Low priority + difficulties in evaluating profitability of investments	X	X	X
High costs of investments + lack of government incentives	X	X	
Lack of energy metering + lack of info about cost/benefits		X	X

Table 4. *ASSOCIATED BARRIERS AMONG GROUPS OF RESPONDENTS*

DISCUSSION AND MANAGERIAL IMPLICATIONS

This study contributes to the understanding of SMEs' barriers to energy efficiency according to the perspective of suppliers. In addition, it provides insights into possible relationships among barriers. For all the three groups of key suppliers considered in this study, "low priority of investment + lack of knowledge about profitability" was a recurring association. There follows that if companies were more confident about the profitability of energy efficiency investments, they would probably assign higher priority to efficiency investments. This result is consistent with previous research. For example, De Groot *et al*. (2001) explored the determinants of firms' investment behaviour concerning energy-saving technologies and found that cost savings were the most important driving force behind investment decisions.

The second association, "high costs of investments + lack of government incentives", emerges both for energy suppliers and technology suppliers. This association could be explained by the fact that public incentives to energy efficiency have altered the perception of investments. In the last years, in Italy the

 ISBN: 978-9963-711-37-6

incentives for energy efficiency, and specifically for renewable sources, have been among the highest in UE (Council of European Energy Regulators, 2012). The problem is that these 'system charges', i.e. the costs of major incentives for renewable energy, are paid by final users in energy bills. The scenario will be quite different in the next future, and such high incentives will not be available any longer. Consequently, suppliers as well as policy makers will have to find other ways to overcome barriers to investments.

Finally, technology and services suppliers maintained that firms are not aware of their energy processes, as well as not aware of costs and benefits. This may lead to think about a lack of information and awareness about energy efficiency. In this sense, policy makers, research centres and suppliers could pursue initiatives for building an "efficiency culture" among firms and individuals.

Several limitations should be considered in this study. First, this is an exploratory research with a limited sample of suppliers. A quantitative analysis on a larger sample should follow to test the presence of the relationships between the barriers identified in this study. In addition, it would be interesting to compare suppliers' perceptions with SMEs' perceptions in order to identify similarities and differences.

ACKNOWLEDGEMENT

The Authors would like to thank Elena Di Maggio, M.A. in Languages for Communication in Tourism and Commerce at the University of Verona, for her valuable insights and help in the data collection.

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 ISBN: 978-9963-711-37-6

MANAGEMENT CONTROL, ACCOUNTABILITY AND LEARNING IN PUBLIC SECTOR ORGANIZATIONS: A CRITICAL ANALYSIS

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ABSTRACT

In the past decades Dutch public sector organizations have been encouraged to become more "business-like" in their internal control and accountability processes, following a more general trend towards New Public Management (NPM) in Western societies. However, in the Netherlands this trend has met with increasing resistance and discontent among public sector professionals. In this paper a framework is developed that enables these public sector professionals to reflect on their internal control and accountability processes. It is argued that, generally speaking, the "business-like" approach of NPM does not appear appropriate for most public sector activities. The paper ends with a discussion of alternatives to NPM, among others experimentalist governance.

Keywords: *management control; public accountability; organizational learning; New Public Management; experimentalist governance*.

INTRODUCTION

In the past decades, public sector organizations (hereafter PSOs) in the Netherlands and most other developed countries have shown a marked development in the direction of more "business-like" ways of working, managing and controlling, a development known under the terms "Reinventing government" (Osborne and Gaebler, 1992) and "New Public Management" (Hood, 1995; Osborne, 2006, hereafter NPM).

Recently, however, resistance against these NPM ways and methods has grown in the Netherlands. In December 2011 seven appellate court judges issued a Manifesto in which they criticized the ways in which the judiciary increasingly came to be managed as a "biscuit factory, guided by output requirements and hour prices." Within a few weeks, the Manifesto was signed by 700 of the 2500 Dutch judges, a major signal from a normally quiet and detached group of public sector professionals. Identical developments occurred at Dutch universities, where the metaphor of the "biscuit factory" was invoked as well to criticize "academic forced labor" and "narrow efficiency operations." Here dissatisfied professors and staff joined forces in a critical movement called Science in Transition. In other Dutch PSOs

 ISBN: 978-9963-711-37-6

in the fields of public housing, medical care, law enforcement and juvenile care similar complaints were fielded.

These complaints from practitioners about NPM are empirically corroborated by research in the fields of public and business administration and management control[1], which as a rule finds many dysfunctional effects of NPM (e.g., De Bruijn and Van Helden, 2006; Groot, 1999; Jansen, 2008; Mak, 2008; Ter Bogt and Scapens, 2012, Teelken, 2012, Tonkens *et al.*, 2013; Verbeeten, 2008; Walker and Van der Zon, 2000). However, most of this literature is descriptive and mainstream in nature. Consequently, it does not offer concrete prescriptions to practitioners *themselves* to reflect on their their situation by asking questions like: which type of control is most suitable for the activities in my organization? Which type of control is actually applied to those activities? What are the effects of this actual type of control on the activities in this case? These questions are important, because the (lack of) fit of control systems has major consequences for organizational performance, accountability and learning.

The purpose of this paper is to enable a normative (if not critical) reflection on and analysis of existing ways of managing and controlling among practitioners in PSOs. For this analysis and reflection, the framework of Hofstede (1978, 1981) is proposed. This framework has been influential in both public administration (e.g., Jansen, 2008; Noordegraaf and Abma, 2003; Pidd, 2005), and management control research (e.g, Groot, 1999; Speklé and Verbeeten, 2014; Verbeeten, 2008), but mainly in a theoretical and descriptive sense. However, the framework also lends itself well to a more practical and prescriptive use, i.e. as an instrument to enable reflection on and analysis of current ways of managing and controlling within PSOs.

Towards that purpose, this paper first contains a brief critical sketch of NPM in the Netherlands, followed by a description of the framework of Hofstede, its implications for accountability and learning and an example of a reflection and discussion session at a Dutch university. The paper closes with discussion and conclusions and sketches the contours of a post-NPM public sector in the Netherlands.

NEW PUBLIC MANAGEMENT IN THE NETHERLANDS: A CRITICAL SKETCH

Following the trend of NPM, PSOs in the Netherlands and most other developed countries increasingly have faced public and political pressures to become, first, more efficient and effective in their public services delivery and, second, more transparent and accountable in their administrative processes. In response to the first class of pressures, learning in and by PSOs increasingly has received attention. PSOs should increase their ability to detect and correct errors and problems early and rapidly, so as to improve the quality and quantity of public services delivery (Rashman *et al.*, 2009; Visser and Van der Togt, 2015). In response to the second class of pressures, control and accountability in and by PSOs increasingly have received attention. PSOs should be made publicly accountable for their performance and achievements

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so as to increase both their responsiveness to social and political demands and the tax payers' "value for money" (Bovens *et al*., 2008; Sabel, 2004; Sabel and Simon, 2011).

To accomplish this, PSOs have become both "flat" and "accountable" (Hood, 1995; Sabel, 2004). Flat implies that policy executing agencies and PSOs at "street level" are administratively separated from the central policy-making and political authorities. Instead of the existing departmental pyramidal structure and hierarchical forms of governance, a more flat structure with contractual forms of governance has been instituted, sometimes reducing the scope of government by contracting out to private parties Accountable implies that these street-level bureaucratic instances are contractually obliged to achieve the general goals, set by central political and bureaucratic authorities, by having those goals translated in detailed administrative targets, by having their compliance with those targets quantitatively measured by numerous performance indicators and by being subject to financial incentive and sanction systems, designed in the service of these targets (Bevan and Hood, 2006; Bovens, 2008; Osborne, 2006).

However, NPM falls short of restoring government effectiveness and accountability, for various reasons. First, it leads to a radical separation between policy conception and execution, providing the the executive, street-level PSOs with a near-monopoly on knowledge and experience in their policy areas, without mechanisms to feed this knowledge and experience back to central political and administrative authorities. Second, the concentration on narrow and detailled quantified targets jeopardizes coordination among and joint problem solving by executive, street-level PSOs, in particular for those problems that transcend these narrowly quantified boundaries (the so-called "cross-cutting" or "wicked" problems). Typical NPM-solutions to these problems involve either setting additional explicit quantitative targets or creating a new agency to attack the wicked problems. However, both solutions lead to either the increase of street-level discretion in determining which targets to attain and which not (hence less accountability), or to the establishment of centralized command and control (hence less flatness), thus contradicting the original purposes of NPM (Sabel, 2004).

More in general, the quantitative management control, inherent in NPM, leads to specific problems in policy execution. At least since the 1950s, it is commonly acknowledged in the literature that quantitative management control is only suited for routine industrial production processes (e.g., Ridgway, 1956; Schmidt, 1959). In that light, quantitative management control appears particularly ill-suited for most activities that PSOs employ, like policy conception and implementation, public service delivery, and law enforcement. This has lead to a growing literature on "gaming" in the public sector (Noordegraaf and Abma, 2003; Van Thiel and Leeuw, 2002), identifying a variety of dysfunctional and perverse effects of quantitative management control. Examples are additional bureaucracy, information overload, tunnel vision, short term thinking and planning, fixation on measures, symbolic compliance, and a general lack of system responsibility, especially when several organizations contribute to public performance (e.g., De

 ISBN: 978-9963-711-37-6

Bruijn, 2002; Groot, 1999; Moynihan, 2005; Pidd, 2005; Smith, 1995; Teelken, 2012; Townley *et al*., 2003; Van Dooren, 2011; Verbeeten, 2008; Walker and Van der Zon, 2000).

On the basis of both scientific research as well as practical experience, NPM seems less succesfull in effecting learning and accountability in the Dutch public sector, mainly because of the mismatch between the quantitative management control systems and the nature of most public sector activities. In the next section the framework of Hofstede is presented in order to analyze and reflect on this mismatch in PSOs.

MANAGEMENT CONTROL OF PUBLIC SECTOR ACTIVITIES: THE FRAMEWORK OF HOFSTEDE

The Dutch social scientist Geert Hofstede has become famous for his culture studies, but before turning to culture in the early 1980s, Hofstede (1978, 1981) studied the role of management control systems in organizations. These systems play an important role in organizational learning, defined as the detection and correction of errors or problems, whereby an error occurs when organizational goals have not been achieved (Argyris and Schön, 1978). Management control systems often define the errors around which learning processes are instigated, they provide a "lens or filter" (Kloot, 1997) with which organizations perceive their own performance, set against the perceived demands and developments in their environments. Hofstede's main concern is with what happens when management control systems do not accurately reflect the errors or problems of the organization or, even worse, when the control systems does not adequately fit in or match the primary process of the organization. Evidently, when there is a mismatch between these systems and the primary process, organizations cannot adequately learn. They detect and correct the wrong errors or no errors at all, or they fully misperceive how they really perform. In order to assess that (mis)match between management control systems and organizational activities, Hofstede (1981) asks four questions:

(1) Are the objectives of the activity unambiguous or ambiguous? Managemen control presupposes objectives, to the attainment of which activities should be directed. But objectives or goals or ends may be interpreted differently, reflecting conflicting political or financial interests within PSOs. Further, there may be conflicting views on which means bring about the desired ends or objectives. And in turbulent environments existing objectives may be rendered obsolete by new developments, but organizations tend towards dynamic conservatism and retain these objectives. In general, objectives are unambiguous when consensus or a clear picture exists about them (e.g., fire brigades, courts, garbage collectors). Objectives are ambiguous when they are subject to conflicting norms and interests, as is the case in most PSOs.

(2) Are the outputs of the activity measurable or non-measurable? Management control presupposes that output can be measured, so that it can be compared to the objective of the activity concerned. But often

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measurable means quantifiable, whereas many activities in PSO's can only assessed in qualitative and vague terms. E.g., what is the output of an army in peace time? What is the output of the Department of Foreign Affairs? Inputs often are well measurable, but only interesting in relation to output.

(3) Are effects of management interventions in the activity known or unknown? Management control presupposes that interventions in activities are possible, when the measured output does not conform to the objective set. But it may be quite difficult to determine the exact relationship between intervention and the desired output of an activity. Further, there is always a time lag between intervention and its effect, and there may be many other factors that influence output, but fall outside the control systems.

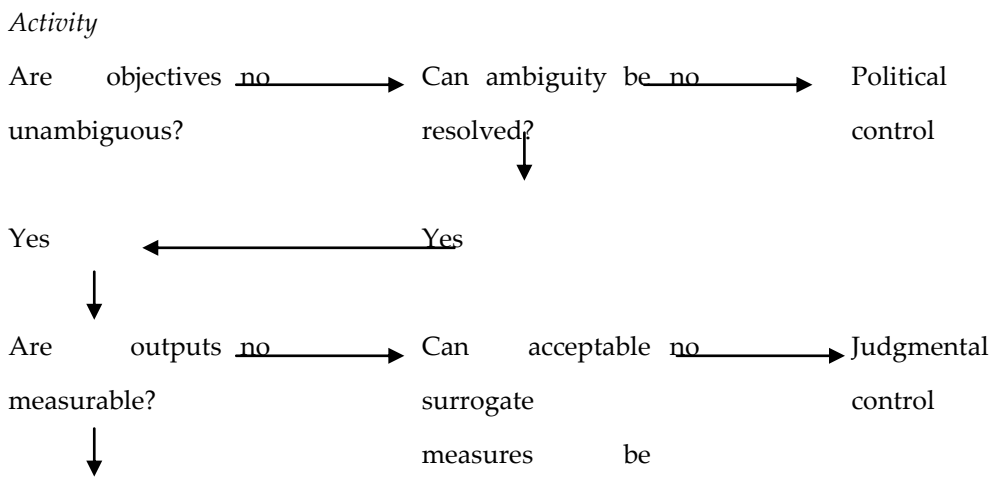
(4) Is the activity repetitive or non-repetitive? Repetitive activities allow for "learning by doing", non-repetitive or unique activities do not.

Combining the answers to these four questions leads to a sixfold typology of management control, presented as a flow chart in Figure 1 (Hofstede, 1981, p. 196):

(1) Routine control is the simplest form, only applicable to routine industrial production processes, for example the production of bicycles or cookies.

(2) Expert control occurs when the organization hires an expert who has experience with the activities involved; it buys in "repetition." An example is the introduction of a new computer system in a production plant.

(3) Trial & error control occurs the organization learns from its failures and successes through an ex post analysis of which interventions were successful and which were not, for example in new product development or in post project analysis in consultancy firms.



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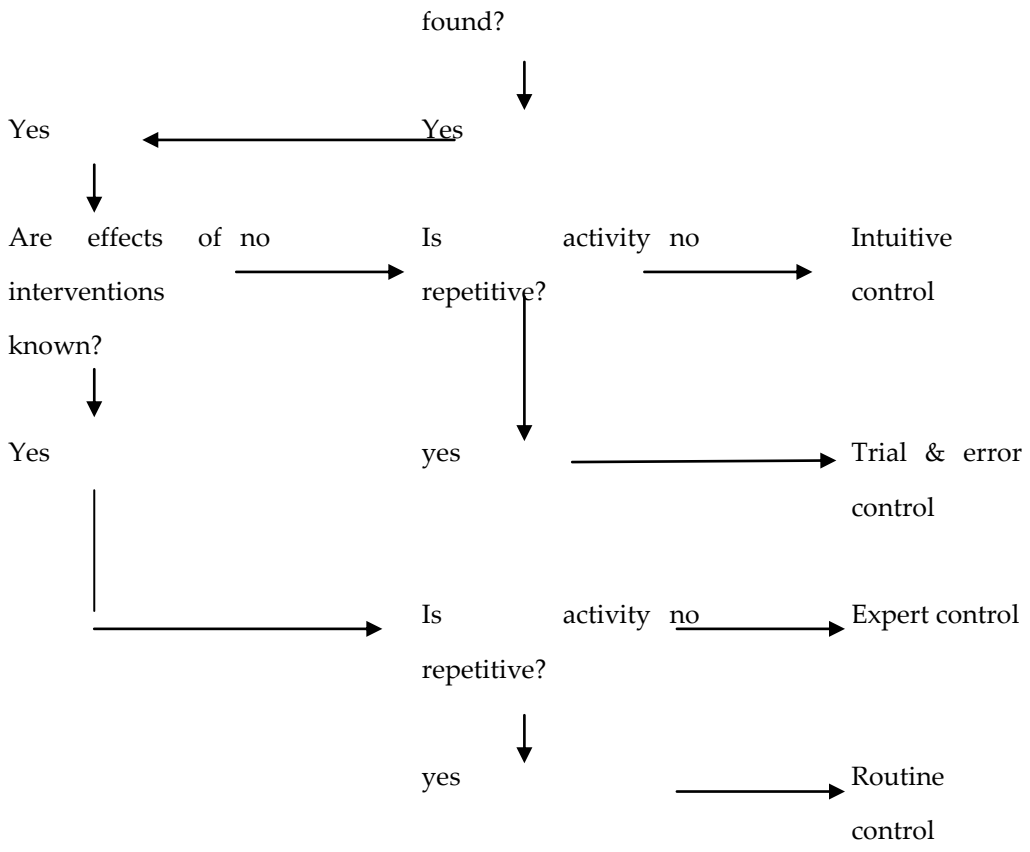

Figure 1: *Typology management control*

(4) Intuitive control occurs when the organization has to rely on control as an art, dependent on the intuition of the leader and the faith the organization puts in him orher. Examples are leading a football team to victory or turning around a firm in dire straits.

(5) Judgmental control occurs when the organization develops proxy or surrogate measures to substitute for missing direct measures. An example is fundamental scientific research.

(6) Political control occurs when objectives are interpreted differently, in which case control is being determined through negotiations and power positions at the top of the organization. Examples are most PSOs.

As a next step, Hofstede (1978, 1981) relates his typology to cybernetic models for management control. Common here is a first-order cybernetic model of control, connoting "a process in which a feedback loop is represented by using standards of performance, measuring system performance, comparing that performance with standards, feeding back information about unwanted variances in the system, and modifying the system" (Green and Welsh, 1988, p. 289). This model is fully applicable to routine control, and partly applicable to expert and trial and error control. It is, however, not applicable to intuitive, judgmental and political control. If it is applied, it may lead to "psychological short-circuiting", following which employees attempt to work around the control systems by changing performance

 ISBN: 978-9963-711-37-6

objectives, changing output measurements, making unintended interventions, by withdrawing from the control system altogether, or by goal displacement, whereby the organization's objectives are replaced by the measurements. Through all these activities management control degrades to pseudo control, or the illusion of control: the systems no longer match the activities they are supposed to control (Hofstede, 1981; Kerr, 1995).

This mismatch comes in two types, according to Hofstede. A Type I mismatch is not using a cybernetic system where the situation in fact meets the conditions for it, for example using political control in a mass production plant. A Type II mismatch is using a cybernetic system where the situation does not meet the conditions for it. Hofstede (1981) mentions the example of introducing the budgeting system of the Ford automobile corporation in the US Army in the 1960s. This Type II mismatch has been aptly summarized as "rewarding A, while hoping for B" (Kerr, 1995). It is often characterized by a fascination with "objective", simple quantifiable criteria for performance measurement and an overemphasis on highly visible and observable behaviors to the detriment of less visible and observable behaviors, which however, may be equally important for the organization.

Managers often react to instances of psychological short-circuiting by intensifying the existing type of control, which, by virtue of its increasing inappropriateness to the situation at hand, may strengthen the illusion of control, in which the theories upon which control is based increasingly tend to replace the real world. This illusion of control often only can be maintained in a punitive atmosphere: "in this type of goal displacement, officials cannot bear disappointment, and they cannot learn from failure… Upon the appearance of discrepancy, the search is for deviants, not deviance" (Landau and Stout, 1979, p.153; Bevan and Hood, 2006; Kerr, 1995).

Whenever managers use these management control systems not only to detect and correct deviations from established performance standards and objectives, but also to allot organizational responsibilities for achieving performance goals (including the failure to do so) to employees, they create internal and external accountability. Under the illusion of control and the punitive atmosphere accompanying it, such accountability often takes on an instrumental form: vertical and hierarchical, centered on individuals who are believed to be driven by self-interest and opportunism, in a context of legitimate mistrust, hard controls and disciplining through rewards and punishments (Messner, 2009; Roberts, 2009; Vosselman and Van der Meer-Kooistra, 2009).

This instrumental accountability in its turn is conducive to what Argyris and Schön (1978) call a Model I learning climate, characterized by a closed attitude among individuals and defensive routines in the organization as a whole, exemplified in a general atmosphere of distrust and lack of respect between managers and employers, blocked communication, contested problem definitions, and diplomacy and easing-in in the case of errors to avoid the threat and embarrassment, associated with being held

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accountable for errors and problems. This climate makes inquiry into all but the most innocuous errors hard to achieve, and thus only may lead to very limited learning, which in the longer run may endanger the organization's survival.

APPLYING THE FRAMEWORK: A DISCUSSION AND REFLECTION SESSION

In order to assess the suitability of Hofstede's framework as an instrument for reflection and analysis, it was used in a reflection and discussion session with a group of senior staff employees at a Dutch university (not the author's) in September 2013. After reading Hofstede and a number of newspaper articles on the present state of Dutch universities, the group discussion and reflection centered on three questions: (1) Which type of control is most suitable for university activities? (2) Which type of control is actually applied to university activities? (3) What are the effects of this actual type of control on university activities in this case? For time reasons the discussion concentrated on university teaching and education, not on research.

(1) Following Hofstede's flow chart, the staff employees considered the objectives of university teaching and education as relatively unambiguous, while they viewed output both quantitatively (numbers of lectures, workgroups, contact hours, etc.) and qualitatively (grading assignments, term papers, exam results, etc.) as reasonably measurable. The staff employees considered the effects of management interventions as fairly unknown, among others thinking back to their own interventions in the past. Finally, they viewed teaching and education as non-repetitive activities: although courses and classes are repeated every year, ideally their contents are continuously being refreshed and updated on the basis of last year's experiences and new developments in the field. All in all, the staff employees concluded that intuitive control was most suitable for teaching and education activities in universities.

(2) Looking at the type of control actually applied to teaching and education activities at this university, the staff employees' opinions converged on routine control.

(3) Reflecting on the effects of this actual type of control on teaching and education activities, the staff employees in particular mentioned the role of course evaluations, which at this university were generally discussed by instructors and managers in a context of instrumental accountability. On the other hand, the staff employees mentioned the role of internal teaching qualification courses, in which instructors were supported and coached to develop their didactical and organizational skills in a more relational context. However, these courses had been gradually condensed and made less intensive, since in 2011 an agreement with the Dutch Minister of Education had been signed that at least 70 percent of all teaching staff should have obtained a basic teaching qualification by 2016. With some qualifications, the staff employees concluded that the situation at their university could be characterized as a Type II mismatch. From the ensuing discussion it appeared that the staff employees saw little room for changing the

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routine control systems in the near future, though. The quantitative, instrumental mindset of control had established itself firmly throughout the whole organization, from the top down.

CONCLUSIONS AND DISCUSSION: TOWARDS A POST-NPM PUBLIC SECTOR?

The framework of Hofstede appears to be both theoretically and practically suited for analyzing and discussing existing NPM ways of working, managing and controlling in PSOs. As the reflection and discussion session shows, it offers PSOs themselves an opportunity to reflect on and analyze these ways. It could lead to a less "one size fit all" approach to public sector management and governance, focusing attention on the desired fit or match between control systems and activities in PSOs. However, in order to progress towards a post-NPM public sector, three main conditions appear important, both bottom-up and top-down.

The first, bottom-up, condition is that employees in PSOs not only confine themselves to reflection, analysis and discussion. If they perceive a true mismatch between control systems and the nature of the activities in their organization, they should undertake internal action, in which a combination of "loyalty" and "voice" appears most successful (Hirschman, 1970).

The second, top-down, condition is that central political and bureaucratic authorities stop setting detailed administrative targets with accompanying performance indicators and incentive systems. Instead, these authorities should set general goals, and monitor the efforts of street-level PSOs to achieve those goals by means of their own devising. Central authorities should intervene only when the efforts of street-level PSOs fall short or are inadequately accounted for. Street-level PSOs should be given room to develop policies, experiment with their implementation, and to learn from one another's problem solving in the pursuance of these general goals, for example through "best practices" (Sabel and Zeitlin, 2012; Zeitlin 2011).

The third condition, with both bottom-up and top-down elements, is that street-level PSOs improve their own internal accountability and learning processes. External accountability in the direction of central political and bureaucratic authorities should no longer be concerned with complying with detailed administrative targets and performance indicators, but with the quality of the internal monitoring and evaluation of policy experiments and the lessons learned (and disseminated) from these experiments. In addition, street-level PSOs should work on their internal accountability towards subjects and stakeholders of the policies concerned, for example by instituting forms of internal democracy, participation and co-creation (Sabel, 2004; Tonkens *et al*., 2013).

Under these conditions, the street-level or "front line" of policy implementation acquires renewed importance (Lipsky, 1980; Maynard-Moody and Musheno, 2003). These front line PSOs will have to excel

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in the detection and correction of errors and problems in policy implementation, in reflecting on and inquiring into the effects of policy experiments, and in flexibly adapting policies in response to that. To achieve this, four requirements are needed in such front line PSOs (Van Grinsven and Visser, 2011; Visser, 2009; Wilson, 1989):

(1) Empowerment: within the PSO, decision-making responsibilities should be delegated to the front line as much as possible, and not remain in the central hands of a board of directors or concern directorate that is far removed from the daily work practices of the PSO. Front line workers should be empowered to detect and correct problems at the front line and to experiment with possible solutions. The management control systems should be optimally matched to those front line activities.

(2) Error openness: wherever problems are being detected and corrected by means of experimenting and new solutions, new errors may occur and experiments may turn out badly. PSOs should discuss all these errors openly in an atmosphere of relational accountability: horizontal and lateral, centered on networks of individuals who are believed to be driven by commitment and shared ambitions, in a context of trust, reflection and socializing (Messner, 2009; Roberts, 2009; Vosselman and Van der Meer-Kooistra, 2009). This relational accountability in its turn is conducive to what Argyris and Schön (1978) call a Model II learning climate, characterized by an open attitude among individuals and productive reasoning in the organization as a whole, exemplified in a general atmosphere of trust and respect between managers and employers, open communication, fact-based problem definitions and honesty.

(3) Knowledge conversion: PSOs should translate, store and spread lessons learned from previous errors and experiments in and through formal and informal channels and repositories, both within and in networks between PSOs (Osborne, 2006).

(4) Adequate human resource management and development: PSOs should select, educate, train, support and motivate their employees in such a way that they are able to take on the responsibilities of front line policy implementation, experimentation and learning. Often this may involve the strengthening of front line staffing at the expense of administative staffs at headquarters, which should become "lean" and "mean".

All these conditions and requirements are to a large extent still hopes for the future, rather than features of current PSOs in Dutch (and generally Western) society. But sooner or later changes will be necessary to lead PSOs back from the ultimate nightmare of pure instrumental rationality, cogently sketched in the BBC television series *Yes Minister.* In the episode "The compassionate society," Minister Jim Hacker confronts his Permanent Secretary Sir Humphrey Appleby with the fact that St Edward's Hospital employs 500 administrative staff, but no medical staff and no patients: "Humphrey", I said, very slowly and carefully. "There-are-no-patients! That-is-what-a-hospital-is-for! Patients! Ill-people! Healing-the sick!" Sir Humphrey was unmoved. "I agree, Minister," he said, "but nonetheless all of these vital tasks

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that I have listed here must be carried on with or without patients." "Why?" I asked. He looked blank. "Why?"

Note

[1] Management control is usually defined as "the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives" (Hofstede, 1978, p. 450). As a field of research, management control is situated at the intersection of management, accounting en (economic) organization theory (for recent reviews see Speklé and Verbeeten, 2014; Strauss and Zecher, 2013).

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 ISBN: 978-9963-711-37-6

FACTORS INFLUENCING EGOVERNMENT PROGRESS IN GREECE: AN EMPLOYEE'S PERSPECTIVE.

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ABSTRACT

The aim of this research in progress is to develop an e-government adoption model for predicting and explaining employees' adoption behaviour, regarding the use of e-government systems. We study this issue through a multi case study approach (employees from four municipalities) in Greece. The paper adopts a quantitative perspective and derives a conceptual research model that encompasses various dimensions of e-government adoption behaviour, within the framework of the UTAUT model. Additional factors 'Trust of the Internet' and 'Attitude' were incorporated. Using SEM valuable results will be obtained; the identification of the most important factors that influence or impede eGovernment adoption, in Greece. The findings of this study will provide useful insights for researchers and policy makers when designing and implementing e-government systems, enabling them to plan and design services more effectively.

Keywords: *eGovernment adoption, municipality employees, UTAUT, IT system usage, e-services.*

INTRODUCTION

Electronic government make public organizations by use of IT, to render quick, accessible, safe, and free-of-time-space-limit services to citizens; they improve the quality of their services, eliminate paper-based files and change them into digital ones. They operate more efficiently, reduce expenses related to human workforce, and render services to their citizens with no need for physical presence to their premises, neither contacting them by phone (Zutshi et al., 2008). Removing the long-lasting processes for dealing with files; proper, quick and on time ways of informing people with regard to their affairs and finally gaining the satisfaction of citizens are among other objectives public administrations attain through going electronic (**Zutshi et al., 2008).**

Despite all the advantages mentioned above, there are a lot of difficulties and barriers that impede its successful implementation. According to Shin, (2008), "eGovernment is a complex socio-technical system". It is a very large multi-stage project that needs a lot of good planning, effort and time to be successfully

 ISBN: 978-9963-711-37-6

implemented. According to Sang et al., (2009), in all established e-governments projects, the most important factors which cause success are people, process and organization. "Successful eGovernment is at most 20% technology and at least 80% about people, processes, and organizations". Thus, eGovernment depends on users and covers more than technology (ibid).

After recognition of ICT as a new tool for redesigning services and transforming them to e-services, the way which these services are redesigned affects the roles and responsibilities of the employees who are working in the public sector for delivering the services (Kesson and Edvardsson, 2008). The employees deem themselves both providers and users of such services. Hence, how an employee can get adapted to rendering a certain electronic service or all types of electronic services can affect the level of satisfaction of the clients and citizens (Anthopoulos et al., 2007) and finally the whole eGovernment.

The importance of the issue drove us to examine the adaptation of employees to new technology, from their point of view. This paper aims, using a multi case study research, to address the issue of what determines local government employees' adoption of eGovernment in Greece, and their potential role to it. Its purpose is threefold. First, to build a model for identifying the factors that mostly affect employees' intention to use eGovernment services in different agencies - different settings (e.g. cultural, administrative form, different level of IT implementation and usage); second, to develop an instrument (i.e., questionnaire) for assessing it; and third, after the research is completed, to offer some solutions aimed to better employee adoption of new technologies. Also, this paper is trying to explore the challenges that different government agencies face when implementing eGovernment systems.

LITERATURE REVIEW

A number of studies have investigated the adoption of eGovernment services in developed countries, whereas relatively little has been undertaken in countries in the transition stage (Al-Gahtani, S. S., 2003). Most of the prior studies are based mainly on the main technology acceptance theories and models such as: the Theory of Reasoned Action (TRA) (Fishbein and Ajzen, 1975), Technology

Acceptance Model (TAM) (Davis, 1989), the Motivational Model (MM) (Davis et al., 1992), the Theory of Planned Behaviour (TPB) (Ajzen, 1991), the Decomposed Theory of Planned Behaviour (DTPB) (Taylor and Todd 1995), the Diffusion of Innovation Theory (DOI) (Rogers, 2003), and the Unified Theory of Acceptance and Use of Technology (UTAUT) (Venkatesh et al., 2003). They provide useful insights and implications for understanding an individual's intention in using eGovernment services.

Though all these models have some similarities and some overlaps due to their generality, they do not consider specific challenges, e.g. the 'Trust' factor. Of the outstanding models TAM adoption model is the

 ISBN: 978-9963-711-37-6

first one (Al-Shafi and Weerakkody, 2010); the other one is the UTAUT model. Its integration of eight aforementioned theories makes it a suitable, valid and reliable technology adoption model, which is able to account for high percentage of variances (R^2) in usage intention (AbuShanab and Pearson, 2007; Colesca and Liliana 2009; Al-Shafi and Weerakkody 2010). After having mentioned some of the important technology adoption models in the literature, then some available studies on eGovernment will be presented.

Gilbert et al., (2004) made a survey on the barriers and benefits of eGovernment adoption; the selected theories were Technology Acceptance Model (TAM) and Diffusion of Innovation (DOI). The result uncovered trust, financial security and information quality as the barriers of adoption, but saving time and money defined as the most important benefits of adoption.

According to Carter and Weerakkody (2008), "Confidence in the government agency's ability to provide online services is also imperative to the diffusion of initiatives". Lack of trust is a significant factor that can decrease eGovernment adoption. Hence, local agencies should employ trust building strategies. Without developing effective collaborative relationships between critical people from each organization, inter-organizational collaboration will not be successful (Cohen and Mankin, 2002).

Al-Shafi S. & Weerakkody V. (2010) used the same methodology and uncovered the factors affecting eGovernment adoption in the state of Qatar. Reliability test in the UTAUT methodology clarified the importance of 'effort expectancy' and 'social influence' on behavioural reaction towards eGovernment. In addition, 'facilitating conditions' and 'behavioural intention' have been found as the most influential factors in eGovernment services adoption.

(Anthopoulos et al., 2007) conducted a survey on participation of public servants in eGovernment adoption. They chose an eGovernment group (G2G) to get involved in re-designing eGovernment services. The results showed the necessity of involvement of civil servants in implementing and adopting digital public services.

Carter L. (2008) conducted a comparison study on popular adoption constructs to identify the most influential constructors, using the TAM methodology which includes two primary constructs: Perceived usefulness (PU) and Perceived Ease of Use (PEOU). The following items have a significant impact on one's intention to use an eGovernment service; PU (the most important factor), Trust of the internet, Perceived Use of an eGovernment Service, PEOU are the salient factors in predicting eGovernment adoption. Also trust and previous usage of e-services should be established necessarily.

Zutshi A. et al., (2008) examined the adoption of an environmental management system (EMS) in government departments in an Australian state, to identify the key factors that contribute to successful

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adoption. Data were collected through semi-structured interviews conducted with environmental coordinators involved in the EMS adoption. Environmental coordinators valued the training as it enhanced their knowledge and skills. The lack of contribution and support from top management; difficulty in accessing resources; and resistance from employees were the main challenges experienced during EMS implementation. Providing training to top management to increase their understanding of the EMS process and its benefits is necessary; selection of the right champion; provision of adequate resources; and, training of employees as well.

In a research conducted by Irani et al. (2006), authors concluded their study arguing that the transaction stage is a critical one because it is the ultimate goals of eGovernment integration process agenda; and also project rates of failure are beginning to occur here. Trying to uncover challenges and problems in this stage, the authors argued that organizational innovation and change is known to be complex phenomena and should be well understood during eGovernment growth and adoption. Implementation of IS/IT systems during organizational change are faced with some of the key high level challenges (Weerakkody and Dhillon, 2008). These challenges are resistance to change from employees, legacy systems' constraints, cultural and political constraints, lack of senior management commitment, negative employee attitude. In an organizational setting that bureaucratic, functionally oriented and legacy system driven challenges will be more sever (Weerakkody et al., 2007). In fact, successful eGovernment transformation will be the result, if we better understand those key challenges in detail.

Adoption and voluntary use of information technology by managerial, professional, and operating level personnel as users, is deemed a necessary condition for its success and resistance to computer systems by managers and professionals is a widespread problem (Anthopoulos et al., 2007; Karavasilis et al., 2010). Lack of user acceptance has long been an impediment to the success of information systems, which if avoided, would improve performance on the job, as the goal of most organizationally based information systems. Understanding why people accept or reject information technology is the first step toward the solution of the problem (Davis et al., 1992).

EGOVERNMENT IN GREECE

A number of initiatives have been implemented by the Greek government to assist eGovernment and ICT diffusion and adoption. These initiatives were driven by European Union (EU) funding, on respective actions through the Community Support Framework (CSF) periods (Hahamis et al, 2005). The efforts during the 2nd CSF (1994–1999) and 3rd CSF (2000–2006) periods concentrated mainly to supply Public Administration with technological infrastructure, to build eGovernment websites (informational); also offer training to employees to get familiar with technology and quit the traditional paperwork. The

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Greek Digital Strategy for the 4th CSF period (2006-2013) was aimed to achieve a 'digital leap' to improve productivity in Public Administration, eliminating bureaucracy and diffuse the use of IT in the whole society, improving thus the quality of life for the people (Greek Digital Strategy, 2005). After the next program was announced, the emphasis has been put to the usage of IT by the government and the aim is to materialize the long-term plans and the creation of information connection between the governmental agencies and provide seamless services to the public.

Although Greece has invested heavily in eGovernment implementation, there have been varying results and delayed outcomes. The empirical findings illustrate that there is marked progress in online availability of public services in Greece, but it takes the last positions in most indices among the EU28 countries. In a survey (European Commission, Digital Agenda Scoreboard, 2014), for 2012-2013 periods, Greece scores 50% in User-Centric eGovernment service delivery and 21% in the eGovernment transparency factor. Transparency is an important element for increasing the take up of online public services, since it helps building trust of citizens in public administrations. As far as the demand side is concerned (i.e., the level of usage by the citizens), results from the same survey in the EU28 countries show that eGovernment usage in Greece by citizens in 2013, is 35% while the EE28 average is 41%. For the same period, among those who use eGovernment services, only 20% is returning filled forms and 17% is not returning filled forms to public authorities. Most of them acquire online information from government sites (European Commission, Digital Agenda Scoreboard, 2014). As far as the local government is concerned, the online presence covers mostly informative services or basic transactions; but even there the level of usage is very low (Voutinioti, 2013). This strongly suggests that Greece needs to increase its efforts to encourage potential users to make use of the available online eGovernment services; and this can be achieved by knowing the specific determinants that impede their usage.

RESEARCH APPROACH

The selected approach for this research in progress is the quantitative one. The main reason for selecting this approach is the need to measure the effects of different constructors of adoption theories, among the employees to do their job electronically and also use eGovernment services.

After the literature review, the UTAUT model was selected as the main structure of this study. Besides its four major constructors (figure 1), 'Performance Expectancy', 'Effort Expectancy', 'Social influence', 'Facilitating Conditions', it includes four moderators (Gender, Age, Education level and Voluntariness of Use) which have specific effect on the main constructors. We amended it by adding 'Attitude' and 'Trust

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of the Internet' factors.

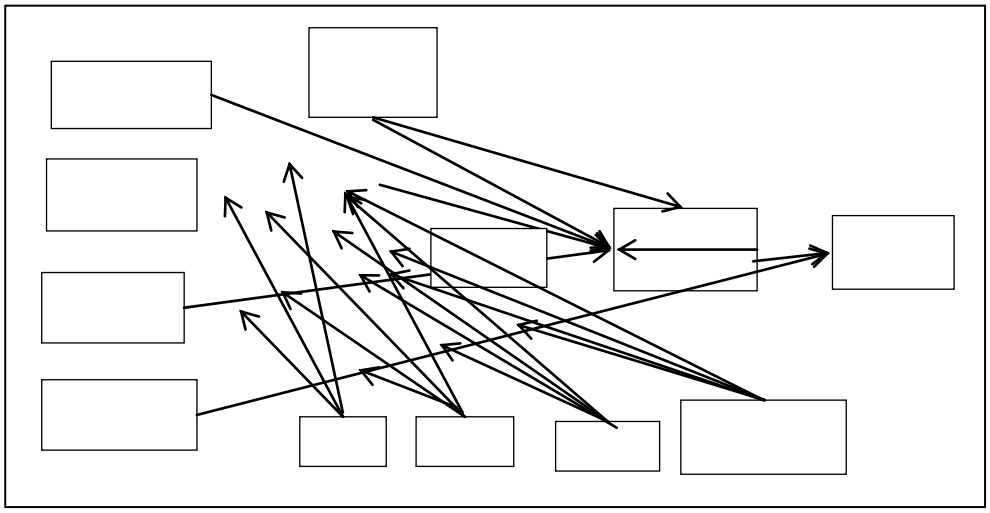

Figure 1: *The proposed Research Model*

According to (Yang, 2010), users' attitude toward intention is the key word. The 'Voluntariness of Use' has also been utilised, because in the Greek municipalities employees' usage of internal IT systems is almost mandatory, but government e-services usage is voluntary.

Questionnaire development

For the questionnaire development, the main effort was put in selecting questions which are related to the main aim. Thus six basic items and two dependent items ('Behavioural Intention' and 'Use Behaviour') based on previous empirical studies were utilised; they have been selected from Venkatesh et al., (2003) and Gefen et al., (2003). Then, the 'Attitude' was adapted from Taylor and Todd (1995) and 'Trust of the Internet', was adapted from Carter & Belanger (2005). The items have been reworked to be suitable for the context of this study. Five-point Likert scales were employed for all these constructs. The questionnaire was translated from English to Greek and back translated to ensure consistency. The 53 resulting items were reviewed to ensure that the meaning was preserved through adoption and translation. The instrument was pretested to a convenience sample of 35 multiple eGovernment users varying in age, gender, educational level, and internet usage to verify its appropriateness and comprehensiveness. Cronbach's alpha was used to test the instrument for items with low reliability values. The α tests revealed that the instrument had to be refined, after which six items had to be removed, leaving 48 items. The refined instrument had also to be altered to eliminate misunderstandings, following respondents' feedback.

Sample selection

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- Target population: Experienced and less experienced computer and internet users working at the municipal offices, in different range of services.
- Sample size: 4 municipalities in three regions (Municipalities of Athens, Kallithea – both in Attica region, Heraklion and Kalamata). The number of the employees voluntarily involved with filling the questionnaire is 360 persons.
- Plan: the data have been collected in winter 2015.

Then 600 questionnaires were distributed among the above-mentioned employees. Out of the 360 completed questionnaires that were returned, ten questionnaires were discarded because of incomplete answers. The remaining 350 questionnaires made up the final sample that was used for subsequent analysis. The collected data was entered to the 'SPSS' software. Next, SEM method will be used to have a more detailed analysis in an attempt to identify the effects of the main factors and the moderator factors in the intention to use behaviour. The data in this in progress research has not been analysed yet; however, it is the basis to the future work. The results will be presented at the conference.

CONCLUSION AND FUTURE WORK

The current study was set to investigate the associations of six perceived attributes of eGovernment adoption to its intention to use. Each attribute was hypothesized to positively correlate significantly with eGovernment intention to adopt and use. A conceptual model for the eGovernment implementation has developed and introduced for the purpose of evaluating multi case eGovernment settings in Greece. The data analysis is assumed to confirm the hypothesized directions of relationships. The antecedents of each attribute (like training and education to alleviate effort expectancy) need to be considered for the attribute to favourably contribute towards IT systems and eGovernment adoption in the workplace. Thus the study is believed to be successful towards the end and IT decision makers may find these results helpful in guiding their efforts.

This study also attempts to test whether the UTAUT research originated in technologically developed societies is viable in countries in the transition process. The study used the most widely accepted constructs of the technology adoption research with reliable scales, published in leading journals in the field. These that have been proved to consistently influence the adoption and diffusion of eGovernment, will be tested in a multi case setting (organizational, cultural, different IT implementation, IT penetration and usage). EGovernment implementation is a huge project that needs a careful evaluation and time to mature. In order to implement e-projects successfully, we have to study and break all the internal barriers that influence the success of the eGovernment projects.

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 ISBN: 978-9963-711-37-6

THE MEASUREMENT OF COMPETITIVENESS OF THE ITALIAN MANUFACTURING INDUSTRY

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ABSTRACT

The economical crisis affected in particular regions focused on manufacturing specializations. Considering the important role played by Italy in the manufacturing industry, this paper provides a measure of its competitiveness at regional level. Literature concerning the creation of a synthetic index of competitiveness for the Italian manufacturing industry at regional level is practically nonexistent. The paper bridges these gaps explaining how each factor contribute to global level of competitiveness. Methodology consists in a systematic analysis of drivers at the base of the competitiveness of the Italian manufacturing industry at regional level and in the validation of results by means of 3 focus groups composed of 30 stakeholders belonging to different organizations in two phases (Delphi Method). Results show a system of measure modifiable with no change in the competitive factors that describe that region but only with changes in factors of other regions. The application of this measure to the Italian system highlights a strong heterogeneity among regions, showing how Italian manufacturing industry depends on a few highly-competitive regional systems. The creation of a ranking of the Italian regional systems on the base of the competitiveness of their manufacturing industry underlines the key competitive drivers of the "benchmark" regions, allowing to draw important developing strategies. Main limits of this research involve the level of exhaustiveness of drivers and indices, chosen throughout criteria of relevance, transferability and accessibility.

Keywords: *Manufacturing Industry; Piedmont; Competitiveness of Manufacturing Industry; Economical Crisis; Benchmark; Measurement; Italian Regional System.*

INTRODUCTION

In the present scenario, characterized by high technological competitiveness and environmental complexity, ability to innovate manufacturing enterprises is one of the key aspects to compete in the global market. The context, increasingly dominated by the strong and growing competition between companies within the world, forces manufacturing enterprises to shift the focus of the competitive advantage to the elements related to competitiveness, innovation and intangible assets.

 ISBN: 978-9963-711-37-6

However, the context in which Italian firms have to compete might be better using the data observed by the IMF (International Monetary Fund, 2014). In fact according to the organization world GDP will grow in 2014 by 3.7%, to accelerate in 2015 to 3.9%. As for Italy, in particular, showed a worse condition of the predictions about the recovery of 2014: in fact, forecast of 0.6% is lower than the 0.7% indicated by the Bank of Italy Bulletin (Bank of Italy, 2014).

In this context, the situation of Italian manufacturing firms is not simple. Italian firms should invest more in innovation, seeking to renew their facilities, their equipment and their production processes.

In the light of this context, the present work aim is to provide a measure of Italian manufacturing system competitiveness at regional level, creating a ranking of the different regional systems based on the level of manufacturing industry competitiveness and at the same time allowing to focus attention on Piedmont's position, that has always been a region based on manufacturing industry, due to the presence of Fiat, identifying major development strategies.

The paper is structured as follows: in the second paragraph we will review the literature, with particular attention to competitiveness drivers of Italian manufacturing industry; the third paragraph gives an overview of Italian manufacturing industry, while the fourth describes the methodology used in the analysis; after analyzing and discussing the results by applying them to the Italian regional systems (fifth paragraph), we examine Italian manufacturing industry position in Piedmont (sixth paragraph); the paper continues explaining the concluding remarks tracing Piedmont's best manufacturing strategies, in which important managerial implications, limits of the paper and the possibility to transfer the study in the future research are highlighted.

THE DRIVERS OF MANUFACTURING INDUSTRY COMPETITIVENESS

The theme of manufacturing industry competitiveness is extremely complex. As noted, the aim of this work is to give a measure of the Italian manufacturing industry competitiveness at a regional level. In this context, therefore, it is useful to consider specific competitiveness literature, highlighting the best drivers identified by different authors as "key features" of the manufacturing industry.

Examining competitiveness phenomenon of the manufacturing industry, a lot of researchers highlighted, in particular, two aspects: the characteristics of innovation (Panati and Golinelli, 1999; Bresciani, 2009 and 2010) in the productive sectors and the way firms finance this type of activity.

Regarding the first aspect, some studies have evaluated the innovative capacity of productive firms through econometric models since the '90s, even on national/regional level (Barras, 1990; Miles, 1993; Sirilli and Evangelista, 1998; Wong and He, 2005) while others have focused on a different type of relationship between innovative capacity and other factors such as cooperation in research and development or greater increase in productivity (Kleis et al., 2012; Sterlacchini and Venturini, 2013;

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Bresciani and Ferraris, 2014; Bresciani et al., 2015), family control (Wakelin, 2001; Reichstein and Salter, 2006; Bresciani et al., 2013) and exports (Hagedoorn, 2002; Triguero and Córcoles, 2012; Turco and Maggioni, 2013; Lodefalk, 2014).

Regarding the second aspect, a lot of research have deeply analyzed funding views, with particular reference to the production processes and technological innovation (Basile, 2001; Becker and Dietz, 2004; Sueyoshi and Goto, 2014).

In summary, competitiveness drivers identified by the main literature are attributable to the following aspects: the number and size of the firms, the entrepreneur characteristics, the level of investments, the innovation, the internationalization, the ability to create networks and partnerships and to outsource part of the activity.

Referring to the number of local units and the size of the business, the literature has shown that during the period of crisis the bigger firms succeeded more than the others to react rapidly and to overcome difficulties. In particular, Reichstein and Salter (2006), analyzing a sample of British manufacturing companies, found that the dimension of firms gives a better chance to the company in order to increase its competitive capacity; Morone and Testa (2008), analyzing a sample of 2600 Italian small and medium-sized enterprises, showed that sales growth is positively correlated with the dimension of the firm; Coltorti et al. (2013), have focused on medium-sized Italian companies that represent a new entrepreneurial and competitive phenomenon that exceeds in some ways the district model of small businesses.

Focusing to the company owner, a wide part of the literature has shown that manufacturing firms with young leadership are more resistant to the crisis, more inclined to hire and more dynamic. The works of Jabbour et al. (2013) and Noruzy et al. (2013), who interviewed 280 executives from 106 companies with more than 50 employees, are related to this context.

The tendency to invest is another highlighted driver in the literature. Freel (1999) investigated the financial environment referring to the product innovation of small manufacturing firms and discovered a positive correlation between investment, development of new products and access to debt capital. In the same direction, Dahlstrand and Cetindamar (2000), analyzed the tendency to invest of a sample of manufacturing firms in Sweden showing a positive correlation between the amount of investment and economic performance. Magri (2009) studied the tendency of small manufacturing firms in raising external funding highlighting that firms that invest more rely less on financial debts. Carboni (2011), analyzing a data set at the level of global enterprise for the manufacturing sector in Italy, found that public aids to enterprises promote the use of internal sources of investment financing. Finally, Sueyoshi and Goto (2014), evaluating the performance of manufacturing firms on 47 Japanese prefectures, have

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found a positive correlation between investment and performance, with particular reference to the reduction of emissions and the improvement of working environment.

The tendency of manufacturing enterprises to innovate is one of the most analyzed drivers by the literature. In fact, several authors have highlighted various aspects related to innovation financing, development of new products, research and development, renewal of equipment and processes and ITC.

Wakelin (2001), for example, analyzed the relationship between the production capacity increase and the cost of research and development for 170 UK businesses, finding an important and positive correlation; Chudnovsky et al. (2006), using a sample of data from innovation surveys of manufacturing firms in Argentina for the period 1992 to 2001 showed that research and development in-house and the cost of technology acquisition have positive pay-off in terms of greater probability of introduction of new products and/or processes in the market; Triguero and Córcoles (2008), analyzing the tendency to innovate in a sample of Spanish manufacturing firms for the period 1990 to 2008, found a positive correlation between investments in innovation and development of new products.

Examining the contribution of information technology for innovation production in multiple contexts and analyzing the data from 1987 to 1997 for a number of big American manufacturing companies, Kleis et al. (2012) found a positive correlation between the increase of investments in information technology and output in innovation.

Even more recently, however, several authors have highlighted the investment in innovations for environmental protection (Guoyou et al., 2013) and sustainable development (De Marchi and Grandinetti, 2013).

Regarding the internationalization, Nassimbeni (2001) has shown that the tendency to export of small and mid-sized manufacturers is closely linked to their ability to innovate the product and develop valid inter-organizational relationships. In the same direction, Basile (2001) analyzed the relationship between innovation and export tendency of Italian manufacturing firms in different exchange rate regimes, highlighting that the tendency to export and innovative abilities are the most important competitiveness drivers.

Recent studies have shown a positive correlation between the level of exports and the survival of manufacturing companies (Wagner, 2013), between firm growth and the increase in exports (Baldwin et al., 2013), between the increase of competitiveness and the growth in the imports/exports (Turco and Maggioni, 2013). Other studies have also emphasized the importance of location choices of firms abroad (Bresciani and Ferraris, 2012; McIvor, 2013) and the role of services for exports of manufacturing firms (Lodefalk, 2014).

Finally, manufacturing firms competitiveness increases with the raise of the relationships with other companies, institutions, local players they are able to create. According to the literature there are a lot of

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authors who have emphasized that the factors such as belonging to a district or to a network, the presence of network contracts and of collaborations and the use of outsourcing have a positive effect on the competitiveness of enterprises. For example, Becker and Dietz (2004) have shown how companies that increase their collaborative activities in research and development are more inclined to increase the competitive advantage; Sambavisan et al. (2013) have shown that the relationships and sharing of knowledge generated through the establishment of alliances allows manufacturing companies to increase their performance. In the same direction, finally, Papakostas et al. (2013) have shown which factors allow manufacturing companies to form successful networks, while Fafchamps and Söderbom (2014) have shown that the performance of manufacturing enterprises increased due to the presence of networks and alliances.

ITALIAN MANUFACTURING INDUSTRY IN THE ACTUAL COMPETITIVE CONTEXT

The current scenario of the Italian manufacturing industry is characterized by the presence of lights and shadows. In fact, Italy, like other major world producers, is affected by the rise of emerging countries such as China, India and Brazil (Tardivo et al., 2011; Deloitte, 2013). Drivers of the Italian manufacturing sector are quite wide (in 2011 it contributed for 15.9% of the added value of the country, against an EU average of 15.5%); it also has some excellence "tips" in areas such as the production and manufacture of leather, textiles, machinery and metal products (European Union, 2014).

Italy, with 3.8 million small and medium-sized enterprises has the highest number of firms across the European Union, often experiences its companies limited by structural obstacles such as difficulties in financing innovation and in creating networks and effective networks, high production and labour costs and an excessive bureaucracy (Ferraris, 2013; Bank of Italy, 2013).

Also according to the data of the Bank of Italy, the current balance account went from a surplus of 2% of GDP at the end of the '90 to a deficit of 3.2% in 2011, mainly due to the deterioration of the trade balance, because the current assets in manufactured products field did not offset the sharp deficit of energy products.

Italian manufacturing firms competitiveness, then, is put to the test by the productivity stagnation, high costs and the intensification of an increasingly global competition. Though slow, there was a response of the companies (Bank of Italy, 2013). Without leaving the specialization in the excellence areas and high labour intensity, in fact, the Italian manufacturing industry has tried to produce goods and services of higher quality for some years (OECD/WTO, 2013).

The Italian manufacturing industry, in short, is an area populated by companies that, despite the difficulties arising from the new global competitive environment, have for several years started a

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significant restructuring process, which is also reflected in the recent trend of exports and hints of recovery which we just referred to.

METHODOLOGICAL FRAMEWORK

This paper aims at providing a measure of the competitiveness at regional level, focusing on the positioning of Piedmont, a region with a strong vocation in manufacture. In particular, it (1) identifies the drivers of the competitiveness of the manufacturing industry; (2) provides a measure of the competitiveness of the manufacturing sector at regional level and (3) individuates the position of Piedmont at national level. These objectives could be achieved through a systematic review of literature on this topic, the validation of results through the creation of three focus groups involving 30 *stakeholders* in two different phases (validation of drivers/indices and creation of a global measure of the competitiveness of this sector at regional level) (Delphi methodology) (Dalkey, 1969).

With regard to the creation of this global measure it is most important the weighting of each driver by means of the stakeholders, who have to evaluate, out of 100 scores, the weighted repartition of each driver on the basis of their personal experience (Bradley *et al.,* 2010); after this, scores assigned to each driver must be distributed by stakeholders among each single index, while indices are segmented in four classes containing the same amount of population (Bradley *et al.,* 2010); by summing up the indices of each driver, it is possible to get eight partial indices that reflect the measure of the different drivers of manufacturing competitiveness; their sum corresponds to the index of regional competitiveness of the manufacturing industry (IRCMI) ranging between 0 and 100 (0 - the least competitive; 100 - the most competitive) with

IRCMI = NS+SS+LS+IS+INS+INTS+BNS+KMS

where, with reference to manufacturing industries:

NS = Number-of-enterprise scores;

SS = Size-of-enterprise scores;

LS = Leadership scores;

IS = Investments scores;

INS = Innovation scores;

INTS = Internationalization scores;

BNS = Belonging-to-a-network scores;

KMS = Kind-of-management scores.

Classes	Level of competitiveness
0-25	Low
26-50	Discrete
51-75	Good
76-100	High

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Tab. 1: Subdivision in classes of the level of manufacturing competitiveness

At this stage the index is applied to Italian regional systems.

Data used in this analysis comes from SRM and OBI "Impresa e competitività Rapporto 2013" in Spring 2013. In a second time a positioning analysis of the Piedmont manufacture is carried out.

ANALYSIS AND DISCUSSION OF RESULTS: A RANKING OF THE ITALIAN REGIONS

This paper focuses on the drivers considered by literature and evaluated by selected stakeholders. The first research question (RQ1) aims at identifying competitive drivers of the manufacturing industry. The model of competitiveness is based on 8 drivers: n. of handicraft firms and their size (Reichstein and Salter, 2006), leadership (Jabbour et al., 2013; Noruzy et al., 2013), investments (Dahlstrand e Cetindamar, 2000), innovation (Chudnovsky e al., 2006), internationalization (Baldwin et al., 2013; Turco e Maggioni, 2013), affiliation to a network (Papakostas et al., 2013; Fafchamps e Söderbom, 2014), kind of management.

After the creation of a framework of drivers, the second *research question* (RQ2) consists of the creation of ICIM; to achieve this objective through the Delphi Methodology, we asked stakeholders to distribute 100 scores among the different drivers and their indices of competitiveness of the manufacturing industry. The highest scores have been attributed to the firm size, to innovation and to internationalization.

Despite PMI represents the backbone of the Italian economy, their small size often hinders their performances; the lack of a suitable property often limits the potential of innovation and of internationalization of the firms and hinders the dialogue between bank and enterprises (Osservatorio UniCredit Piccole Imprese, 2009-2010). Despite the fact that nobody has been spared by the economic and financial crisis, the latter has particularly weakened SMEs characterized by main criticalities with regard to the financial structure (i.e., with scarce liquidity), the reduction of sales, the increased time before getting paid and the difficult credit access (IRES, 2011).

At the same time, innovation represents another important driver to face difficult situations like the current crisis. Quality and availability of a national skilled labour (including researchers, scientists, engineers) and the ability to create innovations has been deemed by participants of the survey GMCI (Global Manufacturing Competitiveness Index) 2013 as the most important driver of competitiveness of the manufacturing industry (Deloitte, 2013). According to results provided by Osservatorio UniCredit Piccole Imprese (2009-2010), small entrepreneurs pay particularly attention to innovative processes, both as a potential tool to cope with a worsening of the market conditions and as a way to rethink the business activity.

 ISBN: 978-9963-711-37-6

A further driver is the internationalization: foreign demand has a very important role in the current scenario and it could be considered the most dynamic component of the economy and probably this trend will be confirmed also in the future (Regione Piemonte, 2014). Innovation and internationalization represent the main drivers for the competitive development of enterprises, also in an aggregate view of the entrepreneurship system (Caroli, 2006).

The weighting of different competitive drivers of the manufacturing industry are shown in Tab. 2.

Driver	Max assigned scores	Weighting in classes
N.	10	
N. of handicraft firms	10	1= 2,5; 2=5;3=7,5; 4=10
Size	14	
Sales	7	1=1,75; 2=3,5; 3=5,25; 4=7
N. of workers	7	1=1,75; 2=3,5; 3=5,25; 4=7
Leadership	12	
N. of firms with a young owner	6	1=1,5; 2=3; 3=4,5; 4=6
Owner with a medium-high level of education	6	1=1,5; 2=3; 3=4,5; 4=6
Investments	12	
Total investments 2013	12	1=3; 2=6; 3=9; 4=12
Innovation	14	
N. of firms that brought innovations	14	1= 3,5; 2=7; =10,5; 4=14
Internationalization	14	
Export	14	1= 3,5; 2=7; =10,5; 4=14
Belonging to a network	12	
Firms in a district and belonging to a firm network	4	1=1; 2=2; 3=3; 4=4
Participation to a network contract	4	1=1; 2=2; 3=3; 4=4
Participation to other aggregations	4	1=1; 2=2; 3=3; 4=4
Type of management	12	
Outsourcing	6	1=1,5; 2=3; 3=4,5; 4=6
Logistic in outsourcing	6	1=1,5; 2=3; 3=4,5; 4=6

Tab. 2. Measurement of the competitive drivers of the manufacturing industry

Starting from the data elaboration through SPSS, it is possible to notice how the competitiveness of manufacturing industry is high only in three regions (Piedmont, Lombardy and Emilia Romagna) and "good" only in Veneto and in Lazio. Even if Piedmont has always had a strong manufacturing vocation, it still shows a critical economic situation, in particular with reference to the internal market. The small increase of the industrial production proves how the path of recovery is very long, with a wide gap between the dynamics of internal and external market; this last one continues to drive the regional manufacturing system (Unioncamere Piemonte, 2014). Data of Lombardy of the first quarter of 2014 show a consolidation of industrial production in the manufacturing sector, with positive growth rates.

It is possible to notice an increase in sales, a positive economic variation in internal orders while the external ones are stable. In this region, also the forecasts are positive (Unioncamere Lombardia, 2014).

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The third region with a high level of manufacturing competitiveness is Emilia Romagna, despite in 2013 active firms have decreased by 1.166 units (-2.6%) in all the sectors and in particular for wood/furniture, ceramic and mechanic, with the single exception of the food sector. Moreover, there has been a decrease in production and in sales by 2.8%.

The most negative result has been registered by small firms (-4.1 %) less oriented to export, considered an important driver of growth (Unioncamere Emilia Romagna, 2014).

With reference to the two regions with a "good" level of competitiveness, in 2013 Veneto registered a regional index of industrial production characterized by an average variation of -0.8% per year. There has been a progressive reduction of the intensity of contraction of production in the period January-March (-0.97%) with regard to the creation-cessation net of manufacturing firms.

The most of Italian regions show a discrete (6 regions) or low (9 regions) level of competitiveness of the manufacturing industry. This sector shows critical conditions in the middle of 2013. The duration and deepness of the decrease of the productive levels undermine the surviving of several firms and, in some cases, of the whole productive sectors (Confindustria, 2013). Italian manufacture is characterized by specific peculiarities: differences among different Italian areas stem from the different level of economic development before the national unity was reached, by the availability of energy sources, by the proximity of European markets, by the efficiency of transports and by a entrepreneurial middle class in Northern Italy ready to invest.

Regions	ICIM	Competitiveness of manufacturing industry
Piemonte	88,75	High
Lombardia	87	
Emilia Romagna	81,5	
Veneto	64	Good
Lazio	52,5	
Toscana	45,75	Discrete
Trentino Alto Adige	30,75	
Puglia	30,5	
Friuli Venezia Giulia	27,75	
Marche	26,5	
Calabria	26,5	
Valle D'Aosta	25	Low
Liguria		
Umbria		
Abruzzo		
Molise		
Campania		
Basilicata		

ISBN: 978-9963-711-37-6

Sicilia		
Sardegna		

Tab. 3. Competitiveness of the manufacturing industry par region

Source: *Our elaboration on SRM and OBI data (2013)*

CONCLUSIONS: WHICH FUTURE FOR THE MANUFACTURING INDUSTRY?

Thanks to an integrated analysis of the measurement methods, competitiveness of industry and development strategies, this explorative research emphasizes how the level of competitiveness of the manufacturing industry at regional level is affected by eight main drivers and it is very heterogeneous among the different areas of reference, clustering towards lower levels.

The measurement system of a region can be modified without changes in its competitive drivers but only throughout changes in drivers of other regions.

The scenario of the Italian manufacturing industry is critical and registers an average loss of sales by 60 millions per day in 2013.

International competition, the weakness of the demand and the inflation make an increase of prices very difficult and this could result in a further worsening of financial results of manufacturing firms.

An exit strategy is offered by export that is focused mainly towards Community markets: the foreign components are the unique driver of growth of the Italian firms even if internal demand is changing its direction given that an increase of registration of cars has been registered (Il Sole 24 Ore, 2014).

Despite these weak signs of hope, this research emphasizes how the Italian manufacturing industry depends on a few regional systems highly competitive, all settled in Northern Italy: Piedmont, Lombardy and Emilia Romagna.

Anyway, this paper emphasizes the high importance assumed by innovation (Chudnovsky e al., 2006; Wakelin, 2001) and internationalization (Baldwin et al., 2013; Turco e Maggioni, 2013) in the determination of the regional competitiveness in the manufacturing industry. In particular, this last aspect could exploit the so-called "made in Italy", brand reknown all around the world that should be supported. These two dimensions should be considered important key-issues for future investments in order to support manufacturing industry.

This research represents a meaningful theoretical and managerial contribution to the topic of manufacturing industry at regional level. Despite this it shows important limits such as non-exhaustive drivers and indices, selected throughout criteria of relevance, transferability and accessibility.

Anyway, results offer important elements for future researches: the ICIM can be applied with some changes to other levels of analysis (on provinces, districts and so on) and with regard to other sectors.

ISBN: 978-9963-711-37-6

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 ISBN: 978-9963-711-37-6

APPLICATION OF INFORMATION SYSTEMS TO EDUCATION IN CROATIA

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ABSTRACT

Nowadays, in a time of rapid expansion of large amounts of information, it is necessary to use information systems in almost all spheres of life, including the education process. Building a large information system is an extensive and complex process and is usually implemented through projects. Using information systems in educational institutions automates the delivery of teaching materials, facilitates information exchange and communication in general, and simplifies the recording and evaluation. In the last thirty years, due to the rapid development of information and communication technologies (ICTs), distance learning has been increasingly developed. Virtual education computer-aided network technologies in some areas have completely replaced the previously known methods of distance learning, such as correspondence schools and radio and television educational programs.

The aim of this research was to assess the extent to which information systems are used at educational institutions in Croatia and for what purposes. The emphasis of the research is particularly placed on use of information systems in educational activities (e-learning). As the information systems are constantly being improved, it implied the analyses of the use of various modules and the development of functionality of such systems. The research was conducted on respondents from primary to secondary schools and universities, namely, among teachers and students who use these information systems on a daily basis. The data collected through questionnaires were analyzed by different methods of descriptive statistics.

Keywords: *Information systems, education, e-learning, ISVU, e-Register.*

INTRODUCTION

Technological changes are implemented with difficulties and slowly in Croatia, unlike in other, technologically advanced countries, which accept innovation and development spontaneously. Lately, we have witnessed the trends of transition to "information society", i.e. society of knowledge and communication, which implies a step forward for Croatia. Improvement is seen on state level as well in self-initiatives taken by groups and independent enterprenours. On state level, government bodies stir adaptations to demands of market and social structures. Thus, Croatian government started with

 ISBN: 978-9963-711-37-6

implementation of the program e-Croatia in 2003. As early as 2007, realization of some of the objectives of the program enabled an active participation in society for Croatian citizens and enterprenours also thorugh network information system, followed by a significant strengthening and connecting of Croatian economy and a better preparation of Croatia to become relatively more transparent and faster in its actions and to provide more efficient services (Šimović,2010). The field of management information systems (MIS) has had a varieted development in its relatively short life span. It started as a child of operations research and decision sciences in the late 1950s. In a couple of decades, it declared its independence and became a separate field. In its phenomenal growth since the 1970s, it has gone through a number of twists and turns that have taken it farther and farther away from systems thinking in some ways, while preserving the notion of systems at its core in other ways (Rahmatian,1999.)

Besides distance learning, in recent years the ICTs have also been used in Croatia for the development of the National Information System for registration and enrolment in secondary schools and higher education institutions (Croat. NISpVU). At the beginning of 2001 Ministry of Science, Education and Sport (Croat. MZOS) launched the Information System of Higher Education Institutions project (Croat. ISVU) as part of the computerization program of higher education institutions in the Republic of Croatia. It is primarily an online application for the computerization of operations with students at institutions of higher education which allows the editing of the database of students, teachers, courses, curricula, admissions and examinations. In addition, the application supports the standard activities of each institution of higher education, such as enrolments, exam registration, entry of examination marks, issuance of certificates and credentials and, moreover, it automatically generates summary reports, and can simultaneously coordinate the work of several educational institutions. In primary and secondary schools the centralized system of the Ministry of Science, Education and Sports called e-Register is used. E-Register system is used to input key data on students and staff in primary and secondary schools, and was conceived as a digital form of school register, otherwise normally filled in manually in schools. At the end of the school year it enables the printing of certificates based on the data on students' achievements.

INFORMATION SYSTEMS

An information system is a set of elements and activities enabling transformation of data into information and presentation of information to a user. This is the system which saves, gathers, processes and delivers information important for society and all interested users. Building information system is a complex and comprehensive work to be planned after a detailed analysis of the need for a system. The system should then be shaped, produced, put into process, and eventually maintained continually.

 ISBN: 978-9963-711-37-6

ISVU

Higher Education Institutions Information System (Croat. ISVU) is a project launched by Croatian Ministry of Science, Education and Sports by mid-2000 within a project of Croatian higher education institutions informatization. .

ISVU serves following purposes:

1. creation of general statistical reviews on higher education institutions, study programs, science programs, number of students, professors and scientists to inform the public and to enable a comparison on the international level.
2. provision of relevant information on possibilities of the studies, gaining professional competencies, possibilities for scientific work – for future and present students and information on students' professional profile for employers.
3. creation of analyses and statistical processing to gain an insight in the state of resources, quality and efficiency of higher education and science (on the level of higher education institutions, on state level and level of scientific fields).

ISVU consists of the following modules:

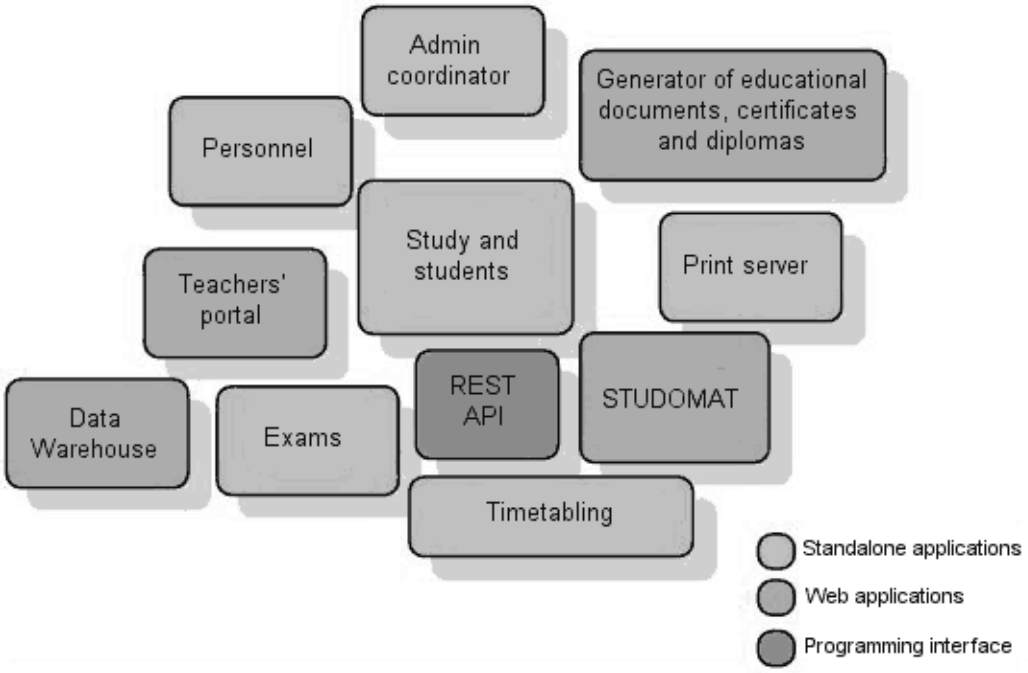

Figure 1. An overview of all modules of ISVU System (http://www.isvu.hr/javno/hr/index.shtml, accessed July 15, 2014)

ISVU System is designed for different groups of users (students, professors, administrative staff at faculties) to enable easier and simpler studying-related administrative work and registering the years of studies, exams, curricula etc. Along with higher education institutions and scientific organizations, ISVU

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is used by: the Croatian public, state bodies, evaluation bodies and professional state bodies, professional organizations and employers, international and European organizations. ISVU presents a source of information important for management and making decisions on the level of higher education institutions but also on the level of the overall higher education institutions system in Croatia. This is an application which enables editing bases of data on students, professors, courses and study plans, it also supports standard activities of any higher education institution, such as registering students, signing up for exams, entering students' exam grades, provision of confirmations and certificates and an automatic creation of collective reports (Matić,2011).

ISVU is a network-oriented system which enables a coordination of a number of higher education institutions. ISVU enables an unambiguous identification of students, professors and courses and thus enables data exchange among higher education institutions. It can also be used for grouping of data from a number of higher education institutions.

The system is owned by Ministry of Science, Education and Sports. It enables informatization of most of administrative work related to studying at Croatian higher education institutions and a possibility of making analysis of the process aiming to make decisions based on these data. Higher education institutions keep their ownership and authority over data related to a certain higher education institution (http://public.mzos.hr/Default.aspx?art=8916&sec=3141, accessed July 17, 2014.). Ministry of Science, Education and Sports controls the system and provides finance for system development. University Computing Center (Croat. SRCE) from Zagreb enables development of the program support. Table 1 shows what ISVU offers in each user category.

Administrative staff at higher education institutions	**Students**	**Professors**
● an information system free of charge (financed by MZOS) ● education for using the system, free of charge ● technical support and continuous care for correct system work enabled by SRCE ● ad-hoc reports on students' success and passing exams ● reviewing the entered data according to certain criteria (top 10% students etc.) ● creation of reports (periodically required by MZOS, a higher education institution, scholarship providers etc.) ● creation of schedule	● online exam signing-up and signing-off ● notifications on exams via e-mail ● provision of confirmations after working hours of Student desk ● signing-in for academic year with no waiting in line	● editing their weekly plans for lectures and seminars ● descriptions of data related to a course, such as table of contents and list of references ● reviewing the data on exam terms and student statuses ● registering the data related to finishing the studies

Table 1. An overview of possibilities ISVU offers to end users

Table 1 shows how ISVU System has enabled easier and simpler administrative work for all three user categories. ISVU also enabled saving time and information being easy to survey for higher education institutions, students and professors. Right upon the very exam professors enter the grades in the ISVU

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System, therefore there is only a slight possibility of registering wrong data and information or of losing them.

E-REGISTER AND E-GRADEBOOK

E-Register is an information system for standardized data set management being used from the beginning of 2006/2007. E-Register presents a single basis of standardized data on primary and secondary education, such as data on schools, employees, students, programs etc. This is an information system designed as an online register, which should, among other things, make provision of grade records easier. The most important advantage of the system, when compared to manual data entering, is the fact that data entered online are accessible from any location connected to the Internet, and the data are automatically synchronized with other service providers, such as *National information system of signing up for higher education institutions* (Croat. NISpVU*), National information system of signing up and registering for secondary schools* (Croat. NISpuSŠ) *etc.*

By the beginning of 2011/2012, CARNet created a network application e-Gradebook as a gradebook in electronic form. E-Gradebook was initiated as a pilot project in first grade of three secondary schools, for which official grade registering was done by the use of e-Gradebook. Teachers accessed e-Gradebook by the use of tablets and they entered school hours, students being absent and students' grades. Along with all its functionalities, e-Gradebook has additional functions enabled by the use of IT technologies. For instance, classmasters, teachers and principals can access various reports on grades and students being absent. There is also a possibility of warning classmasters about students with a number of negative grades or those being absent often and a possibility of warning principals about teachers not carrying out their curricula on time. This application enables data protection as it prevents unauthorized data entering, gradebook being stolen and destroyed by accident or on purpose. Currently, linking e-Gradebook to e-Register is in progress, aiming to reduce repeated data entering.

RESEARCH METHODOLOGY

An empirical research was carried out by the use of three different questionnaires: a questionnaire for university professors, a questionnaire for students and a questionnaire for teachers in primary and secondary schools. The questionnaire for students consisted of 25 closed-ended questions, the questionnaire for primary and secondary school teachers included 29 closed-ended questions, while the questionnaire for university professors had 24 closed-ended questions. Nominal and ordinal scales were used in the questionnaires, as well as Likert's five-degree scale. The research sample consisted of a total of 297 examinees, including 139 students (46.80%), 63 university professors (21.21%), and 95 primary and secondary school teachers (31.99 %).

 ISBN: 978-9963-711-37-6

In the questionnaire there was a set of questions from which the Technology Readiness index (TRI index) was calculated for every respondent. The TRI index calculates the willingness of respondents to adopt new technologies and based on the results of the test they are divided into five categories (Zekanović-Korona & Grzunov,2014.):

1. Those who are reluctant to use new technology
2. paranoids
3. sceptics
4. pioneers
5. researchers.

RESEARCH RESULTS

The data obtained from the research were exported in MS Excel and processed by the use of statistical program functions. The data from Table 2 show how all three categories of examinees included significantly more women than men. Also, the category of teachers and professors included mostly examinees below 34. Average age was 21.71 for students, 38.52 for teachers, and 37.62 for professors. The data show e-learning systems are used significantly more at faculties. Professors and students use e-learning systems equally, while 87% of students use e-learning systems also for passing on the informations. Notifications are mostly forwarded via e-mail, but oral and written notifications are still present, as well as watching the notifications on web sites. All teachers gave high grades to possibilities of e-learning systems, but they are not used enough in primary and secondary schools. E-Register and e-Gradebook are still not used enough in primary and secondary schools. Teachers recognized advantages of using e-Register and e-Gradebook and gave an average grade 3.28 and 3.41 (respectively) to their functionality.

Structure of examinees / Responses to questions	***Primary and secondary school teachers***	***University professors***	***Students***
Women	85.26%	61.91%	66.90%
Men	14.74%	38.19%	33.10%

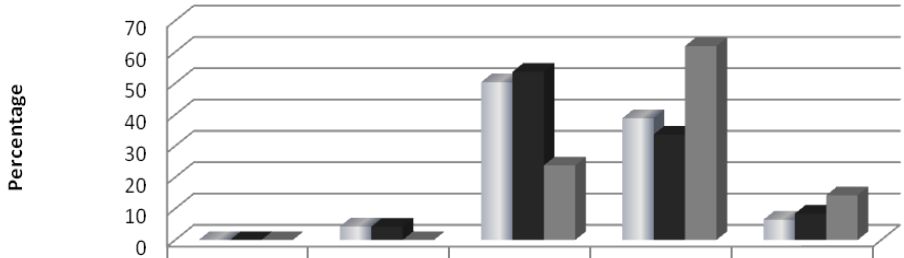
ISBN: 978-9963-711-37-6

Age 18-24	-	-	62.50%
Age 25-34	54.74%	42.86%	37.50%
Age 35-44	20.55%	42.86%	-
Age 45-54	25.26%	14.28%	-
Age 55-65	-	-	-
Average age	38.52	37.62	21.71
Field of work – social sciences	44.21%	33.33%	62.59%
They use e-learning system	25.26%	61.90%	62.50%
They do not use e-learning system	28.42%	19.04%	4.35%
They sometimes use e-learning system	46.32%	19.04%	33.15%
They receive notifications via e-mail	91.58%	100%	69.71%
They receive notifications orally	83.16%	33.33%	54.68%
They receive notifications in a written form	72.63%	57.14%	33.09%
They receive notifications via web site	32.63%	61.90%	69.08%
They receive notifications via e-learning system	4.21%	4.75%	87.32%
An average grade of e-learning system's functionality	4.09	4.61	4.09
They use e-Register never or rarely	40%	-	-
They use e-Register sometimes	22.10%	-	-
They use e-Register often or always	37.90%	-	-
An average grade of e-Register's functionality	3.28	-	-
They use e-Gradebook never or rarely	69.47%	-	-
They use e-Gradebook sometimes or often	30.53%	-	-
An average grade of e-Gradebook's functionality	3.41	-	-

Table 2. The data obtained from the questionnaires with regard to the structure of examinees

The structure of examinees shown in Figure 2 shows there are mostly sceptics and pioneers in all three groups of examinees. A hypothesis saying that there is no link between one of three categories of examinees and the structure of examinees with regard to TRI index was tested by the use of an χ^2 test (χ^2 =22.8338, 6 degrees of freedom, p=0.01). The calculated χ^2 proved to be higher than the tabular χ^2. Thus the hypothesis was rejected and we concluded there was a link between a category of examinees and the TRI index, i.e. the way of using the new technologies. The data obtained show how university professors make most of researchers when it comes to TRI index, which was expected as professors are the ones who are engaged in scientific work. There is an interesting datum according to which the category of students included 50% sceptics with regard to TRI index.

ISBN: 978-9963-711-37-6



	Those who are reluctant to use new technology	Paranoids	Sceptics	Pioneers	Researchers
Students (%)	0	4	50	39	6
Teachers (%)	0	4	54	34	8
Professors (%)	0	0	24	62	14

Figure 2. Structure of examinees with regard to TRI index

We calculated the correlation between the frequency of use of web application for students called STUDOMAT within the ISVU System and TRI index (r=0.1968, N=139, p=0.01), and we established a weak positive correlation. There is a meaningless negative correlation between the grade given to functionality of STUDOMAT and TRI index (r=-0.068, N=139, p=0.01). The students examined believe NISpVU, the system of online registration and signing up for *higher education institutions, made registration and signing up process easier, and there is a weak negative correlation between TRI index and portal's grade* (r=-0.1988, N=139, p=0.01). Students using new technologies gave more lower grades to online registration and signing up for faculties since they believe registration and signing up can be more functional because they know the possibilities of new information technologies.

There is a meaningless negative correlation between the grade given to teachers' portal e-Register and TRI index (r=-0.045, N=95, p=0.01). The system e-Register is still not used enough, therefore such a weak correlation. The average grade given to functionality of teachers' portal e-Register is 3.28, with a weak negative correlation between the grade given to functionality of teachers' portal e-Register and TRI index (r=-0.239, N=95, p=0.01). Teachers' portal e-Gradebook is used very rarely, therefore a meaningless positive correlation between TRI index and use of teachers' portal e-Gradebook (r=0.0265, N=95, p=0.01). Since teachers' portal e-Gradebook is used rarely, the average grade given to functionality of the portal (3.41) is understandable, as well as a meaningless positive correlation between the average grade given to functionality of the portal e-Gradebook and TRI index (r=0.0288, N=95, p=0.01).

The analysis of data provided by university professors examined showed how teachers' portal ISVU is used rarely and sometimes by professors, with a meaningless negative correlation between the frequency of use of teachers' portal ISVU and TRI index (r=-0.073, N=63, p=0.01). Professors gave an average grade 3.31 to functionality of teachers' portal ISVU. There is a weak positive correlation between TRI

 ISBN: 978-9963-711-37-6

index and the grade given to accessibility of information on courses and students within the ISVU System (r=0.17, N=63, p=0.01).

CONCLUSION

The paper analyzed the use of information systems in Croatian education. The analysis of research results shows all three categories of examinees (primary and secondary school teachers, university professors and students) recognize advantages and possibilities of information technology and information systems. All examinees gave high grades to the possibilities of e-learning systems. Irrespective of their belonging to one of five groups with regard to TRI index, determining the readiness of examinees for the use of new technologies, the examinees want to use information systems and technologies available to them in their work and study environment and they gave high grades to functionality of such systems. University professors would like to receive all information about conferences via information systems, and not in a printed form, which is still in use. Also, they pointed out all professors should use the ISVU System, which is not the case nowadays as usually administrative staff are the ones who enter exam results in ISVU. Professors do not use ISVU enough as they believe they need additional education on IT use and believe the ISVU data should be updated more often. If professors themselves would enter the grades in the system, as well as all other data, data would be updated currently. Most of high education institutions in Croatia provide services of additional education to professors for use of information systems and e-learning systems. Each year they make a step forward, although the changes are very slow. The research showed primary and secondary school teachers should be educated for use of e-Register and e-Gradebook as this will, in a long term, reduce redundancy and the amount of administrative work that they traditionally performed manually. The time spent on additional education will lead to less work for teachers in the future. A reason for a weak use of the systems of e-Register and e-Gradebook can also be an insufficient information equipment of schools and teachers, which should be examined in one of future researches. Students would like to use the possibilities of e-learning systems, such as handing in their homework and online testing. They communicate with their professors via e-learning systems very often. Younger population is more prone to the use of technology and some of the future researches should examine why there is a large number of sceptics among students with regard to the use of new technologies.

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ISBN: 978-9963-711-37-6

BOOK OF CONFERENCE ABSTRACTS

ISBN: 978-9963-711-37-6

WOMEN ENTREPRENEURS IN PALESTINE: MOTIVATIONS, CHANCES, AND RISKS

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ABSTRACT

Entrepreneurship culture is booming all over the world. The public sector as well as the private sector are encouraging and working new programs to introduce, create, and enhance this culture in the local community in Palestine. It is clear that spreading the entrepreneurship culture will help overcome many of the economic problems especially the high unemployment rates among the young graduates and women. While entrepreneurship is considered as one of the essential pillars to enhance any economy, local women entrepreneurs are still struggling hard to survive many obstacles that they face in their communities. Besides the fact that women entrepreneurs percentage is still low in Palestine. Therefore, this paper explores the motivation of the local women to start their own businesses, their chances, the support they need to start their businesses, and their challenges. To do so, 50 women were asked about these issues. The target group was women entrepreneurs owning a micro, very small, small and medium-sized businesses (MSMEs) in Palestine. Among the questions, participants were asked about the reasons of the low rate of women entrepreneurs and their opinions on effective tools and policies to encourage the participation of women. Results revealed that the study background is not critical to start a business, women entrepreneurs are motivated by pull factors more than push factors, financial support as well as unskilled labour, and high tax are among the main challenges of local women entrepreneurs. Additionally the legal and social constrains make it harder for women entrepreneurs in businesses.

Keywords: *Women Entrepreneur, Palestine, Entrepreneurship, SME*

ISBN: 978-9963-711-37-6

SUPPLY CHAIN MANAGEMENT IN CUSTOMS LOGISTICS

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ABSTRACT

PURPOSE

Globalization has influenced the changes in customs procedures and inspection processes. In the last decade, the role of customs has significantly changed from the collection of customs duties to the protection of citizens due to reduced duty rates and increased concerns for safety and security. The rapidly growing international trade as well as new technologies of the production and transport require the goods to be delivered to the recipient exactly at the time when they are needed. For this reason, customs formalities must be carried out as quickly as possible, without disturbing the flow of goods and at the same time not reducing the efficiency of the customs control. Simplified customs procedures are becoming more and more important. The EU Authorised Economic Operator (AEO) status was launched in 2008, offering simplified customs procedures to companies that prove to be safe, reliable and compliant with security standards. Certified AEOs have fewer inspections on goods and speedier customs procedures and formalities. This benefits the companies because the goods can move faster from one destination to another, lowering transport costs and facilitating more efficient trade. It also benefits EU customs administrations, who can concentrate their resources on checking high-risk transactions. In order to implement this, the need of the exploration of business enterprises activities' evaluation appeared, at the same time paying attention to the aspects of the international trade supply network. Customs provides the assumptions to go deeper into the assessment processes of the business activities. In order to implement this, the need of the exploration of business enterprises activities' evaluation appeared, at the same time paying attention to the aspects of the international trade supply network. The object of research is AEO model of the customs audit used for the assessment of business enterprises' activities. Based on these findings the **purpose** of research is to identify the most significant and the most risky areas of the business activities' assessment and to create a recommended AEO model.

DESIGN/METHODOLOGY/APPROACH

In order to achieve the aim of this research the analysis and sistematisation of the scientific literature and legal acts, the data analysis and the comparison, the grouping, the questionnaire, the summary as well as mathematical statistical methods, were combined. A method of the written questionnaire was used to

 ISBN: 978-9963-711-37-6

collect the direct data needed for the research chosen. Mathematical-statistical methods were used to reason the representation of the research results and to process them. To summarize the questionnaires' data SPSS programme (Statistical Package for the Social Sciences) was used.

FINDINGS

Reviewing the flow of goods, it can be said that the process of the worldwide transportation of goods is influenced by a broad set of environmental factors. That is why, this assessment area is quite tricky and complicated, requiring a broad understanding of the importance of a global context. The assessment processes of the business activities performed by the customs are a multiple process that involves more than just the field of customs matters. After analysing the enterprises activities quality's AEO certification process of the EU customs, it can be affirmed that in most cases the main problem related to the activities' assessment, lies in the identification of the appropriate activities assessment's indicators. After analysing the models of the business activities' evaluation, it has been found out that the majority of them include the enterprises strategy's aspects. Therefore, in order to carry out the evaluation of the activities, the organization's mission, policies and objectives should be combined (Kaplan, Norton, 2004; Pongatichat, Johnston, 2008). It has also been found out that today's models of the business activities' assessment are characterised by the fact that the activities' assessment includes not only traditional business activities assessment's indicators but also the assessment of the entire supply network and inter-operational procedures.

RESEARCH LIMITATIONS/IMPLICATIONS

The customs' conducted assessment process of the business enterprises' activities has a number of procedural aspects, coming from the particularities of the activities themselves, and the assessment itself may have different specific objectives. After analysing the concepts of the business activities' evaluation, it has been found out that they are very different. As a result, a relatively wide range of activities assessment's models can be found in the field of the business activities' assessment nowadays. Some of them (model of well-balanced indicators' system by Kaplan and Norton, 1996; model by Saiz, Bass and Rodriguez, 2007) can be applied, improving the EU's customs audit's model for the assessment of business activities.

PRACTICAL IMPLICATIONS

ISBN: 978-9963-711-37-6

The results of this research would be useful for scientists as well as businesses and customs administrations. After carrying out the analysis of EU AEO model, the critical evaluation has been presented. The developed model allows to comprehensively measure and evaluate business enterprise's activities - at the same time contributing to the realisation of the challenges faced by the customs activities. The created customs audit's model can be successfully adapted to other countries' customs administrations and other public institutions.

ORIGINALITY/VALUE

The result of the implementation of the activities' assessment targets at the measuring of the achievement of those objectives that are taken into consideration carrying out the assessment activities. The concepts of the business activities' assessment have been examined, a comparative analysis of the business activities assessment's models has been conducted, the areas of business enterprises activities' assessment suitable for the customs audit's model have been identified. After conducting the analysis of the EU customs audit's model – used for the assessment of business enterprises activities - the evaluation of this model has been introduced, its fundamental drawbacks lying in the identification of the appropriate indicators of the activities' assessment have been revealed. After analysing theoretical models of the business enterprises activities' evaluation and after carrying out the analysis of the models of the business enterprises activities' assessment used by the customs of various countries (EU, USA, Japan), was developed a model of the customs audit, recommended in the evaluation of business activities. The AEO model was supplemented with new assessment areas.

Keywords: *supply chain, trade security, customs, simplified customs procedures, AEO model.*

ISBN: 978-9963-711-37-6

FACTORS INFLUENCING THE SHARE OF OWNERSHIP SOUGHT IN CROSS-BORDER ACQUISITIONS - UK PERSPECTIVES

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ABSTRACT

Cross border mergers and acquisitions (CBM&As) are increasingly being used as foreign market entry strategy by the multinational enterprises (MNEs) in order to gain synergy benefits, new market creation and penetration, taxation, diversifying their portfolios and accessing technological assets (Pablo and Javidan, 2009). In 2014, the total value of cross-border M&As reached US$384 billion with strong performance in finance, as well as pharmaceuticals, metals, and communications and media industries (UNCTAD, 2015). During first three quarter of 2014, the value of mergers & acquisitions involving UK companies reached approximately £11 billion (ONS, 2014).

It has also been established in past literature that CBM&As are risky (Shimizu et al., 2004; Hitt and Pisano, 2009) and their failure rates are relatively high (e.g. Erez-Rein et al., 2009). Moreover, when foreign MNEs acquire local firms, they tend to face significant challenges due to differences in institutional environments (Dikova et al., 2010) and cultures (Dikova and Sahib, 2013) of home and host countries. Some past international business (IB) studies have suggested that similarity and alignment in goals of investing MNE and target firm can reduce problems associated with acquisitions management in the new international markets (Nadolska and Barkema, 2007; Chen, 2008; Das and Kapil, 2012). In this context, we contend that the ownership decision in CB M&As needs to be considered delicately by the investing MNE managers because an appropriate ownership structure can help to align the goals of MNE and acquired firm. This would further help in reducing the difficulties associated with acquisition management in host economies with different institutional, cultural and economic structures.

The review of extant IB literature reveals that very few studies (see e.g. Chen and Hennart, 2004; Jakobsen and Meyer, 2008; Chari and Chang, 2009; Arslan and Larimo, 2012) have analyzed ownership decision in CBM&As specifically by distinguishing between full acquisitions and partial acquisitions. Hence, there is visibly a gap in literature, compared to general establishment and ownership decisions which have been widely researched (e.g. Brouthers and Hennart, 2007; Slangen and Hennart, 2008; Morshett et al., 2010). CB M&As as an entry strategy can offer investing MNEs get instant access to valuable and complementary resources and capabilities residing in the target local firms (Hennart, 2009). As a result, these foreign MNEs are able to own, control and leverage the combined asset-base to realize

 ISBN: 978-9963-711-37-6

economies of scale and scope and, as a result, are able to enhance their competitive positioning regarding local and international rivals (Chen and Hennart, 2004; Chen, 2008; Hennart, 2009). Hence, CB M&As can emerge as a preferred entry strategy by investing MNEs in order to gain relatively quick foothold in the local market (Arslan and Larimo, 2012).

The unique features concerning CB M&As specifically have been ignored in most previous market entry studies due to the tendency to analyze full and partial acquisitions together in case of general establishment mode (greenfield investment vs. acquisition) and ownership mode (wholly owned vs. partially owned subsidiaries) focused analysis (Chen and Hennart, 2004; Jakobsen and Meyer, 2008; Arslan and Larimo, 2012). Therefore, our paper aims to fill the research gap by analyzing the ownership structure in CB M&As in-depth by analyzing the equity sought by investing MNEs rather than just concentrating on full vs. partial acquisition analysis as done in many past studies.

We address different aspects of uncertainty (Slangen and van Tulder, 2009; Dikova et al., 2010; Slangen, 2011) associated with foreign market entry especially in the context of CB M&As. The key theoretical arguments in our paper are based on real options theory (Folta and Miller, 2002; Drirouchi and Bannett, 2012) and TCE i.e. transaction cost economics (Anderson and Gatignon, 1986; Hennart, 1991, 2009; Hennart and Park, 1993) in the context of CB M&As. Moreover, we address both exogenous and endogenous uncertainty and link it theoretically with equity share in CB M&As by investing foreign MNEs. The empirical part of our study is based on CB M&As undertaken by British MNEs globally. Hence, we include both developed and emerging economies in our analysis as CB M&As destinations. Although, emerging economies are receiving an increasing amount of attention in IB strategy analysis in recent year, still majority (ca. 70%) of M&A activity takes place in developed economies (Thomson Reuters, 2013). Past IB studies analyzing ownership structure and strategies have concentrated on either CB M&As undertaken in transition markets of Central and Eastern Europe (Jakobsen and Meyer, 2008), Japanese CB M&As in US market (Chen and Hennart, 2004; Chen, 2008) and Finnish CB M&As in emerging economies (Arslan and Larimo, 2012). However, our study sample is more heterogeneous including CB M&As by British MNEs in both developed and emerging economies and hence, the study findings will be more easily generalizable.

ISBN: 978-9963-711-37-6

TRUST CONSTRUCTS AS AN ANTECEDENT FACTORS IN ISAS PERFORMANCE; THE CASE OF SAUDI ARABIA

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ABSTRACT

Trust "remains an under-theorized, under-researched, and therefore, poorly understood phenomenon", and little systematic research has been done in the ISA context. Conceptually, the study has distinguished between trust constructs (personal trust, distrust, and competence trust); trust in previous studies has been treated as a single construct. Dividing trust into different dimensions provides us with better understanding of how and when trust affects performance. Second, it also showed, through the use of mediating and moderating factors, how and where trust could influence ISA performance. The study offers an integrative framework of trust as the antecedent factors in ISAs performance. These factors have been previously investigated, however, they need to be viewed and conceptualized as an integrative framework, not as a separate phenomena.

It was examined in a sample of 134 Saudi ISAs using e-mail questionnaire data obtained from Saudi partners top executives. The intentions are not to develop a new theoretical perspective of ISA management and performance, but rather to work within the context of the existing theoretical views. It extends the current knowledge and theories into new and unexplored context.

The findings of this study are important in relation to providing useful insights into an established and growing ISA in a wealth emerging economy context. It rarely, if ever, looked at the Middle East, and the gulf countries, in particular.

Trust has proved to be critical to the success of ISAs. It pays to spend some time on building trust, eliminating any fear of opportunistic behaviour. Saudis place high emphasis on trust when doing business, the absence of trust could lead partners to undermine each other. Distrust has a positive effect on the performance of ISAs in unpredictable industries. The results should alert managers to the risks of complacency in unpredictable industries, as it might damage their performance. It alert managers to the risk of complacency.

Keywords: *Trust, Culture, ISA, IJV, Saudi Arabia, Distrust, Competence Trust, Moderation, Mediation*

ISBN: 978-9963-711-37-6

ATTITUDE AND EMOTIONS OF YOUNG PORTUGUESE TOURISTS TOWARD INTERNATIONAL RISK DESTINATIONS

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ABSTRACT

RESEARCH AIMS

The main goals of this ongoing study are to learn about attitude of young Portuguese tourists about risk destinations and their emotions about traveling out of the country.

THEORETICAL BACKGROUND

The global economic crisis is impelling countries towards attempting to promote incoming tourism as one of their leading industries. The number of international tourists has exceeded one billion in the year 2012 and is anticipated to have reached well over 1.8 billion by the year 2030 (UNWTO 2013). Concurrently, the number of potential destinations increases every year as more and more countries discover the economic potential of tourism. In order to understand the choice of a specific destination it is important to explain the destination selection process (Son & Pearce, 2005). Thus, many researchers focused on the concept of *destination image* (Baloglu & McCleary, 1999; Govers, Go & Kumar, 2007; Moura, Gnoth & Deans, 2014; Pike, 2002). The findings point out that the potential destination competes mainly on the basis of the image held by the tourists. Consequently, policy makers in a destination have to invest efforts in creating and projecting abroad a favorable image. In order to accomplish this marketing task, each destination needs a good understanding of its image in the eyes of potential tourists along with a grasp concerning the perceptions of rivalry destinations (Javalgi, Thomas & Rao, 1992).

Travelling experience may produce a more favorable image with regard to the destination and more tolerant attitudes of the experienced tourists in comparison to novices (Andreu, Bigne & Cooper, 2001; Beerli & Martin, 2004). Actually, positive emotions lead to a favorable evaluation of a place (Oliver, Rust, & Varki, 1997) or even rural tourism lodging (Loureiro, 2010) and enhance the probability to return or tend to reduce the risk perception.

HYPOTHESIS

ISBN: 978-9963-711-37-6

H1: Young Portuguese tourists with positive emotions about traveling out of the country will tend to be less risk destination avoidance.

METHODOLOGY

The study is conducted in Portugal considering academic institutions and attempts to recruit matched sample of about 200 students of various academic study areas (women and men), statistically sampling students through the lists of mandatory classes.

A functionally equivalent self-report structured questionnaire was administered in Portuguese, but the constructs were first written in English (based on previous studies published in English). A back translation was employed to ensure that the sentences expressed the same information in both languages.

MAIN FINDINGS

The preliminary results show that Young Portuguese tend to enjoy traveling out of the country (see table 1). Nevertheless, they do not seem to be interested in traveling to risk destinations (see table 2). Particularly, Young Portuguese tourists tend to avoid traveling to destinations with health hazards (e.g. infections, disease). Therefore, H1 is not supported.

Table 1. Emotions towards travel aboard (1= completely disagree and 5 = completely agree.)

Emotions towards traveling out of the country	Traveling is stimulating	Stressful	Cause me real tension	Make me feel content	Boring	Exciting	Make me feel happy	Make me feel energetic	Make me feel Cheerful
Mean	4.8	2.2	1.9	4.6	1.3	4.6	4.6	4.4	4.6
SD	0.465	0.952	0.845	0.508	0.597	0.546	0.541	0.732	0.589

Table 2. Attitudes towards risk destination

	1	2	3	4	5 (Completely

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Attitudes towards risk destination (%)	(Completely disagree)				agree)
Travel to destinations where there were terrorist incidents during the current year should be avoided.	3.0	9.5	24.0	39.0	24.5
Travel to destinations with health hazards (e.g. infections, disease) should be avoided.	2.5	18.0	16.0	40.5	23.0
Travel to destinations with unstable economic conditions should be avoided.	25.0	43.5	23.0	7.5	1.0
Travel to destinations with political unrest should be avoided.	5.5	23.5	26.0	38.0	7.0
Travel to destinations at risk of earthquakes and other natural disaster hazards should be avoided.	14.0	34.5	27.0	18.5	6.0

CONCLUSIONS

This is an ongoing project research and this paper presents some of the preliminary findings from the Portuguese perspective. Young Portuguese tourists enjoy traveling abroad but they are very concerned about possible risks that may emerge during the trips. They tend to be risk avoiders.

In this vein, destination managers should be aware of such findings if they want to attract Portuguese to their destinations, that is, they must introduce changes in the way they communicate their destinations. In the near future more research and findings will be gathered in order to go further in understanding risk tourism destination and its implications.

Keywords*: young tourists, travel experience, attitudes, emotions, risk destinations and Portugal*

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ISBN: 978-9963-711-37-6

MOBILE MARKETING: A NEW DIGITAL TREND FOR BRAND INNOVATION

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ABSTRACT

Mobile marketing has emerged as a new addition to the portfolio of marketing communication tools. It is one of the latest direct marketing communication channels and is becoming increasingly popular among marketers, owing to the array of benefits it offers, both to potential customers as well as businesses. Every day more businesses are incorporating mobile marketing into their marketing mix in order to communicate effectively and efficiently with their customers. The main purpose of mobile marketing is to increase the awareness level of the businesses by assisting them in gathering relevant information about the needs and preferences of their target customers in a timely and profitable manner. Moreover, effective mobile marketing requires the explicit permission or consent of the end-users in order to succeed. The popularity of personal mobile devices such as smartphones and tablet PCs has introduced a new form of marketing to businesses that can target a large number of people anywhere in the world. As a result, integrating mobile into the marketing mix should become a priority for businesses that want to stay ahead in their relevant industries and enhance their profitability (Amirkhanpour et al., 2014). However, some research studies suggest that mobile marketing does not succeed as an isolated channel: it works best when integrated with other channels and tactics to form a cross-platform strategy or in other words to adopt a multi-channel marketing approach (Pasqua and Elkin, 2013; Amirkhanpour and Vrontis, 2013).

Mobile marketing as stated by Okazaki (2012) emerged in the late 1990s with the sending of simple messages through Short Message Service (SMS), but the strategies have changed since the introduction of better technologies and the propagation of smartphones and tablet PCs, where many other new mobile communication tools have emerged. As smartphones and tablet PCs become the predominant mobile devices, the transition towards using mobile apps, the mobile web, and other mobile communication tools will lead to increased interactivity. Mobile devices such as smartphones and tablet PCs are ideal direct marketing communication channels particularly because of their unique properties: (a) location-specificity, (b) portability, and (c) wireless features. The location-specificity property enables the marketers to target location-sensitive promotions of specific brands considering the individual customer's preferences and behavioral patterns (Bober, 2011). The portability property helps marketers communicate and interact with the customers on a 24/7 basis while the wireless features promote enhanced usage of mobile devices in order to create more opportunities for the marketers to target customers.

 ISBN: 978-9963-711-37-6

The purpose of this research is to investigate the role and importance of mobile marketing as a new digital marketing channel for brand innovation. This will be achieved by theoretically defining mobile marketing; exploring its significance in adopting a multi-channel marketing approach by marketers and business owners; investigating its role in integrating with social media; and proposing a conceptual framework towards its utilization in the wider context of strategic marketing. The research at this stage of development is theory-based and enhanced by secondary data. Theoretical considerations from the literature are further conceptually developed to construct a mobile marketing provisional framework towards empirical validation.

As shown in Figure 1, planning a mobile marketing strategy is influenced by the specific brand in which the mobile strategy is dedicated to, the customers of the brand as well as the environment in which the mobile strategy is implemented. Mobile marketing tactics include the various mobile communication tools that enable marketers to design, deploy and implement the specific mobile strategy. There is a correlation between mobile marketing tactics and social media communications. This is due to the convergence of social media marketing and the mobile channel.

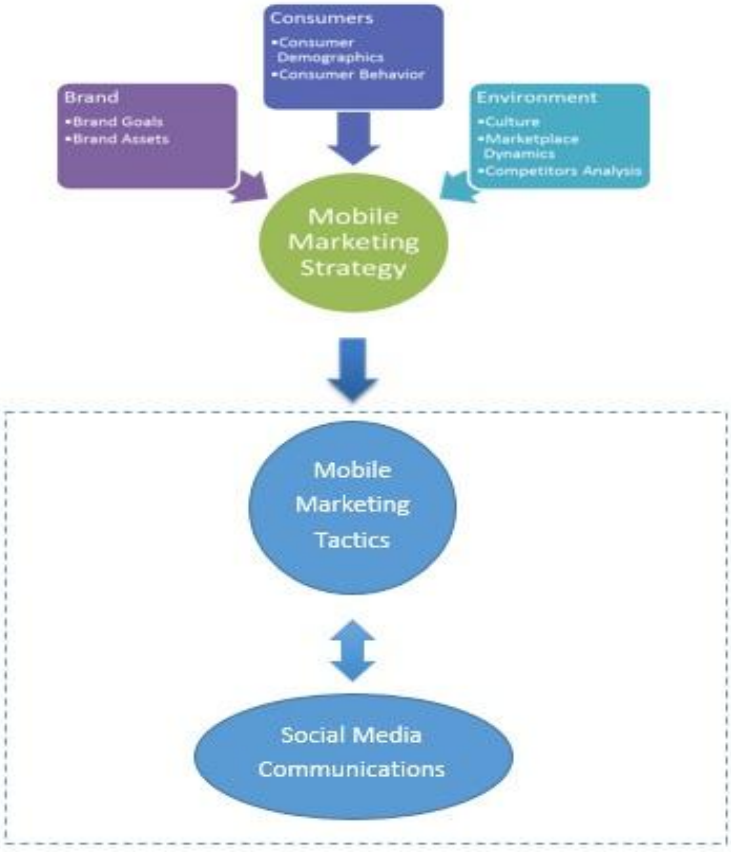

Figure 1: Provisional Conceptual Framework

Source: Amirkhanpour et al. (2014)

 ISBN: 978-9963-711-37-6

Taking the research studies on mobile marketing into careful consideration, it is evident that there is a lack of awareness and knowledge among marketers that plan to adopt and integrate mobile marketing into their digital marketing communications. This is due to the limited number of research studies exclusively dedicated to mobile marketing communications using smartphones and tablet PCs. With rapid mobile technology developments, marketing through the mobile channel is becoming pervasive and not negligible in the upcoming years. Therefore, in order to adopt the mobile entirely as a new element of the marketing mix, marketers are required to evolve along with it. Otherwise, they will gradually lose a large number of customers who are frequent mobile users. The research outcomes do add to the growing knowledge concerning mobile marketing and its role as a new digital channel in brand innovation. Furthermore, they will set the basis for a more refined understanding through a more comprehensive perspective on the topic.

Keywords*: mobile marketing; marketing communications; social media marketing; digital marketing; brand; innovation*

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THE ROLE OF PRODUCERS ORGANIZATIONS ASSOCIATION (POA) IN TRANSNATIONAL COOPERATION PROJECTS

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ABSTRACT

The Italian agricultural sector is facing new challenges and, for this reason, needs to introduce new models of governance that contribute to development of the agro-food chain from the farm.

A new opportunity is offered by the new 2014-2020 European programs which allocated funds aimed at promoting innovation / internationalization in the development of enterprise. In particular, the new regime of the Common Agricultural Policy (CAP) supports the operational programs to be implemented by Producer Organizations (POs) and Producers Organizations Association (AOPs) properly recognized by funding contributions from the operational funds of programs according to the EC Regulation. 1308/2013 and the Ministerial Decree n. 9083 of 28 August 2014.

In this context, it can be significant to establish an AOP composed of groups of OPs whose members are the OPs partners involved in a transnational cooperation project. With this form of internalization, it is possible to create a model of governance between farms, and not of different States that pursue the same objectives in terms of economic and rural development, capable of bringing economic, environmental and social benefits.

CONTENTS

The Italian territory is characterized by series of typical high-quality food products that represent a strength for multifunctional agriculture expression of great biodiversity and food culture of our territory. These products exported to the close link with the territory, they will become a promotional tool.

The Italian agricultural sector, and especially that of the southern regions, needs to enhance agricultural producers at the marketing stage that is affected by specific dynamics such as high volatility in prices, the market structure, strongly pulverized and business practices .

In light of these considerations, it is necessary to support - in close cooperation with other regional policies aimed at districts and networks - processes of formation of networks and business management models capable of stimulating the potential associations still underused by companies, investing in projects network of regional, inter-regional and trans-national, sectorial, industry and / or cross-cutting.

According to the Guidelines for the implementation of the measure cooperation Leader Axis of Rural Development Programs 2007/2013 cooperation is considered part of the local development strategy; Cooperation is a way to expand the local horizon and to improve local strategies.

 ISBN: 978-9963-711-37-6

Cooperation projects are an additional significant and ongoing strategy of local development in order to give it completeness, territorial expansion, more and more large capacity for discussion and exchange of experiences with other significant territories.

The cooperation project enhances the complementarity of the various territories through a common project in search of critical mass, opening and mutual cultural enrichment and learning based on experience also.

It is therefore important to take into consideration networks involving all those actors that can increase the ability to concentrate and participate in the international market.

From this point of view, the PO and their associations have a fundamental role in the agricultural scheme as it does not only represent and protect the farms and their members, they also support production planning, marketing and promotion quality products in order to strengthen the position of producers towards distribution.

For this the POA (Producers Organizations Association) may be a factor of acceleration of these processes of aggregation and creation of entities that can handle a more significant scale of production in order to become a referent most important markets.

Producer organizations and their associations can play useful roles in:

- Concentrating supply and improving the marketing;
- planning and adjusting of production to demand;
- optimizing production costs and stabilizing producer prices;
- carrying out research;
- promoting best practices and providing technical assistance;
- managing by-products;
- risk management tools available to their members, there by contributing to strengthening the position of producers in the food chain.

This is a great opportunity for economic development not only for the companies that have chosen specialization, but also for production sites, which would see their common history and their traditions. This type of aggregation of network creates synergies for the benefit of all stakeholders contributing to the development of rural economies.

The advantages of setting up a POA would be multiple:

- Protection of the local/national market;
- price stability;
- reduction of risks related to price volatility.

A potential may be represented by the establishment of a POA between OPs of different States which are partners in a transnational cooperation project.

 ISBN: 978-9963-711-37-6

The POA so constituted could create the basis for a system / network aggregation able to strengthen relations and the relations of transnational cooperation between the participating companies through the implementation of economic cooperation beneficial. The following benefits are worthy to be acknowledged: greater purchasing power; increased market share in a foreign state; greater ability to respond to demand by offering a broader basket of products and protection of the local market / country. If POAs include "typical" agri-food product companies, such products could be exported without too many burdens and costs for the production enterprises, but at the same time would give the opportunity to reach markets, otherwise not reachable due to weak organization rates of enterprise.

In conclusion, it can be asserted that the cooperation that agricultural producer organizations are of considerable importance both nationally and locally. At the same time there is a need to consolidate and promote initiatives related to the aggregation of agricultural production through the implementation of support tools that can avoid their downsizing to mere aggregation "numerical", and instead turn them into organizations capable to create value and to market the products.

The establishment of a transnational AOP would not only meet the objectives of such projects, but also to allow the participants associated to better address the challenges posed by the market in terms of product sales.

Keywords: *Common Agricultural Policy, Producers Organizations Association, transnational cooperation project, rural development, network, risk management, price stability, agri-food product, aggregation, agricultural.*

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 ISBN: 978-9963-711-37-6

SERVITIZATION: A CONTENT ANALYSIS TO DRAW MANAGERIAL INSIGHTS FROM LITERATURE

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ABSTRACT

PRINCIPAL TOPIC

One of the most important phenomenon of modern economy is *servitization*, conceived as the evolution of the offering from a simply material product to one that is inseparable from services (Vandermerwe and Rada, 1988). The increasing importance of services in the modern economy has been pushing firms to offer a product-service system (PSS) (Baines et al., 2007), made of a variable mix of tangible (the product) and intangible components (a mix of services), both of them fundamental for the generation of value.

From the last 80s scholars and governments carried out lots of research about servitization. The surveys have dealt with the drivers of servitization and its benefits for environmental sustainability (Goedkopp et al., 1999;Tukker, 2004).

While literature is characterized by multiple definitions of the phenomenon, less attention is devoted to the management of servitization (even though it is clear that extending business to service has strong managerial implications). In particular, there is not a clear explanation or classification of the tools that firms could employ to servitize themselves (Baines et al., 2007; Reim et al., 2014).

Thus, the work aims at systematizing the literature from a managerial point of view. Firstly the work identifies the literature mainstreams (thus the different approaches to the analysis of the phenomenon), secondly, for each of them, it analyses the managerial insights of servitization (frameworks, tools and guidance).

MAIN PURPOSE

Identified the difficulty to draw and classify the managerial insights and tools from the present literature the main question is:

What is the state-of-art of servitization literature in explaining, from a managerial point of view, the aspects of its fulfilment and in identifying the mainstreams?

The main question can be structured in the following objectives:

 ISBN: 978-9963-711-37-6

- Which are the managerial insights (tools, guidance, framework) needed for the implementation of servitization that is possible to be drawn from the present literature?
- Are there any aspects of servitization management, which are less studied by the present literature?
- How to summarize the different approaches to the phenomenon (servitization, PSS, service strategies, etc)?

METHODOLOGY

The research is carried out through the content analysis technique.

This research technique, reducing a complex phenomenon in a set of defined categories, facilitates its analysis and interpretation (Harwood and Garry, 2003). The specific content analysis used in the work is the "content as inquiry" which analyses the papers interviewing them servitization by a questionnaire (Losito, 1996).

We identified the population of works to be investigated on Ebsco, Emerald, JStore, Science Direct and Discovery, searching for the following keywords used per titles and abstracts: servitization, servitisation, product-service systems (PSS), service strategies, after sale services, SD logic, integrated solutions, product-service bundle, service infusion.

From a bulk of over 150 articles, it was decided to consider only those papers studying the phenomenon from a managerial point of view and assuming the perspective of the firm. Works limited to literature review were ruled out too, leading to a final number of 89 papers to be interviewed.

Data from the questionnaire were processed through monovariate and bivariate analyses and are going to be analysed using the multiple correspondence analysis, which is used to reduce the variables into fewer dimensions in order to summarise the information, and the cluster analysis, which allows organising the data into meaningful subgroups (Di Franco, 2006).

CONTRIBUTION TO THEORY

The research will firstly systematizes the literature mainstreams grouping the numerous definitions and the various approaches to the phenomenon in few clusters.

Secondly, the research tries to classify the managerial insights identified by the scholars to manage servitization. The aim is to identify the managerial areas that are less studied and to give suggestions for future researches about those aspects of the phenomenon that needed to be examined in depth.

Keywords*: servitization, PSS, content analysis*

 ISBN: 978-9963-711-37-6

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 ISBN: 978-9963-711-37-6

THE IMPACT OF FINANCIAL RISKS AND RESOURCES ON EXPORT INTENTION: EVIDENCE AMONG SMES IN AN EMERGING ECONOMY

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ABSTRACT

One of the major considerations for pursuing export move is the financial standing of a firm. Traditional views hold that export decisions are the result of balancing the trade-off between available resources and potential risks. Many studies have concluded that resources must surpass the risks in order to materialize export efforts. Despite this pertinent argument, many studies have only examined the financial factors as either stimulus or barriers factors, yet research on the combination of these effects is still lacking. Thus, the purpose of this study is to examine the impact of both financial resources and risks on export intentions of local firms. Specifically, the model integrates three variables: internal financial resources, external financial constraint and perceived export costs, while controlling for firm and product effects. In the context of small and medium-sized enterprises (SMEs), the analysis is done at the managerial level but interpreted as the firm's behavior because the owner normally acts as a sole decision-maker. Survey data was collected from 142 firms in Malaysia, while complementary data was retrieved from the SME Corporation Malaysia database. Through OLS regression, the results show that firms with more internal financial resources, fewer external financial constraints, and perceived lower costs have a greater intention to become exporters. However, perceived export costs show an insignificant moderating effect between internal/external financing and export intention, as predicted. This study contributes to the literature by integrating push and pull financial factors for comprehensively understanding their impact on the internationalization process of firms.

INTRODUCTION

A firm's export decision is the result of accumulated possible determinants at all stages. At the firm-level, it involves the consideration of adequate resources and capabilities (Kaleka, 2002). Financial factors play a major role in determining the export move in two ways, risks and return. In other words, any large investment associated with exporting must have sufficient capital resources. Exporting cost refers to the margin between production cost in the home country and price paid by end customers in the export market (Khan and Kalirajan, 2011). Eventually, operational costs in the international markets is often larger than in the domestic market. Therefore, Zia (2008) suggests that only productive firms with high liquidity are able venture into global markets. Financial funds may come from internal or external resources. The former includes the firms' retained earnings, while the latter refers to loans (usually from

 ISBN: 978-9963-711-37-6

financial institutions). In short, a limited supply of capital would result in lower investment spending (Beck et al, 2006), thus limiting a firm's growth.

This study examines the impact of financial risks and resources on export intention among SMEs in an emerging economy. We conceptualize financial risks as perceptual export costs and measure resources for internal and external financing. This paper is one of the few that attempts to integrate financial risks and resources into a single model for predicting the export intention. Prior studies have treated financial factors in isolation, with either cost as barrier (Shepherd, 2010) or capital as stimuli (Minetti and Zhu, 2011).

CONCEPTUAL DEVELOPMENT AND HYPOTHESES

Export development requires additional investment from operations in the local market; this can occur both inside and outside of the firm. Internal costs emerge from activities, such as production modification and training for export managers (Verwal and Donkers, 2002). External costs are mainly triggered by foreign governments, such as border formalities, customs and documentation (Blanes-Cristobal *et al.*, 2008; Shepherd, 2010). All these costs are perceived as risky investments by firms. Thus, only firms who estimate lower costs would eventually become exporters. In other words, firms would agree to export only if they perceived the expected profits to be positive (Blanes-Cristobal *et al.*, 2008; Roberts and Tybout, 1997). Prior studies concluded that entry cost is a significant predictor of export initiation or response (Bernard and Jensen, 2004; Das *et al.*, 2007; Serra *et al.*, 2011). For example, the reduction of cross border costs has increased export growth in Pakistan between 1999 and 2004 (Khan and Kalirajan, 2011).

Hypothesis 1: Estimated export costs negatively affect export intention.

According to Minetti and Zhu (2011), most of the abovementioned costs need to be paid up front; this can only be accomplished by high-performing companies. Therefore, firms must have strong financial resources to materialize the export move (Leonidou, 1995). Many SMEs initiate their businesses with limited capital (Gadenne, 1998), with almost 85% of it coming from internal sources such as personal savings, family, and friends. Accordingly, they would retain the profit for investments in growth (Carpenter and Petersen, 2002), including export ventures (Minetti and Zhu, 2011). Given that SMEs finance their operations using internal resources (Rosli, 2012), we propose that a strong internal financial standing would stimulate the export intention of firms.

Hypothesis 2: Internal financial resources positively affect export intention.

Another source of financing are loans, usually from financial institutions. However, there is a major consensus that SMEs are often restricted from acquiring external financing (Beck *et al.*, 2006; Bernard and Jensen, 2004; Chow and Fung, 2000; Cressy and Olofsson, 1997; Hutchinson and Xavier, 2006; Tannous,

 ISBN: 978-9963-711-37-6

1997; Zia, 2008). This might happen due to inability of firms to repay the loan (Griffith, 2011) because of low profitability, insufficient assets, high mortality (Cziraky *et al.,* 2005) and other firm-specific risks (Lehmann *et al.,* 2004). Nonetheless, external capital is vital for firms to attain growth (Tannous, 1997; Vos *et al.,* 2007) where many investment decision are deemed possible with adequate external financing (Greenaway *et al.,* 2007).

Hypothesis 3: External financial constraints negatively affects export intention.

DATA

This study employs data from an online survey among SMEs listed in SME Corporation Malaysia database. Data was collected over six months from September 2012 until March 2013. From 599 companies, we received 142 valid responses or 23.7% response rate. Sample characteristics are presented in Table 1. To ensure no response and non-response bias, we have ensured that respondents are key informants (owner or top managers) and confine our survey to firms that fit the small and medium size definition.

Measurement items for all constructs were extracted from literature. Export costs was conceptualized as an estimation of the five types of cost: production modification, export trainings, logistics/marketing, administrative (licensing and paperwork), and associated taxes (Khan and Kalirajan, 2011; Shepherd, 2010; Verwaal and Donkers, 2002), measured on a five-point Likert scale from 1 (very low cost) until 5 (very high cost). We measured internal financial resources on liquidity from internal resources, improvement in financial performance, and availability of assets to be pledged as collateral (Carpenter and Petersen, 2002; Cziraky *et al.,* 2005; Griffith, 2011). External financial constraints emphasized three items: need for additional external credit than currently obtained, external credit offered is limited, and the firm's size has made it difficult to acquire external credit exceeding a certain amount (Carpenter and Petersen, 2002). Lastly, we focus on their export intention: is the firm interested in initiating exporting? And how likely the firm would initiate exporting? (Yang *et al.,* 1992).

We include several product and firm controls: product competitiveness, age, debt, percentage of internal financing, percentage of external financing, size and turnover.

Characteristics (N=142)	Mean	SD	Percentage
Age	14.23	10.82	
Total turnover (Million)[a]			
less than RM 1M			50.7
between RM 1M to RM 10M			29.6
more than RM 10M			19.7
Total employees			
less than 20			59.2

ISBN: 978-9963-711-37-6

between 20 and 50			18.3
more than 50			22.5
Industry			
Nondurables			45.1
Durables			19.7
Food/agricultural			35.2
Product principle			
Industrial			19.7
Consumer			54.9
Both			25.4

Table 1. *Sample characteristics*

RESULTS

The results of Model 1 and 2 are presented in Table 2. Model 1 tested the hypotheses discussed in the earlier section, while Model 2 tested the moderating effects of perceived export costs on both internal and external financial resources. However, the results show no significant effects of perceptual export risks as a moderator between financial resources and export decisions.

Model 1 is statistically significant at the 0.01 level, where all antecedents explain 23 percent of overall export intention of firms. Also, our explanatory variables are significant in the model and support hypotheses 1, 2 and 3. Hypothesis 1 predicts that higher perceived costs lead to lower export intention. This argument is supported by research showing that a major barrier preventing SMEs from initiating exporting is intolerance towards risks through their estimation of costs (Acedo and Galan, 2011). Our results also validate hypothesis 2 that posits internal financial resource has a positive impact on export intention. Literature in entrepreneurs' financing has long agreed that capital from friends, family, and personal saving are the main sources for investment among SMEs (Carpenter and Petersen, 2002). Lastly, hypothesis 3 argues that external financial constraints would impede export intention of firms. Although it is extremely difficult for SMEs to acquire loans from banks (Greenaway *et al.,* 2007), capital from outsiders is still vital for determining level of business growth (Vos *et al.,* 2007). Therefore, inability to get capital from banks would jeopardize the export plan.

Lastly, two control variables of size and product competitiveness are also a significant predictor of export intention. Pre-export activity includes expansion into production which requires more labor. Thus, firms with higher productivity are more likely to become exporters. In the same vein, product competitiveness (in terms of cost and innovation) would leverage advantages in the local market into export operations (Kaleka, 2002).

	Model 1		Model 2	
Factors	β	SE	β	SE

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Age	0.01	0.01	0.01	0.01
Debt	-0.01	0.07	0.01	0.07
Internal financing	0.00	0.01	0.00	0.01
External financing	0.00	0.01	0.00	0.01
Size	**0.26****	0.10	**0.27*****	0.10
Turnover	-0.10	0.08	-0.13	0.09
Product competitiveness	**0.31***	0.14	**0.29***	0.14
Perceived export costs (PEC)	**-0.09***	0.08	**-0.07***	0.09
Internal financial resource (IFR)	**0.05****	0.09	**0.05****	0.09
External financial constraint (EFC)	**-0.22****	0.09	**-0.21****	0.08
PEC x IFR			0.14	0.09
PEC x EFC			-0.10	0.09
Constant	**-1.50***	0.67	**-1.64***	0.67
Model R^2	0.23**		0.25**	
F-value	2.64		2.61	
ΔR^2			0.02	

Table 2. *Logistic regression*

CONCLUSIONS

Financial considerations are a vital part of the export decision making process because of the high costs incurred. Challenges in securing sufficient capital from internal and external resources have inhibited SMEs from going abroad. In this study, we examine the combined effects of export risks and financial resources on export intention. We found that firms with stronger internal financial backups, fewer external financial constraints and perceived lower costs are more likely to become exporters. In short, this study offers an insight into the issue of high costs and difficulty of obtaining loans from banks being major export barriers among SMEs. Accordingly, governments should assist in reducing export costs and urge banks to provide better loan schemes to attract more firms to venture into exporting. The government could help firms through incentives such as subsidies and sponsored export missions. As for banks, the supply of credit should be allocated proportionally according to the stage of exporting because the financial needs for each group are different (Roberts and Tybout, 1997).

Keywords: *Financial risks. Financial resources. Export intention. Internal financial resources. External financial constraint. Perceived costs. Integrated Model. SMEs. Emerging economies. Malaysia.*

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ISBN: 978-9963-711-37-6

THE RELATIONSHIP BETWEEN QUALITY OF LIFE, PLACE ATTACHMENT AND THEIR CONSEQUENCES: A CASE STUDY OF BRAGA (PORTUGAL)

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ABSTRACT

PURPOSE

This paper discusses the importance of the stakeholders' theory and integrated approach in city governance and strategic planning. It also aims to assess the relationship between quality of life, satisfaction for living in a place, place attachment and their consequences (self-esteem, self-efficacy, social identification, perceived happiness and active citizenship) from two different perspectives: residents versus town centre shopkeepers.

METHODOLOGY/APPROACH

The city of Braga, located in the North of Portugal was selected as case-study city. A survey with 208 respondents (including 92 residents and 73 small retailers) was conducted to assess a diagnostic study of quality of life attributes and place attachment measures.

FINDINGS

Claiming that City Marketing Organizations should integrate all stakeholders, respondents elected the quality of life and citizens' wellbeing as first governance priority. Gastronomy, heritage (historical and religious monuments), local hospitality received the highest scores, while street commerce was also considered the sixth quality of life attribute. A factor analysis extracted eight dimensions for quality of life: mobility, environment, landscape, events, public services, jobs, streets and weather. The predictors of satisfaction for living are: perceived happiness, weather, self-efficacy, free parking, age and gastronomy. Significant differences between residents versus small retailers were found on the perceptions of quality of life and place attachment.

ORIGINALITY/VALUE

It provides a new insight into the relevance of the measurement of quality of life, place attachment, self-esteem, self-efficacy and perceived happiness thus providing public policy makers some recommendations and guidelines about integrated place marketing strategies

 ISBN: 978-9963-711-37-6

Cities' strategic planning/governance and city marketing are very popular but also complex issues that must be analysed by a holistic perspective. This paper aims to discuss some research questions:

a) What is the role of strategic planning and the impact of city marketing policies in the sustainable development and its implications on quality of life, place attachment satisfaction for living in a place, and perceived happiness? In particular, what is the role of the city marketing organization (CMO)?
b) What is the relevance of the city monitoring system? This system (which must include some place marketing and environmental psychology measures besides the traditional governance/development performance indicators) is necessary for strategic diagnostic and for the evaluation and accountability of the action plans and policies.
c) What is the role of town centre's street commerce and small retailing in city's development and quality of life? Is there a trend to rediscovering and reinvention of town centres, using shops ambience, lay-out and merchandising as drivers for city positioning and tourism attraction?
d) Are there latent conflicts between city stakeholders? Acknowledging the importance of integrated approach by allowing the contribution and participation of all city stakeholders, this paper makes a comparative analysis from two different perspectives: residents versus town centre shopkeepers.

This paper also acknowledges the key role of two paradigms: a) the adoption of "the Right to the City" paradigm that promotes the intelligent, sustainable and inclusive cities (UN-HABITAT, 2010); b) the adoption of an *integrated approach* by allowing the participation of all city stakeholders (Braun, 2008; Garcia, Gómez & Molina, 2012). These approaches seeks to integrate the needs, expectations and activities of different city stakeholders (residents, potential new residents, tourists, investors, enterprises, public/ private non-profit institutions), aiming to maximise sustainability and (simultaneously) improve the quality of life and economic development of the city (Kotler, Hamlin, Rein & Haider, 2002). Among these stakeholders, residents and street retailers have an important role in cities development and image formation. They also have specific interests and motivations that must be assessed and considered in an integrated approach perspective. According to Freire (2007, p.14) residents play two distinct roles that complement each other: they are important for the tourist experience, and are likewise an interested party since they also collected benefits from tourism.

More recently Braun, Kavaratzis and Zenker (2013) arrive at three different roles played by the residents: as an integral part of the place brand through their characteristics and behavior; as ambassadors for their place brand who grant credibility to any communicated message; and as citizens and voters who are

 ISBN: 978-9963-711-37-6

vital for the political legitimization of place branding. Therefore local residents are a part/important variable in the definition and construction of local brands.

This paper will analyze the case study of Braga, a city located in North of Portugal. According to National Statistics Institute of Portugal in 2012, Braga had a population of 182100 inhabitants, a population density of 993 inhabitants/km^2. It is considered one of the European cities with a higher percentage of young population, since 28% are less than 24 years old, and the old-age dependency ratio is 18,9 while the ageing ratio is 83,1. These ratios are very low compared with Portugal indicators, whose old-age dependency ratio is 29,4 and the ageing ratio is 131,1.

Keywords: *quality of life; satisfaction for living in a city; small retail; place attachment; town centre management; city marketing, Braga (Portugal)*

ISBN: 978-9963-711-37-6

UNVEILING THE THIRD DIMENSION FROM EXPERIENTIAL LEARNING THEORY

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ABSTRACT

Learning style is a major concept in education, and the Kolb Learning Style Inventory (KLSI) is one of the most frequently used tests of learning style preferences in research and practice. Using the CODA statistical approach and log transformations in a sample of European MBA students, a third dimension of the KLSI was uncovered. This third dimension describes an individual's relative preference for learning by prehension rather than by transformation. We also report results from another self-assessment instrument, the Philosophical Orientation Questionnaire (POQ), and an observer-assessed instrument, the ESCI-U, which show that the third dimension adds explanatory power to the statistical relationships found. Specifically, the third dimension helps to uniquely capture the link between an intellectual operating philosophy and a preference for the prehension dimension of learning, whereas a pragmatic operating philosophy is linked to a preference for the transformation dimension of learning. This third dimension also reveals a relationship between self-management and social awareness competencies as observed by others and a person's learning preference for transforming knowledge, whereas relationship management and cognitive competencies are more related to people who tend to approach learning by prehension rather than by transforming knowledge.

Keywords: *ipsative data, Kolb's Learning Style Inventory (KLSI), Compositional Data Analysis (CODA), integrative learning, competencies, philosophical orientation*

 ISBN: 978-9963-711-37-6

ECONOMIC REGULATION IN THE SPHERE OF SOLID DOMESTIC WASTE COLLECTION AND PROCESSING

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ABSTRACT

Beginning from the seventies of the second millennium, the Earth population material well-being dynamics demonstrates the stable rising trend. This is positive *per se* and, to the certain extent, agrees with the objectives of human development. However, this income increase process is accompanied by even more rapidly accelerating process of consumption. The rate of material consumption can be indirectly assessed by domestic waste production and accumulation. This is a pressing challenge especially for cities and it is being discussed by many scientists (Murphy and Pincetl, 2013; Jiang *et al.*, 2003; Ko,2011; Ma *et al.*,2013; Diaz and Warith, 2006). But still the problem of urban solid waste is far from being solved – the population on Earth is growing 1.5-2% each year, while the dumps' volume increase is 6%.

The study was performed in order to develop effective tools for sorting and recycling of solid domestic waste (SDW), based on the motivation of social responsibility in business and society under the leadership of state institutions. Research was carried out on the basis of the statistical base of the city of Yekaterinburg.

The city of Yekaterinburg, one of the major industrial centers of the Russian Federation, is facing problems, typical for large cities: its million and a half population annually produces more than 1 million tons of production/consumption waste including 740,000 thousand tons of SDW. It is obvious that the issue of the waste disposal and utilization is very important for the city. Today SDW is being placed in two SDW landfills named Shirokorechensky and Severny with more than 90 hectares of total area. Out of these two SDW landfills, the Shirokorechensky (design area about 41 ha), is the main one, it equals 28 football pitches, its height is nearly 59 meters (a nine-storied building) and every day about 2.000 cubic meters of waste is placed in this landfill.

From the first sight, some business initiatives in the sphere of SDW collection and processing in Yekaterinburg are to be expected. However, only a few small private enterprises and one major municipal enterprise (SDW sorting plant, located on the territory of the Shirokorechensky landfill) are dealing with this matter. The objective of the SDW sorting plant is utilization of paper, cardboard, textile fabrics, etc and delivery of the above mentioned materials to the utility waste consumers. The SDW sorting plant planned production capacity is 100.000 tons/year of SDW though the actual load is only

 ISBN: 978-9963-711-37-6

42.5% of the planned. This means that the plant receives only 57.5 thousand tons of SDW per year, while the problem of waste storage and utilization in the city still remains unsolved.

The problem of the SDW sorting plant low capacity is connected with the deviation of the supplied waste actual density (87 kg/m3) from the design density (200 kg/m3). Thus, the plant copes with the planned waste volume in cubic meters but fails to attain the design capacity in tons.

Application of the separated waste collection (pre-sorting by households) system in the city (that is just being implemented in major Russian cities) can become a way out of the current situation. On the one hand, pre-sorting excludes the situation when such garbage morphological components as waste paper and polymer films, medium- and large–size materials (that occupy greater volume at a belt-sorting conveyor, hindering selection/visual detection of other useful secondary materials) are supplied to the sorting belt. On the other hand, pre-sorting increases the density of garbage supplied to the sorting belt and the plant can attain the design capacity in tons.

However, the problem can not be solved by simply adopting the necessary regulations at the municipal level, since trilateral relations, built on the balance of interests of the state, business and society, are not established. That is why in this study the model of trilateral relations was used. This model is based on stakeholders and institutional approaches and implies the consolidation of administrative potential concentrated in the hands of the government, the economic potential peculiar to private economic entities, and the potential ofsociety, providing SDW for further processing. According to this approach, the households (society) along with businesses and public institutions are regarded as participants of market of waste, which are interconnected by external effects, and their combination can minimize the social costs.

On the basis of statistical data on economic agents the following information was analyzed: the morphological structure of SDW, profitability of different types of waste recycling, charges for SDW disposal for households, availability of information to business about best available technologies and potential consumers of secondary raw materials. As a result, the following outcomes were obtained.

- SDW in Yekaterinburg can be divided into four main groups: waste paper; broken glass and glass bottles; plastics; and ferrous/non-ferrous metal scrap. Therefore, it is the most rational to organize pre-sorting of domestic waste according to these four groups.
- Nowadays plastic bottles, non-ferrous metal scrap are the most profitable positions of waste processing. As for waste paper processing – it is not a profitable business. In this connection authors suggest including waste paper into the domestic waste pre-sorting process, thus increasing the business profitability and, concurrently, motivating separate waste collection by households. In this situation, companies, managing block of flats, should take the responsibility for providing the households with free paper marked bags made of waste paper and meant for separate garbage collection in every

 ISBN: 978-9963-711-37-6

apartment. Containers for pre-sorted garbage installed at specially arranged sites near block of flats should be appropriately marked, too. According to the proposed scheme of the SDW pre-sorting arrangement paper bags made out of waste paper are to be bought by management companies from factories that use local secondary materials, by fixed price. In turn, municipal authorities are to compensate from the local budget to the management companies the cost of the paper bags.

- Analysis of charges for SDW disposal for households showed that they do not depend on the extent to which SDW is sorted, which negatively affects the motivation of households to implement separate waste collection. In this case, to promote SDW sorting by households, municipal authorities should differentiate the SDW disposal tariffs for management companies and house-owners: to increase charges for disposal of unsorted SDW and to decrease charges for the sorted SDW disposal as it is done, for example, in Sweden (50% difference).

- Analysis of the availability of information to business about best available technologies and potential consumers of secondary raw materials showed very low awareness of the business. In this regard, the authors propose the creation of the information base of demand for secondary raw materials, on new technologies of waste processing, including the list of the best available technologies. Creating the information base can be done by the municipality, involving manufacturers of equipment and technologies for the recycling of raw materials.

To summarize, we can conclude that the problem of SDW utilization in cities can not be solved without implementation of the proposed model of trilateral relations (government-business-society) and the availability of efficient, low-waste and proven technologies of waste recycling. But, on the other hand, the impossibility of complete waste utilization will inevitably lead to an alternative connected with creation of closed loop processing cycles and, for sure, this is more rational and promising way of economic development.

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 ISBN: 978-9963-711-37-6

Keywords: solid domestic waste, urban environment, anthropogenic impact, waste management, separate waste collection.

ISBN: 978-9963-711-37-6

COMPETENCES FOR CORPORATE SOCIAL RESPONSIBILITY: INSTITUTIONAL, BUSINESS AND CROSS-CULTURAL FACTORS

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ABSTRACT

PURPOSE

The purpose of this paper is to examine the development of competences that force stronger CSR in western and eastern cultures. It has been previously studied by international scholars that there are different models of CSR in various countries. This research investigates the systems and processes involved in developing and implementing CSR supporting competences in various institutional, business, historical and cross-cultural environments.

It is suggested that the institutional contour of a country's CSR model could be predefined by the historical preconditions of the formation and development of the CSR model in the respective country, the current state of the CSR level in business-state-society relationship, and the analysis of the stakeholders` core concerns and their perceptions of related risks (Belyaeva, 2010)

In the broader context, CSR:

- ✓ is often associated with philanthropy in the USA, India;
- ✓ has more sophisticated institutionalized models in the EU, while still has differences at a country level, depending on a history and business attitude;
- ✓ works as a window-dressing technique for some Asian companies entering the global market as an entry strategy (China, Malaysia, Indonesia);
- ✓ in some countries, e.g. Australia, NGOs try to police different aspects of corporate and governmental behaviors in both, the developed and less developed countries of the world in order to ensure that these behaviors do not fall short of acceptable standards;
- ✓ develops better internal stakeholder relationships for some business cultures or only external stakeholder relationship for the others;

 ISBN: 978-9963-711-37-6

- ✓ interrelates to so called "curative marketing" (Czinkota, Kaufmann & Basile, 2014; Kaufmann, Czinkota and Zakrzewski, 2015)

Visser (2010) suggested that we have entered into the new era of strategic, so called "glocal" CSR 2.0, while Porter and Kramer (2006; 2011) pointed to the tendency of moving from reactive CSR to creating shared value. Although this research stream is still based very much on the development of Stakeholder Theory (Freeman, 1984; 2004), nowadays, we can clearly see that external factors change the business attitude towards CSR. Among critical factors one would name the implications of the global financial crisis and the ability derived from it to influence the broader circles of stakeholders and avoid standard mechanisms to develop organizations on a short term basis.

A socially responsible corporate entity takes cognizance of the impact of its actions on its communities, stakeholders and the environment when formulating its corporate objectives and making its corporate decisions. One of the salient issues is to differentiate that being socially responsible is not just very 'trendy' but also good for business, society and personal growth. The aim of this research is to measure the acceptance and actual implementation of this attitude in different environments.

DESIGN/METHODOLOGY

Guided by the seminal work of Freeman (1984), the importance of stakeholders has been emphasized by many scholars (O'Riordan and Fairbrass, 2014; Preston and Sapienza, 1990; Donaldson and Preston, 1995) and promoted in many reports. This has been associated with the emergence of the corresponding research stream relating to stakeholder theory of the firm (Wheeler and Sillanpaa, 1997; Clarke and Clegg, 1998). Implicit in this paradigm is the idea that survival depends on the firm's relationships with the external world.

In the BRICS countries, along with «the advanced» socially responsible group of companies, evidence exists of a negatively minded group of businessmen and local residents (Belyaeva and Canen, 2015). In addition, many companies in China consider CSR as an unnecessary western concept and as a trading barrier (Belyaeva and Kazakov, 2015).

CSR is not only a tool to manage social problems in the region. Rather, the companies in the BRICS countries consider CSR as a part of negotiations, a tool to increase of competitiveness of the company, as a possibility to enter new markets, and also to strengthen mutual relations with suppliers, investors, and buyers. This pragmatism and economic benefit expectation 'force' the companies to put huge investments into social and ecological spheres, but unreasonably fewer in personal development.

 ISBN: 978-9963-711-37-6

Hence, a sample of business representatives and students from western and eastern countries has been studied to categorize so called stages of CSR related competences and maturity. We are defining the competences in risk management, project management, cross-cultural management, strategic envisioning, building trust and knowledge transfer. To accomplish this task, a comprehensive body of literature focusing on CSR and its implementation, as well as on the, so called VUCA (Volatility, Uncertainty, Complexity and Ambiguity) approach, as an analytical framework for understanding CSR in its broader context was reviewed.

FINDINGS

The results were designed as a "Complexity-volatility, ambiguity, uncertainty" matrix. The literature review helped to discover and update some fundamental gaps of CSR forming competences as a part of a "curative" strategy for business and society of today (some of them are presented in fig.1).

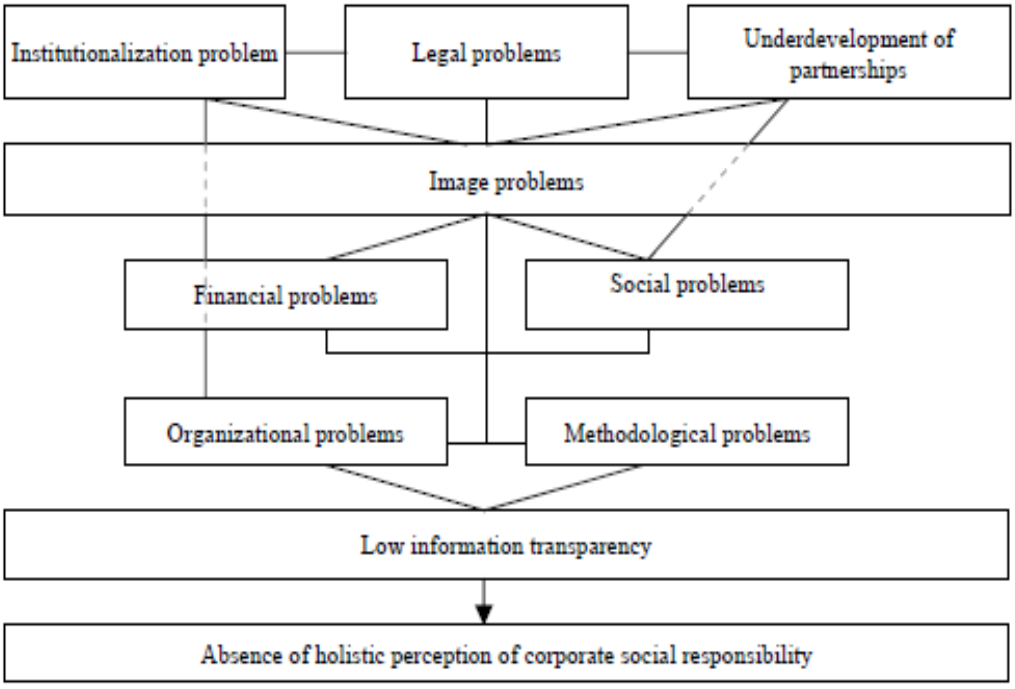

Figure 1. –*Sources for gaps in holistic approach to CSR*

The two most significant findings are

- ✓ the need for a flexible model and fast changing adoptive strategy in a transboundary context based on the stakeholder management,

ISBN: 978-9963-711-37-6

- ✓ the human competences building new holistic principles incorporating social responsibility, leadership and ability to re-conceptualize the nature of the business largely depend on institutional and cross-cultural environment

ORIGINALITY/PRACTICAL IMPLICATIONS

National governments and businesses are still lacking sustainable social efficiency towards local and global communities, especially in the emerging markets. The defining frames of such a partnership should be based on a, so far, missing systematic approach to social responsibility which is substantially defined by institutional norms, economic culture and personal motivation and mentality. This research calls for the new conceptualizations based on the novel structure of stakeholder's engagement and compliance to both international and domestic standards and also cultures.

In particular, it is possible to refer to a creation of a new model of the global interests` management and balance which is based on creation of neo-corporate values to that, directed on a sustainable development through creation of socially significant benefits. Economic imperatives of socialization of business differ on regions of world economy that is caused by the cross-cultural distinctions, different legal and economic systems, and also the historical line of corporate development. Such distinctions cause higher levels of complexity for empirical research on the efficiency of social responsibility on a corporate level, and, furthermore, subjects relating to world economy. Available tools of an assessment illustrate the various directions of socially responsible behavior of the companies, using different indicators and representing non-comparable information.

The presented research is eliciting personal competences that help to cover the possible gaps in corporate responsible relations.

Keywords*: CSR, competences, cross-cultural, institutional, business factors*

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 ISBN: 978-9963-711-37-6

MULTIDISCIPLINARY LEARNING FOR FINNISH ENGINNERS AND INTERNATIONAL BUSINESS STUDENTS IN A MULTICULTURAL ENVIRONMENT

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ABSTRACT

Companies' internationalization and trade interconnectivity create new business opportunities which have changed the organizational landscape. Multicultural and multidisciplinary teams more than ever are called to work together to accomplished challenging tasks. Focusing on engineering education, the current demands for engineering call to enlarge not only their technical and scientific skills but to acquire a more holistic working attitude incorporating intercultural competences, teamwork and managing international clients relationship. These demands require another pedagogical approach far from the traditional chalk and talk methodology. A shift on learning activities being more focus on students' learning outcome and the applicability for the companies is the trend. Therefore, new teaching methods, interacting and co-operating with companies and partners from different disciplines and sectors are fundamental to succeed.

This empirical longitudinal paper describes the integration of two Finnish BSc courses, one from the degree program of mechanical engineering, (Finnish engineer students) and the other, from the degree program of international business (Finnish and International students) during years 2014 and 2015. The aim of the two project based learning projects was threefold: first, to develop the students` diversity management skills, second, to increase the export marketing skills of the engineering students and third, to innovate new business models relevant for company development.

Main findings from the qualitative and quantitative data collection indicate that students had learnt cultural knowledge, teamwork skills, time management, presentation and innovation skills, personal development and specific knowledge. After the positive outcome of the learning project, conclusions and recommendation for further engineering curriculum are provided.

Keywords: *intercultural, multidisciplinary and learning methodologies*

 ISBN: 978-9963-711-37-6

DAEDALUS, WINGS TO YOUR DREAMS: ONLINE EMPLOYABILITY PLATFORM

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ABSTACT

The apparent unstoppable globalization process supports migration trends as well as enhanced media, languages and businesses opportunities (Kobzar et al., 2015). These limitless business opportunities create a vast pool of cross-border labor, with its human and intellectual capital flows, entailing a new industry dynamics which challenges economies by new labor regulations and opportunities (Golgoczi et al., 2009). They also highlight that, being an important driver of globalization, technological developments exponentially support this process. Exemplarily, the importance of technology can be seen in the crucial role of facilitating and sharing information related to job opportunities, which help people in deciding whether they should move or stay in their countries.

This is the case with the existence of European online portals aiming to provide information and exchange about job opportunities, training and education. In this vein, Beerepoot and Lambregts (2014) explain that these platforms are the closest proxy to the global labor market idea where everyone competes for jobs regardless any geographic boundaries. Furthermore, one of the advantages of these platforms is the opportunity to match employers' needs with workers' skills in a borderless space (Kahlon, 2014; Chan and Wang, 2015). For this to happen, Fogli and Guida (2015) recommend a new perspective considering the relationship between the web site and its stakeholders and, according to Stemmer et al. (2004) as well as Mansourvar and Yasin (2014), the quality of the portals and their functionality are important pre-requisites.

The aim of this paper is to disseminate the first results of the implementation of the Daedalus project. The Deadalus project (euro-meDiterranean cAreer and Employment aDvisor portal for the mobility of young residentS), a new state of the art online job searching and career advising portal with the aim to meet the expressed needs of jobseekers, employers and society at large in the Mediterranean basin and to forecast the future needs. The Deadalus project adds an additional value to the existing portals by offering its services to both, European and Mediterranean countries. The Daedalus project's total budget is 1,939,414.00 million Euros, and it is financed for an amount of 1,745,472.60 million Euros (90%) by the European Union (ENPI CBC Mediterranean Sea Basin Programme) through the European Neighbourhood and Partnership Instrument". The project started in 2014 and will finalize in December 2015.

 ISBN: 978-9963-711-37-6

The methodology used for the development of the platform consisted of an extensive literature review conducted in the first year in order to explore the different already existing related online platforms, e.g. Euroguidance, Eures, Ploteus, European Youth Portal, Eurodesk. The objective of this explorative secondary research was to draw from the existing platforms issues related to design, content and usability tracing, the main criteria necessary for the creation of a quality portal. Once, findings were analyzed and discussed, conclusions were made and transferred to the technical team for implementation. Further, an empirical study was developed in order to assess the existing online employment portals through questionnaires distributed to jobseekers, employers and government officials in Cyprus, Lebanon, Italy, Tunisia, Greece and Palestine. As the results indicate the existing employment websites lack safety, professionalism appeal, and search engines are not comprehensive. Therefore, the new platform was developed resulting in a practical, ease friendly and interactive platform exploiting all web 2.0 technologies.

In the first year, a considerable number of workshops were regularly conducted in different towns in Cyprus as well as in Lebanon, Italy, Tunisia, Greece and Palestine. The workshops' objectives were to raise awareness about the project and contributions of the Daedalus Project for enabling cross-border collaboration, exchange of information about career and employment opportunities in the Mediterranean basis, as well as providing opportunities for online platform implementation and dissemination. In the second year, a new round of workshops in Cyprus (six specifically), Lebanon, Italy, Tunisia, Greece and Palestine are being conducted with threefold objective: first of all, to actually practice the newly developed platform, and appreciate its potential, secondly to upload either job vacancies for companies or curriculum vitae for job seekers and finally to fill-in an online questionnaire. With the help of this questionnaire, the workshops' participants evaluate the portal, in order to be able to adjust their comments and improve the portal with the main aim to have a functional portal until the end of 2015.

Some initial findings show that job seekers are more active on using the platform than the companies. The reasons for this lack of engagement might be the lack of knowledge on platform's existence and the still preferred use of traditional methods for recruiting their candidates, as well as a perceived lack of time and perhaps knowledge. Further one more reason for that could be the recent economic crisis that has led to the reduction of available jobs (referring to the countries participating in the portal), and to the increase of job seekers willing to travel abroad in order to find a job. The short term challenge of the project is seen to effectively transfer the manifold benefits of Daedalus to the companies to increase their preparedness for participation:

- 'Free of Charge' participation without no limits as to ad size
- Economic benefits as no middle men involved

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- Tapping into a huge pool of highly qualified international human potential
- More targeted HR selection process to the right mobile candidates resulting in better decisions and long-term relationships
- Increased ease & efficiency of your HR Selection due to reduced time for all stages of the recruitment cycle
- Reaching all career levels
- Higher quality of multi media contact experience with job applicants
- Opportunity for excellent branding and image gain due to engagement and dedication for Social Responsibility; consequently, company might become an employer of choice.
- Possibly developing a Possible future HR Recruitment Data Base

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"This publication has been produced with the financial assistance of the European Union under the ENPI CBC Mediterranean Sea Basin Programme. The contents of this document are the sole responsibility of Unisystems S.A/Partners and can under no circumstances be regarded as reflecting the position of the European Union or of the Programme's management structures"

ISBN: 978-9963-711-37-6

IMPLEMENTING BUSINESS ETHICS IN SALES ORGANIZATIONS

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ABSTRACT

This PhD dissertation will discuss:

BACKGROUND

The discourse of ethics and ethical behavior can be traced back to Aristotle. In order to be perceived in a good light by the public, ethical behavior is a fundamental cornerstone for serious companies today. Research shows that managers and their subordinates in sales organizations usually face more ethical dilemmas than any other businesses due to the complexity of selling.

Unethical behavior in the selling process has been proven to have a negative impact on the whole company, which may not only lead to legal actions being taken, but also hurt the brand name, resulting in loss of profit due to a decrease in customers.

In order to ensure ethical behavior of subordinates, managers often implement business ethics programs into their organization by adopting different techniques and enforcements.

Today, with media exposure being more frequent than before, maintaining a good reputation is quintessential for businesses. In order to be perceived as an enterprise with good ethical values, the implementation of ethical codes and practices is more important than ever where the manager holds the responsibility of implementing process. Still, media reports are frequently found uncovering unethical business behavior.

PAST RESEARCH

In previous research about implementing business ethics, several attempts have been conducted. Murphy (1988) identified two key areas; organizing for ethical business policies and execution of the ethical business policies. Schnebel and Bienert (2004) discussed communication and commitment. Treviño and Nelson (1995) found that implementing ethical codes can be counterproductive and suggested it did not automatically solve ethical problems. Belak and Milefner (2011) found five different effective conditions for organizational ethical implementation programs.

Additionally, earlier studies mainly focused on factors such as different control systems, age, gender and ethical differences. Furthermore, the majority of studies conducted are via quantitative methods, meaning it is often difficult for researchers to discover underlying patterns, hidden factors and deeper

 ISBN: 978-9963-711-37-6

explanations of complex nature. It is evident that the phenomenon of implementation of business ethics is not only fragmented and complex, but also holds many hidden aspects in need of discovery.

So far, no previous studies have fully managed to come up with an integrated framework which links all the factors together. Because of this, a comprehensive theory is needed as the origins of unethical behavior in sales organizations may be linked to managers' failure to fully comprehend the whole process of implementation.

PURPOSE

The purpose is to address the needs in the above discussion, deriving from empirical concepts and thereby developing a theory to facilitate an understanding of the phenomenon. If any of these processes are to be thoroughly understood, then there is a need for new theoretical concepts that then describe these processes in order to get a more integrated framework.

Because of a managers' responsibility, focus will be on them, striving to give them an easier overview in how to implement business ethics. Therefore, a need to understand the managers arise, their actions, and the selling process. An inductive analysis of the managers own interpretations and experiences of the processes is necessary in order to achieve this.

Therefore, a new paradigm is needed. It should enable data that is situated in a wide social context. This social context should reflect the interactive complexity of the involved actors of the implementation process.

More specifically, this study will describe the involved actors' main concern and the process by which this is continuously resolved.

METHODOLOGY

The most appropriate methodology used to study this phenomenon is via Barney Glaser's *Grounded Theory* method (1978). Working from it means that the researcher develops a new theory when trying to describe the researched phenomenon inductively. In order to create a framework for this theory, empirical data and theories are collected in conjunction with each other, and progressed until saturation is reached. Any form of relevant data found can be used, but the main source of data will come from interviews. The interviews will be analyzed, coded and interpreted in conjunction with finding relevant theories until the specific categories and a core category emerge, thus creating a new integrated theoretical framework describing the phenomena.

CONTRIBUTION

ISBN: 978-9963-711-37-6

This study aims to create a new theory of implementing business ethics, striving to make a substantial contribution in practice of businesses - enabling managers to get a more comprehensive and integrated framework to work towards - and also make a contribution to marketing theory as it is a first of its kind.

Keywords: *Implementation, business ethics, Grounded theory, complexity, fragmentation*

ISBN: 978-9963-711-37-6

SOCIAL REPORTING AND COMPANY VALUATION

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ABSTRACT

PURPOSE

Contemporary companies have a growing social role and their responsibility requires the extension of the voluntary disclosure (Arvidsson, 2011; Banghoj, Plenborg, 2008; Dumay, Tull, 2007).

According to the idea of triple bottom line (economic, social, environmental) (Elkington, 1998) the number of Social Balance Sheets (SBS) or others similar reports is increased. Moreover, particular attention is given to the definition of a "One Report" that provides both financial and social information to stakeholders (Eccles, Krzus, 2010).

The financial and economic aspect of a company is highlighted by the balance sheet while for the social aspect the companies can use different standards, because there aren't defined regulations.

The financial and economic aspects of company are highlighted by the balance sheet, while for the social one in the lack of defined regulations we can use different standards.

The main models of social reporting (Costa, 2007; Hinna, 2002; Rusconi, Dorigatti, 2005) applied by Italian companies can be referred to the following guidelines:

- the model developed by the Study Group on Social Reports (GBS);
- the model developed by the European Institute for the Social Report (IBS);
- the CSR-SC model of the Ministry of Welfare;
- the model developed by the Global Reporting Initiative (GRI, 2002).

This last model could be defined more precisely as "sustainability balance sheet".

The model defines complete, clear and comparable standards, in order to achieve through the use of economic, social and environmental indices a representation based on the economic sustainability perspective.

Traditional standards are essentially descriptive and do not emphasize the financial resources intended for social purpose, as well the financial sources used for this purpose. Furthermore, companies are assessed through only the economic perspective, without the social one. In order to answer to this needs we propose a different model based on self-financing: the Integrated Economic Value. The attention focused on social reporting becomes notable for profit companies, which have as the primary objective the maximization of profit. This is typical of companies that produce for the market and it shows to the stakeholders that the resources designated for social activities, both internal and external, are invested to

 ISBN: 978-9963-711-37-6

reach this objective as well. Therefore, the elaboration of a social statement will be an added cost for no-profit companies. The philanthropic foundation, regions, municipalities and all those entities include social information in their financial statements due to their nature of offering services to citizens.

METHODOLOGY

The research approach is based on the qualitative method (Myers, 2013; Yin, 2003). Research investigates into the topic of social reporting that allows us to determinate the Integrated Economic Value.

The SBS based on self-financing is the tool that better emphasize the enterprise social profile. The social responsibility is, primarily, the result of the investment of "company's saving."

The model of SBS is the "Social Balance Sheet" in the strict sense, where the resources are related to the investments, as shown in the diagram below, and the "Explanatory Statement" is applied to explain the quantitative data reported in the first part .

The explanatory statement allows to explain the quantitative data presented in the table and to identify the self-financing resources from the balance sheet.

While, when we consider the Investments, the Explanatory Statement highlights the genesis of the values assigned to social investment, both internal and external. These data arise from the comparison of the year balance sheet which the SBS refers with the previous year.

This model of SBS assumes that the self-financing, as the sum of retained earnings, depreciation and provision to net use funds, is a good indicator of the social potential of a company, moreover it is more representative the classic indicators such as employment, taxes, etc.

The social potential is represented by a high propensity to save, and then to invest, thus to increase significantly the economic prospects of the company.

The Integrated Economic Value is the sum of Economic Value and Social Value. It's calculated rectifying the economic value by the sociality coefficient "α".

Social Balance Sheet	% Social Investments/ total Investments	% Self-financing/ Social Investments	A
NO	/	/	- 20%
YES	1-5	5-10	+ 5%
YES	6-10	11-20	+ 10%
YES	≥11	≥21	+ 20%

Tab1: Estimate the sociality coefficient α.

These percentage values have been calculated based on a research carried out on a sample of Italian listed companies.

ORIGINALITY

ISBN: 978-9963-711-37-6

The study evidences the suitability of the Integrated Economic Value and the self-financing as a social resource that companies should adopt.

The Social Balance Sheet is elaborated according to the model of self-financing.

However, unlike other models lacking of an authentic conceptual autonomy, the Social Balance Sheet supposes that the self-financing (Capaldo, 1968) is a good indicator of the social potential of the better company than other indicators (employment, taxes, etc..)

Applying the Integrated Economic Value the company's value depends both on the capability to produce income and on its social potentialities.

PRACTICAL IMPLICATIONS

The findings of the research provides to stakeholders a qualitative and quantitative disclosures about company's sociality. Therefore, companies by investing in sociality could create a long term economic viability and value, in other words the Integrated Economic Value, related to the company's sociality.

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Keywords: *CSR, Social reporting, Sociality Coefficient α, Integrated Economic Value, Social Balance Sheet, Self-financing, company's disclosure*

ISBN: 978-9963-711-37-6

THOUGHTFULLY CURATED CONSULTING AND TEACHING PRACTICES

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ABSTRACT

These were the first words published in the preface to a book twenty years ago:

"Higher education is undergoing a significant and traumatic change. Driven by people from within our educational institutions as well as stakeholders outside of them—such as prospective students, parents, employers, and funding agents—this process of transformation is likely to leave few areas of the academic world untouched" (Boyatzis *et al.,* 1995, p. xi).

Twenty years later the words are still powerful and accurate, although the specifics of forces for change are shifting. Our time continues to be, as Vaill wrote, a time of *permanent white water* (1996, p. 4). As others have written: "Business schools are indeed at a crossroads. . . . subject to increased scrutiny and debate (Datar *et al.,* 2010, p. 339).

Innovation in Professional Education; Steps on a Journey from Teaching to Learning is the 1995 book first quoted above. The authors shared the story of change and innovation at one university, guided by design principles including this one: *Carrying out continuous inquiry about the learning process* (Boyatzis *et al.*, 1995, p. 240). **This abstract proposes a related 90-minute session** for the 8th Annual EuroMed Academy of Business Conference.

The five individuals who will bring this session to the conference are actively pursuing both consulting and academic careers in three nations. Their professional work is centered in ongoing *inquiry and learning about learning*. They are aware of the critique of both managerial practice (Hamel and others) and management development and education (Mintzberg; O'Toole and Bennis, and others). Individually and at times collectively, they have sought out ideas from a range of disciplines to enrich engagement and interaction as they coach, teach, develop and inspire mid-career and senior managers and governing boards in public, private, and social organizations across economies.

The conference session will be centered on ***thoughtfully curated examples of practices that enhance learning*** of both hard and soft skills, with attention to the complexities O'Toole and Bennis identified in their *Harvard Business Review* article "reflecting the complex challenges business leaders face." The conference presenters ensure "learning approaches infused with multidisciplinary, practical, and ethical

 ISBN: 978-9963-711-37-6

questions and analyses" (2005, p. 104). Imagination (a term O'Toole and Bennis highlight) and right brain-centered approaches are foundational to the ideas these presenters will bring to the conference. Their experiences and practices are tied to scholarly work in design thinking, integrative thinking, mindfulness, and skills for innovation—all at the core of individual and organizational ongoing success––even survival—in current tumultuous global conditions.

The presenters for this session have a richness of background and experience. They **live and work** in three different countries (Czech Republic, Italy, United States); together they have **taught** at six different universities; **studied** in multiple disciplines; **consulted** in organizations diverse in focus, sector and size; **researched** in the fields of organizational development, leadership, management, education, public services, gender issues, health care, human resources, cross-cultural competence . . .

They themselves are of **three different generations**. Together they have more than 120 years of professional experiences.

For this conference, individually and collaboratively, **they have brought a thoughtful curator's approach** to selecting just one example each of their best, most innovative and successful strategies for client/student learning, consistent with the mindset of *carrying out continuous inquiry about the learning process*.

This abstract anticipates short (12-15 minutes) well-focused presentations from each of these five professionals, with visual enrichment. The goal is to **provide a platform for thoughtful conversation** during the workshop time as well as throughout the days of the conference. Ongoing networking post-conference is an expectation, an expectation the presentations will enable.

What the presenters have in common is an interest in enhancing professional development and education with a variety of engaging learning-centered approaches. Each presenter will provide one consulting or teaching approach, using this template to structure a focused story-based presentation:

First, the scholarly basis for the activity/assignment used; 2) highlights supported with visuals to share the activity/assignment; 3) brief discussion that demonstrates effectiveness; and 4) a question brought to mind . . .

ISBN: 978-9963-711-37-6

DETAILS FOR EACH OF THE FIVE PRESENTATIONS

M. CRISTINA BOMBELLI:

From Mindfulness to Bodyfulness: Closing the Gap

"Perfection of character is this: to live each day as if it were your last, without frenzy, without apathy, without pretense" (Marcus Aurelius).

"We have five senses in which we glory and which we recognise and celebrate, senses that constitute the sensible world for us. But there are other senses -- secret senses, sixth senses, if you will -- equally vital, but unrecognised, and unlauded. These senses, unconscious, automatic, had to be discovered" (Oliver Sacks). Starting from Descartes in western culture, there is a gap between body and mind. In the contemporary workplace this space is increasing. People feel stressed and overwhelmed by hyper connection, by having no border between work and leisure, by workaholism. This is true in particular for women who have different duties and a different emotional approach than men. Recovering the body connection is a way to increase wellness.

Several approaches, in particular mindfulness, give answers through meditation. This presentation will share training designed for many companies—training to help women in building a body-mind bridge starting from these points:

- We have one identity, one energy to spend, one breath to live
- Body awareness is a capital competence we build to know ourselves
- Emotions are an important part of our identity; emotions need to be listened to and understood
- There are not a one time and space to work and a separate time and space to live; instead we need to *live* in the workplace

The training uses different exercises and proposals to explore a personal approach to body-mind connection, helping in awareness, using all senses.

The presentation includes a short video.

Emerging question: *During the training we reach significant success from a learning point of view; how we can help women by using a simple and short technique to follow on after initial training, with a continuous learning path?*

ISBN: 978-9963-711-37-6

BLANKA JIRKOVSKA:

Building a Bridge between Teaching and Learning by Asking Questions

"Effective problem solving requires an environment that allows for and encourages people to ask dumb or, more accurately, fresh *questions. We should focus on generating questions and look for the right questions to start with, rather than jumping directly to finding right answers. The right questions will lead us to right answers"* (Marquardt, 2014, p. 203).

"Finally, two of the interesting, perhaps side, benefits of using the Socratic method (Asking Questions) *are that it gives the students a chance to experience the attendant joy and excitement of discovering (often complex) ideas on their own. And it gives teachers a chance to learn how much more inventive and bright a great many more students are than usually appear to be when they are primarily passive"* (Garlikov, 2000).

Asking questions and seeking answers is elemental to all human creativity and thoughtful living. The method of asking questions can serve as a highly effective tool in schools, at universities, as well as in organizations. This method is almost as old as mankind. It derives from ancient times when Socrates used questions in his Dialogues to develop the mental skills of his students. This part of the presentation will show why, and will share how effective is the mastery of asking the right questions for learning and teaching processes both at the university and in business.

The first quotation above comes from Michael J. Marquardt, who is Professor of Human Resource Development and International Affairs, as well as program director of the Executive Leadership Program at George Washington University. He describes *"how leaders find the right solutions by knowing what to ask"*. For his book he interviewed thirty leaders in various areas from a range of countries.

The second quotation comes from Richard Garlikov, who is a philosopher, teacher and photographer living in Alabama. In his article he describes the principles of the Socratic method. Some of the key points could be used even in primary schools to support children's thinking.

Emerging question: *What benefits emerge from the mastery of asking questions, instead of providing telling statements—benefits for those who are asked (students, employees), as well as benefits for those who do the asking (teachers, leaders)?*

TERESA MARTINELLI:

Mindfulness Revolution; Co-Creating the Possibilities—

ISBN: 978-9963-711-37-6

An Approach to Leadership *re*-Design Thinking

"Mindful people make much better leaders than frenetic, aggressive ones. They understand their reactions to stress and crises, and their impact on others. They are far better at inspiring people to take on greater responsibilities and at aligning them around common missions and values. As a result, people follow their mindful approach, and their organizations outperform others over the long run" (George in Ribera & Guillen, 2015, p. 29)

The fundamental shift in the current structure of the world begs for creativity; it asks us to rethink who we are [as human beings . . . thus, we are compelled into] "creating surprising juxtapositions, emotional openings, startling presences, and flight paths to the eternal" (Zander and Zander, 2002, p. 3).

Mindfulness, hope, and compassion: "The first element is mindfulness, or living in a state of full, conscious awareness of one's whole self, other people, and the context in which we live and work. In effect mindfulness means being awake, aware, and attending to ourselves and to the world around us" (Boyatzis and McKee, 2005, pp. 8-9).

Not since 1962 when the British *Conference on Design Methods* was first held, have approaches to design thinking generated such interest and advocacy seeking alternative considerations for leadership efficacy (Kimbell, 2011). In fewer than 15 years, this century has experienced global floodgates of peril, including but not limited to economic crisis, ethical misbehaviors, natural and environmental disasters, terrorism, global warming, pandemic diseases, and population growth. Such mega-problems require judicious problem-solving leaders. The type of heroes and heroines needed for contemporary solutions requires individuals who must brand a radical shift via a *mindfulness revolution*. This "re-wiring" would necessitate a strategist who through self-mastery and self-knowledge can cultivate both personal and organizational performance as well as productivity.

The re-design thinking approach for mindfulness as a key element for leadership change necessitates an exploration of the ancient Zen and Buddhist philosophies.

The Chinese calligraphy (ideogram) for mindfulness equates to "Presence of Heart" (Kabat-Zinn, 2015). Thus, mindfulness is not a goal-oriented practice nor is it a destination, nor a way to strive to get to a certain place. Rather it is just setting the compass of the human heart. The Zen concept of holism, balance, and grace are the powers that bring mindfulness the breath and progress to deeply transform relationships and cultivate organizational resilience. Research indicates, "The role of mindfulness in the workplace is arguably one of the most important domains of human activity" (Reb *et al.*, 2014, p. 36).

 ISBN: 978-9963-711-37-6

The exercises included in this portion of the presentation will identify the dynamic relationship between mindfulness and the possibilities that enable resilience in the face of unprecedented challenges. Participants will analyze practices, principles, and performances.

1. Mental models (making sense of the world, our actions and mastering the discussion)
2. Shared vision (answering the question, "What do we want to co-create as the possibilities?")
3. Personal mastery (clarifying what is important and seeing reality objectively)

Emerging question: *How can mindfulness skills be cultivated to develop resilient leaders in the face of global challenges?*

CAROL H. SAWYER:

Bringing the Tools of Design Thinking to Graduate Courses in Organizational Theory

" . . . one of the most serious challenges we face in our quest for innovation is our own impatience, which makes us rush to solve *instead of taking time to* understand*"* (Liedtka, King & Bennett, 2013, p. 199).

"It is time to become passionate about what's best in us and to create organizations that welcome in our creativity, contribution and compassion" (Wheatley, 2004, p. 56).

Two of the graduate programs at one university require students to take a course in organizational theory and behavior; a required outcome for these courses, for both the Masters in Business Administration and the Master of Science in Leadership and Management, is to work collaboratively to design an effective organization—an organization the world needs.

A recent re-working of the curriculum resulted in an approach in which principles and practices of Design Thinking became the centerpiece. "Wicked problems" (persistent, complex and difficult, according to Roger Martin of the University of Toronto) are addressed using the three-part approach of Design Thinking: an empathetic focus on users' needs and desires; exploring and then testing multiple possible approaches—possibilities—through prototyping; and engaging in multi-disciplinary collaboration. A variety of resources support small self-identified study groups of students (Design Teams) who use the course materials and activities to explore this alternative way of viewing problems, then gathering information through ethnographic approaches, managing their group's inevitable conflict, and developing first plans for effective organizations including mission, values, strategies and culture.

"Deploying design throughout an organization involves more than providing a process and some tools It involves helping individuals make a new set of choices: to seek deep insights and be user driven, to

 ISBN: 978-9963-711-37-6

keep looking for great solutions even after hitting upon a good one, to risk not getting it right the first time, to continue to try in the face of failure. Because it runs counter to how managers have been trained and rewarded, and to how organizations are structured, design thinking won't happen naturally. Committing to use the approach is a deliberate *choice* for managers . . . " (Liedtka *et al.,* 2013, p. 9).

Attention to product and process, and frequent experienced reflection (Mintzberg, 2004) characterize these graduate courses. Highlights of core learning theories, faculty philosophy of teaching with minimal lecture, course development, resources, experiences and outcomes will be shared. All five of Howard Gardner's *Five Minds for the Future* (2009) are addressed in this approach to teaching and learning.

Emerging question: *How can course design and delivery build a bridge between theory and practice, so that what mid-career graduate management students experience in academic study is applied in their professional responsibilities?*

BARBARA WALLING:

Recognizing and Developing Skills for Innovation in Organizational Life

". . . innovation is the only *sustainable strategy for creating long-term value"*

(Hamel, 2012, p. 4).

Tom Kelley is active with his brother David in the creative work of IDEO, the San Francisco-area design firm recognized and admired world wide, as well as the design school program at Stanford University. Together they wrote the book *Creative Confidence; Unleashing the Creative Potential Within Us All* (2013); Tom is the author also of *The Ten Faces of Innovation: IDEO's Strategies for Defeating the Devil's Advocate and Driving Creativity Throughout Your Organization* (2005).

Tom Kelley has identified ten organizational personas that contribute to an organization's culture for innovation. He writes ". . . generating growth through innovation is essential for success . . .In a post-disciplinary world where the old descriptors can be constraining, these new roles can empower a new generation of innovators. They give individuals permission to make their own unique contribution to the social ecology and performance of the team" (Kelley, 2006, p. 30).

Kelley's ideas, captured in a *Rotman Magazine* article (2006), are the basis for a classroom reading assignment, lecture, and experiential exercise used in a variety of courses with graduate students in a college of business and public management. In addition, elements from this activity have been effective

 ISBN: 978-9963-711-37-6

with organizational leaders and managers to foster an atmosphere of innovative thinking among employees, stakeholders and volunteers. Together, the reading, lecture and hands-on activity create an atmosphere that facilitates creative thinking, an appreciation of various learning styles, and an understanding of the roles people in organizations can play that foster essential innovation and new ideas. During this portion of the presentation, elements from Kelley's ten organizational personas are highlighted as attendees participate to recognize their own skills to support innovation, encourage creativity, and create a new idea.

Emerging question: *How can we as leaders and managers challenge our own perspectives and habits in order to foster creative thinking and innovation in our organizations?*

One scholar has described current graduate management students as persons who are

". . . thoughtful about changing the world" (Saloner in Datar *et al.*, 2010, p. 319). The presenters for this session have recognized that characteristic again and again in both their consulting work and their teaching experiences. Each of the contributions they have chosen to bring to the conference strengthens individuals and organizations to better address this mission. All five presenters see their life and work centered in ways one design thinking publication describes with these words: ". . . to build a bridge to take us from current reality to a new future" (Liedtka *et al.*, 2013, p. 1).

The presenters are familiar with the work of Harvard University's Howard Gardner, and his emphasis on creating five minds for the future through education and development. **Their own professional work within and beyond universities is centered on being life long learners who personify the very role models Gardner has described:**

> In the end it is desirable for each person to have achieved aspects of all five minds for the future. Such a personal integration is most likely to occur if individuals are raised in environments where all five kinds of minds are exhibited and valued. So much the better, if there are role models – parents, teachers, supervisors – who display aspects of discipline, synthesis, creation, respect, *and* ethics on a regular basis. In addition to embodying these kinds of minds, **the best educators at school or work can provide support, advice, coaching which will help to inculcate discipline, encourage synthesis, prod creativity, foster respect, and encourage an ethical stance** (Gardner, 2007, p. 39).

PRESENTER INFORMATION

M. Cristina Bombelli – *An executive coach with almost thirty years' experience in university teaching in*

ISBN: 978-9963-711-37-6

management and human resources. She has researched and published in the field of management, including attention to generational differences, cross-cultural approaches, and gender studies. A somatic coach, she has created a diversity-focused consulting and training firm, and is president of a nonprofit organization focused on elder care.

Blanka Jirkovska – *A sociologist now teaching and researching, her approach lies in linking academic knowledge with research and consulting activities in organizations. Particular interests include the psychology of work, sociology of organizations, organizational development, working conditions and quality of life of employees, and psychosocial determinants of health.*

Teresa Martinelli – *She is senior faculty teaching leadership, research methods for graduate students, management and public policy; her career path in diverse industries (aerospace, health care, education) has been attentive to designing and delivering systemic process improvement and training development programs.*

Carol H. Sawyer – *Her twenty years' management experience in business, government and nonprofit organizations was followed by an award-winning teaching career characterized by attention to design thinking for strengthening graduate management education. She is passionate about the application of the arts and of learning theory in both managerial and educational settings. Her career has been characterized by frequent international work in leadership, organizational change and organizational development.*

Barbara Walling – *She is active in both consulting and teaching to develop individual and organization-based innovative thinking through experiential activities. She has twenty-five years' career expertise in marketing, business development and strategic planning, principally in health care and community-based organizations.*

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 ISBN: 978-9963-711-37-6

ISBN: 978-9963-711-37-6

THE CO-DESIGN DEVELOPMENT AS A PROCESS OF TRANSLATION

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ABSTRACT

The issue of value co-creation can be studied under multiple perspectives both in product and service sector. This paper investigates the emergence of co-design as a specific form of value co-creation, which involves simultaneously product and service dimensions, and emerges trough the interactions between designers and customers. The issue is approached through an Actor-Network Theory perspective, as a mean to investigate the relational ties within the co-design network, analyzing the specific case of one of the most important online co-design community. This study shows that co-design involves both service and product components and emerges as successful story of translation process whose phases of problematization, interessement, enrolment and mobilization generate the re-negotiation of traditional identities and roles of designers and customers.

INTRODUCTION

In the actual flourishing of co-creative initiatives and business model entirely based on the concept of co-creation of design, the main claims are that the world is changing and the power is increasingly passing into consumers' hands and designers have now huge opportunities of express themselves freely trough online co-design platforms and propose their creative ideas directly to consumers which can collaborate with them in order to co-create value. These quite straightforward statements are questioned if we analyse the issue using Actor-Network Theory, which shows an extremely higher complexity. There is no such clear distinction about the new roles and identities of customers, designers and online platforms, that can enhance co-creation of value. In our effort to follow the actor (Callon, 1986b) we have chosen to start from Threadless, one of the more frequented and developed online co-design community, which can be viewed as a punctualized (Callon, 1991) non-human actor and at the same time part of the actor-network constituted by its relations with the designers and its relations with customers. Then the emergence of co-design can be analysed as an innovation diffusion process and described using the sociology of translation (Callon, 1986b; Latour, 1987).

 ISBN: 978-9963-711-37-6

THEORETICAL FRAMEWORK

From the literature review about co-creation emerges a quite diffuse agreement on citing the studies of Prahalad and Ramaswamy (2000; 2004a; 2004b) as the main references. The central point is that customers and market are changing together and market is becoming a forum in which customers paly an active role in creating and competing for value (Prahalad & Ramaswamy, 2000). The complexity of creating conditions for a co-creative environment, such as encouraging an active dialogue, mobilizing customers communities and co-creating personalized experiences can be reduced using Information Technologies and the Internet (Prahalad & Ramaswamy, 2000). This led us to taking into consideration a case of online co-design community following the literature on online platform in NPD (Nambisan, 2002; Nambisan & Baron, 2007).

This approach of co-creation of experiences is recalled in the literature on Service-Dominant logic, fostered by the idea that consumers desire personalized and co-created experiences also in the product context (Vargo & Lusch, 2004). The jointly growth of studies on co-creation and S-D logic has also led to the development of literature stream that take both the issues in close relation, such as the New Service Development (Alam, 2002; Matthing et al., 2004).

To analyse the specific issue of co-design we have relied on the Sanders and Stappers (2008) definition of co-creation as "any act of collective creativity, i.e. creativity that is shared by two or more people." (p.6) and the more narrow definition of co-design as "collective creativity as it is applied across the whole span of a design process" (p.6) so the conceptual relation between the two concepts is that: "co-design is a specific instance of co-creation" (p.6).

EMPIRICAL SETTING AND DATA

Threadless born in 2000 as a little start-up based on a website of t-shirt design competitions, where designer simply submit their design and are voted by the online community, then the best design is printed by the company and sold online. At the beginning of the website the printing timing was once every some moths, depending on the sold-out of the previous contest and then in 2004 the printing was every weeks. The observations about actors and dynamics of translation are done directly on the website as participant customer and member of the community from 2010-2013. A part from this long period of participation in the community, another period of observation is done form October 2014 to December 2014.

CONTRIBUTIONS

 ISBN: 978-9963-711-37-6

Co-design is analysed and approached using ANT in the above described empirical setting, the four main phases of translation process - problematization, interessement, enrolment and mobilization - are analysed and described. What emerges is that co-design can be considered a successful story of translation and at the end a black-box (Callon, 1987) or stabilized actor-network. The identities of designers, customers and design itself are questioned by the problematization addressed by Threadless, the negotiation among actors about identities is supported with the enrolment of allies in the actor-network, in particular customers and community members as customers' spokesmen. The final phases of an effective mobilization of the whole category of consumers by its representatives, which can take part into the negotiation and transaction (Callon, 1986b), lead to the emergent co-design.

Keywords: *co-design, co-creation of value, ANT, Actor Network Theory, translation.*

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 ISBN: 978-9963-711-37-6

DOES BEING GREEN REALLY MATTER FOR CUSTOMER-BASED CORPORATE REPUTATION IN THE BANKING SECTOR?

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ABSTRACT

In recent years, green (sustainability) issues have been more and more mentioned by the media, businesses, industries, politicians, financial institutions, consumers and the general public. There has been much discussion about the damaging effects of daily activities on the environment. Endless consumption, manufacturing and marketing are the main responsible agents for the environmental damage. Green companies have been trying to decrease their damaging effects through different green practices to protect both the environment and their corporate reputation. Green practices have critical importance for the world's sustainability while the corporate reputation is a vital value for sustainability of the companies. Building strong corporate reputation is fairly difficult for the companies in today's competitive market environment. This study aims to examine the effect of companies' green practices on corporate reputation in the banking sector and the moderator effect of customer attitudes towards green practices on this relationship. To understand green practices-corporate reputation relationship, the 480 private customers of four (two green and two non-green) Turkish banks were interviewed and 451 valid questionnaire were obtained. The banking sector was chosen to understand customer reactions in the absence of considerable individual benefit through green practices. The findings show that green practices have significant effect on corporate reputation and costumer attitudes towards green practices have significant moderation effect on the relationship between green practices and corporate reputation.

INTRODUCTION

Corporate reputation is the total perceptions held by stakeholders of a company and function of credibility, trustworthiness, reliability; and responsibility (Fombrun, 1996; Chaudhuri, 2002; Budd, 1994; Weiwei, 2007; Carmeli and Tishler, 2005). Building strong reputation provides a competitive advantage in terms of pricing concessions, better morale, reduced risk, increased strategic flexibility and enhanced financial performance and this reputational advantage is increased by superior environmental performance (Dowling, 2001; Miles and Covin, 2000). Environmental performance of businesses and sustainability marketing have become very important issues in the marketing discipline since 1990s, because businesses are physical systems which operate within limited and sensitive physical environment and this environment is the foundation on which societies and economies are based (Peattie and Charter, 2003). The potential of good environmental performance to create competitive advantage

 ISBN: 978-9963-711-37-6

has been mentioned in many marketing studies (Nakra, 2000; Brammer and Pavelin 2006; Bansal and Roth, 2000; Chen, 2008; Elkington, 1994).

CONCEPTUAL FRAMEWORK

Eco-performance has been used by wide range of markets including cars, white goods, retailing and banks to compete (Peattie and Charter, 2003). Over the years, consumers have been demanding higher quality products and services that also provide societal and environmental values (Miles and Covin, 2000). The businesses and industries have been transforming their systems to sustainability in consequence of physical damages, contemporary consumer expectations and other stakeholder groups' pressures. This type of social responsiveness plays a significant role in building strong relationships with primary stakeholder groups (Brammer and Pavelin, 2006). The green practices, one of the most important components of social performance, have been very popular in especially manufacturing industries and it also became a necessity for service industries such as tourism (Han et al., 2010) and banking sector (Biswas, 2011) in recent years. Brammer and Pavelin (2006) found that the effect of social performance on reputational advantage can vary across sectors and social performance has significant effect on corporate reputation in the finance sector. In line with this research, we hypothesize that *customers' perception of green practices positively affects corporate reputation (H1).*

The banking sector differs from many other sectors regarding individual benefits of environmental practices. Many sectors such as white goods, batteries, consumer products and retail create benefits for both individual consumers and the society, while the banking sector produces less visible outcomes that are more likely to have direct influence on the environment and society. Therefore, customer awareness of sustainability and attitudes towards green practices can affect the link between perception of green practices and corporate reputation in the banking sector. On the basis of invisible outcomes of the sector, we hypothesize that *customer attitudes towards green practices positively moderate the relationship between perception of green practices and corporate reputation (H2).*

METHODOLOGY

Data were collected from the 480 private customers of two green and two non-green Turkish banks and 451 usable questionnaires were obtained. The 120 customers from each bank were interviewed and these customers were chosen by considering their most preferred banks. 22% of the sample (97 customer) had been customer of the same bank for at least 10 years. The survey instrument includes items to measure reputation, customer attitudes and perception of green practices. The reputation items (α= 0.956) were adapted from Reptrak Pulse Reputation Measure Model that was developed by Reputation Institute (2011) and is updated form of Reputation Quotient (Fombrun et al., 2000), costumer attitude (satisfaction,

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trust, loyalty, word of mouth) items (α=0.943) were adapted from Walsh and Beatty (2007) and perception of green practices (e.g. joint projects, less paper use, energy efficiency) items (α=0.87) were developed by authors in accordance with the banking sector and the literature. The alpha values are all above the recommended level of 0.7 (Hair et al., 1998). A five point Likert scale was used to measure all items. There were also some Yes/No questions asked to customers related to their awareness about green practices in the banking sector. To test hypotheses, linear regression analysis and the moderation effect analysis recommended by Hayes (2013) were used.

FINDINGS AND CONCLUSION

The regression analysis results show that perception of green practices has significant effect on corporate reputation and costumer attitudes towards green practices have significant moderation effect on the relationship between perception of green practices and corporate reputation, thus, both the H1 *(R^2=.365, B=.648, p=.00)* and H2 *(R^2=.437, ΔR^2=.008 B=.112 p=.009)* were supported. The greater the attitudes towards green practices, the greater the effect of green practices on corporate reputation in the banking sector. On the other hand, descriptive statistics and t-test results show that there is no significant difference in both corporate reputation and perception of green practices between green banks and non-green banks. The findings also reveal that customer awareness about green practices in the banking sector is very low. The banking sector does not offer considerable direct benefits for customers with its green practices. Therefore, customer awareness level of green issues is not high in this sector. The companies in the banking sector can integrate their green practices with promotional tools and increase visibility of their green practices through corporate communication to create sustainable reputational advantage (Davies et al., 2003).

Keywords: *corporate reputation, customer-based corporate reputation, green marketing, green business, reputational advantage, corporate communication*

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 ISBN: 978-9963-711-37-6

CORPORATE SOCIAL PERFORMANCE AND FINANCIAL PERFORMANCE: FURTHER SUGGESTIONS FROM A LITERATURE REVIEW

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ABSTRACT

The debate on the relationship between corporate social performance (CSP) (or corporate environmental performance [CEP]) and corporate financial performance (CFP) has gained the attention of researchers since the early 1970s. Margolis and Walsh (2003) noted that the first studies treating this topic were those of Bragdon and Marlin (1972) and Moskowitz (1972). These first analyses incited many other articles collected in reviews (Wood, 1995; Margolis and Walsh, 2003; Griffin and Mahon, 1997; Wood, 2010) and meta-analyses (Orlitzky, Schmidt and Rynes, 2003; Margolis, Elfenbein and Walsh, 2007). Despite its long history, academic interest in this topic has not lost momentum.

Prevailing thought indicates a positive relationship between CSP and CFP, and is generally used to justify the stakeholder view of the firm (Freeman, 1984). This positive relationship between CSP and CFP is also used as a contrast to the rival view of exclusive economic responsibility of business (Friedman, 1970) by demonstrating that corporate social responsibility (CSR) and profit co-exist. However, even in studies that defend "the business case for corporate social responsibility" (Carroll and Shabana, 2010) different visions emerge. These range from a broad syncretic view in which CSR is a "management philosophy, an overarching approach to business" (Berger, Cunningham and Drumwright, 2007, p. 144) to a more narrow view in which only direct and clear links between CSR and firm performance are considered.

The aim of the present review is to re-consider previous studies to highlight what, if anything, more should be considered for further research into the relationship between CSP and CFP. This review will explore which topics remain under-explored. It will also examine the principal limitations in the sample studies' definition of CSR and consequently, in the operationalization of performance variables in the causal paths used to connect CSP and CFP. Importantly, it will also examine whether these limitations indicate a poorly defined connection between theoretical foundation and empirical demonstration in research on this topic.

We attempted to provide answers to these considerations by reviewing the literature on the relationship between CSP/CEP and CFP. We used EBSCO and Google Scholar databases to search for articles containing keywords such as "csr/sustainability impacts", "csr/sustainability and performance", "CSP and CFP", and "CEP and CFP". We also collected articles from the references of previous reviews and meta-

 ISBN: 978-9963-711-37-6

analyses. From this search, we selected 70 articles containing empirical studies on the above-mentioned relationships, 60 of them dating from 2000.

The 70 articles were published in 36 different journals, indicating a broad consideration of the topic in various sub-disciplines. Many of the sources in which the articles appeared were top-ranking management-studies journals (e.g., *Strategic Management Journal* [9 articles]; *Academy of Management Journal* [7 articles]; *Journal of Business Ethics* [6 articles]). However, some articles were published in environmentally oriented journals (e.g. *Ecological Economics* [4 articles]; *Journal of Cleaner Production* [2 articles]); we also included a few articles coming from finance journals; we included those applying a methodology similar to the others (i.e. regressions), while we excluded portfolio analysis and event studies, which we think could better be analyzed in a separate specific review.

The data collected in the articles principally originated from secondary sources (48 of 70), in particular, external databases such as the KLD database (15), the IRRC database (3), the TRI public database (3) and the DJSI database (3), or annual reports (6).

A relevant part of studies that provided information on the types of firms analyzed characterized them by their different sizes (20). Many studies considered only large (16) or listed (14) firms, while only four studies specifically focused on Small and Medium Enterprises (SME). The articles included a more varied selection of companies when researching with specific reference to industry because only ten articles were sector specific. The greatest imbalance found in the studies was related to the country of origin: 28 studies were specific to the United States (US), while only 17 were based in single or different European countries, and the remaining elsewhere in the world.

The most utilized methods of data analysis were regressions (39 times), panel models (11 times) and structural-equation models (10 times). To complete the several different models adopted in the studies, they also utilized a great number of control variables. We counted more than 30 different control variables, the most frequent of which were size, industry, leverage, research and development (R&D), advertising expenses, and firm age—these characteristics constitute the features of firms that are usually considered in performance-analysis studies.

We found two main points of criticism for the quantitative models presented in the studies. The first was that most of the studies did not test a time lag between explanatory and dependent variables or, when a time lag was consider, it was only of one year (14). The second was that few studies (17) introduced moderator and/or mediator variables to better represent the complexity of CSP/CFP relationships. These data demonstrate that the causal path of the contribution of CSR to firms' profitability is far from being completely described by the extant literature. In particular, factors such as customer satisfaction, corporate

 ISBN: 978-9963-711-37-6

reputation and competitive advantage need in-depth examination into their role as drivers of the effects of CSR on financial performance.

The results of the studies generally indicate a positive relationships between CSP/CEP and CFP. From a total of 161 relationships analyzed between different variables of CSP (x) and CFP (y), the majority demonstrated a positive result (56.52%), with 27.95% finding no relationship, and 15.53% finding a negative relationship. We classified these relationships with reference to the type of CSP/CEP explanatory variables, and the type of dependent variables (e.g., accounting, market or perceived financial performance). For variables classified as "CSP" (e.g., considering only social or social *and* environmental issues), the percentage of positive relationship cases was 60.58%, while for CEP (variables made only with environmental data), the percentage was 49.12%. For "CFP" accounting-based variables, positive relationships constituted 50% of the cases; while for market-based variables, the percentage of positive relationships was 58.06 %, and this was even greater for perceived performance (66%).

Therefore, as has already been suggested by previous reviews (Margolis and Walsh, 2003), the question is no longer whether CSP and CEP positively affect firms' financial performance, but rather when, how, and under what conditions they affect it.

Our first suggestion for further research is related to the operationalization of social and environmental performance, which in turn calls for a deeper understanding of the concepts usually assumed in terms such as "social responsibility" and "sustainability". The studies analyzed in this review often utilized multi-dimensional measures of CSP/CEP (54 articles of 70), indicating that CSR is generally considered a complex and multi-faceted phenomenon. However, in most cases, this multi-dimensional nature depends on the researchers' choice to rely on ready-made ratings from secondary databases (e.g., KLD, which was the most frequently used). We believe that this methodology does not adequately capture a broad understanding of the CSR phenomenon. In fact, the rating method is not only a technical matter, because the measurement choice also entails a synthesis of some theoretical issues on CSR (i.e., How is the concept of "social responsibility" defined? Which stakeholders and topics must be included in the rating model? Is it only outcomes that matter or are principles and processes also important? [Wood, 1991]). The higher availability and objectivity of secondary data should not prevent researchers from exploring more subjective and qualitative aspects of CSR suitable for inclusion in quantitative analysis. More complete and theoretically grounded models could emerge by considering appropriate mediating variables and by testing these on different contingencies and within under-explored contexts, not least of all in European SMEs.

 ISBN: 978-9963-711-37-6

Keywords: *corporate social performance (CSP), corporate environmental performance (CEP), corporate financial performance (CFP), review, corporate social responsibility (CSR), sustainability impacts.*

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 ISBN: 978-9963-711-37-6

SUSTAINABILITY IN AGRIBUSINESS SMES' NETWORKS: THE "LCA IN RETE" CASE

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ABSTRACT

INTRODUCTION

The literature on Corporate Social Responsibility (CSR) is vast and interdisciplinary in nature; the debate on the social responsibility of business is usually referred to start with the famous article of Milton Friedman (1970), while earlier definitions of CSR dates back to Bowen (1953). A recent literature review and content analysis on CSR definitions has highlighted the presence of five components in CSR definitions: the social, environmental, economic, stakeholder and voluntariness dimensions of CSR (Dahlsrud, 2013). While the academic debate is still alive, the implications for business practice are even more articulated; an example of challenging topic straddling academic research and business management is that of CSR implementation in Small and Medium Enterprises (SMEs); this topic has received the attention of many scholars that tried to express the peculiarities of small business in facing environmental and social concerns; CSR approach in small firms is usually informal (Jenkins, 2006) and is characterized by the pivotal role of entrepreneur/CEO values (El Baz et al. 2014) and by the priority given to certain categories of stakeholders, like the community and the employees (Kechiche and Soparnot, 2012). SMEs face greater limitations in managing sustainability issues compared to large companies, as they usually suffer from time and resource constraints, lack of information and support and the inability to measure the benefits of CSR strategies (Jenkins, 2006); all these factors determine the so-called "value-action gap" (Battisti and Perry, 2011; Cassels and Lewis, 2011) which prevent SMEs to adopt sustainability practices even when they are subject to some relevant factors of persuasion (Hsu and Cheng, 2012).

The diffusion of sustainability practices and the overcoming of barriers perceived by SMEs could pass through the development of tools specifically tailored to small business (Jenkins, 2004) but also through cooperation within firms, as occurs within inter-firms networks (Jämsä et al., 2011).

 ISBN: 978-9963-711-37-6

PURPOSE

The aim of this article is that of analyzing the experience of three small agribusiness firms which decided to cooperate within a business network contract[30] to implement a common Life-Cicle-Assessment (LCA)[31] project.

If the implementation of CSR is challenging for SMEs, LCA appears to be even a more challenging project, requiring investments and knowledge not easily available in small businesses; the main contribution of this study is that of melting two different research topics: the CSR value-action gap in SMEs and the drafting of business network contracts as entrepreneurial challenge for SMEs development; the LCA in rete case analysis presents some interesting insights on the concept of sustainability, the driver and the approach to corporate social responsibility, the perceived constraints and the role of business network contract in overcoming the barriers of sustainability implementation in SMEs.

METHODOLOGY AND CASE PRESENTATION

The "LCA in rete" is a business network contract drafted at the end of 2012 among three small firms and aimed at the implementation of a Life-Cycle Assessment (LCA) to three different agribusiness supply chain (wine, olive oil and organic tofu and soy); two of the firms are cooperatives founded in the Sixties and producing respectively wine – in one case- and olive oil and wine – in the other case; the third case is a firm producing organic derivatives from fruits and vegetables; all the firms can be considered small businesses as they have a turnover ranging from 6 to 10 million Euros and staff ranging from 18 to 23 employees.

The present research was conducted with a case-study methodology (Eisendhart, 1989; Yin, 1994), by collecting secondary data relating to the network and the participating firms (network contract, financial statements, press releases and other documents available on the internet or from the firms) and by interviewing the three Presidents of the firms (hereafter referred as A1, A2 and A3).

[30] The "contratto di rete" (business-network contract) is a tool introduced in Italy by law (L. 33/2009): it is a private agreement through which two or more firms agree to a defined common program through which to exchange information or services, collaborate in specific areas or for specific issues, or jointly manage common activities; it allows flexible cooperation without giving up legal autonomy and independence.

[31] LCA is an international standardized methodology for the systematic evaluation of the environmental aspects of a product or service system through all stages of its life cycle; it is regulated by ISO 14040 standard which defines it as "compilation and evaluation of the inputs, outputs and the potential environmental impacts of a product system throughout its life cycle" (ISO 14040) and includes the phases of inventory analysis, impact assessment and interpretation.

 ISBN: 978-9963-711-37-6

The face-to-face, in-depth, semi-structured interviews were collected from October 2014 to February 2015 and were stored in a database in which we recorded answers, transcripts and notes. We then analysed the texts through coding (Taylor and Bodgan, 1998; Boyatzis, 1998).

The aspects emerging from interviews are referred to the relevant topics discussed in the literature on CSR in SMEs: the peculiar concept and approach to sustainability, the perceived drivers, the barriers and the role of the network in overcoming them.

FINDINGS

The *concept of sustainability* expressed by the three entrepreneurs was not only related to environmental protection, but also to "the defense of the historic and cultural heritage" (A1), of the traditions of a territory based on agriculture and cooperation. The social pillar of sustainability is particularly strong for the two cooperatives in the network, where the safeguard of the partners is the first purpose of the enterprises which are not aimed at following managerial fashions rather than at protecting those even small productions that constitute the local families' and territory's tradition.

The *CSR approach* is strongly based on the values of the firms and in particular of the entrepreneur; the interviewed Presidents referred that sustainability was "in our own nature" (A1), "we have it in our DNA" (A2), as the firm has "always put attention to people, environment and territory" (A3); the strong orientation given by the entrepreneur is also very clear ("it is born from me" – A1; "it has been my obsession" – A3). So the main idea is that CSR is the "right thing to do", while the idea of CSR in terms of business opportunity is not as shared as the ethical driver. Even if all firms experienced an economic benefit from the LCA project in terms of cost savings (in particular for water, material and energy consumption, but also wastewater treatment), the exploitation of market opportunities stemming from the sustainability project is far from taken for granted.

The interviewees refer about "difficult markets" (A2), only theoretically interested in eco-friendly products, even in the case of sensitive large multinational retailers for which the offer of these SMEs is too small to be conveniently incorporated in their commercial offer; two entrepreneurs talked about "natural wines" (A1, A2), but only one of them actually proposed to the market a small production of two new wines characterized by greener packaging and labels, while the third interviewee assert that the market is hardly interested in sustainable food, as "it appraises other aspects, like the pleasantness of the products" (A3). The approach to sustainability of the three firms also appears to be natural, informal, less technic as the aim appears that of "highlighting what we already do every day" (A3), without formal certifications or "aggressive marketing policies" (A2).

 ISBN: 978-9963-711-37-6

The *constraints* perceived in the implementation of sustainability projects by the interviewed firms are the same already described in the literature of CSR in SMEs: financial resources constraints, lack of time, lack of competences and knowledge; the two cooperatives also refer the problem of the long decisional process that characterizes these kind of enterprises, and the difficulties in engaging the numerous partners of the firm, often persuaded that "measuring is useless" (A1); so the other relevant barrier is that of the cultural change that is required, the idea of sharing problems between agriculture and manufacturing activities, to share sacrifices in order to "stop this deplorable economy in which we increased consumptions of goods without value, leaving the burden to our children" (A3).

In front of these barriers that the single firm is not able to overcome, the network contract appears to offer a chance to realize sustainability projects in SMEs, as it allows to "share information" (A2), to "better coordinate the resources, to match the technologies, to allow versatility and contamination among different supply chain" (A1); the business network can be used to receive financial support from central and local government, and to share human resources whose competencies are not usually available in small businesses; with reference to LCA in particular, the main obstacle of the analysis relates to the need to implement it to the whole supply chain, not only to the limited stage of the process usually overseen by the single firm; from this point of view the network could be a useful tool to share those supply chain problems which usually divide the agriculture sector from manufacturing industries.

CONCLUSIONS, IMPLICATIONS AND LIMITATIONS

The opinion of the three entrepreneurs on the network experience is positive, because the network is perceived as "a tool to seal different ranges of collaboration" (A1), to take the on-going opportunities which are not completely evident from the first steps of the contract (Cantele, Vernizzi and Ricciardi, *forthcoming*).

The main implications of this case study are both political and managerial: the use of a tool such as the business network contract can leverage the potentiality of SMEs without forcing them to more structured but more invasive aggregation forms; it is a versatile tool which has shown to fit also with the purpose of increasing the awareness and practice of CSR in SMEs, reducing the costs and avoiding the drawbacks of a normative intervention. The limitations of the analysis resides in the single case study methodology; further studies could deepen the use of business network contracts in facilitating environmental and social practices among firms in the agribusiness but also in other industries.

ISBN: 978-9963-711-37-6

Keywords: *sustainability, life-cycle assessment, LCA, corporate social responsibility, CSR, small and medium enterprises, SMEs, business networks, agribusiness*

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 ISBN: 978-9963-711-37-6

CORPORATE SOCIAL RESPONSABILITY: A TOPIC OF BUSINESS (LAW) *IN THE* MARKET

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ABSTRACT

Literature tackling the issue of the Corporate Social Responsibility ('CSR') has often spread the conviction that spontaneity, i.e. lack of duty of social action of company, is an essential feature of CSR (Mc Barnet, 2009/03; Cioffi, 2011; Hiss, 2009; Libertini, 2009), although it should be pointed out that there are also critical voices and proposals of distinctions (Denozza and Stabilini, 2013).

THE ABSTRACT AIMS

to overcome the opposition between the discretionary nature of CSR and its law duty. The goal is to identify a CSR elastic and dynamic concept , which can take advantage, on the one hand, the coercive potential of the law and, on the other hand, the persuasive value that comes from the belief of applying a rule that is believed right. This goal can only be achieved by defining the legal framework in which it operates and, therefore, the minimum set of duties imposed on any company (and its managers). This perspective of observation there is not in doctrine (Denozza, 2006) and it would overcome, at least in part, the lack of attention to SMEs

THE CONTRIBUTION FOR MANAGERIAL PRACTICE

is to clarify when the choice is really voluntary (not law duty). In fact, from the ideological and economic-business point of view, CSR is a socially recognizable value appreciable and measurable (Kerr, 2008) able to increase the motivation of the employee, the reputation of the company and its market position. From a legal point of view, this phenomenon can be explained also through the margin of appreciation at the discretion of management choices (Fairfax, 2006; Marens, Wicks, 1999; Libertini, 2013), by adopting the principles of long-termism (Denozza and Stabilini, 2013), but it must know: a) the legal consequences of the choices and b) the law duty (not only the limits) imposed to firm by the market rule.

THE METHOD

used is based on a premise that must be checked. Then it will analyze the ways in which the law allows/requires, in several jurisdictions to pursue socially responsible behavior. The goal will be

 ISBN: 978-9963-711-37-6

achieved by proving that the different structure between US and the EU market impact on the nature of CSR's duty. The premise is based on the observation that CSR is a projection of the *conception of the firm* acting in a particular historical period and, therefore, needs to be explained on the ideological, socio-economic and legal plan featured respect values and interests of period considered.

The topic of the social purpose of the enterprise was in fact created by economic activity (Libertini, 2009; Bruni, 2009) which is a typical dynamic phenomenon of the social community that the practice and discipline, but the modern (legal) discussion on CSR was born in the second half of the 20th Century, in the US favored by the *law and economic analysis* approach (Libertini, 2013) and the conception of firm as a *nexus of contracts* which aims at the creation of value for shareholders (*shareholder value theory*).

The emergence of sociological theories of the firm and neoliberal markets imposed an evolution of CSR that must consider new types of shareholders (Libertini, 2013). It prove that: a) CSR evolution based on the socio-economic context; b) CSR is affected by the rule of the market in which the firm operates: CSR is carried out within the framework of the principles governing the market itself in a given socio-economic context. This makes it possible for us to firstly identify the frame (rules) by which it becomes meaningful for a legal practitioner or a lawyer to tackle the aspect of the CSR. Secondly in this contest of rules we can identify business rules that affect management decisions and those ones which govern the companies.

The market can be seen, in fact, as a limit to the choices, but also as a source of legal duty it whereby, in this perspective however will also have to consider the legality/dutifulness of behavior both active and passive. The first ones are able to impact consumers and competitors choices (in the market for consumer goods as well as financial products). The second one requires firm's proper choices as a reflection of market's dynamic equilibrium, sensitive to socially responsible conduct of competitors and consumers (and their associations).

All previous considerations the foregoing explain the different normative approach to the issue of CSR in the US and in several European countries. In the US, there are no binding legal rules for the manager of the company requiring to behave socially responsible although they do not expressly prohibit it an opposite behavior either (see: *ALI Principles*; Horrigan, 2010; Denozza and Stabilini, 2013). The approach in other legal domestic realities throughout the Member States of the EU is different from the above.

The duty to consider the interests of stakeholders is prescribed under soft law by the Germany Corporate Governance Kodex, Article 4.1.1 (Hiss, 2009), but the CSR is a law duty in U.K. (Article 172 English Companies Act of 2006; Libertini, 2013; Denozza and Stabilini, 2013).

Under Italian law Article 1, paragraph 5, Law 180/2011 (so-called Bill of Firm) stipulates that it should be promoted in legislation the inclusion of social and environmental issues in the conduct of business activities and in their relations with the social partners (Libertini, 2013). It also is argued that the general

 ISBN: 978-9963-711-37-6

provision requiring directors to observe the principles of proper administration (art. 2403 c.c.) in addition to good business management and corporate (art. 2497 c.c.) (Buonocore, 2006). The general provision allows to enhance, in other words, including at law, good practices but also the principles and the criteria of business and socio-economic sciences. This promotes the conception of the company awares of operating in a context of scarce resources that by encouraging innovation and the technological progress, should be made available also to the future generations. This inclination toward the protection of "other interests" (Angelici, 2010) has obtained a recognition in EU legislation. In the EU legal order new insights come, on the one hand, from the sources of soft law (European Parliament resolution of 6 February 2013 on corporate social responsibility: accountable, transparent and responsible business behaviour and sustainable growth (2012/2098(INI)) and, on the other hand, from rules, principles and general clauses that govern and have centered around the market (i.e. the sustainable development based –also– on a highly competitive *social market* economy (art. 3 Union Treaty) (Libertini, 2011). There are also limits of the intervention of public authorities (art. 14 and 106 TU TFEU) and the precautionary principle. The precautionary principle is to be found in the field of environmental protection (Art. 191 TFEU, but v. also art. 7 reg. EC January 28, 2002, n. 178) (Santonastaso, 2005), but it has been applied in the defense of health (Lipari, 2010) and, according to some, may be a conditioning factor of management options (Buonocore, 2006)

Keywords*: CSR – Firm (conception of) – market rules (role of) – «highly competitive social market economy» – SMEs – US – EU – UK – Germany – Italy – historical and comparative analysis – public authorities (role of)*

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 ISBN: 978-9963-711-37-6

ANALYSIS AND INSIGHTS ON PRODUCERS ORGANIZATIONS AND ASSOCIATIONS OF PRODUCERS ORGANIZATIONS (POS/APOS) IN EU AND NATIONAL REGULATIONS

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ABSTRACT

The agri-food system is facing several challenges affecting both the organization of the entire agricultural supply and the regulation of relations between the farmers in the food supply chain. In the last decade, a growing instability deriving by globalization processes has led to an increased international competition, a prices volatility of agri-food products, as well as an increased level concentration of large retailers with a consequent increase of the asymmetry in bargaining power and, therefore, tensions between operators in the agri-business industry. The asymmetry in bargaining power within the agri-food chain is certainly one of the weaknesses of the entire food system, because it widens the disparity between producer prices and consumer prices so encouraging unfair trade practices. In order to tackle these growing contractual imbalances and the unequal bargaining power between the parties in the food industry, and considering a general agricultural increasingly market-oriented policy, the EU main objectives is to promote and to strengthen the aggregations between producers and between the operators of the supply chain for stabilizing prices, promoting production, facing crises and improving the competitiveness of the agricultural sector. The Producers' Organizations (POs) and their associations (APOs) are legal entities recognized at EU level, bringing together more operators of the same food sector. The POs not only represent farms and protect their members, but also promote quality products in order to strengthen the position of food producers against buyers and the Organized Distribution sector. The POs and their associations, in particular, as well as other tools provided at national and EU level in order to encourage the producers aggregation, can be a crucial drivers in the concentration of the agricultural supply of the Member States of the European Union. In effect these organizations allow a better production and marketing planning of all members producers, enabling a concentration of agri-food supply chain so optimizing production costs. They can also promote cultural practices and innovative and environmentally friendly production

 ISBN: 978-9963-711-37-6

techniques, thanks to the aids provided at European level for such organizations. The reform of the Common Agricultural Policy (CAP) for the after 2013 period has sought to regulate and stimulate the development of such forms of aggregation, extending them to all agricultural sectors. Interbranch Organizations (IOs), instead, group together entire sections or even the whole supply chain (producers, processors, distributors and retailers) in order to integrate all the actors of the supply chain by playing a key role in facilitating relationships, market transparency and in identifying best practices.

The aim of this paper is to provide a detailed analysis of the EU regulations governing these new organizational models in agriculture, deepening the role of the Producer Organizations (POs), the Associations of Producers Organizations (APOs) and the Interbranch Organizations (IOs). After a literature review on the role of the producers organizations at the international level (Bijman, 2007; Camanzi et al., 2011; Gouët et al., 2009; Ragasa & Golan,

2014; Shiferaw et al., 2011; Trebbin, 2014) and on the strategies and effects of the same organizations (Albayrak, 2010; Bourgeon & Chambers, 1999; Ratinger & Bošková, 2013), a detailed analysis of Reg. no. 1308/2013 "Common organization of Agricultural markets" (which replaces and repeals Regulation (EC) No. 1234/2007 and which came into force on 2

January 2014) and an investigation of the support policies implemented at the national level to promote and disseminate knowledge and functioning of such aggregations are carried out. Finally, the purpose of this study is to reconcile the Community framework to national one that is represented by the recent introduction by the Ministry of Agriculture, Food and Forestry of the Ministerial Decree No. 9084/2014 and of the Ministerial Decree No.

86483/2014, which regulate and promote the development of Producers Organizations (POs) in Italy, respectively for the fruit and vegetable sector and the olive oil and table olives. The paper give also insight on such aggregation models that can be linked to the business networks as well as supply chain and district contracts in the light of recent Circular No.

558/2012 of the Ministry of Agriculture and Forestry which defines the criteria, methods and procedures for the implementation of these contracts. Conclusions highlighted that these forms of association also allow research activity and promotion of best cultivation practices, as well as the provision of technical assistance and risk management tools, thus contributing to the strengthening of the position of individual producers.

 ISBN: 978-9963-711-37-6

Keywords: *EU and national Regulations, Agri-food supply chain, Business networks, Chain and district contracts*

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 ISBN: 978-9963-711-37-6

CORPORATE SOCIAL RESPONSIBILITY AND CUSTOMER LOYALTY IN TAIWAN'S INTERCITY BUS INDUSTRY

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ABSTRACT

This paper proposes a new research model to examine the relationships between corporate social responsibility (CSR) and customer loyalty in intercity bus services. The model comprises five constructs and nine research hypotheses, with service quality, corporate image and customer satisfaction as mediating constructs. The nine hypotheses are tested on data collected from 349 passengers of a leading intercity bus company in Taiwan, using structural equation modeling. The study finds that CSR has a direct effect on customer loyalty and also has an indirect effect on customer loyalty through corporate image and customer satisfaction. The findings of the study provide useful insights into how intercity bus companies should reinforce their CSR activities that would enhance the company image and customer satisfaction, leading to customer loyalty.

INTRODUCTION

Intercity bus services have proven to be a sustainable public transportation mode that meets long-distance travel demand between cities or urban areas. In the intercity bus industry, companies are competing with each other and with other intercity transportation modes where customer loyalty plays an essential part to ensure its sustainable development. To ensure their sustainable development, Taiwan's intercity bus companies are taking initiatives to implement corporate social responsibility (CSR) activities. To help better understand the practical implications of implementing CSR activities, the paper aims to examine how CSR affects customer loyalty and how it interacts with the factors affecting customer loyalty. To this end, a new research model is developed.

THE RESEARCH MODEL

Figure 1 shows the new research model with the four constructs affecting customer loyalty. In line with the CSR activities implemented by a Taiwan's intercity bus company for improving its relationships with the stakeholders, CSR is defined as the commitment of business to contribute to consumer welfare, employee welfare, environmental issues and community involvements (Abbott and Monsen, 1979; Carroll, 1999). The model comprises nine research hypotheses to be tested. All the nine

 ISBN: 978-9963-711-37-6

hypotheses are proposed based on the well studied literature which has shown the positive relationships between the constructs (e.g. Martinez and Rodríguez del Bosque, 2013; Walsh and Bartikowski, 2013).

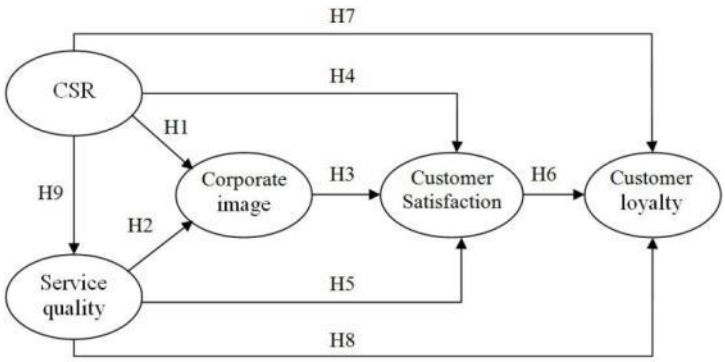

Figure 1. *The research model*

RESEARCH METHOD AND RESULTS

Structural equation modeling (SEM) is used to test and analyze the hypothesized relationships of the research model. To collect data, a survey questionnaire with a total of 57 survey items obtained from relevant literature was used. These survey items were grouped into 14 observed measures for measuring the five constructs of the research model. CSR was measured by 16 survey items grouped under customer, employee, community, and environment dimensions. The items were measured on a five-point Likert scale, ranging from 'Strongly disagree' (1) to 'Strongly agree' (5). After pre-test and pilot-test, the questionnaire was distributed to 386 passengers of a leading intercity bus company at four major cities in Taiwan. A total of 349 effective responses were received.

A reliability analysis using Cronbach's alpha was conducted on survey data, confirming the internal consistency of the five constructs. An assessment of the resultant structural model using commonly used fit indices was also conducted on survey data, suggesting an acceptable model fit. With the survey data, the structural model has a better fit than other alternative model.

Hypotheses testing on the research model using SEM analysis show that except for hypotheses H4, H7 and H8, all other hypothesized relationships are supported. CSR has a significantly positive effect on corporate image (H1) and service quality (H9). Service quality has a significant positive effect on corporate image (H2) and customer satisfaction (H5). Corporate image has a significant positive effect on customer satisfaction (H3) and customer satisfaction has a significant positive effect on customer loyalty (H6).

The resultant structural model suggests that customer satisfaction has the largest effect on customer loyalty and CSR has a high effect on service quality and corporate image. However, CSR seems to have no significant direct effect on customer loyalty, when it interacts with other constructs. This may

 ISBN: 978-9963-711-37-6

be attributed to the mediating effects of corporate image and customer satisfaction. A further investigation using SEM is conducted to test the mediating effects of (a) corporate image between CSR and customer satisfaction, (b) customer satisfaction between CSR and customer loyalty, and (c) customer satisfaction between service quality and customer loyalty. The results show that CSR has a significant direct effect on customer satisfaction and an indirect effect on customer satisfaction through corporate image as a mediator. CSR also has a significant direct effect on customer loyalty and an indirect effect on customer loyalty through customer satisfaction as a mediator. Service quality has a significant direct effect on customer loyalty and an indirect effect on customer loyalty through customer satisfaction as a mediator.

CONCLUSION

The intercity bus industry needs to address the CSR and customer loyalty issues to ensure its long-term development and sustainable operations. In this paper, we have developed a new research model to examine how CSR affects customer loyalty and how it interacts with service quality, corporate image and customer satisfaction for achieving customer loyalty. The research findings reflect the importance of CSR in affecting customer loyalty through corporate image and customer satisfaction. Promoting corporate image via CSR would be an effective strategy to secure customer loyalty. In addition, increasing customer satisfaction via better service quality in association with CSR would enhance customer loyalty.

Keywords: *Corporate social responsibility, Customer loyalty, Intercity bus service, Structural equation modeling*

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 ISBN: 978-9963-711-37-6

THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON CONSUMER BEHAVIOUR: AN EMPIRICAL STUDY

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ABSTRACT

'Corporate Social Responsibility' (CSR) is an extremely interesting research subject with numerous academic and practical implications. Its empirical investigation raises valuable lessons, since the existing literature offers several research gaps. More specifically, the role of CSR in economies under crisis has not been sufficiently investigated.

In this context, the present study proceeds in developing and testing an original conceptual framework (research model), which explores the impact of CSR practices on various measures of consumer behaviour. More specifically, the proposed conceptual framework includes one independent factor (CSR practices) and nine dependent factors (trust towards the organisation, company valuation, customer-company identification, recommendation intention, repeat patronage intention, customer loyalty, willingness to pay a premium price, perceived quality of services, company reputation). This framework was based on a critical synthesis of numerous previous empirical studies (e.g. Choi and La, 2013).

The proposed framework was tested, using a newly-developed structured questionnaire in a sample of 473 Greek consumers. The Greek context was selected because it represents a developed economy under crisis, in which CSR constitutes a well spread concept among both companies and consumers. The questionnaire that was used for data collection is based on items (questions) that have been used by various previous researchers (e.g. Jin *et al.*, 2013). All questions were translated to Greek and then back to English by another person, in order to detect and, consequently, improve discrepancies. The five point Likert scale was used for the measurement of all factors (1 = 'strongly disagree' to 5 = 'strongly agree').

Primary data were collected from a random sample of internet users. The target population was consumers between the ages of 21 and 65. An online questionnaire was created and the participants of the survey completed the questionnaire online. More specifically, consumers were asked to answer all questions having in mind their main cell phone provider.

The link containing the questionnaire of the survey was published in various sites and forums. The questionnaire was accessible to a significant number of internet users (it was published in quite few

 ISBN: 978-9963-711-37-6

highly popular sites and forums), and, therefore, 926 questionnaires were finally returned. In order to verify that the final sample would be representative of the average Greek consumer, 473 questionnaires were randomly selected by the members of the research team (so as all age groups were equally represented). The research period lasted one month (May 2014).

The validity and reliability of the questionnaire were thoroughly examined. The test for the content validity included: (a) consultation with academics, (b) consultation with practitioners, and (c) pilot testing. The construct validity test was conducted in two steps. Each of the ten factors was evaluated (a) for its unidimensionality and reliability (Exploratory Factor Analysis), (b) for the goodness of fit to the proposed research model (Confirmatory Factor Analysis).

All tests concluded that the scales used for the measurement of the research factors are valid and reliable. The only exception was the separation of 'CSR practices', the only independent factor of the study, into three distinct dimensions: (1) Interest for the local community and the environment (5 items, cronbach alpha=0,854), (2) Respect towards employees and customers (6 items, cronbach alpha=0,837), (3) Respect towards the Law (5 items, cronbach alpha=0,855). As a result, the examination of the conceptual framework was significantly enhanced.

The testing of the conceptual framework was made using the Structural Equation Modelling (SEM) technique. The estimation of the structural model was conducted with the Maximum Likelihood Estimation method. In order to evaluate the fit of the overall model the chi-square value (X^2 = 167,11 with 83 degrees of freedom) and the p-value (p = 0,0541) were estimated. These values indicate a good fit of the data to the overall model. Moreover, other measures of evaluating the overall and the measurement model were used (Normed-X^2, RMSEA, CFI, GFI, Construct Reliability, Variance Extracted). All these measures produced satisfactory results.

The main results of the study are summarised below:

- CSR has the most significant impact on the following factors: customer trust towards the organization (r=0,75), company valuation (r=0,71), perceived quality of services (r=0,70) and customer loyalty (r=0,62).
- In contrary with previous studies, it was found that men are more sensitive to CSR practices than women.
- When taking under consideration the separation of CSR in three sub-dimensions (interest for the local community and the environment, respect towards employees and customers, respect towards the Law), the empirical analysis revealed that the second dimension ('respect towards employees

 ISBN: 978-9963-711-37-6

and customers') has a higher impact on consumer behaviour that the other two. 'Respect towards the Law' comes second, while 'interest for the local community and the environment' has the least strong impact on consumer behavior.

These empirical results shift the 'classical' model of CSR, since consumers seem to place more importance on social actions towards employees and customers and not on charities and actions for the improvement of the environment. Moreover, keeping the law seems quite important in the mind of consumers.

All these observations contribute to the understanding of the impact of CSR under crisis. In a country under crisis, consumers prefer companies to be responsible to their employees (respect of work rights, offer of fair wages and a safe work environment) and their customers (ethical conduct, offer of quality services in a law price). Additionally, consumers expect companies to respect the existing laws, regularly pay their taxes and avoid developing intertwining interests with the government. These results urge companies, operating in economies under crisis, to redesign their CSR strategy, focusing on employees, customers and respect towards the law.

The present study developed an original conceptual framework that has never been used before in the international literature. Future studies can adopt the same approach, further highlighting the impact of CSR practices on various aspects of consumer behaviour. Its main contribution lies on its methodology (synthesis of various previous studies), conceptualisation (proposal of a novel research model), focus (consumer behaviour), and context (economy under crisis).

Keywords: Economic crisis, Empirical study, Structural Equation Modelling (SEM), Greece.

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THE EVOLUTION OF THE CONCEPT OF NETWORK IN MANAGEMENT SCIENCE: THE CONTRIBUTION OF THE ECONOMIC GEOGRAPHY

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ABSTRACT

This article aims to open the debate on the contribution of the Economic Geography in framing a new definition of the concept of network in Management Science. Largely mobilized in a large set of disciplines, the concept of network continues to interest researchers in many fields but separately. We would like to define the network as a hybrid one since the Economic Geography could play a major role. This hybrid network should firstly be defined by the level of spatial or geographical scale we consider when analyzing a network.

The geographical localization of a network and its nodes are getting a renewed interest in Management Science since the 'geographical localization, distance and proximity' are beneficial in evaluating the transactional and relational dynamics that immerges between the members of a network. In this sense the following topics can be formulated: How can the geographical dimension of the network improve the analysis of the researchers and of practitioners concerning the managerial problems?

Based on a theoretical reflection, the concept of network cannot evolve within a single discipline nor based on a single theory. This concept emerges when there is a conjunction between organizational and relational dimensions, geographic proximity and power. Once the network is built, geographical proximity gives way to social proximity that values the relational aspects that is the relational and social capital (Storper, 1997; Camagni, 2002; Brito and Correira, 2010).

Finally, further analysis should be focusing on a case study that is a hybrid network analysis within an agri-food sector.

Keywords: *economic geography, management science, hybrid network, geographic space, social and relational proximity.*

ISBN: 978-9963-711-37-6

WHEN DO FIRMS PAY DIVIDENDS? EVIDENCE OF THE DIVIDEND PAYOUT POLICY OF ITALIAN LISTED COMPANIES

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ABSTRACT

This study presents the results of an analysis of dividend policies in Italian listed companies. In particular, after an empirical analysis of dividends distributed by Italian listed companies, this study seeks to define the main factors that determine choices regarding dividend policy.

LITERATURE REVIEW

Several theories have been developed to investigate the relevance (or irrelevance) of dividend policy. Researchers continue to attain a variety of findings via studies examining the relevance of dividend policy to the value of firms.

Some of the theories on dividend policy appear to be complementary, while others seem to be in full contradiction with each other. Miller and Modigliani (1961) published a theory stating the irrelevance of dividend policy. They argued that, in perfect capital markets, dividend policy does not change shareholders' wealth. In contrast, by introducing one or more imperfections to the market, many other researchers have demonstrated that dividend policy is relevant. For example, via an empirical study, Lintner (1956) introduced the idea of . This is a type of 'sticky' dividend in the sense that companies are reluctant to increase dividends, and tend to increase them only when they are certain that the increase can be sustained indefinitely (Lintner 1956). Lintner stated that the level of profit is invariably the first consideration of management regarding their ability to change the size of dividends.

Another important stream of research considers the agency theory (Easterbrook 1984) and addresses dividends as a tool to mitigate conflicts between managers and investors. In this case, dividends play the role of monitoring the investment projects of the company. In particular, the obligation to pay a dividend prevents managers from investing in projects with negative net present value, and from wasting the company's free cash flows.

In other cases, dividends are considered relevant due to the information content of dividend policies (Bhattacharya 1979; Miller & Rock 1985). In this case, markets are imperfect because there is information asymmetry, and dividends enable managers and administrators to transmit signals to the market regarding the current and expected profitability of the company. Announcements and payments of dividends are considered good news, and stated as such by analysts and investors. In

 ISBN: 978-9963-711-37-6

contrast, reduced or cut dividends are considered negative signals that suggest negative prospects in the short term.

The broad variety of academic contributions—both theoretical and empirical—has resulted in a diversity of results that have led to dividend policy being a topic of confusion (Black 1976). Another basis has instead the empirical evidence concerning the disappearance or at least the strong reduction of the distribution of dividends (Fama & French 2001; DeAngelo, DeAngelo & Skinner 2004) in the United States stock market. This is related to the fact that, in the twentieth century, the number of companies paying dividends drastically decreased. Based on the above discussion, this study make an important contribution to understanding the main drivers that affect dividend policy by analysing decisions regarding dividend distribution in Italian equity markets.

Research on this topic in the Italian stock market must encompass the consideration that Italian companies' ownership structure is highly concentrated. In particular, Italian shareholders appear to be better equipped to monitor and discipline managers, and even controlling shareholders are sometimes considered insiders. Thus, the decision to distribute dividends tends to be analysed from the perspective of agency costs (Murgia 1993). In this context, the main conflict in terms of agency costs seems to be among the strongest controlling shareholders and the minority shareholders (Mancinelli & Ozkan 2006). When the strongest shareholders have almost total control over the company, they generally prefer to generate private benefits at the expense of the minority shareholders. This would suggest that firms with a few, large shareholders will accumulate more money and distribute lower dividends than firms with a widespread ownership structure.

DATA AND METHODOLOGY

DATA

The data for this study were extracted from the database, Bloomberg. This study created a composite sample of the Italian listed companies included in the Financial Times Stock Exchange (FTSE) Italia All-Share Index on 31 December 2014, which included 255 companies. From this sample, this study eliminated companies that had the following characteristics:

- companies registered in a foreign state because they present different accounting and budgetary rules
- companies with savings shares, which are subject to special policies for the distribution of dividends

 ISBN: 978-9963-711-37-6

- companies active in the areas of financial services (banking, insurance and related activities) of real estate and real estate companies.

The final sample included 168 companies, which accounted for 65 per cent of the companies included in the FTSE Italia All-Share Index. The analysis covered a period of 14 years—from 2001 to 2014.

METHODOLOGY

For each year of analysis, the sample was divided between companies that had distributed dividends (dividends paid greater than zero) and companies that had not distributed dividends (dividends paid equal to zero). For each subsample, this study analysed the mean values and statistical differences determined by the Student's t-test for five variables aside from the dividend paid: profit, return on equity, return on assets, cash and cash flow.

RESULTS

This study found that Italian listed companies use a number of dividend policies. Profitable companies choose to distribute dividends by considering the amount of profit, in which a higher profit corresponds to a greater likelihood of distributing dividends. The results showed that half of the companies in deficit—which presented the worst conditions in terms of profitability, cash flow and liquidity—distributed dividends alike (albeit in limited amounts) to avoid losing shareholders.

This confirms what was stated in CONSOB's (2014) annual report about the propensity of Italian firms to pay dividends to shareholders: 'The distribution of dividends continues to account for an important proportion of the use of total resources'—even when the financial conditions of Italian companies do not suggest this.

Keywords: Dividend policy, firm performance, Italian equity markets

ISBN: 978-9963-711-37-6

DO LIGHT FOOD CLAIMS LEAD TO OBESITY? AN INVESTIGATION WITH BEHAVIOURAL DATA

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ABSTRACT

PURPOSE

The introduction of light food products (e.g. low-fat; low-sugar) has been a strategy put forward from companies, and public authorities, to address the raising public discourse in relation to the importance of following a healthy diet (Chrysochou 2010). It is thus of no surprise why such food products have gained significant consumer acceptance and growth rates (Krystallis and Chrysochou 2011; Sjostrom *et al*. 2014). A critical issue addressed in earlier literature is that light claims may decrease consumers' consumption guilt and result in overconsumption (Wansink and Chandon 2006). In other words, products with light claims may, instead of preventing, lead to obesity. A criticism to these studies is that are based on experimental data, and therefore although consumers are actually misled, their actual behaviour may still not change. In this paper, we try to address this issue by looking at performance of brands and in particular brands that carry light claims. Our overarching hypothesis is that brands that carry light claims are bought more frequently, showing further excess loyalty, and thus drive consumers to overconsumption.

DESIGN/METHODOLOGY/APPROACH

Panel data provided by GfK in Denmark were analysed for 7 product categories across a series of 6 years (2006-2011). For each product category basic brand performance measures (i.e. market share, penetration and purchase frequency) were calculated, which were further used as input measures for estimating the NBD-Dirichlet model (Ehrenberg *et al.* 2004). The model was used as a benchmark tool to assess the overall performance of brands that carry light claims, compared to those that do not carry any.

FINDINGS

Our results show that in two (milk and yoghurt) out of seven product categories that we analysed, brands with light claims showed an excess on purchase frequencies both at the category and brand level. In the remaining categories (soft-drinks, salad dressing, soda, dessert cheese, margarine) we did

 ISBN: 978-9963-711-37-6

not observe any excess performance on purchase frequencies. Our findings thus show that light claims may lead to overconsumption, but it is not a universal effect. On the opposite, the results show that it is category specific, and seems to occur more on categories that are considered as relative virtue (i.e. product categories that promote health). For categories that traditionally are considered as vice (i.e. do not promote health), such as soft-drinks and soda, consumers purchase, and thus consume, equal amounts.

RESEARCH IMPLICATIONS

Our results have several implications. First, the backfire effect of light-claims in leading to overconsumption seems to be evident through behavioural data. However, it is a category specific phenomenon. Second, consumers may show excess loyal to a specific light claim but this loyalty is not driven from increased purchase frequency, but from preference toward such positioning claims. In reality such increased preference is actually desired to shift consumers' focus on healthier alternatives of food products. Finally, although more product categories should be included to safely conclude, the fact that light claims do not lead to overconsumption on relative vice categories but on virtue ones, is alarming as to how valuable are for product categories that there is no particular need to change consumers' preferences.

ORIGINALITY/VALUE

Few studies if any have used behavioural data to address the effect of product claims on brand performance (Chrysochou *et al*. 2012; Sjostrom *et al.* 2014). This study contributes to this literature. It further gives more insight to the effect of light claims on leading to overconsumption.

Keywords: *Light claims, Overconsumption, Purchase Frequency, Brand Performance Measures.*

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ISBN: 978-9963-711-37-6

LEGITIMACY REVERBS OF MANDATORY REGULATIONS ON SUSTAINABILITY DISCLOSURE AT A WORLDWIDE LEVEL

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ABSTRACT

The purpose of this study is to significantly contribute to the arising debate about mandatory non-financial disclosure promoted at a Worldwide level, with specific focus on sustainability accounting and reporting. Indeed, in the last twenty years, accounting scholars and Social and Environmental researchers have deeply discussed the role of voluntary social and environmental disclosure and CSR, however, few of them have focused on the fact that, recently, several regulatory bodies have started requiring mandatory corporate disclosure in such areas. For instance, the European Parliament has issued the 2014/95/EU Directive on non-financial disclosure which mandates larger companies to adopt it by the end of 2016; in the US, from July 2011 the Sustainability Accounting Standards Board (SASB) is providing mandatory industry guidelines for the disclosure of sustainability issues in mandatory SEC companies' filings; in South Africa, the Johannesburg Stock Exchange required the adoption of integrated reporting from 2011; and several other Countries and Region have followed this trend. Even a Machiavellian approach in boosting the disclosure of non-financial information should be welcome, this globally smoothing change towards mandatory vs. voluntary approach arises new scenarios. In order to reduce the risk of "simulacrum" effect of the mandatory disclosure, emerging studies and predictive models are needed. The simulacrum effects means the risk that companies not well-aware of sustainability disclosures will produce reports that will be slight, unreal, or "vague semblance of something". Therefore is timely and important to provide a comprehensive analysis of the state of the art and the consequences of the adoption of mandatory sustainability reporting at a WorldWide level.

THEORETICAL BACKGROUND

In order to analyse the evolution of the topic, the article evaluates and discusses the underlying legitimacy process and the effect on the requirements that companies would have to follow for their mandatory sustainability disclosure. A legitimacy approach has been extensively used when discussing the development and adoption of sustainability accounting and reporting practices (Guthrie and Parker, 1989; Patten, 1992; Lindblom, 1994 O' Donovan, 2002; Deegan, 2002). Legitimacy theory argues that organisations can only continue to exist if the society in which they are based

 ISBN: 978-9963-711-37-6

perceives them to be operating within a value system that is commensurate with the society's own value system (Gray *et al.,* 2009). Specifically, Lindblom (1994) identifies four legitimation strategies that organisation may employ when they face threats to their legitimacy: (i) educating their stakeholders; (ii) changing the stakeholders' perceptions of the issue; (iii) distracting or manipulating attention away from the issue of concern; and (iv) seeking to change external expectations about their performance. The uses of sustainability reporting can be interpreted as attempts to continue the legitimacy of the system rather than of individual organisations and the major sustainability accounting initiatives (i.e. Global Reporting Initiative, UN Global Compact, etc.) can be traced back to one or more of Lindblom's suggested legitimation strategies (Gray *et al.,* 2009). Indeed, the current trends in mandatory sustainability disclosure could be interpreted as attempts to maintain public perception of the importance of corporations, industries and the whole system improving overall living conditions and solving several environmental issues (Legendre *et al.*, 2013).

RESEARCH DESIGN

Our approach consists in providing a commentary on the fluid and dynamic evolution of the non-financial disclosure regulation at a WorldWide level. Two different levels of analysis have been identified, the first is a macro level and it refers to governance system mechanisms that legitimate the role of meta-organisations that are arising in such fields. For instance, the recent establishment of the SASB and the Global Sustainability Standards Board (GSSB) within the Global Reporting Initiative (GRI) framework, or, in addition, International Corporate Accountability Roundtable (ICAR), suggest a profound need of legitimacy. In that sense, the legitimation should probably exert a two-sided effect; as a matter of fact, a changing in the governance bodies of this supranational meta-organisations should reflect a need of a more structured organisational framework or, the answer to an impellent need of the external public to let the decisor world-wide licensed to operate and also recognised by financial accounting meta-organisations. The second level has a micro-focus onto the level where companies operate, and in this case, companies play the role of "users" of the guidelines, regulations and normative frameworks edited by meta-organisations (sometimes, also co-developed). Even in the past, companies used social and environmental reports in different way for different purposes as legitimisation tool, the introduction at legislative level of mandatory regulation on the disclosure of non-financial performances should discourage the "simulacrum" effect of social report. The study is shaped as discussion paper aimed to represent and discuss the macro level through the application of the methods of interviews that should enrich the narrative on the changes affecting the supranational governance of meta-organisations. The interviewees will be selected including top members of the meta-organisations with relevant decisions with open ended questions. Secondly, the micro level must

 ISBN: 978-9963-711-37-6

require an in-depth methodology useful to highlight opportunities and threats represented by a legislative exogenous input. Nowadays, even in case of predictive studies (such for instance the work of Ioannou and Serafeim, 2014), the adoption of quantitative parameters should be premature. This study is preliminary and exploratory, the micro level will be analysed through the narrative of the users, intended as supranational association of companies and accounting boards.

ORIGINALITY/VALUE/IMPLICATION

It is timely and important to address the implications of mandatory non-financial reporting for governments and organisations and related stakeholders. Our analysis is useful for companies that have not already adopted social and environmental disclosure. Furthermore, the discussion of this new field of doctrine will have a dramatic effect on current research and teaching agenda of higher education institutions. Therefore,if the legitimacy need will be confirmed one of the main spillover will be represented by the need to early introduce in official higher education programmes the elements of sustainability disclosure within ordinary financial accounting courses.

Keywords*:* *Non-financial disclosure, mandatory sustainability reporting, Social and Environmental accounting and Reporting (SEAR).*

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 ISBN: 978-9963-711-37-6

DOCTORS AS MANAGERS IN THE CONTEXT OF LIMITED RESOURCES: AN ECONOMIC STUDY OF THE ALTERNATIVE THERAPEUTIC OPTIONS FOR CHRONIC RENAL DISEASE

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ABSTRACT

Both at epidemiological, economic and clinical level, the chronic renal disease is a problem of great relevance and complexity. For certain types of chronic renal patients, there are alternative therapeutic options, one carried inside of the hospital - hemodialysis, and other one at home - peritoneal dialysis. Although the clinical efficacy expect is almost the same for both therapeutic alternatives, the cost involved and the quality of life of patients are different.

In face of the increasing expenditure of the National Health with chronic renal disease, simultaneously with an environment of economic and financial crisis, health systems and health professionals are called for real integration of clinical information and economic information in their decision-making, thus becoming hybrid professionals, doctor - manager.

A longitudinal study in a central teaching hospital was designed. During research period it was studied which of the therapies currently provided by the hospital for chronic renal disease is economically less costly and which offers better quality of life for the patient. The interest, involvement and commitment of doctors in the economic study is analyzed through the concept of new professionalism.

The new professionalism is an emerging concept of sociology of professions which purposes an interpretation of the changes encouraged by the increasing number of professionals working in bureaucratic organizations and, particularly those changes occurring in public organizations managed under the New Public Management paradigm.

In addition to the documentary analysis, particularly information of cost accounting, direct observations were made, there were informal interviews of doctors, nurses, technical staff, and managers, and it was were carried out questionnaires to patients.

A deep understanding of this issue may enables policy makers and hospital top managers to implement better management models in order to create an organizational context within which doctors, managers and accountants may work together and share common goals directed to fulfill the organizational mission.

 ISBN: 978-9963-711-37-6

Keywords: *Chronic renal disease*, ***New Professionalism, New Public Management.***

ISBN: 978-9963-711-37-6

TOURISM CLUSTER AS A TOOL FOR SUSTAINABLE DEVELOPMENT OF TOURIST DESTINATIONS: PRACTICE OF BAIKAL REGION

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ABSTRACT

The research aim was highlight the tourism cluster role as a factor in regional sustainable development. In some regions of Russia for a long time exist governmental programs, aimed at the formation and development of tourism clusters (in particular in Baikal region). Therefore assessment of regional clusters in Russia becomes urgent.

In this paper authors present the results of a number of empirical studies aimed at tourism clusters identifying in the Russian regions. The results have shown, that relatively few regions of Russia are characterized by the presence of clusters in the industry of "tourism" or "hospitality". This study demonstrates that the tourism cluster can help to achieve sustainable development in the region, the clustering process significance in obtaining some sustainable development effects in the Baikal region. Currently, however, tourism clusters are not developed in the tourist destination of the Baikal region, which adversely affects on his sustainable development. There is the weak interaction (including in nature conservation aspect) between representatives of business and government, education (science) and government in the Baikal region.

Given the great unanimity that clusters increase the competitiveness of a regional industry and given that tourism is a powerful instrument for regional development is relevant and crucial to discuss the role of clusters in tourism. Empirical studies of the functioning and development of tourism clusters have been held by foreign scientists such as Beni M.C. (2003), Monfort M. (2000), Machiavelli A. (2001), Nordin S. (2003), Novelli M., Schmitz B., Spencer T. (2006), Rodrigues A.B. (2001), Smith S. (1989), Yuzbasioglu N., Otamis P.A., Demir M.O. (2011), and other authors, as well as by experts of the World Tourism Organization (UNWTO). The aim of this research was analysis of the availability of tourism clusters in Russian regions and focus upon problems of sustainable development of tourist destinations in the Baikal region.

This current study was carried out in two stages. At the first stage, in the analysis of tourism clusters in the Russian regions has been used the methodology of the European Cluster Observatory for the identification and evaluation of potential clusters, which includes three key indicators: «size», «specialization» and «focus» [3] (statistical data 2013 year were used). The tourism clusters with the class of "three stars" in the industry "tourism" have been identified in 3 of 85 regions: Moscow, St.

 ISBN: 978-9963-711-37-6

Petersburg and Perm region. The tourism clusters with the class of "three stars" in the industry "hospitality" have been found only in the Krasnodar and Stavropol regions. Regions characterized by the presence of tourism clusters with the class of "three stars" in the fields of "tourism" and "hospitality" simultaneously do not present in Russia. The tourism cluster with the class of “two stars" in the industry "tourism" have been discovered only in 12 of 85 regions, which do not include territories of the Baikal region (Irkutsk region and the Republic of Buryatia). In the field of "hospitality" tourism clusters with the class of "two stars" have been found in 7 regions, including the Republic of Buryatia. Thus, relatively few regions of Russia are characterized by the presence of clusters in the industry of "tourism" or "hospitality” that, our opinion is in many ways caused by significant differentiation of their geographical and socio-economic characteristics, as well as by the availability of tourist resources [4].

The second phase of the study has been carried out by an expert survey conducted in February and June 2013 in the Irkutsk region and the Republic of Buryatia, 63 respondents has been interviewed, 43 of them are heads of tourism enterprises, others are representatives of regional authorities, educational and scientific institutions. [1]. Signs of the formation of tourism cluster have been found in the Republic of Buryatia. In the Irkutsk region there are only prerequisites for the formation of tourism cluster as a network of actively interacting enterprises, educational and scientific institutions with the support of regional authorities [1].

In summary, the some results have been obtained in terms of sustainable development of tourist destinations in the Baikal region [2]:

1. The tourism cluster play an important role for the sustainable development of region, through of potential possibility for the conservation of natural tourist resources through the interaction of tourism actors (43% of business representatives, 44% of education (science) and 40% of government representatives agree with this). 40% of government representatives, 43% of business representatives and 19% of education (science) representatives agree that such cooperation can contribute to the development of the movement to protect the Lake Baykal.
2. The representatives of two of the three groups of respondents have marked real manifestation of the movement to protect the Lake Baikal in the tourist destinations of Baikal region: government - 60%, and business - 51%. To a lesser extent, in their opinion, in the tourist destinations of the Baikal region manifests the preservation of natural resources - it was mentioned by 40% of government representatives and 24% of business representatives. At the same time most interviewed representatives of education (science) have noted the absence of real manifestations of these effects.
3. Most of the representatives of tourism business and education (science) have considered public policies, aimed at the development of tourism in the region, as ineffective. About 70% of education (science) representatives and 78% of business representatives have been given same evaluation of public policies. However, 60% of government representatives, responding to this question, positively have assessed the state policy aimed at the development of tourism in the Baikal region.

This study demonstrates that the tourism cluster can help to achieve sustainable development in the region. Currently, however, tourism clusters are not developed in the tourist destination of the Baikal region, which adversely affects on his sustainable development.

 ISBN: 978-9963-711-37-6

ACKNOWLEDGEMENT

This work was financially supported by the government task № 2014/52 to fulfill governmental works in the field of scientific activities within the basic part of the project №1841 "Revitalization of resource potential of the Baikal region as a factor of its sustainable socio-economic development".

Keywords: *sustainable development, tourist destination, tourism cluster, methods of cluster identification*

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 ISBN: 978-9963-711-37-6

IMPACT OF ENVIRONMENT ON ENTREPRENEURIAL DRIVE: THE CASE OF THE ISRAELI KIBBUTZ.

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ABSTRACT

Purpose of this paper is to investigate similarities and differences of entrepreneurial drive between members of collective versus differential oriented Kibbutzim as two different institutional environments.

Based on a combination of convenient and snow-ball sample, students administered a questionnaire investigating entrepreneurial drive to a total of 253 kibbutz members.

Data analysis revealed that members from collective and differential kibbutzim rate the same on perceived desirability of entrepreneurship, whereas there are significant differences as to perceived feasibility of entrepreneurial behavior. Members of differential oriented kibbutzim perceive entrepreneurial action as more feasible than their counterparts from collective kibbutzim.

We believe that our study contributes to the understanding of community based entrepreneurship and illustrates the importance to account for specific characteristics of communities when implementing policies to foster entrepreneurship.

Keywords: *Entrepreneurial drive, environment, culture, communities*

 ISBN: 978-9963-711-37-6

PROPERTY TAX CANCELLATION IN THE RUSSIAN FEDERATION: IT'S IMPACT ON DIFFERENT BRANCHES OF ECONOMY

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ABSTRACT

The recent decade in Russia can be characterized as a period of successive reforms in property taxation. First and foremost, there should be pointed out a tendency to calculate property tax on the basis of the market value of real property, which is backed up by a rapid growth in property market. Next significant innovation in property taxation of Russia should be considered the cancellation of corporate property tax (in terms of movable property) in 2013, which contributed to the renovation of the main funds of enterprises. The present article focuses on the analysis of the influence of the movable property tax cancellation on the enterprises of different economic branches to identify the branches which have benefited more from these changes.

Keywords: *Russia, property taxation, movable property, accumulated amortization, net book value*

INTRODUCTION

The fall of the Soviet Union marked a series of dramatic changes regarding different aspects of post-communist Russian economy, for instance, the adoption of privatization with a further shift to market economy (Dower and Markevich, 2014). Since all the property in the Soviet Union was completely state-owned, the taxation system almost didn't exist, and the fiscal instruments were normative assessments budgeted by different enterprises. The main legislative act, the Russian Tax Code regulating the principles of calculation and payment of taxes and levies, was introduced only in 2001 and since that time has been the subject of constant correction.

Property taxes in Russia comprise taxes on corporate property, personal property and tax on land. Owing to the absence of property market in the early 2000s, there was chosen a different criterion rather than market value to identify tax basis of each kind of property tax (Lerman and Shagaida, 2006). Particularly, average annual value of the property, which depended on the net book value of fixed assets, became the tax bases for corporate property tax. Moreover, taxable entities were not limited by only immovable property but also included movable property: equipment and vehicles.

The expansion of the tax base on account of movable property was determined by the acute needs of the state budget in additional permanent income. Indeed, it should be noted that owing to their stable tax base, property taxes are marked by their predictability and stability of tax revenue in comparison with other kinds of taxes (Alm, 2013). The attractiveness and prospects of property taxes are widely

 ISBN: 978-9963-711-37-6

discussed and referred to during economic crises, the time when governments are in the search of stable sources of income (OECD, 2012).

RECENT REFORMS - THE MOVABLE PROPERTY TAX CANCELLATION

On amount of tax revenue the corporate property tax plays a major role in the property tax system of Russia and makes up on average 8,5 % of local budget income (Russian Federal Treasury, 2015). Owing to the stability of its tax base, the corporate property tax takes main advantages of property taxes such as independence from the results of enterprises' financial performance, simplicity in management and control. Nonetheless, despite a positive realization of tax fiscal task, the mechanism of its settlement is considered to be outdated, and needs to be adapted to new economic conditions.

Over past decade there have been significant changes in property taxes, including corporate property tax, concerning gradual transition to the tax assessment on the basis of the cadastral value of the property. Cadastral value is an assessed value of the property determined by methods of mass appraisal close to the property market value. It should be noted that these changes in the tax mechanisms are consistent with similar trends in taxation systems of other developing countries (Cho and Choi, 2014).

The next significant change in the field of movable property taxation is the exclusion of movable property from the list of taxable objects of corporate property tax. Before this change was introduced, enterprises had been obliged to pay tax for new equipment from the moment it had been put on the firm balance sheet and long before it could start turning a profit. Such system of taxation did not allow the enterprises to invest into renovation and modernization of machines and equipment preventing them from re-equipment.

Besides that the taxation of movable property affected the companies which were inclined to use expensive and high-tech equipment, since the more expensive equipment was, the greater tax liability was placed on a taxpayer.

In addition to the above - mentioned drawbacks, there was also the problem of double taxation, when the movable property of enterprises concerning vehicles was the tax object of both corporate property tax and transportation tax.

In accordance with the recent amendments to the tax legislation, movable property, put on the firm balance sheet as fixed assets from January 1, 2013, is excluded from the list of taxable objects on the corporate property tax.

In this article we examine the enterprises of which sectors of the economy have benefited greatly from the cancellation of tax movable property. To find that out we have analyzed data from financial statements of enterprises for years 2011-2012, the period before this tax was cancelled. The study has

 ISBN: 978-9963-711-37-6

been conducted on the basis of the following indicators: the percentage of movable property within fixed assets, the percentage of accumulated amortization deductions of equipment and vehicles (summarized in Table 1).

	The percentage of movable property within total assets, %	The percentage of accumulated depreciation		
		Property assets %	Equipment %	Vehicles %
Service sector (n=132)	39,3	52,2	71,4	55,8
Manufacturing sector (n=119), incl.:	64,1	41,2	47,1	57,2
Metallurgical sector (n=35)	68,4	40,4	42,5	66,0
Engineering sector (n=46)	54,4	45,7	51,5	64,4
Food processing sector (n=38)	64,1	37,3	47,4	41,2
Mining sector (n=56)	50,3	50,4	62,4	58,0
Building and construction sector (n= 47)	51,9	37,9	47,0	59,1
Agricultural, forest and fishing sector (n=32)	57,5	40,4	43,3	48,2
Electric power and gas sector (n=18)	29,7	38,0	53,4	64,9

Source: own calculation based on the financial statements enterprises for 2011-2012.

Table 1 The calculation of the percentage of movable property within total assets and depreciation of fixed assets by sector

The analysis of the percentage of the movable property within main funds allows us to conclude which sectors of economy have got more tax benefits as a result of movable property tax cancellation. The conclusion is based on the assumption that the greater the proportion of movable property in the structure of fixed assets is, the bigger share in the structure of tax payments of enterprises the payments for movable property take.

The data in Table 1 show that the cancellation of movable property taxation has contributed to a significant reduction of the tax burden on enterprises especially in the manufacturing sector, where the proportion of movable property exceeds 60% of total assets. While the organizations of the service sector including educational, health, and trade organizations have received a relatively smaller tax benefit due to a comparatively low proportion of movable property (39.3%) as a part of fixed assets.

Table 1 (columns 3-5) shows that the percentage of accumulated depreciation of enterprises in service sector is significantly ahead of other industries, particularly, on machinery and equipment depreciation. It can be accounted for the use of the equipment with short operation term the cost of which is debited. Consequently, such enterprises are in a greater need for equipment renovation in comparison with the companies of other spheres. Therefore, the exclusion of equipment from the tax will accelerate the renovation of fixed assets in the service industries.

On the other hand, a relatively small amount of accumulated depreciation at the enterprises in the production sector indicates a high average annual cost of the equipment, and consequently, a high tax

 ISBN: 978-9963-711-37-6

burden, which makes the cancellation of movable property taxation a significant factor in tax relief for the manufacturing sector.

CONCLUSION

Nowadays technological progress dictates conditions for economic development. In this regard taxes play not only fiscal function, but they can also have a regulating effect on the economy, which can have both deterrent and stimulating character.

The exclusion of movable property from the tax base of the corporate property tax is one of the positive and stimulating recent innovations in Russian tax system. However, the results of this paper, based on the analysis of the structure of fixed assets and accumulated depreciation of enterprises, show that the cancellation of movable property tax has a different impact on different branches of economy: enterprises in the production sector receive a relatively bigger tax relief than those involved in the service sector. Thus, the new property tax makes the acquisition of modern equipment and further development of the manufacturing sector more likely happen.

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 ISBN: 978-9963-711-37-6

A2A RELATIONS AND INTERACTIONS IN AGRI-FOOD SUPPLY CHAINS. A VIABLE SYSTEMS PERSPECTIVE.

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ABSTRACT

The purpose of this paper is to propose a service perspective of relations and interactions in agri-food supply chains. The contribution moves from the concept of A2A relations developed in the service research framework (Gummesson, 2008; Vargo and Lusch, 2011), particularly valorizing network and systems theories. Recent service research (Service Science, Service-Dominant Logic, Many-to-Many) advancements highlighted the importance of value co-creation and integration processes. The paper aims to propose a reading of the research stream through the lenses of Viable Systems Approach (Golinelli, 2010; Barile, 2008), intended either as an observation and interpretation perspective for phenomena, or a path for governance and management of producers organizations in agri-food supply chains.

The paper proposes a conceptual analysis, through a relational perspective within service ecosystems, which shows a networked open vision respecting economic and social actors, in which each producers organization can be considered as an actor (and as a viable system), actively operating in the process of value creation, through a resource integration process, overcoming notions such as user, producer, enabler, and so on. A2A then, seems to challenge the spread literature based on B2B/B2C/C2C, moving to a wider and specific concept of H2H relations or, in a vSa perspective, VS2VS.

Keywords: *Relations, Interactions, Consonance, Resonance, Viable Systems, Value co-creation.*

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 ISBN: 978-9963-711-37-6

INTERNAL FACTORS FOR THE FORMATION OF R&D INTENSIVE ENTREPRENEURIAL BORN GLOBAL FIRMS

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ABSTRACT

Knowledge-based entrepreneurship is referring to the new and innovative firms with high knowledge intensity in their activities, involved in the process of transforming knowledge into innovation - new or significantly improved goods and services that may enter in market (Kanellos, 2013; Witt & Zellner, 2005; Johansson, 2005). A distinguished nature of the knowledge based entrepreneurial activity relates to its essential reliance on R&D as a core resource, and its commercialization via entrepreneurial activities, either deploying and maximizing R&D returns via development of new technologies. R&D globalization, and speed of new technology development, the need to deal with extremely complex conditions in searching and exploiting market, institutional and technological opportunities, the need to exploit R&D resources and their return globally leads to the new approaches towards R&D based entrepreneurship, namely the born global firms.

Recent empirical studies allow to distil the core characteristics of born global firm, such as high activity in international markets from or near the founding (Cavusgil & Knight, 2009; Gabrielsson et al., 2008; Gabrielsson & Pelkonen, 2008), operation from the SME basis (Sullivan Mort et al., 2012; Eurofound, 2012; Cavusgil & Knight, 2009) with limited financial and other material resources (Sullivan Mort et al., 2012; Cavusgil & Knight, 2009), industrial variety (Sullivan Mort et al., 2012; Eurofound, 2012; Cavusgil & Knight, 2009; Crick 2009), strong international outlook of managers and international entrepreneurial orientation (Eurofound, 2012; Cavusgil & Knight, 2009; Gabrielsson et al., 2008; Weerawardena et al., 2007), emphasis on differentiation strategy (Cannone et al., 2012; Eurofound, 2012; Cavusgil & Knight, 2009; Schulz et al., 2009), emphasis on superior product quality and innovations (Eurofound, 2012; Sullivan Mort et al., 2012; Gabrielsson & Kirpalani, 2012; Cavusgil & Knight, 2009; Schulz et al., 2009; Gabrielsson et al., 2008), knowledge intensity (Gonzalez-Menorca et al., 2012; Jones et al., 2011; Kudina et al., 2008), utilization of advanced ICT (Gabrielsson & Kirpalani, 2012; Mettler & Williams, 2011; Cavusgil & Knight, 2009), belonging to networks (Eurofound, 2012; Renda, 2011; Schulz et al., 2009), using external independent intermediaries for distribution in foreign markets (Taylor & Jack, 2012; Cavusgil & Knight, 2009), global niche market orientation (Bailetti, 2012; Gonzalez-Menorca et al., 2012; Olejnik & Swoboda, 2012).

The eclectic composition of empirically found common characteristics of born global firm suggests that entire firms are not occasionally emerging, but are global by design and thus could be defined

 ISBN: 978-9963-711-37-6

and explained while analysing firm from internal environment shaping the formation of R&D intensive entrepreneurial born global start up, and later firm. Based on this problem formulation, the paper aims to provide the framework for analysing the key internal determinants leading to the formation of R&D intensive entrepreneurial born global firm with a special focus on entrepreneurial firm and network theories rather than only on early internationalisation of the firm.

The systemic framework of factors shaping the formation of R&D intensive entrepreneurial born global firms was provided via systemic literature review and synthesis, with a primary focus on the findings from empirical studies (Dlugoborskyte & Petraite, 2013, Halldin, 2012, Cannone, Costantino, Pisoni & Onetti, 2012, Cavusgil & Knight, 2009, Kudina, Yip & Barkema, 2008, Varma, 2010). In this systematic approach external factors help to explain the resource acquisition strategies of firm, with a particular focus on internationalization, globalization and networked knowledge economy, while internal factors basically rely on theories of entrepreneurship and organization, with the specific focus on dynamic capabilities, networks, organisational learning and knowledge management (Dlugoborskyte & Petraite, 2013). Thus external factors are excluded from the further study as the reason is twofold: the intention to deepen the analysis of born global phenomenon from "inside-out" while explaining the core factors and their linkages, formed by strategic choices, that leads towards born global; and the indication originated from the literature review that the entire link between external factors influencing rapid internationalization decision and the formation of R&D intensive entrepreneurial born global firm is based on the impacts of *globalisation* (Halldin, 2012, Cannone et al., 2012, Mets & Kelli, 2011, Cavusgil & Knight, 2009). The constructed conceptual framework represents the factors grouped into three levels - entrepreneurial, strategic, and network. Each group relates to a greater list of sub-variables as characteristics, which were grounded by the literature analysis and extraction of the characteristics born global firms, as well as by the analysis of factors that affect global orientation and the conditions influencing the choice of an early and accelerated internationalization path.

In order to construct theoretical approaches and reveal still relatively unknown aspects of the relationships being studied the case study as a research methodology was adopted. The nature of the investigating topic determined the multiple case study method to choose: it serves as a basis for empirically testing previous theories, allows analysing pattern-matching properties between the cases under study, enables to find richer explanations and a deeper insight into phenomenon. In order to fulfil empirical objective, a particular type of firms was targeted – entrepreneurial born global in R&D intensive settings, where companies conduct international business at or near founding of the firm and create new value for the market while transferring unique knowledge to innovative products or services through commercializing their R&D activities. Five criteria in order to select the case studies

 ISBN: 978-9963-711-37-6

were identified: small or medium size of the firm; R&D intensity; early internationalization (export activities within three years from the establishment); exclusion of post – soviet restructuration based companies from the sample (year of company establishment no earlier than 1990); global vision and strong international entrepreneurial orientation, which stands for global activities from the inception of an enterprise. Overall 13 in-depth case studies were analysed. Data collection involved multiple sources of secondary information and semi-structured in-depth interviews with the founders or CEOs. After primary and secondary data from each case is analysed using qualitative content analysis following the conceptual model of the study for categorization, cases are first briefly individually described and then cross-compared. Such cross-case synthesis was used to determine similarities and differences in terms of the factors mentioned in the model and their impact on the formation of the enterprise. The analytic approach allows the generalization of the results from the cases and discloses factors for the formation of R&D intensive entrepreneurial born global firm. Such study allows to close the knowledge gap, disclosing the entrepreneurial mindset and networking to develop globally oriented ideas, and could also be used as an orientation for policymakers when designing eligibility criteria for a specific support.

The paper is structured as follows. In the first part we provide the framework for the analysis of the formation of the born global firm, whereas the entrepreneurial, strategic, and network based factors are conceptually linked. The analytical model proposes the analysis of strategic choices as defining factors at the level of entrepreneurial behaviour, firm strategy, and network. The case study methodology is provided in a part two. The third part of the paper provides the empirical linkages of entrepreneurial, strategy based and network factors' manifestations and underpinnings in R&D intensive entrepreneurial born global firms. These are followed by discussion and conclusions enclosing empirically grounded framework that explains the emergence of R&D intensive entrepreneurial born global firms from a perspective of entrepreneurial firm and network theories.

Keywords: *born global firm, R&D intensive firm, knowledge-based entrepreneurship.*

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 ISBN: 978-9963-711-37-6

THE ROLE OF INTERGENERATIONAL RELATIONS IN THE DEVELOPMENT OF SMALL BUSINESS

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ABSTRACT

The research focuses on the analysis of the influence of intergenerational relations on the motivation for entrepreneurship of business education students.

The aim of the research is to estimate the existing entrepreneurship development resources in Russia from the standpoint of the young generation's readiness and ability to engage in entrepreneurial activity, as well as to formulate the objectives for Russian business education that are aligned with achieving of the goal of developing entrepreneurship in Russia.

While the entrepreneurial intentions rate has been going down in Russia and is now down to 2.6 %, according to the GEM 2013 Global Report, 50% of Russian business education students demonstrate a readiness to start their own business.

A comparative study of Russian and American business school students showed a considerably greater number of successful start-ups in the American students' environment. However, the readiness and desire of the Russian students to start own businesses has been found to be significantly higher compared to their American counterparts. This data was taken from a 2013 study named "Management of entrepreneurial activity in family business- The Russian Experience" which was undertaken by undergraduate students of the Russian Business School IBS-M RANEPA in Russia and the Cameron School of Business at the University of North Carolina.

Can this readiness be a real resource for entrepreneurship development in Russia? We attempted to find the answer to this question in the process of the study "Knowledge of intergenerational relations for developing small business in Russia" (2014), in which we received 328 questionnaires and conducted 93 semi-formal interviews. Each study was blind.

The methodological framework for the research included the basic principles and cognitive tools of post-modern philosophy and social science, the theory of global problems, and the concept of globalization

 ISBN: 978-9963-711-37-6

Empirical data was gathered through monitoring, involved observation, questionnaire surveys, and semi-structured interviews. The data was processed with DBMS Microsoft Access 7.0, which allowed sorting of the data and the carrying out of own correlation analysis for particular variables.

In the course of the research, the authors analyzed theoretical approaches to studying intergenerational relations and entrepreneurship. It was demonstrated that intergenerational relations are a complex and multidimensional, yet understudied, socio-cultural phenomenon, which has a great impact on young people in terms of values, motivation, the formation of interests, and the firmness of occupational choice.

The growth of the influence of parents on youth's occupational choice has been noted by a number of researchers. Parents often play a key role both in making education accessible and in helping with the first job, which often determines the future career path of a young person. This, in turn, can be explained by the role of the family in the socialization of an individual and by the growing financial and cultural input of the family into the reproduction of human capital.

Family values and traditions are often a determining factor for students in such areas as the choice of future profession (57,5%) and choice of employment (52,2%), and are considerably more important compared to other sources of opinion (friends, teachers, mass-media, books, Internet).

Within the framework of the research, three groups of respondents were singled out. The first group consists of the students whose parents have their own business. The second group consists of the students whose parent had a business of their own in the past, but not at present. The third group consists of the students, whose family has never had its own business.

The authors managed to demonstrate that the second group of respondents view the idea of entrepreneurship as a way of getting revenge for their parents' failure, but are, however, only moderately optimistic about their own chances. The third group of respondents most often view entrepreneurship as a way of emancipation from family. They are determined, but are not sufficiently capable of taking risk and on the whole underestimate the importance of such capability for entrepreneurship. Thus, the entrepreneurial intentions of these two groups of respondents should be taken with a certain amount of skepticism, as the probability of their actually starting their own business is not high and can be estimated at not more than 50%.

The first group of respondents is characterized by a motivation for entrepreneurship as a creative, fruitful, and productive activity. Only 6% of the group have expressed intention to continue their family's business. However, about 60% of the first group respondents have expressed a readiness to

 ISBN: 978-9963-711-37-6

start their own businesses, demonstrated understanding of the complexity and responsibilities associated with entrepreneurship, and at the same time demonstrated a considerable level of optimism about the success of their future ventures.

Despite the differences between the students, they all have made a similar educational and professional decision. Project work, team work and other group activities ensure efficient exchange of experience, skills, and aspirations. The role of business school should not limited to the teaching process, but the business school should also educate students and foster their personal development, formation of the value system and a world view, and optimization of motivational structure.

The humanities have a special role for achieving the objectives described above. It is in the process of studying the humanities that the fundamental entrepreneurial quality is formed – the trust in oneself and one's abilities.

Keywords: *entrepreneurship, generations, family, family business, personality traits, motivation, business education, the humanities.*

ISBN: 978-9963-711-37-6

CAN INNOVATIONS BE SUSTAINABILE?

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ABSTRACT

If one started to play a round of 'Buzzword Bingo' in academic business discussions nowadays, the term 'sustainability' would probably be among the first five hits. On the one hand, every business activity seems to claim to be or to eventually become a 'sustainable' one. On the other hand does its prevalence in usage seem to be inversely proportional to its substance. Commonly the term implies demands for ecologically friendly products and production processes, socially acceptable business behavior and/or compliance with certain Corporate Social Responsibility (CSR) standards.

In a business context, however, such claims are only stable and enduring if they support or are integrated into the predominant business logic. In this respect, the majority of approaches indicate a significant lack of business acumen, which, in turn, leads to well-known trends of 'greenwashing' on the business part.

In this paper, the authors intend to examine the claim raised by the label of sustainability for the case of new products and services: Can innovations be sustainable?

In order to answer this question, it has to be clarified how the terms 'innovation' and 'sustainability' are being used. Based on these definitions, three strategies with regard to 'sustainable innovations' are being elaborated. The elaboration will, finally, lead to a recommendation for the integration of environmental and social concerns with new products and services.

By 'innovation', the authors denote a new product or service which is distinct from an 'invention' in three characteristic aspects (Hauschildt & Salomo 2010; Trott 2011; Tidd & Bessant 2013; Haines 2014): Firstly, the new product or service is technically feasible and deliverable within the given business context; secondly, it has a defined market on which it is sellable; thirdly, it is economically advantageous in that it contributes a positive cash flow within a reasonable forecast period.

'Sustainable innovations', in addition, need to consider, measure and improve environmental and social impacts of new products and services. This concept of 'sustainability' encompasses the purpose and usage of the product or service, the use and re-use of materials and resources, the environmental and social impacts of purchasing, manufacturing and distribution processes as well as the selection and development of business partnerships (ISO 2010; European Commission 2011; Global Reporting Initiative 2013).

 ISBN: 978-9963-711-37-6

The optimisation of environmental and social impacts of new products and services can be implemented with the help of three different strategies (Gminder et al. 2002; Schaltegger et al. 2011):

The first strategy can be labelled as risk mitigation strategy: companies try to mitigate risks by addressing and communicating environmental or social topics in regard to newly introduced products and services. Said risks may arise from prevailing legislation, e.g. when electronic manufacturers adapted their development and manufacturing processes to the demands of lead free soldering due to lead restrictions on the electronics industry (Bath, 2010). They may also present themselves as reputation risks, as happened when NGOs and researchers started to examine health, safety and economic conditions under which sports goods and garments were produced by multinational companies (Mamic, 2005). From the point of view of the authors, this strategy may have positive environmental and social effects. However, said effects are pursued not on an active, voluntary basis, but in order to avoid or mitigate risks in business. Whenever the probability of risk occurrence and/or risk impact are low, the company will revert to 'business as usual'. Hence, this strategy cannot be named 'sustainability strategy' in a proper significance of the term.

The second strategy may be called 'cost optimisation strategy'. This strategy is being employed when companies try to match efficiency goals with environmental effects. It is applicable to projects making better use of all kind of resources, including energy, materials and waste. This strategy tries to integrate business and environmental effects and can therefore be assessed as a strategy that is 'partly integrated'. However, if environmental effects do not match with cost targets, the company will predictably not pay any price for being 'green'. Therefore, effects on society and environment will be limited and not very 'sustainable'.

From the perspective of the authors, solely the third strategy can be truly regarded as being a 'sustainable innovation strategy': companies actively identify, analyse and optimise environmental and social impacts of new products and services as part of their business model. A 'business model' depicts the way business with a new product or service is done and provides clear and specific answers to at least four basic questions (Osterwalder & Pigneur 2010; Schallmo 2013; Gassmann et al. 2014): Who are our customers? Which specific value do we offer to our customers? How do we create and deliver this value to our customers? What is the revenue and cost rationale for providing the customer value? A 'sustainable innovation strategy' adds one further question to this business model: which social and environmental impacts are being inflicted on, in executing the key activities (Fig. 1)?

 ISBN: 978-9963-711-37-6

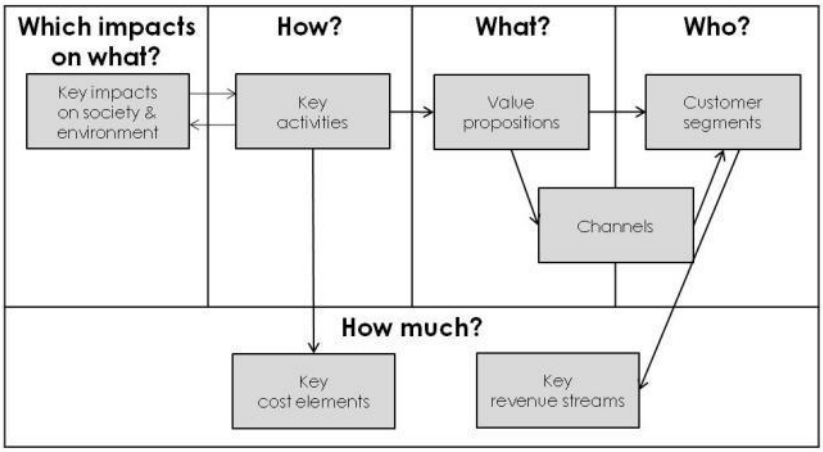

Figure 2. *AN ENHANCED BUSINESS MODEL FOR SUSTAINABLE INNOVATIONS*

By actively identifying, measuring, analysing and optimising the impacts of new products and services on the stakeholders and the environment, a company can claim to follow a 'sustainable innovation strategy'. This means that, firstly, important 'hot spots' have to be distinguished from less important impacts and, secondly, that the important 'hot spots' have to be actively addressed. The possible additional key activities with respect to impact reduction have, thirdly, to be balanced with feasibility issues and cashflow expectations to the best possible extent. This three-step procedure will result in very different sustainable innovation strategies.

Regarding the topic of this abstract, it can be stated that, yes, innovations can be sustainable in as much as they actively incorporate concerns for social and environmental impacts of new products or services in their business model. They are not sustainable if the respective company responds to possible legal or reputational risks or if it simply tries to grab 'low hanging fruits' by coincidentally bringing cost efficiency into line with eco-effects.

Keywords*:* *Business Models for Sustainability, Innovation, Product Innovation, Service Innovation, Sustainability Strategies.*

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 ISBN: 978-9963-711-37-6

CROSS-BORDER M&A AND GOODWILL IMPAIRMENT LOSSES: SOME PRELIMINARY EVIDENCE

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ABSTRACT

BACKGROUND AND RESEARCH PURPOSE

Mergers and Acquisitions (M&A) are an important tool for external corporate growth and business restructuring as they lead companies to enter new fields of activity and new markets, in search for economic benefits from synergies and/or the dismissal of activities no longer strategic (Gomes *et al.*, 2011). Among M&A in general, cross-border M&A are considered an effective vehicle to implement international diversification strategies, frequently with the aim of achieving the size needed to survive in a globalized competitive arena (Hitt *et al.*, 2001; PwC, 2007). An increasing level of attention has recently been paid to post-acquisition issues of M&A (Shimizu *et al.*, 2004), such as characteristics of the integration process and the performance of both acquired and acquiring firms (Meglio, 2009; Meglio and Risberg, 2010). With reference to integration processes, recent studies suggest that cross-border M&A often fail because of "liability of foreignness" and "double-layered acculturation" ascribable to differences in national culture, customer preferences, business practices, institutional forces and to uncertainty and information asymmetry in foreign markets (Zaheer, 1995; Barkema *et al.*, 1996; Shimizu *et al.*, 2004; Gomes *et al.*, 2013). In terms of performance, evidence on the medium/long term accounting performance is mixed (Tuch and O'Sullivan, 2007).

Focusing on accounting recognition of M&A transactions, existent empirical evidence clearly demonstrates that goodwill is the most material "accounting effect" deriving from M&A: Ott and Günther (2014) found that on average 54.90% of the purchase price is allocated to goodwill by acquirers adopting IFRS; likewise, focusing on 17 European countries PwC (2007) found that goodwill represents approximately 40% of total shareholders' equity, and sometimes it even exceeds equity. Moreover, goodwill created by M&A is a "value relevant" item (Barth and Clinch, 1996; Hirschey and Richardson, 2002; Henning and Shaw, 2003). Goodwill recognition as a result of the Purchase Price Allocation (PPA) process means that the acquirer has paid an higher price compared to the fair value of equity of the acquiree, on the basis of future benefits expected to arise from its activity and/or the synergies with the acquirer and/or other associated companies.

 ISBN: 978-9963-711-37-6

Literature also outlines that companies active in M&A transactions appear vulnerable to potential goodwill impairments (*i.e.*, write-downs) that become necessary when goodwill is not recoverable in force of subsequent forecasts of future benefits expected. In particular, the risk of impairment losses (IL) is pressing with M&A because such losses may signal overpayments remitted while carrying out the M&A (*i.e.*, goodwill did not exist since the beginning) and/or a failure in meeting M&A objectives in terms of synergies and increasing performance due to internal and/or external reasons ("real IL"). Such framework becomes even more complex when cross-border M&A are considered: existent literature (Ahammad and Glaister, 2013) documents the relevance of pre-acquisition evaluation of cross-border target firms and underscores that thorough evaluation of both target firm and acquisition performance is a critical step in the success of cross-border M&A. Both PPA and impairment test require management's judgment and the use of private information, which become even more critical in cross-border M&A due to different institutional environments, culture, internal data gathering and reporting systems (Kissin and Herrera, 1990; Child *at al.*, 2001; Zollo and Singh, 2004; Chakrabarti *et al.*, 2009; Deng, 2010).

In the outlined framework, this study investigates the relationship existing between cross-border M&A and IL subsequently recognized against goodwill as an accounting measure of M&A failure. The study contributes to the literature on M&A failures providing preliminary evidence on companies more involved in cross-border M&A being more subject to goodwill IL. The study also contributes to accounting literature as it builds a preliminary bridge between managerial strategic decisions on M&A and their effects on companies performance measured by a value relevant income component (*i.e.*, goodwill IL).

RESEARCH DESIGN AND PRELIMINARY FINDINGS

In our analysis, we focus on the population of non-financial companies listed on the Italian Stock Exchange in the period 2006-2011. Relying on a manual content analysis on annual reports, we identify the companies which performed at least one M&A between 2006 and 2008 and monitor the IL of goodwill recognized by the same company until 2011. After having collected all necessary accounting data (source: AIDA), market capitalization (source: Bloomberg) and other details on the M&A activity (source: annual report), we obtain a final sample of 118 firm/year observations with complete data on which we perform the following OLS regression model:

$$fre_gdw_il = \alpha + \beta_1\, int_acquiree_tot + \beta_2\, mag_gdw + \beta_3\, M\&A_no + \beta_4\, op_perf + \beta_5\, mtb + \beta_6\, size + \beta_7\, industry_i + \varepsilon$$

ISBN: 978-9963-711-37-6

The dependent variable *fre_gdw_il* is the number of years affected by goodwill IL, while the test variable *int_acquiree_tot* is the number of foreign target firms acquired by the same acquirer. Our control variables monitor for goodwill magnitude compared to purchase price paid for the M&A (*mag_gdw*), the number of M&A carried out by the same acquirer in the period considered (*M&A_no*), the operating performance trend (*op_perf*), the evaluation expressed by the financial market on the company in terms of market-to-book ratio (*mtb*), the size of the acquirer proxied by the natural logarithm of its market capitalization (*size*), and the industry to which the company belongs (*industry*).

Regression results (untabulated) show that the higher the number of cross-border M&A performed by the same acquirer, the higher is the frequency of goodwill write-downs recognized along the overall period 2006-2011 as a consequence of the impairment test ($\beta_1 = 0.2314$, $p<0.05$). Such a result is mainly driven by the positive and significant association ($p<0.05$) existing between cross-border M&A and frequency of goodwill IL in the period affected by the financial crisis (2009-2011), while the association is still positive but not significant for the previous period (2006-2008). Some control variables are also significantly related with goodwill IL subsequent to M&A transactions, indicating that such IL tend to increase in number when operating performance decreases, as well as when market-to-book ratio of the acquirer decreases. Both such results are straightforward, as IAS 36 identifies these situations as triggering events signalling that an IL may have occurred. Even if our data do not disentangle the two main reasons explaining goodwill IL (*i.e.*, overpayments in the pre-acquisition stage *vs* synergies and increasing performance not achieved in the post-acquisition stage), these preliminary findings contribute to the literature demonstrating that acquirers more active in cross-border M&A are also more vulnerable to subsequent goodwill IL, especially in case of worsening economic trends. Further research may therefore explore more in depth the identified relationship and provide insightful evidence on its determinants.

Keywords: *cross-border M&A, M&A failure, goodwill impairment, financial crisis.*

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ISBN: 978-9963-711-37-6

A STUDY OF INFLUENTIAL FACTORS IMPACT ETHICAL BEHAVIOR AT THE WORKPLACE

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ABSTRACT

PURPOSE

The purpose of this research is to explore the influential factors that impact overall ethical behavior at the workplace in Kuwait that could be used to assess ethical behavior level within the workplace , and differentiate conceptual ethical behavior model for the Arabic societies to assess ethical attributes that would reinforce ethical behavior within the workplace.

DESIGN, METHODOLOGY, AND APPROACH

This research will utilize **sequential explanatory** mixed methods design; the research involves *two sequential stages*, quantitative and qualitative stages. The data will be collected by means of a questionnaire survey, followed by face-to-face and semi-structured interviews such as in depth interviews and group interviews. A *random sampling method* will be utilized to select our sample from schools sector in Kuwait.

The respondents represent Kuwaiti and non-Kuwaiti teachers who are working in the private and public schools in Kuwait.

INDEPENDENT AND DEPENDENT VARIABLES

The conceptual model of ethical behavior was developed by adaptation of several theories and models from different business and academic journal articles.

Kaptein (2008) introduced organizational ethical culture model of eight dimensions namely; clarity of ethical policy, sanctions, consistency of management, consistency of supervisors, supportability, feasibility, transparency and discussability.

Mayer et al. (2009) found a significant relationship between ethical leadership and unethical behavior at the workplace.

Forsyth (1992) suggested that ethical decision-making is influenced by Idealism and Relativism, and suggested that ethical decision-making and ethical behavior are affected positively by Idealism, and negatively by Relativism.

 ISBN: 978-9963-711-37-6

Alleyne et al. (2010) indicated that there is a significant relationship between religious commitment and ethical behavior.

In addition, Fernando, M. & Chowdhury, R. (2010) suggested a significant relationship between spiritual well-being and ethical decision-making.

Furthermore, according to the Global Corruption Perceptions index in 2013, Kuwait Transparency Society announced that the order of Kuwait fell globally from 66 in 2012 to 69 in 2013, out of 177 countries registered in the Global Index.

This research will study the relationship between the ethical behavior as a dependent variable and ten independent variables namely; elements of organizational ethical culture as *ethical leadership , transparency, feasibility, discussability, procedural justice and distributive justice* , and elements of national culture of Kuwait as *religious beliefs and well-being*, and elements of personal ethical tendencies as *relativism and idealism*.

FINDINGS

The research expects to find a significant relationship between the independent variables and the dependent variable.

The study reflects work in progress. At this stage, an initial model will be presented which is suggested to be validated in the following empirical research stages

ORIGINALITY AND VALUE OF THE RESEARCH

To the knowledge of the authors, this type of research is going to be conducted for the first time in the private and public schools in the state of Kuwait.

The empirical study is looking to differentiate conceptual ethical behavior model valid for Arabic societies and attempts to reinforce ethical behavior and combat the widespread unethical behavior in Kuwait as wasta.

Keywords: *Ethical behavior, Organizational ethical culture, National culture, Personal ethical tendencies.*

PROFILE OF INTERNATIONAL TOURIST IN SPAIN BASED ON HOTEL OCCUPANCY SURVEY: ARE THERE ANY DIFFERENCES BY COUNTRY OF RESIDENCE?

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ABSTRACT

The aim of this paper is to analyse the profile of international tourist in Spain, since tourism is a key industry in the Spanish economy. Tourists are characterized according to variables such as the category of the hotel where they lodge, the Spanish region they visit or the month of the year when they travel to Spain, all of which are included in the Hotel Occupancy Survey, developed by the Spanish Statistics Office (*INE: Instituto Nacional de Estadística*). All the variables are related to the tourists' country of residence, in order to observe whether there are differences or similarities in their behaviour as tourists in Spain. To reach our objective, several statistical descriptive studies are developed, which are complemented by the application of a Correspondence Analysis, as a multivariate method. Results show that, even though there is a quite homogeneous behaviour, some differences are observed, which can help managers of potential tourist destinations to increase their competitiveness.

INTRODUCTION

Tourism is a key industry in the Spanish economy, both in terms of GDP and employment. According to the last Tourism Satellite Account of Spain (Instituto Nacional de Estadística, 2012), the contribution of tourism to the Spanish Gross Domestic Product (GDP) in the last five years was around 10.5%, whereas its contribution to the total employment in the same period approached 12%.

Not only is the tourism industry important for the Spanish economy, but also from an international perspective, since in 2013 Spain was the third most-visited country in the world and the second country in receipts from international tourism, with France being the only European country ahead in number of international tourist arrivals (UNWTO Tourism Highlights, 2014 Edition).

In this context, our aim is to analyse international tourism in order to draw conclusions about the tourists' preferences during their stay in Spain and whether it is possible to observe any differences or similarities among them taking into consideration their country of residence. This could contribute to

 ISBN: 978-9963-711-37-6

improve local businesses development, as long as tourist destinations management could focus on a specific kind of tourist.

DATA COLLECTION AND METHODS

The database used as information source in our study is the Hotel Occupancy Survey, which is prepared and published by the Spanish Statistics Office (*Instituto Nacional de Estadística: INE*). Therefore, we focus on visitors whose trip includes, at least, one overnight stay in some hotel establishment. Our empirical study is referred to 2013, since this year is the last one in which the Survey is available from a complete point of view.

Both supply and demand perspectives are measured by different variables included in the survey. Nevertheless, as our aim is to characterise international tourist in Spain, we deal with the following demand variables:

- Tourists' country of residence, in order to conclude the possible existence of differences among them. Excluding Spanish tourists, who involve more than 50% of visitors, most of the European countries, belonging to the European Union and from the rest of Europe, are considered, as well as Japan, USA and the rest of America, together with African countries, which results in a total number of 38 billion of foreign visitors in Spain in 2013.
- To define tourists' profile, category of the hotel where they stay, which is classified in seven categories of gold and silver stars; region of destination, considering the 19 regions in which Spain is administratively divided; and month of the year when they visit Spain.

Each variable is analysed from a descriptive point of view by using the frequencies and percentages of appearance of their different categories, which are also presented in charts. Furthermore, in order to study the relationships between the country of residence and the rest of variables in the study, a correspondence analysis is applied, which allows us to conclude whether there are any differences in the tourists' behaviour according to their residence country.

RESULTS

From the descriptive statistical study, it can be concluded that the most popular 'nationalities' among international tourists in Spain are the United Kingdom, Germany and France, followed by Russia, and USA and the rest of America. Most of visitors stay in hotels with four and three gold stars, which mean more than 75% of the stays. The most visited regions are Catalonia, Balearic and Canary Islands, and Andalusia, which are beach destinations. Madrid is also important as cultural tourism destination.

 ISBN: 978-9963-711-37-6

Regarding the moment of the visit, it can be said that no so many differences are observed, but travelling during wintertime is less popular.

Results from correspondence analysis point out that behaviour regarding foreign tourism in Spain is somehow similar, but some differences according to the tourists' country of residence are observed in regard of the three variables used to measure their profile. Thus, American tourists usually stay in five gold stars hotels, whereas the lowest categories are chosen by African guests. Spanish islands are preferred by British and German tourists, while Russians' destination is usually Catalonia. Tourists from Mediterranean countries normally travel in August, whereas the coldest months are chosen by Nordic tourists to visit Spain.

Keywords: *tourism, Spain, international tourist, hotel categories, overnight stays, destination region, statistical descriptive study, correspondence analysis.*

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 ISBN: 978-9963-711-37-6

BRIDGING THE FUNDING GAP. NEW FINANCING INSTRUMENTS FOR COMPANIES IN ITALY

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ABSTRACT

PURPOSE

The sovereign debt crisis has worsened the conditions of funding for banks in distressed countries. This has resulted in a decrease in the number of bank loans to private companies, thereby creating a funding-gap situation in which deserving companies do not receive the volume of loans that they would in an efficient market, creating obstacles to the creation and growth of companies and having an overall adverse effect on economic development. In particular, small, young firms and new technology-based firms are likely to be most affected by such gaps as they are often run by optimistic and inadequately skilled or trained entrepreneur-owner-managers, may have products based on untested or novel technologies and are more likely to fail than their larger competitors.

By analysing the Italian funding gap, we identify three alternatives to bank debt that can be used to bridge the funding gap and reactivate the circuit of financing for companies, namely, mini-bonds, private equity and company networks.

As one of the pending issues in the existing research on funding gaps is the analysis of the impact of these tools on the performance of companies that receive the funds, in this study, we measure the impact of mini-bonds, private equity and company networks in terms of the profitability and financial conditions of the companies under analysis.

LITERATURE REVIEW

Mini-bonds are a self-financing tool for unlisted companies that raise funds from professional investors in exchange for debt securities. This form of financing allows companies to diversify their sources of funding and to reduce their dependence on the banking system. The issuance of mini-bonds is defined by Law no. 134/2012, which is aimed at encouraging the development of the circuit of the debt market in the medium and long term for small and medium-sized enterprises (SMEs). This regulatory infrastructure offers companies easy and economical access to the capital market. The Italian market segment for the sale of mini-bonds is ExtraMot Pro and is currently the largest in Europe, with 95 securities traded (Forestieri, 2014).

 ISBN: 978-9963-711-37-6

Private equity is investment in unlisted companies with the aim of enhancing the business investment object for the purposes of its disposal within a medium to long-term period. Private equity investment can be used to develop new products and technologies, to expand working capital, to make acquisitions or to strengthen companies' balance sheets (EVCA, 1998). This funding instrument allows companies to benefit from advantages beyond the simple injection of capital provided by the investor because the contribution of smart money—that is, the combined contribution of financial resources and know-how, such as professional experience and managerial skills—allows companies to develop rapidly (Acharya, Gottschlag, Hahn and Kehoe, 2013; Badunenko, Baum and Schäfer, 2010; Davila, Foster and Gupta, 2003; Guo, Hotchkiss and Song, 2011; Hellmann and Puri, 2002; Kaplan and Schoar, 2005; Kaplan and Strömberg, 2003; Kaplan, 1989).

Company networks are a form of firm aggregation that allows participants to maintain their independence and individual identity while helping the companies to grow and reach the required size to compete on global markets. According to the Legislative Decree n. 5/2009, company networks are more entrepreneurs pursuing the aim of enhancing, individually and collectively, the participants' ability to innovate, as well as increasing the competitiveness of the companies. Company networks achieve their aims through vertical integration, horizontal cooperation or joint activities (Bentivogli, Quintiliani and Sabbatini, 2013; Boari, 2007; Cafaggi and Iamiceli, 2007; D'Aspremont and Jacquemin, 1988; Foresti, 2012; Iandoli, Marchione, Ponsiglione and Zollo, 2013; Jones, Hesterly and Borgatti, 1997; Kogut, 2000; Nell and Andersson, 2012; Podolny and Page, 1998; Ricciardi, 2009; Uzzi, 1996, 1997).

DATA AND METHODS

In order to measure the effects of mini-bonds, private equity and company networks, in terms of the profitability and financial conditions of the companies under analysis, we created a sample of 4,063 companies that used one or more of these alternative instruments between 2010 and 2013.

We performed a Student's t-test for equality and majority of means for the three types of funding analysed. In 2013, we ran the test for the balance sheets indexes: current ratio, liquidity ratio, solvency ratio, return on total assets (ROA), return on capital employed (ROCE) and return on shareholders' funds (ROSF). We also ran an ordinary least squares (OLS) regression model in order to study the effects of the different types of funding tools on the profitability and financial conditions of the companies measured by the above-mentioned indexes and included some control variables relative to the funding year, such as the geographical area, the type of company, the legal status of the company and the industry, in the regression.

RESULTS

ISBN: 978-9963-711-37-6

From the Student's t-test, we found that networked companies presented higher average values than private equity-backed companies and mini-bond issuers for the current ratio, liquidity ratio, ROA, ROCE and ROSF, while private equity-backed companies presented higher average values for the solvency ratio than networked companies and mini-bond issuers.

The results of the OLS regressions demonstrated that issuing mini-bonds had a negative effect on the current ratio, liquidity ratio, solvency ratio, ROA and ROCE. We also found that being private equity-backed had a negative effect on the liquidity ratio and that company networks also had a negative effect on the solvency ratio. Finally, there was a positive effect on the ROSF for companies that had joined networks.

CONCLUSIONS

The analysis suggests that, in general, company networks lead to better funding conditions and higher profitability, private equity has a positive effect on a company's solvency, while the issuing of mini-bonds decreases the overall performance and financial conditions of financed companies.

Keywords*: funding gap, financing instruments, private equity, mini-bonds, company networks.*

ISBN: 978-9963-711-37-6

CUSTOMER AGGRESSION, FELT ANGER AND EMOTIONAL DEVIANCE: THE MODERATING ROLE OF JOB AUTONOMY

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INTRODUCTION

To date, studies on emotional labor have focused primarily on emotional regulation strategies. Little is known about the factors that may serve to increase emotional deviance (i.e., situations in which felt and expressed emotions match but are at odds with organizational display rules). The purpose of this study is to examine whether emotional deviance in response to customer aggression and employees' feelings of anger is likely to be influenced by perceived job autonomy.

Human service employees are generally required to manage their emotional expression toward customers. Given that emotions expressed by employees play an important role in influencing customer satisfaction and the overall effectiveness of the service transaction (Barger and Grandey, 2006), they are considered an important aspect of the service provided and, hence, a core job requirement (Diefendorff *et al*., 2006). The formal and informal norms used by an organization to manage emotional expression are known as display rules, and the effort, planning, and control required to display organizationally desired emotions during interpersonal transactions has been labeled "emotional labor" (Morris and Feldman, 1996).

With few exceptions, the focus of emotional labor research has been limited to the study of the antecedents and consequences of emotion-regulation strategies (Mesmer-Magnus *et al*. 2012). The idea that employees may choose to violate organizational display rules has been largely overlooked and thus, little is known about situational factors that may increase the probability of employees' engaging in emotional deviance. Emotional deviance represents a dysfunctional response to customers that reflects the employee's negative felt emotions (Grandey et al., 2004) and is defined also as a counterproductive work behavior that occurs when employees choose to display an inappropriate (negative) emotion rather than the organizationally-sanctioned (positive) one

The present study focused on job autonomy as a condition that may give rise to emotional deviance. Job autonomy has been defined as the extent to which the job affords employees freedom, independence, and discretion in carrying out their work role (Hackman and Oldham, 1975). In the context of service work, job autonomy is assumed to be an important organizational resource that has the potential to buffer the negative consequences of job stressors (Goussinsky, 2011). Yet, the freedom to select a coping response might at the same time increase the opportunity for employees to engage

 ISBN: 978-9963-711-37-6

in interpersonal counterproductive behavior. One conceptual framework that may be useful for understanding the role of job autonomy in the relationship between anger-provoking events and emotional deviance was developed by Marcus and Schuler (2004) to explain workplace deviance. This framework suggests that aspects of the work environment can serve as antecedents to workplace deviance. These aspects include triggers (i.e, events or emotions that provoke deviance as a response) and opportunities. Opportunities have been defined as any situation or perception of a situation that facilitates (or inhibits) the exertion of an act of counterproductive behavior by making the negative consequences for the actor less (or more) costly. Marcus and Schuler suggested that job autonomy represents a type of situational opportunity that may contribute to the prediction of deviant acts directed at others; while low job autonomy can act as a barrier against deviance, high autonomy may facilitate the exertion of an act of counterproductive behavior by making the negative consequences for the actor less costly. Based on this theoretical framework it is assumed that emotional deviance is more likely to occur when individuals are exposed to triggers, such as customer mistreatment, *and* there is situational opportunity (i.e., when autonomy is high rather than low).

METHODOLOGY

Three samples of service workers were recruited: Study 1 consisted of 156 undergraduate students from a college in northern Israel. The criterion for participant inclusion was working at a job that required contact with the public. Study 2 was composed of 187 call-center employees and Study 3 consisted of 422 service providers who were gathered from a variety of service organizations including welfare institutes, hospitals, banks, supermarkets, leisure and entertainment organization, and call center organizations. Data were collected using self-reported questionnaires. Job autonomy was measured using the revised version of the three-item measure of job autonomy (Idaszak and Drasgow, 1987); Customer aggression was measured using a 14-item scale (Ben-Zur and Yagil, 2005) and anger was assessed using the discrete emotions inventory (Weiss *et al*., 1999). Finally, emotional deviance was measured using the scale developed by Grandey *et al*. (2004) to measure venting of negative emotions toward customers. Research hypotheses were tested using hierarchical regression analyses with emotional deviance as the dependent variable. The control variables (gender, tenure, and work status) were entered in the first step, followed by the main effect variables (i.e., customer aggression and job autonomy in Study 1; and anger and job autonomy in Study 2 and 3). The third step included the interaction term.

FINDINGS

ISBN: 978-9963-711-37-6

Study 1 revealed that under conditions of frequent exposure to customer aggression, higher levels of perceived job autonomy were associated with more frequent instances of emotional deviance. The results of Study 2 and Study 3 demonstrated that job autonomy moderated also the relationship between feelings of anger triggered by customers and the decision to comply with (or override) display rules, such that the relationship between anger and emotional deviance was stronger for employees reporting high levels of perceived job autonomy. Taken together, the present findings challenge the underlying assumption, which governs most research in this filed, that in response to negative work events, service employees will try to follow display rules regardless of the emotions that they truly feel.

IMPLICATIONS

This study contributes to the existing literature by pointing out that job autonomy may have a "dark side", in the sense that it provides employees with a certain level of perceived freedom, which ~~then~~ might be extended to include freedom from rule compliance, especially when negative emotions are experienced. The findings hold some implications for customer service managers who seek to foster high-quality customer service. First, service organizations may be well advised to seek ways to protect their employees from abusive customers, so that employees are not left alone to endure and handle the consequences of 'the customer is always right' policy. Perhaps employees are less likely to experience anger – and to express it – if they feel empowered to terminate aggressive interactions and to defend themselves by setting limits to customer behavior. Second, organizations might consider providing emotion-regulation training for their frontline employees. Finally, given the potentially negative impact of emotional deviance on customer satisfaction, organizations should find a balance between satisfying employees' desire for control and discretion and ensuring employee compliance with display rules.

Keywords: *Emotional deviance, Job autonomy, Customer aggression, Anger*

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 ISBN: 978-9963-711-37-6

THRIVING OF OLDER WORKERS: PERSONALITY AND EMPLOYABILITY

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ABSTRACT

This paper reports on two studies on thriving, the joint experience of vitality and learning, among workers aged 50 or above in the Netherlands. The first study draws on the analysis of 920 surveys and links thriving to personality and employability. The second study is qualitative in nature and is based on semi-structured in-depth interviews with 13 interviewees who were all interviewed three times at different points in time as they transitioned from unemployment to employment. This study contributes to the existing body of knowledge in three ways. First of all, we contribute to the dispositional perspective on thriving by examining how personality is related to thriving. We thus examine in what way individuals differ from one another in their predisposition to thrive by the use of the five personality traits. Secondly, we test the link between thriving and self-perceived employability. We are interested in how thriving can lead to positive outcomes for individuals, like employability. Thirdly, we add to the literature by looking at thriving during transition periods. We look at how thriving changes when the context changes. We examine here how thriving changes when unemployed individuals become employed. Transitions from employment to unemployment and vice versa have been common practice. Older workers are in a disadvantaged position, with lower chances to find work once unemployed. While the consequences of unemployment have been studied, the positive psychological consequences of finding new employment have received only limited attention from researchers.

The quantitative study used only previously validated scales and was analyzed by the use of multiple regression, while the qualitative study used semi-structured in-depth interviews that were analyzed using the principles underlying hermeneutics. The older workers were interviewed three times during their transition: once during unemployment, once a week after they had found work and a last time when they were two months in employment.

In line with our expectations, the results show positive relationships between thriving on the one hand and extraversion and consciousness on the other hand, while a negative relation between thriving and neuroticism was found. Openness and agreeableness were found to be unrelated to thriving. Moreover, in accordance with our hypothesis, the findings suggest a positive relationship between thriving and self-perceived employability. Employability is an important concept, since employees are increasingly responsible for their own careers and for maintaining their job security. Moreover, it has been argued to

 ISBN: 978-9963-711-37-6

be especially relevant to older workers, since they are often the first ones to be laid off and are perceived to have outdated skills. In the qualitative study we found that when individuals found work, their feelings of vitality increased drastically and immediately while feelings of learning did not emerge yet from the data when measured after 1 week in employment. Feelings of learning and development took some more time appear, but were present during the third measurement two months after they had started their jobs. These findings imply that thriving does indeed changes when the environment changes, extending previous research that investigated fluctuations within one working-day. In addition, the interviewees stressed the importance of two contextual features: a climate of trust and respect. This suggests that an organizational climate where people feel valued and appreciated can have a positive impact one's feelings of thriving. Another aspect of the context that seemed to influence one's thriving at work was decision-making discretion. The study demonstrated the importance of having the freedom to take decisions about their work influences their feelings of thriving. These findings imply that giving workers some degree of autonomy when it comes to decision on how to execute their tasks will lead more vitality and more learning, which is in turn beneficial for organizations. Our study thus adds to our overall understanding of thriving at the workplace.

Keywords: *Thriving, vitality, learning, employability, personality, older workers*

 ISBN: 978-9963-711-37-6

CHINESE OUTWARDS FDI TO SMALL EUROPEAN ECONOMIES – WHAT MAKES SOME COUNTRIES MORE ATTRACTIVE THAN OTHERS?

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ABSTRACT

In the last years Chinese companies have increasingly become important investors beyond the country's own borders. A majority of China's outward foreign direct investments (OFDI) are conducted in Asia (about 74% of OFDI flows in 2012). While only about 5.5% of Chinese outward foreign direct investments are directed at Europe (OFDI flows in 2013), strong increases can be observed in recent years. However, Chinese investments are strongly concentrated in a few European countries. With just USD 2 million out of a total of almost USD 12.5 billion OFDI to EU member countries (FDI stocks from China in 2010), Austria is among the European countries that have received only little OFDI from China. This in spite of the fact that Austria has managed to attract relatively high levels of FDI in general. This raises the question, which location factors are of importance for Chinese companies when taking their location decision in Europe. To analyze the research question, the paper is focusing on Austria as well as other small economies that are member states of the European Union. The theoretical starting point of this paper are the host country determinants (L-advantages) of Dunning's eclectic paradigm. These determinants are modified to fit the conditions specific to China's investments in Europe. Methods are analysis of statistical data and expert interviews with Chinese companies with investments abroad, and interviews with other relevant experts. The analysis will on the one hand contribute to the understanding of how location decisions for foreign direct investments are conducted by Chinese companies. On the other hand, it will provide valuable information for regions in Europe that wish to increase their attractiveness for OFDI from China.

Keywords*: outwards foreign direct investment (OFDI), China, European Union, Austria, location factors, Dunning's eclectic paradigm.*

 ISBN: 978-9963-711-37-6

ORGANIZATIONAL IDENTIFICATION, EMPLOYEE-CUSTOMER IDENTIFICATION, CUSTOMER ORIENTATION AND THEIR IMPLICATION ON JOB ENGAGEMENT AT HYPERMART RETAIL STORE

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ABSTRACT

The rapid economic growth in developing countries has made Indonesia become one of the top destinations for domestic and foreign retailers to develop their businesses. FMCG (Fast Moving Consumer Goods) market is one of the strongest industrial sectors in Indonesia retail industry. Hypermart is the biggest retailer in Indonesia which sells FMCG in a massive scale. It has become the biggest hypermarket in retail industry in Indonesia with more than 80 stores. The vision of Hypermart business is to be the market leader in Hypermarket category in Indonesia. In order to achieve the desired vision, Hypermart needs persevere, discipline, and creative employees to give the highest quality of service to its customers. Job engagement has become an issue in a company where frontliners become critical players who play crucial role in delivering the service to customers. Employees from supervisors, department managers, and division managers in Hypermart stores are frontliners who always make direct contact with customers. Thus job engagement has also become an issue in Hypermart. Generally, Hypermart's employees feel a positive environment when they're working in Hypermart. It makes them feel attached to Hypermart and always try to maintain the company reputation wherever they are. This culture thus make employee has a strong *organizational identification*, especially those who are on supervisory and managerial level in Hypermart.

This study aims to examine the impact of trust in supervisor, perceived external prestige and job satisfaction on job engagement which mediated by organizational identification, employee-customer identification and customer orientation. This study took place at Hypermart stores in Jakarta and Tangerang city branches. Close-ended questionnaires were distributed to 200 Hypermart's employees with vary position level from supervisor, department manager and division manager. Multiple linear regressions were utilized to analyze the data. This study found that perceived external prestige and job satisfaction have positive impact on job engagement which mediated by organizational identification and employee-customer identification.

According to this study, Hypermart's employees have a high level of job engagement. This job engagement is affected by the level of organizational identification and customer orientation. The

 ISBN: 978-9963-711-37-6

author suggests that Hypermart management should do more efforts to strengthen the level of job engagement in order to help the employees to perform better in order to achieve the company's goal. Hypermart management could create a specific 'company value' which will have a strong effect on the behavior of the employees. Furthermore, Employee customer identification can motivate the employees to build a close relationship with their customers. Thus, Hypermart management also should create programs to build closer relationship to the customers. CRM Program is a tool to build employee customer identification for Hypermart employees. When the employee customer identification is high, Hypermart employees will show higher level of job engagement. Hypermart management should also pay attention to build the employees in terms of job resource by giving more variety, autonomy, feedback to the job description of each employee. Hypermart management can also help their employees to increase their self-efficacy so employees will have more confidence in completing their work and will become more engage. It is also important to pay more attention to the leadership style of each leader in Hypermart. Management could create mentoring and coaching program to build closer relationship between leaders and employees. Thus, although employee could be placed in any Hypermart stores, they will still have a high level of identification toward Hypermart. This study also shows that most of Hypermart's employees are below 30 years old. Management should pay more attention to these young employees because they are typically more energetic. Management should implant the importance of having job engagement to these employees so they are more engage in completing their works to make them more vigorous, dedicated, and show full absorption. This engagement will help Hypermart in reaching their goals, creating higher employee commitment, reducing the intention to quit, and increasing the level of organizational citizenship behavior.

Keywords: *hypermarket, job engagement, employee, customer*

ISBN: 978-9963-711-37-6

A REVISED THEORY TO ESTIMATE RETURNS IN RENEWABLE ENERGY INVESTMENTS

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ABSTRACT

In the current market environment with historical low overall interest rates and with economic challenges in several countries, many investors are attracted by subsidized renewable energy projects with robust returns due to their absence of correlations with stock exchanges and their anticipated, favourable risk-return profiles. However, considerable amount of invested money has been lost within this sector since not all risk components have properly been incorporated in the valuation processes. While asset pricing research has extensively studied the relationship between risk and return on public traded companies, surprisingly little attention has been given to the class of non-traded assets to which renewable energy projects belong. Even if, in terms of size, growth and volume of acquisitions, the private equity market is at least as important, relatively little is known about its risk and return characteristics, and unsystematic risks, risk perception of different cultures and sector specific characteristics are not adequately considered. Against this background, there is an imperative need to find an improved approach for risk-return-evaluations for optimally valuating renewable energy projects. Based on mainstream literature, an initial comprehensive risk-return evaluation model has been developed to enable a structured multi-level, multi-criteria risk-return-relationship analysis of individual renewable energy investments. The initial conceptualization is derived from the capital asset pricing model (Sharpe, 1964), the analytical hierarchy process (Saaty, 1980) and systematic risk assessments (Hastak and Shaked, 2000). In order to test this theoretical framework, data collection using a mixed methods approach will be conducted applying semi-structured interviews, focus groups and questionnaires from Swiss and German investors, investing intensively in this sector. The data analysis will apply content analysis using the software NVivo and SPSS method for multivariate analysis. The research is expected to make a valuable contribution to the asset pricing research for non-traded assets, based on the example of renewable energy investments. The development of a conceptual model to estimate project specific return rates, as proposed by Finance Theory (Bierman, 1993, Graham and Harvey, 2001, Brounen et al., 2004, Titman and Martin, 2008) will be a first valuable contribution. Secondly, it will contribute to the field of research and to managerial practice by providing a comprehensive, systematic and more objective approach to estimate return rates in renewable energy investments, considering influences of previous investments, portfolio effects and

 ISBN: 978-9963-711-37-6

cognitive aspects. Finally, the research will contribute to practice by offering valuable insights in the perception of Swiss and German investors in renewable energy. Since this paper presents work-in-progress research and the data collection phase has just started with interviewing financial experts of key investors within the researched population. Therefore, some initial results of the interview phase will be presented at the conference.

Keywords*: Risk perception, risk assessment, analytical hierarchy process (AHP), investment return, risk-return-evaluation model, none-traded assets, private equity, renewable energy, Switzerland, Germany*

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 ISBN: 978-9963-711-37-6

TRUST AS A MARKETING TOOL IN B2B ONLINE RELATIONS. A FOCUS ON OTAS.

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ABSTRACT

Information and Communication Technologies have deeply transformed business strategies and practices in the tourism and hospitality industries (Ip et al., 2011). Among them, the Internet in particular has served as a competitive marketing and communication tool for hoteliers in facilitating information sharing and online transactions (Tse, 2013), thus leading businesses into a new era.

In fact, in response to the growing online market and in order to increase their competitiveness, most hotels have established various online presences, one of which is through third-party websites like Online Travel Agencies (OTA), which induce travelers to make reservations through discounts on travel packages (Toh, DeKay, et al., 2011), coupons or cash-back (Guo, Zheng, Ling, & Yang, 2014).

In this context, we have to re-examine the transactional tools employed in the hotel-OTA relationship, with a particular regard to the issue of trust, which is widely recognized by managerial literature as a key factor for fostering customer-vendor relations and sustaining market share (Urban et al., 2009) in socially distant relationships, such as online hotel booking.

Trust can be seen from different theoretical perspectives: contractual relations theory (Macneil. 1980), interaction theory (Hakansoon, 1982), organizational theory (Bradach and Eccles, 1989), psychology (Rushton, 1980), social psychology (Blau, 1964), transaction cost economics (Nooteboom et al., 1997), trust theory (Gambetta, 1988), and in the study of online exchange (Lynch et al., 2001; Stewart, 2003).

A topic point of research concerns the development of trust between vendors and buyers in the distribution channel relationships: from the buyer's perspective, the vendor's reputation and its investment in the relationship are trust boosters.

Although numerous scientific researchers have demonstrated the importance of trust in online marketing channels by studying customer behaviors in online searching and booking, little literature in the hospitality and tourism fields has studied the problem of cooperation between hotels and OTAs.

To fill this gap and provide some suggestions for hotel managers on establishing their online marketplace through OTAs, this paper proposes a model to describe interactions in a tourism supply chain consisting of a hotel and an OTA. In particular, relational strategies of a hotel that establishes an online distribution channel through cooperation with an OTA are studied, as well as its impact on

 ISBN: 978-9963-711-37-6

occupancy rate, and the risk to loose control over price dispersion across divergent distribution channels.

In order to obtain a broader understanding of the phenomenon, especially as concern the role of trust, and given the research's exploratory and inductive aims, a multiple case study approach (Stake, 2013; Gummesson, 2000) was chosen, through some interviews to hotel managers.

This method provides substantial clues to the nature of the phenomena (Easton, 2010; Yin, 2013; Dubois & Gadde, 2014), making it possible to draw up a more complete theoretical framework and to devise a theory that is "better grounded, more accurate, and more generalizable" (Eisenhardt & Graebner, 2007). Recently, Yin (2013) highlighted the advantages of the multiple case approach, particularly the large quantity of information that can be derived from the replication of the investigation and the contribution it can make to the development of theoretical corpora.

On the basis of these premises, the characteristics of the relationship between the hotels and the OTAs are described and the role that can take Trust is tested. Managerial implications are finally discussed, as well as suggestions for hoteliers were offered.

Keywords: *Trust, Hotels, Online travel agency, Marketing Relationship.*

 ISBN: 978-9963-711-37-6

THE LEARNING ROLE OF OFFSHORE OUTSOURCING IN DIVERSIFIED OFFRINGS: EVIDENCE FROM EMERGING ECONOMY.

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ABSTRACT

Creating diversified offerings (product centric services) can be valuable for supplier firms in exploring new business avenues in local and international market. There is growing interest among scholars and manufacturers in linking advance services to products.

Recent research has called for a better clarification of how product centric firm create and better integrate services in their offerings. The purpose of this study is to contribute diversified offering (product centric services) by investigating developing economies suppliers (DES) who are successful in product related services. This study suggests that offshore outsourcing ties, learning and strategic orientation are vital in enhancing diversified offerings.

Using an explorative multiple case design of four Pakistani textile supplier firms, the findings indicate that working as an outsourcee, the suppliers accessed to necessary knowledge and resources that assists them to offer design and pattern development, direct to store (DTS) supply, chemical testing, quality audit and inspections services in addition to products (i.e. OEM, ODM).

This study contributes to service led competitive strategies debate and assist exporters and outsourcees in exploring the consequences of diversified offering.

Keywords: *DES, offshore outsourcing, diversified offerings, Knowledge acquisition, strategic orientation.*

ISBN: 978-9963-711-37-6

LEAN WAREHOUSE CULTURE AS A CRITICAL SUCCESS FACTOR FOR A LEAN WAREHOUSE MANAGEMENT SYSTEM IMPLEMENTATION IN WMS CONTROLLED WAREHOUSES

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ABSTRACT

This WIP paper examines the success factors for a sustainable implementation of the lean warehouse culture in WMS (Warehouse Management System) controlled warehouses.

Lean is often understood as a toolbox (WMS) rather than a strategic alignment and a philosophy. Therefore, the implementation of Lean warehousing has systemic flaws relating to the lack of understanding and integrating the corporate philosophy, transformational leadership, and change management but also in missing modules in warehouse management software.

The literature showed that the general problems of lean warehousing implementations are based on the still existing ignorance and ability to implement the philosophy, which, in the first instance, means to change the mindset and to establish a new corporate strategy and culture of engaged employees.

Furthermore for the implementation of Lean Warehousing, the toolset (WMS) has been proven to be not sufficient and needs further development for a comprehensive lean warehousing transformation.

INTRODUCTION

Several studies (Overboom 2010, Sobanski 2011, Mahfouz 2012, Spee and Beuth 2012, Dehdari 2013 etc.) have been verified the positive effect of a Lean Warehousing implementation on warehouse key performance indicators (KPI). Latest since then, this approach was and is still from great interests for companies who are looking for strategies to cope within a global competition in global distribution systems. Bradley reports that the warehouse productivity in a distribution center of Menlo Worldwide has improved by 32% within 10 months after they implemented Lean Warehousing successfully. Phogat (2013) states that a lean warehousing transformation is amazingly effective and perform like a production line delivering predictable and reproducible results with significantly less labour.

On the other hand, in a survey based on a small sample by Augustin (2009) a chart about the maturity of Lean Warehousing implementations confirm that from 53 surveyed companies 98% already

 ISBN: 978-9963-711-37-6

implemented Lean Warehousing tools and methods. But not as a holistic approach with a sustainable Lean Warehousing culture and an established continuous improvement process.

These findings from the literature clearly imply that the transfer from lean management into warehouses is still not standardized and afflicted with mistrust, prejudices and lack of knowledge about the real lean philosophy (Kuther and Schaaf, 2013; Dombrowski et al., 2012). This is supported by Liker (2011) pointing out that Lean Management is a holistic approach which penetrates the whole organization and its culture and also by Womack and Jones (2003) as they are writing about "… managers who had drowned in techniques as they tried to implement isolated bits of a lean system without understanding the whole".

The Lean Warehousing theory is still in its fledgling phase and, up to now, there is no generalizable approach and it needs further scientific examination. Especially the transformation process to a lean warehousing culture and the engagement of employees is not sufficiently investigated. "Lean warehousing is a leadership concept. This concept aims at a permanent, systematic, analytic, sustainable, and measurable improvement of processes in the warehouse environment. This happens with the contribution of all employees and with the goal of gaining awareness of perfection in each corporate action."(Dehdari, P. 2014, p. 21)

DESIGN/METHODOLOGY/APPROACH

From the perspective of a critical realist, this paper is based on a narrative literature review and an initial model, which reflects and synthesizes the currently existing implementation gaps of Lean Warehousing. Next, applying the survey method, structured questionnaires will be sent to a sample of WMS vendors, warehouse managers and consultants in the fields of warehousing and lean management to validate the initial model. Finally, after continuously redesigning the model, a qualitative case study approach is chosen to conduct in-depth interviews with warehouse managers and consultants for Lean, Management. The results from the quantitative and the qualitative research stages will be analyzed to design the final model.

FIRST FINDINGS

This survey starts on Pearce (2014), Cano et al. (2014), Modrak and Semanco (2014) depict success factors for a lean implementation in general. The results are very useful as a basis in this research however it is not considering the specific conditions and demands or cultural aspects in the area of warehousing. The identified success factors and constraints need to be approved for application in the field of warehousing.

 ISBN: 978-9963-711-37-6

Summarizing, the literature showed that the general problems of Lean Warehouse implementations are based on the ignorance of understanding and implementing the philosophy in full, which in the first instance means to change the mindset and to establish a new corporate strategy and culture of engaged employees. Employees must be integrated with the top management to master the transformation into a lean company. Therefore, this study will analyze existing leadership models in order to check them for compatibility with the lean methods to reach better success rates for lean warehousing implementations, which will finally result in new lean warehousing culture theory.

RESEARCH LIMITATIONS

This survey starts on the results on existing qualitative research based on case studies in the German-speaking area and therefore does not provide evidence for a general global approach.

PRACTICAL IMPLICATIONS

The findings can be used as a guideline for the logistics management, for a sustainable implementation of Lean Warehousing and increasing its effectiveness by using the untapped potential of engaged employees who are motivated to bring in their knowledge and ideas for a continuous improvement.

ORIGINALITY/VALUE

The method of Lean Warehousing is still not fully explained and requires further research. In addition, there is also a gap as to the relationship between WMSs, Lean Warehousing, Transformational Leadership and Change Management and in terms of anchoring Lean as a philosophy in the corporate culture.

Keywords: *Lean Warehousing, Lean Culture, Lean Warehouse Management System, WMS, Lean Champion*

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 ISBN: 978-9963-711-37-6

THE EFFECTS OF DIFFERENT TYPES OF COMMITMENT ON THE VOLUNTRARYTURNOVER INTENTION OF ISRELI HIGH TECH EMPLOYEES - INNOVATIVE FINDINGS

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ABSTRACT

The voluntary turnover of information technology (IT) workers (i.e., software engineers, developers, programmers) has significant negative effects for technology companies and those firms invest in efforts to minimize voluntary turnover. We examined the voluntary turnover intention of employees in the IT sector in Israel in terms of their commitment. Part of the rational for this examination is the largest voluntary turnover of Hi Tech employee**s** (as, Software Engineers, Programmers' etc`) in the Hi Tech sector in Israel despite the unprecedented working conditions and wages they receive. We examined which types of commitment contribute to voluntary turnover intention, to determine what types of commitment such firms should encourage to prevent voluntary turnover. The findings show that IT workers (programmers, software engineers etc`) in Israel do not feel an affective commitment toward their employers/workplace. However, organizations should find it profitable to invest in the development of the normative commitment of these employees since that type of commitment significantly reduces voluntary turnover intention. On the other hand, a positive correlation was observed between continuance commitment and voluntary turnover intention. We explain these findings in light of the literature and other explanations, such as Israeli labor market structure Characteristics.

Keywords: *Voluntary turnover intention (VTI); turnover intentions; IT sector employees in Israel; Organizational policy; commitment*

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ISBN: 978-9963-711-37-6

GAME THEORY AND GREEK EXCLUSIVE ECONOMIC ZONE NEGOTIATIONS

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[*Note:* THALES Programme has been co-financed by the European Union (European Social Fund - ESF) and Greek national funds through the Operational Program "Education and Lifelong Learning" of the National Strategic Reference Framework (NSRF). The current paper is presented under the auspices of the Programme].

ABSTRACT

Negotiations over the delimitation of maritime boundaries between adjacent states usually involve controversies, cooperative actions, or dispute settlements. Behaviors of stakeholders, who might otherwise be prone to contribute to improvements and achieve a win–win situation, sometimes end up at zero-sum games or in worse conditions for all parties. Game theory can recognize and construe the behaviors of parties to exclusive economic zone and continental shelf problems and describe the results of interactions of different parties who are pursuing their own objectives in the evolution of a negotiation's setting. Its strategic relevance can be easily perceived if noted that Greece and Cyprus jointly share a common border with another ten countries overlapping three continents, out of which with eight common sea borders also exist. The paper reviews and discusses the potential applicability of certain types of games to exclusive economic zone management and conflict resolutions by the Greek government. By highlighting the strategic substance of the three interstate agreements already signed among Cyprus with Lebanon, Egypt and Israel, it provides the strategic setting for the signing of respective agreements of Greece with Albania, Italy, Libya, Cyprus, Egypt and Turkey. The main suggestion and contribution of our analysis via dynamic games is that, following the enactment of the Greek EEZ, the negotiation with Turkey should be the last and the residual of the preceding ones with the rest of the players.

Keywords: *game theory; energy negotiations; Exclusive Economic Zone; offshore exploration; strategy; Greece; Cyprus; Eastern Mediterranean.*

 ISBN: 978-9963-711-37-6

European Union
European Social Fund
OPERATIONAL PROGRAMME
EDUCATION AND LIFELONG LEARNING
investing in knowledge society
MINISTRY OF EDUCATION & RELIGIOUS AFFAIRS
MANAGING AUTHORITY
Co- financed by Greece and the European Union
NSRF 2007-2013
programme for development
EUROPEAN SOCIAL FUND

ISBN: 978-9963-711-37-6

FINANCIAL ASSETS ALLOCATION AND RISK TOLERANCE OF IMMIGRANT INVESTORS

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ABSTRACT

The purpose of this study was to investigate the modes of financial behavior of individual investors, comparing immigrants with native-born persons. According to the traditional economic approach of rational choice, investors diversify their assets, spreading the risk over a range of financial assets with different volatility. However, household investors often act irrationally, and their portfolios are often under diversified. Behavioral theories that try to explain this paradox, stress the importance of investors' personal features in making investment decisions.

Differences in risk tolerance, economic, cultural and social capital between immigrant and native-born investors may explain their choices of financial assets allocation. Immigrants' risk tolerance may be affected by social norms of the sending country and risks accumulated due to immigration (Risk Homeostasis theory). Based on previous studies on financial behavior of individual investors, a theory of economic habitus and types of capitals (economic, cultural and social), this study develops the theoretical framework for investigating the determinants of immigrants' financial behavior. According to this framework, determinants of choosing financial behavior mode by immigrants are derived from either immigrants' status or their culture of origin.

The data for this study was collected during 2010-2011 by means of a questionnaire. Over 500 individual investors in Israel were surveyed using the combined convenient and snowball sampling process. Out of the respondents, 49.9 percent were FSU immigrants and 50.1 percent were native-born Israelis. The method of clustering analysis was used in order to classify respondents by their financial behavior mode. The found clusters were consistent with three types of investors well-known in literature: aggressive, conservative, and moderate. In order to examine which factors affect investors' mode of financial behavior, multinomial logit regressions were run.

The study found differences in financial behavior between immigrant and native-born investors. Immigrants were less likely to invest in stocks, relatively risky assets, and were more likely to hold bank deposits than native-born investors. Immigrants were less likely to own a wide range of financial assets; also the risk of immigrants' portfolios was lower than that of native investors. Risk tolerance and economic awareness were significant predictors of financial behavior mode for both immigrant and

 ISBN: 978-9963-711-37-6

native-born investors. The study revealed that culture contributes to the investor's preferences of certain stocks, and cultural differences strongly affect the assets allocation within a portfolio. However, over time immigrants assimilate in their financial decisions, as their assets allocation became more similar to that of native-born investors.

This study transcended existing theories of investor's choice of portfolio and developed their application to the case of immigrant individual investors. It contributes to research of financial behavior as well as migration research by explaining the factors that affect preferences for financial assets allocation among immigrants, risk tolerance of immigrants, and the role of this tolerance in financial asset ownership decisions.

This study has some policy implications. Portfolio choices affect accumulation of wealth and immigrants' economic and social integration. Understanding immigrants' modes of financial behavior and determinants of choosing these modes will help policy-makers to facilitate accumulation of wealth by immigrants. It can be translated into policy aimed towards fostering immigrants' integration.

Keywords: *Asset Allocation, Portfolio, Risk Tolerance, Financial Behavior, Immigrants*

ISBN: 978-9963-711-37-6

MUTUAL RECIPROCAL OBLIGATIONS OF SELF-INITIATED EXPATRIATES AND PSYCHOLOGICAL CONTRACTS IN MULTINATIONAL CORPORATIONS

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ABSTRACT

PURPOSE OF INQUIRY AND RESEARCH QUESTIONS

Research conducted by Peiperl & Tungli (2009) indicated a fourteen per cent failure rate in overseas employees in MNCs due to adaption issues and shortcomings in expectations. It is interesting to note that despite such a research outcome, not much research has been done to explore the reasons behind such shortcomings in expectations among expatriate employees and their employers. The existing studies and literature on PC have outlined crucial factors that can alter an employee's mindset towards the employer's expectations. These crucial factors include but are not limited to Organisational (Guest & Conway, 2002), Individual (Montes & Irving, 2008), Societal (Zhao & Chen, 2008) and Dualistic (Tekleab & Taylor, 2003). This conceptual paper is intended to analyse the role of such factors in the formulation and development of PC's on self-initiated expatriate employees working in an international setting in MNCs.To justify such a purpose of inquiry, this paper takes into account the pre-assignment as well as post assignment perspectives of expatriate employees in MNCs (Brewster & Hasleberger,2009;Pate & Scullion,2009).The paper also puts forward a conceptual framework that explains the degree and dynamics to which these factors shape up the much under explored concept of perceptions of mutual reciprocal obligations between an expatriate employee and an employer(Pate & Scullion,2009).Therefore, the primary questions of inquiry in this paper are as follows:-

- What is the role of impact factors that have been identified in existing PC literature in the formulation and development of PC's on self-initiated expatriate employees working in MNCs?
- How do these factors shape up the perceptions of mutual reciprocal obligations or relational psychological contracts of self-initiated expatriate employees working in MNCs?

 ISBN: 978-9963-711-37-6

THE KNOWLEDGE GAP

The primary problem to be addressed in this research is the shortage of literature when it comes to realising the mutual or bilateral perspectives of employers and expatriate employees. Although Rousseau's studies (1989;1995;2004) hint that a PC remains incomplete without the perception of 'mutual exchange' , Pate & Scullion(2009) notes that recent literature has mostly focussed on a transactional or uni-lateral perspective of promise- based beliefs. Given this scenario, it is highly evident that such a perspective has offered a restrictive basis for the extensive understanding of the role of impact factors in shaping up the perceptions of mutual reciprocal obligations among self-initiated expatriate employees and their employers in MNCs. Secondly, existing research on the psychological contracts of expatriates are limited to the timescale of an individual's assignment (e.g. Black, 1992; Guzzo et al., 1994; Lewis, 1997,Cullinane & Dundon,2006;Pate & Scullion,2009).The formulation and development of PC's on expatriate employees working in an international setting in MNCs can only be justified by taking into account the pre-assignment and post assignment perspectives as noted by Brewster & Hasleberger(2009) and Pate & Scullion(2009).

THE CONCEPTUAL FRAMEWORK

This conceptual paper is aimed at developing a model that can outline a set of propositions to guide future empirical research on the perceptions of mutual reciprocal obligations between expatriate employees and employers in MNCs.Although existing models in PC literature such as Rousseau(2004), Guest(1996) and Guest & Conway(2004) explain how the explicit deal or a contract is perceived in general, there is a clear lack of significant focus on models which explain mutual perceptions and reciprocity in expatriate psychological contracts(Yan et al.,2002). Hence it is highly imperative to adopt a combined approach to reconcile the concept of psychological contracts and expatriates in large MNCs.The conceptual framework incorporates Organisational factors such as communications involving recruitment and job(Guest and Conway,2002), Individual factors such as gender and traits in personality(Montes & Irving,2008;Tallman & Bruning,2008), Societal factors such as Collectivism and Individualism(Zhao & Chen,2008) and the primary factor of dualistic nature such as employee-employer relationship during job tenure(Tekleab & Taylor,2003).The model also takes note of Rousseau's Relational-Transactional –Balanced typology(2004) to further apply the Relational aspect of the expatriate psychology contracts in MNCs.These factors are put to test at the point of organisational entry of the expatriate as well as during the tenure of the assignment. This will assist in confirming the impact of these variables on the development of relational expatriate psychological contract and the effect of these factors on the performance and outcome of expatriate employees in

ISBN: 978-9963-711-37-6

MNCs .In this regard a clear picture on the formulation and development of perceptions of mutual reciprocal obligations can be achieved as a fruitful line of inquiry for future research.

SIGNIFICANCE OF THE CONCEPTUAL PAPER

This conceptual paper will make a significant contribution because it fills into the existing knowledge gap by analysing the impact of a number of relevant factors on the journey of an expatriate employee in an MNC. Hence this conceptual paper is aimed at getting a definitive picture on the perceptions of mutual reciprocal obligations between expatriate employees and employers in MNCs. The conceptual framework suggested in this research paper will make recommendations for future research as the model itself brings out the underlying reasons behind the formulation and development of mutual reciprocal obligations between an expatriate employee and the employer in an MNCs.In this regard a clearer picture on the psychological adjustment of expatriate employees in MNCs can be achieved which adds to the existing propositions put forward by Hasleberger & Brewster (2009).

Keywords: -*Self-initiated expatriates, Psychological contract (PC), Multinational Corporations (MNCs), Mutual reciprocal obligations*

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 ISBN: 978-9963-711-37-6

EVALUATING THE INTERNATIONALISATION STRATEGY: THE CASE STUDY OF A SME IN THE UK CHEMICAL DISTRIBUTION INDUSTRY

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ABSTRACT

SCOPE AND IMPORTANCE

The UK Chemical Distribution Industry is an integral part of the UK Chemical The UK Chemical Distribution Industry is an integral part of the UK Chemical Industry. According to the American Chemistry Council's Global business of Chemistry (available at: www.americanchemistry.com/Jobs/EconomicStatistics/Industry-Profile/Global-Business-of-Chemistry, accessed April 2014), in 2012, the UK chemical industry was ranked tenth regarding its worldwide influence and reference. Small Medium Enterprises (SMEs) operating in the Chemical Industry are extremely important as they are an effective mechanism to generate employment and promote economic growth (Chawla et. al, 2010; Dobbs and Hamilton, 2007; Mortelmans and Reniers, 2012; Lussier, 2010). Business literature recognises that internationalisation has a positive impact on firm performance and has been long established as an important characteristic of firms experiencing high growth (Bianchi and Ostale, 2006; Javalgi and Todd, 2011; Hessels and Parker, 2013; Lu and Beamish 2001; Mudambi and Zahra 2007; Pangarkar, 2008; Zhou et al., 2007). Currently, there is very limited business research investigating the internationalisation process of SMEs in the UK Chemical Distribution Industry. Therefore, the scope of this study is to offer an insight in this area by initially focusing on the internationalisation activities of a typical SME operating in this industry.

THEORETICAL BACKGROUND AND IMPORTANCE

Key studies conducted in the area, explore internationalisation of the firm either as a determinant that adds value through resources that it possesses and masters (e.g. the "resource-based view" as analysed by Hessels and Parker, 2013; Javalgi and Todd, 2010; Zhou et al. 2007) or it is associated with the business strategy of the organisation and is greatly influenced by the environment in which the firm operates, the structure of the industry and how the firm promotes itself over the market (Lu and

 ISBN: 978-9963-711-37-6

Beamish, 2006; Bianchi and Ostale, 2006; Dobbs and Hamilton; 2007 Carter and Jones-Evans, 2000; Turnbull, 1987).

Overall, there are three models that explain how firms gradually intensify their activities in foreign markets (internationalisation process): the gradual internationalization (Uppsala model), the radical internationalization (or born global firms and international new venture) and the radical but late internationalization (born-again global firms) (Olejnik and Swoboda, 2012; Calof and Beamish, 1995).

In general, SMEs in the UK Chemical Distribution tend to gradually intensify their activities in foreign markets by first gaining experience from the domestic market before moving to foreign markets and tend to start their foreign operations from culturally and/or geographically close countries (Chemagility, 2008; Flavell-While, 2012; Hornke, 2012; Mortelmans and Reniers, 2012). This is in line with the Uppsala model and therefore this study will be based on the same model. An understanding of why they succeed or fail is crucial to the main stakeholders operating within the Chemical Industry.

The current research study is focusing on The White Sea and Baltic Company Ltd (WSB); one of the leading distributors of speciality chemicals in the UK. The company has been selected as a case study for two main reasons. Firstly, is considered a typical SME in this industry as defined by Chemagility in 2008. Secondly, one of the researchers is employed by this company and as a result, there is a personal interest in the evaluation of the current internationalization process, as this could directly affect the performance of the company.

RESEARCH QUESTIONS

Reflecting on the theoretical framework of the project, the scope of the study is dual; first to evaluate the current internationalisation strategy of one of the leading distributors of speciality chemicals in the UK and secondly to identify the skills and capabilities of its international managers that could be associated / have an impact on its success.

METHODOLOGY

This is a pilot study of a larger research project, focusing on SMEs operating in the UK Chemical distribution that sell directly or through sales agents to clients in international markets. A small scale research project was conducted to examine the internationalization strategy of the WBS. The research strategy adopted is a case study approach. Face-to-face in-depth interviews with 5 senior managers with exporting responsibilities and one of the Managing Directors of the company have been conducted. The interview questions have been divided into three main themes:

1. Defining internationalisation in the context of Chemical Distribution Industry
2. Develop managers' skills and cultural awareness

 ISBN: 978-9963-711-37-6

3. Qualities of international managers working in different geographical regions.

Thus, the focus of the interviews was to assess the internationalization strategy of the company, identify the challenges, needs and skills required for the target groups to explore internationalization, and how the current international strategy of the firm can be implemented in certain ways in different geographical and intercultural environments. In this context, the research philosophy of this project falls largely within the interpretivist inductive perspective and its nature is qualitative with an exploratory and explanatory aim (Bryman, 2012). The analysis of the data

KEY FINDINGS

Preliminary findings reveal that WSB is more reactive to internationalization and that there is no clearly defined strategy or skills development plan. The empirical evidence is in line with existing literature that argues that even though internationalization can be a source of growth and profitability for the chemical SMEs, it can also generate huge losses since it is very risky for the firm to survive in the internationalised environment. Additionally, success in the home country does not guarantee success internationally (Bianchi and Ostale, 2006). International managers working in the Chemical Distribution Industry support the view that when their firm venturing into the foreign markets, they have to face uncertainty and risks which entail a process of learning and adaptation (Zhou et. al, 2007).

PRACTICAL IMPLICATIONS

This is the first study conducted in the UK Chemical Distribution Industry that aims to assess the existing internationalization strategy; identify the challenges, needs and skills required for the target groups to explore internationalization; help Chemical SMEs overcome any barriers identified by proposing an appropriate a business strategy; and the development of "soft skills" which are needed to build the employees cross cultural capability within the SMEs operating in the Chemical Distribution Industry.

Keywords: *SMEs, Internationalisation, Chemical Distribution Industry, UK Soft skills, Cross Cultural Capability.*

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 ISBN: 978-9963-711-37-6

FAMILY FIRMS AND INNOVATION: THE ROLE OF VENTURED START-UPS

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ABSTRACT

Technological innovation can be defined as the set of activities through which a firm conceives, designs, manufactures, and introduces a new product, technology, system or technique (Freeman, 1976). It can take place according to different strategies: through internal R&D and by mean of external knowledge acquisition (Cassiman and Veugelers, 2006).

Extant studies are predominantly focused on the analysis of the "internal perspective", while there is a research gap on how firms can reach technological innovation by mean of venture capital initiatives (Dushnitsky and Lenox, 2005).

The present paper aims to fill this gap by focusing on how family small and medium entities (SMEs) may develop technological innovations by creating ventured start-ups. In other words by focusing on how the open innovation in SMEs stream of literature (Chesbrough, 2003; Van de Vrande *et al.*, 2009; Lee *et al.*, 2010) is applied by the peculiar category of family firms through equity investments in start-ups. In particular, considering the previous studies which identified the family firms' peculiar characteristics in terms of processes like corporate governance (Randoy and Goel, 2003), internationalization (Zahra, 2003), entrepreneurship (Naldi *et al.*, 2007) and financing (Romano *et al.*, 2001), the research investigates how the family firm's ownership structure affects its technological innovation activities and outcomes (Hoskisson *et al.*, 2002).

The research draws on the concepts of exploration and exploitation developed by March (1991): exploration is *"experimentation with new alternatives having returns that are uncertain, distant and often negative"*, while exploitation is the *"refinement and extension of existing competencies, technologies and paradigms exhibiting returns that are positive, proximate and predictable"*. These concepts are central for technological innovation (Atuahene-Gima, 2005): Yalcinkaya *et al.* (2007) found that exploitation is negatively associated with the degree of innovation, while exploration is positively influences the degree of innovation.

The research question of the paper is as follows: how can family SMEs manage the innovation processes by balancing exploration and exploitation?

To answer to this research question, the paper considers the extant research on entrepreneurship and venture capital initiatives and verifies how, in a family business context, these initiatives bringing into

 ISBN: 978-9963-711-37-6

the governance structure directors and managers with high technological skills favor the overall technological innovation of the company.

The research is based on a case study analysis developed through semi-structured interviews to the managers of the start-up and to the family entrepreneur who invested in the start-up. To better understand the case, the analysis is based also on non-participative observations about the production processes in the start-up and in the family business: we investigate interactions among managers in their decision-making about technological innovations.

The company on which the case study is developed is a 4th generation Italian medium enterprise in the textile sector. This company has an equity investment in a start-up aiming to produce new technological products and participates to "AdottUp", the project that Confindustria (i.e. the General Confederation of Italian Industry) is developing to support SMEs in the process of "adopting" a start-up.

The paper contributes to emerging management literature on technological innovation developed by family firms (De Massis *et al.*, 2012) by showing that a family firm – as a center of exploitation activities – through an equity investment in a startup – playing as the headquarter of innovation activities – can reach an equilibrium creating innovations while maintaining traditions. In this respect we extend the exploration-exploitation framework developed by March (1991) analyzing the under-investigated interaction among governance and technology. The research has also practical implications as it offers empirical insights to entrepreneurs that aim to innovate without compromising core values and sustainability of their firms. Nevertheless analyzing a single case study of a medium size family business adopting this innovation can be considered a limitation. Previous research has indeed shown that there is a great deal of difference in the innovation strategies of small and larger firms (e.g. Acs and Audretsch, 1990) .

Keywords: *innovation, start-ups, family business, SMEs, case study*

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 ISBN: 978-9963-711-37-6

DIGITAL WEB-BASED TECHNOLOGIES: A WAY FOR INNOVATION IN AGRICULTURAL SECTOR? AN EMPIRICAL STUDY OF PRODUCERS ORGANIZATIONS IN THE SOUTH OF ITALY.

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ABSTRACT

OBJECTIVES

The paper aims to explore the role of digital and web-based technologies in improving innovation and competitiveness for the food and agriculture sector, we will specifically investigate the planned role of the associations of local producers in Southern Italy trough a set of interviews with opinion leaders. The study discusses how the associations define their contribution in the innovation of processes and products, how they help the dissemination and the sharing of best practices, how do they believe to improve competitiveness in the market and what is the expected future of agriculture in the framework of a knowledge based economy (David, Foray, 2003).

LITERATURE

The agri-food sector is as much varied as complex: local farmers and food processing companies, both compete in a dynamic context in rapid evolution (Wolfert, 2010). Among the different competitive strategies that can be adopted the so called "horizontal aggregation" in the form of producer organisations (PO)/association of POs (APO) try to increase the value in terms of quality and quantity of the aggregate production of a region in order to establish better opportunities in terms of distribution and market placement (Petriccione, 2012). One of the key mission of the POs, as defined also by the European Commission in 2009, is to reduce the asymmetry of local producers and big distribution networks, trough the accumulation of the agricultural offer in the hands of fewer, bigger and self-organized, players. According to this strategic goal the OPs should invest in the dissemination and sharing of knowledge in order to increase systemically the quality of their networks, hence a smart use of digital technologies seems to hold a pivotal role.

Regarding the organisational innovation in agri-food SMEs, an important theme concerns the determinants of the ICT solutions' adoption by the SMEs (Galliano D., Roux P., 2003) in order to highlight agri-food specificities related to their managerial organisation.

In the specific context of studies on product/process innovation, another important strand of literature

 ISBN: 978-9963-711-37-6

concerns the relationship between the innovation process and the accumulation and distribution of knowledge in the organizations.

Several authors defined knowledge as a key resource for the competitive advantage of companies (Davenport and Prusak, 1998; Rullani, 2004) and announced the advent of a new economy based on knowledge resources. Further contributions have emphasized the cognitive nature of innovation: according to this perspective, the knowledge would be the basis of innovative processes, which would be shaped as the result of the introduction and creation of new knowledge, or in new ways as the combination of existing knowledge (Edquist and Johnson, 1997). According to the dynamic model of organizational knowledge creation spiral of Nonaka and Takeuchi (1997), knowledge is developed and spreads through social interaction between tacit and explicit knowledge. In doing so, they highlight the relational nature of the process of creating the knowledge within organizations (Nonaka and Konno 1998). Therefore, the current challenge of management is to exploit and experiment with new and old systems that enable the organization, and individuals that are part of it, to learn, to create "new knowledge" and, therefore, to innovate.

Digital and web-based technologies help to share and eventually to socialize competences and experiences of the producers. OPs and AOPs can create niche networks and communities of practices that can contribute to the economic growth and more extensively they could contribute to the social wellbeing of a region (Jonassen, 1994; Wolferta et al., 2010; Wilson, 1996). Our research question is then how the OPs represent they role as innovators in a knowledge based economy and what is their representation and use of the web in agriculture.

This study moves from the several lines of research in using information and communication technology (ICT) for the food sector's needs. Eminent scholars studied the impact of ICT on Agribusiness (Bunte et al., 2009); the precision agriculture in primary production (Zhang et al., 2002; Stafford, 2007; van Henten et al., 2009) as well as tracking and tracing of food products along the food value chain (Trienekens and van der Vorst, 2006) and finally the identification of product characteristics through labels and logos for consumer support (Sahota et al., 2009).

METHODOLOGY

This is a qualitative study based on a set on in-depth interviews to opinion leaders in the OPs in the South of Italy and specifically in Apulia Region.

Keywords: *Agri-food innovation, POs (Producers Organisations), Digital and web-based technologies.*

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 ISBN: 978-9963-711-37-6

THE RELATIONSHIP BETWEEN WORK STRESSORS, EMOTIONAL LABOR AND BURNOUT AMONG MENTAL HEALTH SERVICE PROVIDERS

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ABSTRACT

INTRODUCTION

A primary goal of health care organizations is to provide patients with high quality health services. However, research findings suggest that care givers, particularly mental health service providers, experience high levels of burnout, resulting in absenteeism, impaired performance, and lower quality of patient care (Acker, 2012; Morse *et al*., 2012). Nevertheless, there have been relatively few systematic attempts to better understand burnout among mental health workers.

Emotional labor, defined as the effort required to display organizationally desired emotions during interpersonal transactions (Morris and Feldman, 1996), is of special relevance to mental health providers, since they often need to fake positive emotions during treatment in order to stimulate desirable reactions from their patients, or to suppress negative emotions in response to patients' behavior. The task of controlling felt emotions during patient sessions becomes increasingly demanding over time, due to the emotional dissonance it produces. *Emotional dissonance* refers to the discrepancy between displayed emotions and the internal experience of emotions (Morris and Feldman, 1996). Emotional dissonance is considered the most important aspect of emotional labor in accounting for variance in emotional exhaustion among service workers (e.g., Zapf, 2002). A common finding is that it has numerous negative consequences for service providers, including symptoms of strain such as psychometric complaints, depression, depersonalization and dissatisfaction (e.g., Abraham, 2000; Bakker and Heuven, 2006; Van Dijk, and Kirk-Brown, 2006; Zapf, 2002). Yet, research on the relationship between emotional labor and burnout among mental health service providers is relatively limited.

The study adopts the job demands–resources theory (Bakker and Demerouti, 2007), according to which job demands (such as emotionally demanding interactions with clients) and resources (e.g. social support and self-efficacy) interact in predicting occupational wellbeing. Job demands refer to those physical, psychological, social, or organizational aspects of the job that require sustained physical and/or psychological effort and are therefore associated with certain physiological and/or psychological costs (Demerouti et al., 2001). Job resources refer to those aspects of the job that are functional in

 ISBN: 978-9963-711-37-6

achieving work goals, reduce job demands and the associated physiological and psychological costs, or stimulate personal growth, learning, and development (Bakker, 2011; Bakker & Demerouti, 2007). Job demands require the investment of effort and consume energetic resources, therefore predict exhaustion, whereas job resources fulfil basic psychological needs, like the needs for autonomy, relatedness, and competence, thus predict work enjoyment, motivation, and engagement.

In the present study we first seek to examine the relative contributions of job stressors (i.e. role overload, mistreatment by patients, workplace bullying, emotional dissonance as a component of emotional labor) to employee burnout. Our second purpose is to explore the moderating effects of organizational and personal resources (i.e. job autonomy, organizational support, self-efficacy) on the emotional dissonance-burnout relationship.

METHODOLOGY

The study was conducted in a mental health hospital in Israel with a sample of 217 mental health professionals from different professional groups. 59% of the participants were nurses, 7% were physicians and 29% were allied health professionals (e.g. clinical psychologists, social workers, occupational therapists). The sample was 59% female, with a mean age of 45.4 years (standard deviation [SD] = 10.5) and average job tenure of 15.1 years (SD = 11.3). Data were collected using self-reported questionnaires. The questionnaires were distributed in all 15 wards during work hours by a trained research assistant. Participation was voluntary and response rate was 56%.

Research hypotheses were tested using hierarchical regression analyses with the three dimensions of burnout (i.e. emotional exhaustion, depersonalization, and reduced personal accomplishment) as the depended variables. One multiple regression analysis was performed to examine the relative contributions of job stressors (i.e. role overload, mistreatment by patients, workplace bullying and emotional dissonance) to burnout dimensions. We then performed a multiple regression analysis to examine the moderating effect of job resources (i.e., job autonomy, organizational support, self-efficacy) on the relationship between emotional dissonance and burnout dimensions.

FINDINGS

Job stressors (i.e. role overload, mistreatment by patients, workplace bullying) significantly predicted the burnout dimensions of emotional exhaustion and depersonalization; the most significant predictor of emotional exhaustion was role overload, whereas the most significant predictor of reduced personal accomplishment was mistreatment by patients. Resources that significantly reduced emotional exhaustion and depersonalization were supervisor support and self-efficacy. Moreover, emotional

 ISBN: 978-9963-711-37-6

dissonance was positively related to the three burnout dimensions, and its relationship with emotional exhaustion was moderated by supervisor support, such that the association between emotional dissonance and emotional exhaustion was stronger for employees reporting low levels of supervisor support, as indicated in figure 1.

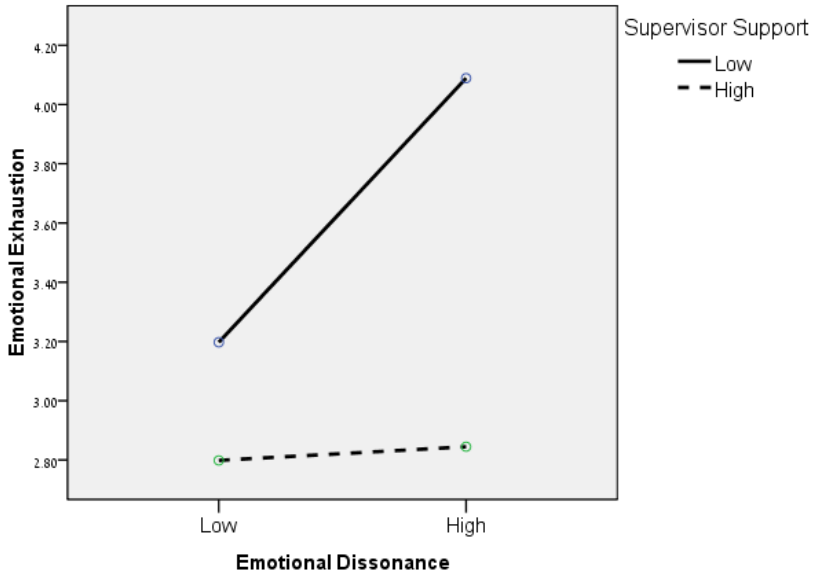

Figure 1. *Moderating effect of supervisor support on the relationship between emotional exhaustion and emotional dissonance*

IMPLICATIONS

This study contributes to the extant literature by applying the job demands–resources theory to mental health service providers. The results extend the understanding of burnout antecedents among this unique type of workers, and augment the relatively small body of research on the influence of emotional labor on mental health care givers (Handelsman, 2012).

Practically, the findings highlight the importance of supervisory support in reducing the detrimental effect of emotional dissonance on burnout. Mental health care organizations should implement supportive management practices and act to improve managers' interpersonal skills with the purpose of enhancing their willingness to provide support for employees. Reducing burnout should contribute to the improvement of mental healthcare quality.

Keywords: *job demands, resources, burnout, emotional labor, mental health.*

 ISBN: 978-9963-711-37-6

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 ISBN: 978-9963-711-37-6

I WANT THAT SMARTPHONE! SOURCES OF BRAND EQUITY

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ABSTRACT

This research aims (i) to explore the influence of an individual's attitude towards advertising, brand origin and country of manufacture on brand equity creation; and (ii) to analyse brand typicality as moderating the effect of brand origin macro image on perceived quality. A conceptual model is proposed and applied to a sample of 305 Portuguese consumers of Smartphones. The proposed model was tested considering Apple, Nokia and Samsung. The results show that individuals' attitudes towards advertisements has a positive impact on brand equity creation, whereas country of manufacture does not influence significantly and brand origin has only a partial influence. Brand typicality exerts a significant direct effect on brand equity dimensions but does not have a significant moderating effect.

THEORETICAL BACKGROUND

Advertising, as a tool of communicating a brand's features and emotions, the rational and the emotional appeal, may create favourable and unique associations, brand awareness and higher perceived quality (Keller, 2007; Moorthy and Hawkins, 2005). Previous studies have pointed out the favourable influence of individuals' positive attitudes towards advertisements on brand equity (e.g., Keller and Lehmann, 2003; 2006; Buil, de Chernatony and Martínez, 2013). Several previous studies point out two components to conceptualize the country-of-origin image: micro and macro image (Pappu, Quester and Cooksey, 2007; Hamzaoui-Essoussi, Merunka and Bartikowski, 2011). Micro and macro images may influence brand equity differently (Hamzaoui-Essoussi et al., 2011). Brand origin and the origin of manufacture may impact on brand equity differently depending on the product category (e.g., Pappu, Quester and Cooksey, 2007; Hamzaoui-Essoussi et al., 2011). Thakor and Lavack (2003) argue that the effect of brand origin on the purchase intention process is more important than the effect of the country of manufacture. Samiee (1994) states that if consumers are really sensitive to the country of manufacture effect, then companies should consider their production strategies according to consumers' perceptions and not make decisions based on cost efficiency and production cost logistics.

 ISBN: 978-9963-711-37-6

Attending on previous studies and considering the presented aims, the current study developed eight hypotheses. The first five are related to antecedents of brand equity. The hypotheses 6 and 7 propose the relationship among the core assets of brand equity and the last one posits that brand typicality moderates the relationship between brand origin macro image and the dimensions of brand equity: perceived quality and awareness/associations.

METHODOLOGY

The current study uses three questionnaires; one for each brand, and each participant only completed one version of the questionnaire and evaluated only one brand. A pilot sample with ten consumers was used to ensure that the wording of the questionnaire was clear and only a few adjustments were made. Data collection used self-administered questionnaires and took place at several locations in Greater Lisbon using quota sampling, by age and sex, according to the latest Census of the Institute of National Statistics (regarding people between 16 and 74 years old). Of the 310 questionnaires received, 305 were valid and the data from these was analysed.

CONCLUSIONS

The findings show that an individual's attitude towards ads may be regarded as a determinant of brand equity in the Smartphone context. The importance of using original, creative and different advertising strategy emerges as essential in creating brand equity, which is in line with the findings of Buil et al. (2013) for sportswear, consumer electronics and cars. In fact, innovative advertising may be more effective at capturing consumers' attention and enhancing brand awareness and perceived quality at the same time as creating unique associations (Villarejo and Sánchez, 2005; Wang et al., 2009). The findings suggest that consumers' perception of quality does not depend on country of manufacture. Nevertheless, the country where the Smartphone brand was created can influence perceived quality. Brands like Nokia may benefit if consumers perceive that the brand's country-of-origin has a high level of industrialization and technological and economic development. By contrast, brands more representative of Smartphone benefit from enhanced perceived quality if consumers believe the features of the brand are well suited to its country-of-origin.The fact that China manufactures these two brands does not affect the dimensions of brand equity unfavourably or significantly. Thus, according to Ashill and Sinha (2004), brand origin has a much greater impact than the effect of the country of manufacture on consumers' perceived quality and intentions to purchase.

Keywords: *Brand Equity; Advertising; Brand Origin; Country of Manufacture; Smartphones.*

ISBN: 978-9963-711-37-6

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 ISBN: 978-9963-711-37-6

I AM AVOIDING IT! A SENIORS' PERSPECTIVES ABOUT ADVERTISING

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ABSTRACT

The aims are to analyze (i) the relationship between drivers to ad avoidance among senior viewers and (ii) compare the perceptions about those drivers between TV advertising and YouTube advertising. Findings reveal that irritation seems to be the crucial factor that lead consumers to avoid whacking advertisings. A negative attitude toward advertising and skepticism do not mediate the effect between advertising irritation and avoidance.

THEORETICAL BACKGROUND

Advertising (ad) avoidance includes all actions by media users that differentially reduce their exposure to ad content. The strategies for avoidance developed by consumer may be classified as cognitive (ignoring), behavioral (leaving the room), or mechanical (changing channels), but cognitive (ignoring) avoidance has been consider as the most-often used by customers for TV ads (e.g., Moriarty and Everett, 1994).

Obermiller and Spangenberg (1998) define skepticism toward advertising as the tendency to disbelief advertising claims. Attitude is regarded as an individual's internal evaluation of and object. Hoyer and MacInnis (2001) allude that attitude is a relatively global and enduring evaluation of an object, issue, person or action.

Finally, Advertising irritation is defined as the consumers' perception of displeasure and momentary impatience caused by an ad (Aaker and Bruzzone, 1985). Previous research on the subject focused on irritability as a response to disliked commercials (Aaker *et al.*, 1988; Barling and Fullagar, 1983), including the impact it has on the effectiveness of ads aired later on the same program (Gardner, 1985). Thus, five hypotheses are proposed: **H1** (Ad irritation positively influences ad skepticism); **H2** (Ad irritation positively influences ad avoidance); **H3** (Ad irritation negatively influences attitude toward ad); **H4** (Unfavorable attitude toward ad leads to ad avoidance); and **H5** (Ad skepticism positively influences ad avoidance).

METHOD

 ISBN: 978-9963-711-37-6

A total of-214 fully completed and usable questionnaires (after excluding those with missing values, inconsistent responses or extreme multivariate outliers) were collected from the 300 distributed. The outliers were deleted using the graphic method, with a residual scatter plot in the range of ±3 standard deviation. The average age of the sample is 73 years and 64.5% were female. The constructs were measured with multi-item scales (see table 1). All items were measured using a 5-Point Likert-type scale and the questionnaire was composed of 19 items representing the constructs and socio-demographic variables.

CONCLUSIONS

The results show that ad irritation has a positive and significant relationship on ad skepticism and especially on ad avoidance. The strength of the relationship between ad irritation and ad avoidance is higher in the case of TV ads. As expected ad irritation leads to a negative attitude toward advertising and this negative attitude is higher in the case of TV ads. Nevertheless, the strength of the relationships between ad attitude and ad avoidance or ad skepticism and ad avoidance are not significant for both TV ad and YouTube ad. Therefore, ad attitude and ad skepticism do not act as mediators between ad irritation and ad avoidance because do not significantly reinforce the effect of ad irritation on ad avoidance.

Those who deal with marketing communication should be aware that senior consumers are using online systems and that they avoid messages that irritate them and are not focused on their issues. However, they are a growing group of consumers that should be taken more in attention. Connected consumers of media on a computer often leave digital fingerprints of their online activities, allowing the opportunity for marketing managers and content providers to better customize an online ad experience that is unique to each individual. Some consumers may see this as intrusive, while others might embrace this targeted approach to their own consumer preferences. As these marketing techniques improve, levels of ad skepticism for those who welcome these algorithmic strategies might decrease overall. In this vein, as more senior consumers become accustomed to this approach and even enjoying it, the advertising effects on the connected viewer could have an overall positive outcome on attitudes toward advertising.

Keywords: *seniors consumers, ad avoidance, ad irritation, ad skepticism, attitude toward ad, YouTube, TV advertising*

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 ISBN: 978-9963-711-37-6

PUBLIC UNIVERSITIES: A NEW GOVERNANCE APPROACH TO ACHIEVE FINANCIAL SUSTAINABILITY

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ABSTRACT

PURPOSE

There is a growing debate among scholars in many countries about the emerging model of governance in universities, especially in a period of financial crisis. A "satisfactory" model of university governance is usually the product of particular effort to arrive at suitable governance structures, protocols and processes.

Actually public universities are significantly influenced by the national government policies (for system of funding, staff recruitment, purchasing procedures and performance evaluation processes) and that makes these organizations not sufficiently adaptive to changes in their environment.

However, after a long academic debate and an unexpected and shorter legislative process the Italian Government (Law 240/2010, Legislative Decree 18/2012 and Decree of Ministry of Education and Research 19/2014) requires public universities to adopt a "business-style" model of governance and accounting (for both budgeting and financial reporting).

In a previous study (Lucianelli, 2013) the emerging model of governance was firstly defined analyzing the behaviour of a sample of 56 Italian public universities that have modified their governance structure through their statutes.

This paper aims to deepen the process of implementation of the Italian reform because now universities need to understand whether, adopting the new rules, they are effectively contributing to their financial balance and to sustainability of the higher education sector.

More specifically the focus has been limited on a selected sample of three **universities**s.

The ultimate goal is to verify whether the process of legislative change may improve decision making processes and sustainability of universities sector. In fact, the introduction of the new legislative system could be considered as an important step towards a more sustainable higher education sector whether university managers and policy-makers become substantially more and more aware of the immediate and longer term impact of their decisions on economic and financial results.

DESIGN/METHODOLOGY/APPROACH

 ISBN: 978-9963-711-37-6

The framework presented is based on (a) an in depth literature review of governance of public and private universities, as well as literature about accrual accounting of public organizations, (b) analysis of official data collected on institutional web sites, (c) analysis of the results of structured interviews with experts in the field.

FINDINGS

The data collected clearly show that the predominant component in boards is still the academic one; however the presence of practitioners as components in boards of directors and the organizational change in progress reveal the will to transform the bureaucratic culture into the managerial one. May be it's too early to evaluate the actual effects of the Italian reform: the new budgeting and accounting rules are mandatory from the 1st of January 2015. Moreover some new principles are still not so clear and have been implementing in a manner that seem to introduce an unnecessary degree of complexity into public management. But these first findings could be particularly useful for administrators and sustainability offices for planning to give more relevance to sustainability reports. More details about the emerging model and critical aspects of the new system are analysed in the paper.

PRACTICAL IMPLICATION

The framework opens the door to follow-up research: data collection of best practices in management and accounting of Italian universities. Doing benchmarking with the organizational change in progress of some universities and the potential benefits deriving from the rise of quality in accounting information (that depend on managers and policy makers choices) may improve financial sustainability of higher education institutions. In a further step these findings could be compared with other international data sources.

ORIGINALITY AND VALUE

In Italian public universities the presence in boards of directors of experts and professional members as external components trained and experienced in corporate policy and able to guide management and accounting efficiently is considered more relevant than in the past. This may lead to a new approach to management as an innovation key for the sustainability of the higher education sector.

Keywords: *University governance*, *Financial sustainability*

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 ISBN: 978-9963-711-37-6

HAVE BUSINESS ECONOMICS RESEARCHES ANY IMPACT ON ENTREPRENEURSHIP?

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ABSTRACT

PURPOSE

An entrepreneur is often someone who perceives an opportunity and creates an organization to pursue it. Therefore a major challenge facing entrepreneurship researchers is to develop models and theories built on solid foundations from the social sciences (Bygrave and Hofer, 1991) and systematically connect the fragmented landscape of entrepreneurship research (Burg and Romme, 2014).

Theory building in entrepreneurship faces obstacles because it works on an "ideal" model of entrepreneurship, particularly when external environments and organizations are undergoing rapid transformation, as after the 2008 crash. Definition, size and shape of businesses are now changing to adapt to the new global economic and social view of living.

Some research can have enormous impact in term of knowledge and give a contribution to theory but at the same time can give a little contribution to practice. It may depend on the level of common ground and understanding between the world of the researcher and the policy maker (John, 1993). Actually entrepreneurship is significantly influenced by the national government policies (tax system, incentives, infrastructures, etc.) but it is not clear in which way business economics researches may influence entrepreneurs behaviour.

This paper aims to deepen the structure by which business economics research findings reach practitioners and policy makers, that is of fundamental importance for our economy.

DESIGN/METHODOLOGY/APPROACH

The framework presented is based on (a) an in depth literature review of concept of entrepreneurship, as well as literature about the link between the world of the research and the practical implications of findings for entrepreneurs (b) analysis of official data collected on web sites of Italian research centers for entrepreneurship (c) analysis of a sample of structured interviews with expert entrepreneurs.

 ISBN: 978-9963-711-37-6

FINDINGS

The data collected clearly show that there are a lot of obstacles to transfer knowledge and theories to entrepreneurs and policy makers generally because of basic bias about the complexity of academic research and its fundamental goal to promote academic careers. Entrepreneurs look like more interested in cases of success of other enterprises in the field than in general theories. More details about critical aspects of these findings are analysed in the paper.

PRACTICAL IMPLICATION

The framework opens the door to follow-up research: to promote researches that are not only of high quality and readily understandable but also really useful for practitioners. Actually entrepreneurs prefer to deal with difficult situations consulting trustee experts or financial advicers who can make for them simple reports. This paper offers an updated point of view about the preferred sources of knowledge for businessmen and this fact may have a new influence on the academic approach to research and consequently on managerial perspectve of the academic world. This study may be also deepened with analysis and comparison with other international experiences data sources.

ORIGINALITY AND VALUE

The understanding of the actual functioning to transfer research findings from the world of research to entrepreneurs and policy makers is essential for a further development of the global economy. This may lead to a new approach for orienting research to useful and practical solutions to the business world for the sustainable development of organizations.

Keywords: *Business Economics, Research, Entrepreneurship*

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ISBN: 978-9963-711-37-6

THE MEDIATING EFFECT OF SERVICE INNOVATION ON THE DYNAMIC CAPABILITY AND ORGANIZATIONAL PERFORMANCE RELATIONSHIP: EMPIRICAL EVIDENCE FROM THE PUBLIC SECTOR

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ABSTRACT

PURPOSE

In the light of the deep changes occurring in the National Health Care Systems (NHCS) in the majority of countries, there has been an intense political involvement in encouraging the introduction of more rational management systems in the NHCS with the objective of improving efficiency and effectiveness in these organisations. With regard to the public sector, the financial problems surrounding the management of health care providers have almost exclusively emphasised the need to reduce public expenditure while at the same time raising both their capabilities and performance. The dynamic capability (DC) concept, which was introduced by Teece et al. (1997), has gained increasingly attention as it explains how firms achieve competitive advantages in dynamic markets.

Despite the growing interest in the dynamic of organizational resources, there is still limited empirical evidence supporting the strategic process upon which resources influence performance in public organizations. That is, although the dynamic capability construct was applied mainly to the private sector, more recently there is a growing interest in applying this concept to the public sector (Pablo et al., 2007; Pienning, 2013). This is due to the fact that in a context of change, health care providers are exposed to strong organisational pressures to reduce costs and to improve service delivery emphasising a customer/citizen approach. Therefore, this study envisages that processes relating to sensing and seizing opportunities are crucial to reconfiguring the organisational resource base which are often used to explain heterogeneity in performance among organisations (Teece et al., 1997).

In this regard, this study contributes to the emerging theory on dynamic capabilities in the specific context of the public sector. From the public sector organizations perspective DCs are critical to its success as they require the "ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments" (Teece et al., 1997; p.516). DCs are acknowledged as a source of sustained competitive advantage and a requirement for long-term survival (Ambrosini and Bowman, 2009). Bryson et al. (2007) underlines the importance of building capabilities to produce the greatest public value for key stakeholders at a reasonable cost. Also, Pienning (2013) takes this view forward and contends that without continuously renewing DCs, public

 ISBN: 978-9963-711-37-6

organizations will face difficulties in responding effectively to changes in their environments. Building on this point, and given the fact that scant attention has been given to the public sector (Pienning, 2013), this study attempts to uncover how DCs affect organization's performance in public organizations. Although the relationship between service innovation and organisational performance is well researched, little empirical research has investigated whether this construct exercise an effect in terms of re-aligning the organization's resource and capabilities base mediating the relationship between DCs and performance. Hence, this study seeks to address the following research questions: 1) To what extend do dynamic capabilities influence organizational performance of public health providers? 2) To what extend does service innovation mediates the relationship between dynamic capabilities and organizational performance.

DESIGN/METHODOLOGY/APPROACH

The study adopts a predominately quantitative methodological design, in which a survey was applied to a sample of hospital units operating in Portugal. This methodological approach was also complemented by qualitative methods, in which interviews were undertaken in the exploratory and confirmatory stages of this research.

FINDINGS

The findings reveal that there is a positive and direct impact of dynamic capabilities on organizational performance. Results also confirm the mediation effect of service innovation in the relationships between dynamic capabilities and organizational performance.

IMPLICATIONS OF THE STUDY

This study makes the following contributions. First, it draws upon literature by analysing the synergistic effect between dynamic capabilities, service innovation and organizational performance. In line with Protogerou et al. (2011) the study demonstrates that dynamic capabilities are not an ambiguous abstraction that cannot be measured and analysed but can be translated into specific organisational processes, which can be empirically analysed. Second, applying to a large scale survey this study went further by proposing a measurement scale and explored the relationships between relevant constructs, such as dynamic capabilities, service innovation and performance. In terms of future research, as with every study, this study is not devoid of limitations. We are well aware of the limited ability to generalize the findings, as the study centres on the public health care sector. Future studies are needed to explore other industry research settings.

ISBN: 978-9963-711-37-6

INVESTIGATING THE INFLUENCE OF LEARNING ORIENTATION ON THE ACCEPTANCE AND USE OF NEW INFORMATION TECHNOLOGIES AMONG OLDER ADULTS

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ABSTRACT

PURPOSE

The main objective of this study is to investigate the acceptance and usage process regarding information technologies among older adults. Drawing on Social Learning Theory, we propose a model which conceptualizes older adults' learning orientation as a relevant construct in explaining consumer behavior in relation to technology acceptance and usage (UTAUT MODEL). The study reviews extant research while providing a holistic approach of the field. Adopting a quantitative methodological approach, the proposed model was empirically tested in a sample of older adults. The findings present valuable implications for both public sector decision makers who need to conceive appropriate policies to facilitate Internet usage and acceptance, and to marketers who need to customise their offerings to this demographic segment.

INTRODUCTION

Information and communication technologies (ICTs) provide great potential for addressing many societal challenges such as the ageing population. Ensuring that every citizen has a basic level of "universal access" to information technologies has been a major task for policy makers. Yet, older individuals vary in their need, desire and ability to learn and this is particularly evident in the context of technology (Boulton-Lewis, Buys, Lovie-Kichin, Barnett and David, 2006). Social Cognitive Theory suggests that the characteristics of individuals place an important emphasis in the social learning process while affecting behaviour. Considering that attitudes are claimed to influence behaviors, individuals with a positive attitude towards learning are more likely to adopt and use the Internet. However, the learning orientation of older adults are rarely investigated in the extant literature when conceptualizing older adults' acceptance and usage of technology."

Older adults are considered as the fastest growing consumer group of internet users (Wagner, Assanein and Head, 2010). Research suggest that ICTs can be used as an important vehicle to help

 ISBN: 978-9963-711-37-6

older people overcome isolation and loneliness, increasing possibilities for keeping in contact with friends and also extending social networks (Hazer and Sanli, 2010), gaining access to services and improving cognitive skills (Slegers et al, 2012). As eGovernment and eCommerce become more important, it is crucial that everyone has the accessibility to ICTs to access public and commercial services. This is particularly important in the context of the potential for new services targeting to improve the quality of life of older people (Barnard, Bradley, Hodgson and Lloyd, 2013).

Yet, a digital divide still exist between people who have regular access to technologies and those who do not. The adoption of new technologies requires motivation and the development of particular skills. Older adults are a highly heterogeneous group. While some older individuals may perceive the using of new technologies as a difficult and impossible mission, others are motivated and willing to integrate the use of new technologies into their daily routines. Thus, there is a greater need to better understand the driving factors and barriers about ICT acceptance and use among older adults (Verdegem and Marez, 2013). In this research, we investigate the role of learning orientation on the acceptance and usage of ICTs among older adults through the lens of Social Cognitive Theory.

DESIGN/METHODOLOGY/APPROACH

The present study employs a quantitative approach. The study empirically examines the proposed model on a sample of older adults in Portugal.

PRACTICAL IMPLICATIONS

The findings from the present study may assist public sector decision makers who need to conceive appropriate policies to facilitate internet usage and acceptance, and marketers who need to customise their offerings to this demographic segment.

Keywords: *ICT; Internet; Older adults; Social Learning Theory; UTAUT;*

REFERENCE LIST:

References will be provided upon request

ISBN: 978-9963-711-37-6

HORIZONTAL COLLABORATIONS IN AGRI-FOOD SUPPLY CHAIN: PRODUCERS' MARKETING CHOICES WITHIN THE *FAIR TRADE* CHAINS

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ABSTRACT

Many Authors recognize the deep challenges that are affecting, more and more, the agri-food industry. The driving forces of the mentioned changes mainly belong to: a) the liberalization of markets (at both national and international level) that increases competition between and among firms', as well as between and among global supply chains (Bijman and Tonis, 2008); b) the growing power of big suppliers and supermarkets that lead to the restructuring of the vertical relations along the chains (Ton et al, 2006); c) The rise of new and different value chains, like, for example, those for organic and fair trade products (Raynolds, 2002; Renard, 2003; Winters, 2002),

In such circumstances, individual producers aren't able to compete with buyers and the Organized Distribution, thus impelling the emergence of Producers Organizations (POs) as a way to strengthen their own position within the chain. The most recent World Development Report (WDR 2008) makes the case for POs as key actors in agri-food progress. POs play an important role in rural development because of their ability to support economic growth and social cohesion; they help their members to enhance products quality, to guarantee safety and to reduce transaction costs. Similarly, POs significantly support the design of marketing strategies, improving the effectiveness of the individuals' actions. This is the reason why we considered POs strategic choices instrumental in increasing the value generated throughout the chain.

POs became even more important in *Fair Trade* chains, within which only the "organized" farmers may grasp a "premium price" (Bijman and Tonis, 2008)

Though the labeled (fair trade) products represents only a minor share of the global market, *Fair Trade* has dramatically grown in recent years. The *Fair Trade* movement seeks to transform international market relations, shaping new consumer/producer links based on trust, equity, and fairness (TransFair USA, 2001). *Fair Trade* networks link consumers in the developed North with producers in the under-developed South via multifaceted market and non-market exchanges. The buying organizations act as importers, wholesalers and retailers of the products purchased from the Southern POs (Raynolds, 2002). POs supply the products and help farmers to negotiate a fair share of the total profit generated.

 ISBN: 978-9963-711-37-6

Generally speaking, POs in *Fair Trade* chains differ from POs acting within traditional chains. According to Moore (2004) POs belonging to *Fair Trade* chains must explicitly aim to provide safe and healthy working conditions and other social benefits to their workers; they are usually organized as producer-controlled co-operatives, NGOs or community groups that are trading to support social and development programs. In addition to social provision, producers are expected to conduct their production and trade in such a way as to cause the least possible environmental damage. A further emphasis is on cultural identity and in market promotion.

Mainly because of the inner characteristics of fair trade products, as well as of the way they are distributed, one would expect that marketing strategies also differ.

Supporting our idea, Moore (2004) noted that fair trade products are sub-standard compared with the others on the market and priced above comparable products.

How does it affect the POs marketing strategies?

We strongly believe that, apart from the basic utility of the product itself – be it coffee, tea or chocolate – *Fair Trade* products are perceived as more "ethic" than the traditional ones.

From a marketing perspective, therefore, the communication of the ethical issues, englobed into the products, needed to be stressed.

According to the above considerations, our paper aims:

- to explore the way POs act within the *Fair Trade* global chains. In doing this, we focus our attention on the agri-food sector
- to investigate the marketing strategies adopted by POs within the *Fair Trade* global chains, in order to highlight both similarities and diversities between traditional and *Fair Trade* marketing choices.

The research' results provide POs with new insights about the marketing strategies within the field of *Fair Trade*, allowing them to improve the effectiveness of their own strategic choices. Exploring the way *Fair Trade* products are perceived by the customer, will additionally enable the POs to select the most suitable strategies to gain success.

ISBN: 978-9963-711-37-6

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 ISBN: 978-9963-711-37-6

THE SAVINGS SCHEMES CLUBS (STOKVELS) AS PROSPECTIVE CUSTOMER BASE FOR SME'S

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ABSTRACT

Apartheid was a huge resource accumulation project designed to benefit mostly whites and leaving mostly Africans at the sharp edges of subsistence. However, this also developed strong economic solidarity amongst Africans who started and sustained to this day some savings schemes clubs (stokvels). Stokvels refer to as invitational savings schemes, where members regularly contribute on an agreed amount from which they receive a once-off lump sum.

A nationwide survey by African Response found there are 811 830 stokvels in South Africa. The estimated value of this market is R44bn, a combined membership of over 11.4-million people, representing 23% of the adult population.

This study is focused on grocery stokvels and investigates the possibility of these stokvels becoming a customer base for SME's. These SMEs need to operate as entrepreneurial organizations in order to increase their customer base. As Lumpkin and Dess (1996:142) assert, entrepreneurial organizations posses adaptive capabilities and are linked to increased business success and improved organizational survival in condition of uncertainty.

The focus is on eliciting the views of the SME's on leveraging this opportunity and that of the leadership of the stokvels on what it will take to take their business to the SME's. A qualitative approach is taken with semi-structured and two focus group interviews are at the heart of the investigation. The study shows that little benefit is being gained by SMEs as these stokvels prefers big retail outlets for their purchasing and leaders of these stokvels showing no confidence in SMEs meeting their demands.

 ISBN: 978-9963-711-37-6

MATHEMATICAL MODELS FOR THE MANAGEMENT OF PUBLIC RESOURCES IN A SPENDING REVIEW CONTEXT

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ABSTRACT

The aim of this research is to identify new ways of improving the whole circuit, starting with tax payments made by citizens and ending with the supply of goods and/or services to the public, while enhancing the use of the *res publica* and its value when shared and managed with transparency and in an appropriate way.

With this aim in mind, the following questions represent the guidelines of the project:

-what actions can we initiate to improve the citizen's perception of the activity of public administrations, which is financed by that same citizen through internal revenue?

-public administrations can count on a set of public resources to achieve social goals. Are all these resources measured and reported on the balance sheet?

-how can we optimize the allocation of such resources in order to rationalize public expenditures and avoid generalized cuts, which can threaten the efficacy and efficiency of the administrative action in the long-term?

In response to the above-mentioned questions, the method of analyzing that is being proposed is quali-qualitative. On a methodological level the work is structured in various phases. The theme of accounting harmonization has been dealt with.

Keywords: *New Public Management, IPSAS, accounting harmonization, public resources, local administrations, financial statement.*

INTRODUCTION

Following the 2008 economic crisis our society has been going through a difficult period, which affects various social classes in different ways and imposes remarkable social changes. In such phases the citizen tends to reduce his or her expenditure and tries to identify new sources of income. In these situations we tend to observe a transition from individualism to sharing. The role of the state is

 ISBN: 978-9963-711-37-6

enhanced, together with its responsibilities. The quality and quantity of work and services supplied by public administrations represent a critical factor for business competitiveness and citizen wealth. Public administration management requires knowledge of the rules that govern corporate reality, while remembering that the public administration has its peculiar traits.

OBJECTIVES AND RESEARCH QUESTIONS

The aim of this research is to identify new ways of improving the whole circuit, starting with tax payments made by citizens and ending with the supply of goods and/or services to the public, while enhancing the use of the *res publica* and its value when shared and managed with transparency and in an appropriate way. With this aim in mind, the following questions represent the guidelines of the project:

- what actions can we initiate to improve the citizen's perception of the activity of public administrations, which is financed by that same citizen through internal revenue?
- public administrations can count on a set of public resources to achieve social goals. Are all these resources measured and reported on the balance sheet?
- how can we optimize the allocation of such resources in order to rationalize public expenditures and avoid generalized cuts, which can threaten the efficacy and efficiency of the administrative action in the long-term?

METHODOLOGY OF RESEARCH

In response to the above-mentioned questions, the method of analyzing that is being proposed is quali-qualitative: 1) the application of mathematical methods and models to business decisions; 2) the testing of new techniques of accounting for public resources in light of national and international accounting standards.

On a methodological level the work is structured in various phases: a) analysis of tangible and intangible resources available for the public administration; b) identification of suitable methods for recording, evaluating and managing resources in the context of a "spending review"; c) study and comparison of national, European and international accounting standards (National Accounting Standards – OIC - The Italian Standard Setter, European Public Sector Accounting Standards – EPSAS, International Public Sector Accounting Standards – IPSAS); d) broadening the knowledge of methods of financing public administration; e) identifying pilot projects for the evaluation, management and

 ISBN: 978-9963-711-37-6

control of public expenditure on an international level; f) determining the citizen's needs and satisfaction level.

In relation to the first two steps, the theme of accounting harmonization has been dealt with. This has as its main objective the improvement of the information provided to the stakeholders by accounting data regarding the public administration's financial, economic and property management. In Italy, in fact, the government's limited ability to explain the operating conditions of the public sector and to bring about focused and incisive actions has been evidenced in many instances (D'Alessio, 1992; Zangrandi, 1994; Borgonovi, 1995, Mussari, 1996; Valotti, 1996; Caperchione, 2000; Steccolini, 2004; Farneti, 2006; Lapsley, 2009).

FOCUS ON ACCOUNTING HARMONIZATION IN LOCAL GOVERNMENTS

The harmonization of accounting systems and public balance sheets is the result of the necessity to coordinate public finance, which arose over thirty years ago and is essential both nationwide and on a European level (D'Alessio, 2015).

In Italy, Law no. 42/2009 establishes as its objective the promotion of administrative, financial and accounting responsibility of public administrations through the transparency of income and expenditure decisions, oriented to guarantee the effective realization of efficacy, efficiency and economy. For this purpose Legislative Decree no. 118/2011 was issued, establishing the adoption of new accounting principles in local administrations. In particular, paragraph 36 of this law established, starting from 2012, a three-year pilot period of experimentation with new arrangements on the part of some local administrations to verify the real correspondence of the new accounting system to the informative necessities of public finance.

THE SAMPLE SURVEY OF LOCAL ADMINISTRATIONS INVOLVED IN THE PILOT

Within the framework of the present project, the first effects caused by the application of the new accounting rules of Law no. 118/2011 have been analyzed by means of a mixed research method based on two different types of survey. The first survey aims to identify, by meeting with representatives of local administrations and the compilation of a questionnaire, the effects of the new accounting system on management in the experimentation phase. The second survey analyzes the accounting results of this reform, evaluating the transparency and the comparability of experimental balance sheets, as well as identifying advantages, critical situations and possible improvements.

 ISBN: 978-9963-711-37-6

FUTURE PERSPECTIVES

Preliminary results stress that public accounting reform is able to both improve the information provided to stakeholders by accounting data about financial management of public administrations and to make local administrators more responsible regarding the management of public resources (Masi, 2015). The effective knowledge of public resources and the modality of management could therefore allow a citizen to better evaluate the actions of the local authority administrators and also stimulate his/her active participation in the socio-economic context of membership; this could represent an innovative and alternative modality to paying taxes. A deep analysis of managing techniques adopted in the international context will help verify these hypotheses and draw a comparison of management methods of public resources in Italian and European local administrations; also, it will help improve the quality and quantity of services offered to citizens.

This research, which proposes a comparison among different accounting techniques used for public resource management (financial accounting and economic/assets accounting (Guthrie, 1998; Carnegie and West, 2003; Carlin, 2005; Van der Hoek, 2005; Paulsson, 2006; Anessi Pessina and Steccolini, 2007; Simeone; 2015)) represents a contribution towards: 1) implementing European and international accounting standards (EPSAS and IPSAS) currently underway; 2) identifying new elements and information useful to improve the management choices and techniques of public managers.

In prospective terms, in consideration of the peculiar nature of the public sector, it appears that the use of both accounting systems could represent a strong instrument to maintain the balance of financial statements of local administrations; this could also be useful to build a complete information basis to guide accounting harmonization of public administration policies.

The present research project, which aims to identify alternative and concrete solutions for the better management of public resources, is addressed to all academics in public management and public governance and operators of the public sector. Its limits can be traced back to the continuing evolution of accounting and fiscal rules that lately have been influencing and modifying the choices of local administrators and which require several caveats to be made about the comparison of balance sheets over time.

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 ISBN: 978-9963-711-37-6

KNOWLEDGE CREATION IN SMALL AND MEDIUM FAMILY FIRMS: DOES ENTREPRENEUR'S PERSONALITY MATTER?

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ABSTRACT

Knowledge has been widely recognized as a major strategic resource for firms operating in an uncertain environment (Wee and Chua, 2013; Nonaka, 2007). Indeed, there is a tendency for enterprises to become more intensive among knowledge by hiring more "minds" than "hands", while the demand to manage this knowledge has risen (Yew Wong, 2005). Along these lines, knowledge creation is considered to be a central part of effective knowledge management (McAdam and Reid, 2001), affecting a firm's performance (Li *et.al*, 2009), sustainability and growth (Brannback *et al*., 2008). Finally, it has been suggested that personality traits are associated with particular knowledge processes (Elias *et al*., 2013; Borges, 2012; Matzler *et al*., 2011) and therefore could potentially enhance knowledge creation.

This theoretical research examines entrepreneurial personality as a prospective driver in knowledge creation process in family SMEs. Although SMEs are indicated as the backbone of many countries' economy (Wee and Chua, 2013), the lack of studies in knowledge management is noteworthy (Purcarea *et al*., 2013; McAdam and Reid, 2001). Existing research highlights the owner's crucial role in SMEs (Man *et al*., 2002) regarded as a firm's knowledge warehouse (Desouza and Awazu, 2006) and the creator of organizational knowledge (Wee and Chua, 2013).

Additionally, family businesses are considered to be important to the economy of many countries (Cabrera – Suarez *et al*., 2001; Littunen and Hyrsky, 2000), as their distinguishing characteristics, which are difficult to copy and imitate (Habbershon and Williams, 1999), can turn out to be the source of their competitive advantage (Cabrera-Suarez *et al*., 2001). Not only do family companies possess a great potential in specific tacit knowledge creation (Claver-Cortés *et al*., 2013), but also their capability to create knowledge is regarded as a critical strategic asset (Cabrera – Suarez *et al*., 2001). In fact, family firms have been categorized as one-man organizations, where the owner is the source of organizational knowledge (Tsang, cited in Basly, 2007).

In Greece, family businesses constitute approximately 80% of the firms (Pyromalis and Vozikis, 2009), while SMEs account for 99,9% of the total enterprises (OECD, 2014). Although previous studies in Greece have focused on entrepreneurial personality traits (Tsoukatos, 2014) and knowledge creation (Markatou, 2011; Caloghirou *et al*., 2004), little emphasis has been given on the relationship between these variables. This paper aims to contribute to the knowledge creation and entrepreneurial

 ISBN: 978-9963-711-37-6

personality literature, by proposing a framework of analysis that examines the effect of entrepreneur's personality on knowledge creation process in family SMEs.

Keywords: *Knowledge Creation, Family Business, Entrepreneurial Personality, SMEs*

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 ISBN: 978-9963-711-37-6

TECHNICAL EFFICIENCY OF APPLE FARMS WITH PGI QUALITY LABEL

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ABSTRACT

Agricultural products of certified quality like PGI -Products of Geographical Indication, are increasing in number and diversity in the EU for a variety of reasons; they encourage the diversity in European agriculture, they protect brand names and property rights and bring benefits to producers and consumers. Producers often enjoy higher prices and consumers have access to genuine quality products. Additional benefits occur for rural development, particularly in less advantaged areas, because new employment opportunities are created. Italy is the country with most PDO/PGI products in the EU, whereas Greece is in the fifth place with 101 such products. The aim of this paper is to arrive at estimates of technical efficiency of PGI apple farms in Greece, applying the DEA methodology. The area of study belongs to the Prefecture of Kastoria, in the region of Western Macedonia. The sample used in this study, consisting of 107 apple farms, is collected within the specific area of protected geographical indication, using a structured questionnaire and with face to face interviews, in 2012-2013. Results indicate the existence of technical inefficiency in the sample of PGI apple farms.

Keywords*:* *Technical efficiency, PGI apples, Data envelopment analysis, Greece*

ACKNOWLEDGEMENTS

This research has been co-financed by the European Union (European Social Fund – ESF) and Greek national funds through the Operational Program "Education and Lifelong Learning" of the National Strategic Reference Framework (NSRF) - Research Funding Program: ARCHIMEDES III. Investing in knowledge society through the European Social Fund. Archimedes III: Funding of Research Groups in TEI of W. Macedonia, project with the title'Innovation potential in the production and marketing of traditional products in the region of Western Macedonia', (MIS 383583).

 ISBN: 978-9963-711-37-6

IDENTIFICATION AND CLASSIFICATION OF IRISH BEEF FARMING SYSTEMS: A MULTIVARIATE ANALYSIS OF SUSTAINABILITY INDICATORS

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ABSTRACT

INTRODUCTION

Agricultural land is approximately 71% of the total land of Ireland and 75% of that is used as pasture land for dairy and dry-stock production. Specifically the beef and dry stock industry is a major contributor to the Irish economy with the republic of Ireland aiming at increasing its beef production by 20% by 2020. As the demands for a more intensive production increase on the one hand, and climate change challenges dictate a reduction of pollution on the other, it is necessary for the livestock sector to be intensified in a sustainable way (DAFM, 2010). The sustainable performance of farms has been the focus of research attention in recent years. One approach to measuring farm performance is through use of indicators indices that can provide a holistic evaluation of sustainable performance at farm level (e.g Ryan et al, 2014). However, given the great disparities that can appear between farms, it is often valuable to examine farms by classifying them into farming for which similar development strategies and interventions would be appropriate" (Dixon et al., 2001). The purpose of this study is to identify farming systems based on the sustainable performance of cattle farms in Ireland by applying multivariate analysis on indicators derived from the Teagasc National Farm Survey (NFS)[1].

METHODOLOGICAL FRAMEWORK

The study's conceptual framework emerges from the combination of the OECD methodology for aggregation of indicators (Nardo et al., 2008) and the protocol for farm classification of Köbrich et al. (2003) and is as follows: i) selection of indicators; iii) elimination of outliers; iv) quantification and optimal scaling; v) data normalization; vi) assignment of weights; vii) factor analysis on the weighted indicators; viii) Hierarchical and K-mean Cluster analysis on factors; ix) link to the original dataset. The clusters emerging from the analysis represent a farming system each and their average performance is compared to an optimal value (the best performing farm in the dataset) to extract a clusters' performance rate for each indicator. The indicators were appropriately designed using the

[1] The Teagasc NFS is conducted annually and provides the data for the EU Farm Accountancy Data Network

 ISBN: 978-9963-711-37-6

NFS data to encompass three pillars of sustainable performance: economic, environmental and social (Table 1).

Table 12: List of indicators used with measurements and units applied

Indicator	Measure	Unit
Land productivity	Gross Output per hectare	€/hectare
Profitability	Market based Gross Margin/ha	€/hectare
Labour productivity	Income per unpaid labour unit	€/labour unit
Market Orientation	Output derived from the market	% of total output[1]
Investment viability	Farm is economically viable[2]	1=viable, 0= not viable
GHG emissions/ €1000GO[3]	IPCC estimate/ farm	Tonnes CO_2 equivalent
Nitrogen balance/ha	Risk to water quality	Kg N surplus/hectare
Emissions from fuel /electricity/€1000GO	CO_2 equivalent/kg output	Kg CO_2 equivalent
Household Vulnerability	Farm business is not viable & no off-farm employment	% of total sample
Education Level	Binary (1 = higher education)	% of total sample
High age profile	No member < 45 years old	% of total sample
Isolation Risk	Farmer lives alone)	% of total sample
Hours worked on farm	Work load of farmer	Number of hours

RESULTS

The analysis produced 4 clusters (farming systems). The first cluster represents 25.7% of the sample and is characterized by low productivity of labour and low investment viability. It has the lowest performance rate in emission from fuel and electricity and in high age profile, but it shows the best performing rate in terms of hours worked on farm. The second cluster represents 19.55% of the sample. It has the highest performance score in GHG emissions and in N balance, as well as in household vulnerability, with 82.86% of the households counting a viable. The third cluster accounts for 32.12% of all farms, with 0% of farms in this sample being viable. The 4th cluster, which represent the remaining 22.63% of the sample, can be characterized as the best performing one, as it has the highest scores in all economic indicators, in emissions from fuel and electricity (also relatively high score in GHG emissions) and in two social indicators: education level with 100% of the farmers being highly educated and in isolation risk (95.74%). Results for all indicators are shown in Table 2.

[1] Total output includes subsidies
[2] An economically viable farm is one that has the capacity to remunerate family labour used on the farm at the average agricultural wage and the capacity to provide an additional 5% return on non-land assets.
[3] Gross output per farm

ISBN: 978-9963-711-37-6

Table 13: Efficiency scores of the entire sample and four farming systems

	All	Cluster 1 (25.7%)	Cluster 2 (19.55%)	Cluster 3 (32.12%)	Cluster 4 (22.63%)
		Efficiency	Score		
Land productivity	45.62%	34.46%	36.35%	38.45%	61.92%
Profitability	36.37%	20.75%	32.22%	30.95%	59.41%
Labour productivity	19.80%	4.55%	24.37%	10.26%	36.57%
Market Orientation	69.78%	71.67%	56.58%	68.52%	75.97%
Investment viability	36.76%	3.26%	60.00%	0.00%	82.98%
GHG emissions/ €1000	41.30%	34.06%	48.33%	37.96%	45.07%
GHG fuel / electr/€1000	4.28%	2.10%	5.16%	3.92%	10.16%
N balance / Ha	1.72%	1.80%	3.59%	2.10%	1.22%
Household vulnerability	56.92%	64.13%	82.86%	1.18%	97.87%
Education level	66.01%	54.35%	28.57%	58.82%	100.00%
High age profile	29.25%	6.52%	50.00%	48.24%	8.51%
Isolation risk	80.24%	91.30%	62.86%	82.35%	95.74%
Hours worked on farm	15.76%	22.21%	20.85%	13.18%	16.04%

The systems created were statistically linked to the original data set. Results showed strong relations between performance and advisory contacts, farm size and participation in discussion groups. To conclude, multivariate analysis on Irish beef farms' sustainability indicators has proved to be useful for evaluating their sustainable performance. We highlight the relation between economic and environmental performance and education, and the fact that most Irish farms do not belong to the best performing clusters.

Keywords: *Sustainability, Farm Performance, Indicators, National Farm survey, Farming systems, Multivariate analysis*

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 ISBN: 978-9963-711-37-6

CAN THE RIGHT EMOTIONS, ATTITUDE AND IMAGE FOR THE WORKPLACE BE LEARNED?

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ABSTRACT

The term 'soft skills' is a broad, umbrella term covering generic, transferable or employability skills that include elements of human interaction, attitudes and presentational qualities. In recent decades, they have become more important to employers as a result of a growth in the proportion of jobs that have service responsibilities and types of organisational working that require collaboration and a large element of communication.

Employers are regularly reported in surveys and academic research as stating that they feel that people entering the labour market often lack some of these soft skills. However, a perception that it is not possible to teach skills that are based so much on personality traits which are developed from an early age means that employers do not feel confident helping their employees to develop these abilities.

These concerns lead to the question of how the various types of soft skills are developed. Although it is clear that an individual's childhood circumstances and experiences are important factors, there is also a consensus that experience, either based in work or other activities, is very important for people of any age. This paper looks at some of the skills that come under the broad 'soft skills' heading, specifically those which require understanding and control of emotions at work, and those which require the ability to present the right 'aesthetic' or attitude. These skills are set within the changing context of modern work followed by a consideration of the potential effects on people from different backgrounds of the rising demand for soft skills.

The paper will briefly consider some of the different possible methods for developing soft skills. These include the link between personality and soft skills with the implication that those with stronger skills have developed them during childhood and also that there is a limit to how much further they can be developed as an adult. In addition, some programmes and interventions implemented by national governments and public sector agencies are focused on developing the employability of young or unemployed people and elements of these are aimed at developing soft skills. The idea that these skills can only be learned through experience will also be discussed and related to this is the view that apprenticeships or work-based learning are the best approaches to training for these competences.

 ISBN: 978-9963-711-37-6

The paper will conclude with some ideas for further research involving the evaluation of some of these programmes and the synthesis of the findings.

Keywords: *Soft skills, personality, employability, UK.*

ISBN: 978-9963-711-37-6

THE TIME IS OVER FOR ITALY'S SPECIAL JURISDICTION ON WATER RESOURCES. A COMPARATIVE PERSPECTIVE

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ABSTRACT

Having regard to water resources, even today Italy maintains a special court system along with ordinary civil and administrative courts. At the end of 2014, a bill has been proposed to the Italian Parliament in order to abolish it, on the assumption that its peculiar regulatory framework is contrary to the principles of economy and effectiveness. Thus, the present analysis focuses on the viability of the Italian judicial review regarding water resources. Firstly, it takes into consideration the main questions posed by the Italian regulatory regime in the light of those principles. On the one hand, it is controversial how to correctly qualify such a peculiar system of courts. On the other, a conflict of judicial decisions together with a duplication of actions may arise in cases where powers vested in public authorities are involved. Secondly, it takes into account the experiences of similar legal systems, such as France and Spain, in order to better understand the sustainability of the Italian solution. Although all the considered legal systems entitle public authorities with an analogous range of powers regarding water resources, France and Spain opt for a full jurisdiction of administrative courts. Eventually, the present analysis reckons that the Italian solution is in contrast with the principle of legal certainty as well as the aforementioned principles.

Italy's judiciary is most certainly peculiar within the European Union when it comes to water resources. In general, same as other European legal systems *à droit administratif*, the Italian Constitution establishes a dual court system based on the distinction between civil courts and administrative courts. In addition to that, in cases where water resources are concerned, the Italian legal system still maintains a peculiar court system, composed by the Regional Courts of Public Water (*Tribunali Regionali delle Acque Pubbliche*, TRAPs), courts of first instance, and the High Court of Public Water (*Tribunale Superiore delle Acque Pubbliche*, TSAP), whose origin dates back to 1916 and it is now regulated by law no. 1775 of 1933. More precisely, TRAPs and TSAP have competence in matters related to water diversion and usage as well as state property of water resources. At the end of 2014, Bill no. AC 2658 has been proposed to the Italian Parliament in order to repeal the anomaly at issued. According to the explanatory notes, such a tripartition is supposedly in contrast with the general principles of economy and effectiveness.

 ISBN: 978-9963-711-37-6

In consequence of the foregoing, the present analysis focuses on the viability of the Italian judicial review regarding water resources. On one hand, it takes into consideration the main questions posed by the current regulatory regime in the light of the aforementioned principles. On the other, it takes into account the experiences of similar legal systems, those of France and Spain, in order to better understand the sustainability of the Italian solution. France and Spain share with Italy a very similar regulatory framework for water resources, due to their own similar legal tradition and of course to EU regulations on the subject. Having regard to the Italian legal system, the first problem is related to the nature of the courts at issue. More precisely, TRAPs are established by statute as a section of the civil Court of Appeal. On the contrary, the nature of TSAP is much more controversial. TSAP should be considered as a special court equally different from a civil court as well as an administrative court, since its regulatory regime shows no resemblances at all with those of the ordinary courts. In fact, TSAP is established as an autonomous body. Besides, it acts as a court of second instance on decisions issued by TRAPs, whilst it is empowered as a single instance court against decisions issued by public authorities on the matters described before.

Furthermore, the court system at issue clearly appears contrary to the general principles of economy and effectiveness in the public sector. As stated in the same Bill no. AC 2658 explanatory notes, the operating expenses related to those special courts are disproportionately high in comparison to the small number of actions annually brought before them. More precisely, the system is composed by a total of nine courts deciding 1.150 cases per year, according to the latest data provided by the Italian National Institute of Statistics.

For the same reason, the proposed new regulation aims to maximize its effectiveness by abolishing TSAP and TRAPs and by reallocating their public funds and their personnel (judges as well as administrative staff) to the competent civil Courts of Appeal.

Moreover, another problem is the distinction between special jurisdiction and general administrative jurisdiction, when powers vested in public authorities are involved.

In this perspective, the present analysis aims to find out whether a similar solution has been adopted by France and Spain. In France, the environmental code (Code de l'environnement) entitles public authorities with a wide range of powers regarding water resources, however no specific provisions regulate judicial review of the consequent decisions. On the other hand, in Spain the Water Act 1998 (*Ley 29/1998 de Aguas*) at section 121 expressly provides for full jurisdiction to administrative courts on decisions issued by public authorities related to water.

 ISBN: 978-9963-711-37-6

In conclusion, Italy's peculiar court system appears contrary to principles of economy and effectiveness, indeed. In circumstances where powers vested in public authority are involved, it could lead to a conflict of judicial decisions together with a duplication of actions. On the contrary, the simplicity of the solution adopted by France and Spain seems in line with the principle of legal certainty and it seems more effective in order to safeguard water resources.

Keywords*: Special jurisdiction – water resources – competence – public authorities – Italy – Spain – France – comparison – principle of economy – principle of effectiveness.*

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 ISBN: 978-9963-711-37-6

EXAMINING THE FACTORS AFFECTING FEMALES' VENTURES PERFORMANCE IN THE CREATIVE INDUSTRY

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ABSTRACT

MAIN RESEARCH IDEA

This working paper explores the factors affecting females' ventures performance in creative industry. An extant review both of creative industry and female entrepreneurship literature highlights certain factors related to entrepreneurial ventures success, growth and performance. The basic scopes of this research are firstly, to determine the appropriate measures of venture performance in a creative industry context and secondly attempts to develop a model of predicting factors to venture performance taking into account the specificities of creative industry and the factors affecting female entrepreneurship according to prior research. A review in the relevant literature reveals a gap of such an "integrated" model.

THEORETICAL BACKGROUND

The importance of creative industry has been recognized during 1990s as the developed countries moved away from the production of goods and services and orientated to the production of ideas and knowledge (Csikszentmihalyi, 1997; Matheson, 2006). This trend was accompanied by a turn in policy priorities to knowledge-related firms for the sustainment of economic growth (Chaston, 2008; Cunningham, 2002; Menger, 1999). Moreover, it has been argued that these professions not only enhance economic growth, but also they encompass social and cultural development (Florida, 2002; Matheson, 2006; Volkerling, 2001). This increasing importance of creative industries on development generally has affected the term creative industry by expanding its meaning and incorporating new sectors which in the past were partially related to creative industry (Bridgstock, 2012; Cutler, 2008; Parkman, Holloway, & Sebastiao, 2011; Scott, 2012). Finally, the term creative industry has replaced gradually the term culture industry in order to stress the expansion of meaning and the increasing role of creativity and innovation (Flew, 2002; Horkheimer & Adorno, 2002; Throsby, 2008).

It seems reasonable that the rise of creative industries after 1990s has influenced entrepreneurship inside this sector which was more complicated in the past due to several matters, such as the determination of the nature of firm in creative industry and the way such a firm is organized (Caves,

 ISBN: 978-9963-711-37-6

2002; Phillips, 2010). This upward trend was enforced by two factors. The first is the change of nomenclature in the sector accrued by the "marketization of culture" and the "culturalisation of market". The second is the increasing awareness of people about self-employment and small- and medium-sized firms in the sector (Ellmeier, 2003). Entrepreneurs in creative industry share certain very specific characteristics and intensions, such as to produce something aesthetic, to enrich their talents and their creativity and to combine entrepreneurial with artistic orientation (Aggestam, 2007; Chaston, 2008; de Bruin, 2005).

Although female entrepreneurship in the past was not extensively researched, many females became after 1980s self-employed and established also their small firms in order to access economic and employment reality (Bowen & Hisrich, 1986; Devine, 1994; Jennings & Brush, 2013). Nowadays, female entrepreneurship attracts an intensive both academic and business interest, as it is considered a dynamic factor of economic growth and creation of new jobs (Apergis & Pekka-Economou, 2010; Orhan & Scott, 2001). Female entrepreneurs manifest more positive attitudes towards sectors primarily based on creativity, rather than innovation in which males outbalance (Buttner, 2001; Lau & Li, 1996; Petridou, 2009; Zhao, Seibert, & Lumpkin, 2010). The creative personality of the creator / artist attracts a high interest for further examination as it plays a key role on creative industry entrepreneurship (Aggestam, 2007; Henry, Hill, & Leitch, 2004; McRobbie, 2003; Spilling, 1991).

THE EMPIRICAL RESEARCH

The dependent variable of our research model is venture performance. A review in the relevant literature shows that there is no consensus among scholars on defining this variable. A part of them emphasize only financial success indicators (Brush & Vanderwerf, 1992; Gatewood, Shaver, & Gartner, 1995; Menguc & Auh, 2008; Murphy, Trailer, & Hill, 1996; Wasserman, 2003; Wiklund & Shepherd, 2005). Another part recently embodies venture growth or sales growth in their constructs of venture performance. Concerning the measurement of venture performance in the field of creative industry, only few attempts have been noticed to determine it but not within an integrated way (Cattani & Ferriani, 2008; Korunka, Frank, Lueger, & Mugler, 2003; Madjar, Oldham, & Pratt, 2002; Parkman et al., 2011). In our empirical model, we have adopted the financial measures of Menguc and Auh (2008) but we have also added measures based on Chen et al. (2015) work about creative industries performance.

The basic hypotheses of our research are the following. H1: Women entrepreneurs who are more artistically-oriented show a higher creative performance; H2: Women entrepreneurs who are more entrepreneurially-oriented show a higher financial performance; H3: Women entrepreneurs who have more creative personality perform better; H4: Women entrepreneurs who participate in or belong to

 ISBN: 978-9963-711-37-6

networks perform better; H5: Women entrepreneurs who have been consulted by a mentor perform better. H6: Women entrepreneurs who have been motivated more by pull factors rather than push factors to entrepreneurship perform better.

METHODOLOGY

A mixed methods triangulation design has been chosen for our empirical research which still runs. Mixed methods, providing Tashakkori and Creswell (2007,4) 'deliberately inclusive' definition, is "research in which the investigator collects and analyses data, integrates the findings, and draws inferences using both qualitative and quantitative approaches or methods in a single study or program of inquiry". In particular, a convergence model of mixed method triangulation design has been adopted for the collection and analysis of data. In such a model, the researcher gathers and analyses separately quantitative and qualitative data of the examining issue and then the different results are converged during the interpretation (Creswell 1999; Bryman and Bell, 2011). The data are collected through a structured questionnaire for the quantitative part and semi-structured interviews for the qualitative part as well.

THEORETICAL AND PRACTICAL IMPLICATIONS

The current study contributes to enriching knowledge around female entrepreneurs' performance in creative industry, by demonstrating that artistic personality, creative personality, networking activities, mentoring and human and financial capital are indeed important predictors of entrepreneurial performance. A further contribution of the current research is that it constitutes one among the very few studies that illustrate within an inclusive perspective the relationship between the above factors with entrepreneurial performance. Moreover, some special characteristics of women, like push and pull factors model, have been taken into account in order to shed light on the reasons women undertake entrepreneurial activity in the creative industry. Last but not least, the findings draw attention on the appropriate design of educational programmes in creative industry entrepreneurship that should perhaps attempt to integrate more "creative" activities, to focus on mentoring initiatives and to provide certain networking opportunities.

ACKNOWLEDGEMENTS

This research has been co-financed by the European Union (European Social Fund – ESF) and Greek national funds through the Operational Program "Education and Lifelong Learning" of the

ISBN: 978-9963-711-37-6

National Strategic Reference Framework (NSRF) - Research Funding Programme: Heracleitus II. Investing in knowledge society through the European Social Fund.

Keywords: *venture performance, female entrepreneurs, creative industry, networks, mentoring, creative personality, artistic orientation, push and pull factors model*

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 ISBN: 978-9963-711-37-6

AN ANALYTICAL STUDY ON ROLE CONFLICT, ROLE AMBIGUITY AND EMPLOYEE PERFORMANCE USING FACTOR ANALYSIS AND NON-PARAMETRIC CHI-SQUARE TEST

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ABSTRACT

According to Budhwar and Bhatnagar, 2009 India had a long history of labour legislation and industrial relations and there are many challenges to the HRM systems in India, due to the diverse nature of India's society which is marked by regional, sectoral, socio-cultural and political variation. In such a climate it is extremely difficult to have a uniform HR system. According to Wheatherly and Tansik (1993) employees have to deal with the demands from superiors as well as the needs and wishes of customers. Because of such a boundary spanning role, the retail frontline employees are in dilemma whether to customize the retail services as per customers needs or to obey the organizational guidelines and procedures (Bitner, 1990). This dilemma often leads to job role stress. There are different types of job role stress (Pareek, 1993) of these the research under study deals with the two job role stressors prominent in retail industry job role conflict and job role ambiguity (Kahn et.al, 1964). According to Heskett et al. (2003) front line employee's behavior and perception affects the customer satisfaction and intent of buying behavior which in turn have impact on service productivity.

There have been many studies conducted on job role stress and its impact on employee job performance but hardly any with respect to organized Indian retail sector. Also in most of the studies the employee point of view is hardly taken into consideration. Hence as an attempt to fill in this gap the research focuses on understanding how job role stressors (role conflict & role ambiguity) have significant impact on frontline employee role performance towards the customers with special reference to departmental stores located in central, western and harbor suburbs of Mumbai. The study starts with investigating whether frontline employee role performance towards the customers is dependent on job role stressors i.e. role conflict and role ambiguity by means of non-parametric chi-square test. Then it is investigated whether there is negative or positive relationship between job role stress i.e. role conflict and role ambiguity and frontline employee role performance by using Pearson correlation coefficient. The research is explanatory in nature. The sampling design used is stratified random sampling.

According to the findings of the studies job role stressors i.e. role conflict & role ambiguity have significant influence on frontline employee role performance towards the customers. The results of

 ISBN: 978-9963-711-37-6

this study indicate that the effect of job role stress must be considered in the management of an organization. A negative relationship was found between role ambiguity and job performance, and between role conflict and job performance. Behrman and Perreault (1984) and Michaels et al. (1987) also came to the same conclusion. Thus the retails managers should focus on methods of easing role conflict and role ambiguity by redesigning of the HR environment in the department stores. Role ambiguity among frontline employee can be reduced by giving them empowerment, clarity with respect to their personal and organizational objectives and alignment of the two, training in time management, clarity with respect to job responsibilities and expectations from the stakeholders of the department stores along with transparency and clarity in communication and last but not the least frequent,up to-date continuous training and development programs (Chenet et al., 2000)

White and Williams (2000) indicated that education and training are important for maintaining competitive advantage—training courses emphasizing problem-solving techniques could be tailor-made for frontline employees to deal with the stakeholders of the department stores.

Role conflict among the frontline employees can be improved by giving decision making powers , provision of adequate resources to meet the requirements of the customers, resolving grievances with regards to interpersonal and group conflicts and focusing on promotion of team work ,clarity with respect to flexibility of rules ,regulations and policies allowed with respect to meeting customer requirements, focusing on unity of command and providing insight to the frontline employees with respect to the importance of job done by them.

Thus the findings of this study comprise of useful reference information for optimizing the application of organizational management and human resources with respect to departmental stores which can be generalized to organized retail environment. To conclude if these issues are handled tactfully by combined effort of the HR department and management team the contribution of retail sector to Indian economy would continue and multiply in the year to come.

Keywords: *Role conflict; role ambiguity; frontline employee; performance; retail; departmental stores; customers; stress; job; employee engagement*

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 ISBN: 978-9963-711-37-6

SOCIAL COMMERCE DESIGN FEATURES ON E-COMMERCE WEBSITES AND THEIR INFLUENCE ON CONSUMER IMPRESSIONS AND BEHAVIORAL INTENTIONS

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ABSTRACT

The term "social commerce" was first introduced by Yahoo! in 2005. Since then, companies throughout the world have undertaken various social commerce initiatives (privacy policy-making, building trust, establishing return policies, and offering quality assurance) to drive retail sales. Social commerce was estimated to be worth five billion dollars in 2012, and is expected to reach 30 billion dollars in value by 2016. Nevertheless, by now it is considered only 9% of e-commerce in general (www.forrester.com). Particularly, to date businesses face challenges in making e-commerce websites more user-centered by implementing social commerce design features (further – social features) that address consumers' needs. Based on the studies on social commerce design this paper aims to examine the effects of social features on e-commerce websites on consumer impressions and behavioral intentions in the context of purchasing of a laptop computer.

METHODOLOGY

A between-subjects experimental design with two treatment groups and a convenient sample (N=68, 31% male, 69% female, students at Hanken School of Economics) is applied to evaluate the effects of presence or absence of nominated social features on e-commerce website on consumer impressions and behavioral intentions towards a laptop computer. Among the selected social features are customer rating of a product, number of customer reviews, number of answered questions about a product, and opportunity to share information about a product by e-mail, in Facebook, Twitter, and Pinterest. A text-based role-play scenario stated that participants considered initial sets of brands to buy a laptop for themselves as a gift from their parents. Participants read a scenario involving pictures and product information about a laptop computer (Dell Inspiron i3147-3750sLV) presented as a screenshot of e-commerce webpage. Respondents' opinions about the importance of selected social features were collected in the questionnaire following the shopping task.

PELIMINARY FINDINGS

ISBN: 978-9963-711-37-6

Manipulation check was successful. Independent samples' t-test revealed that in both cases the means were not equal ($p<0.01$) and the means are significantly higher for the webpage with social features than for the webpage without social features. The results reported that nominated social features did not affect consumer behavioral intentions ($p>0.05$). Nevertheless, they influenced consumer impressions about a product ($p<0.05$). The webpage without social features produced significantly more positive customer impressions of the product than the webpage with social features. Also all the participants, especially male participants, evaluated the importance of "reading product reviews" social feature significantly higher ($M=7.97$) than the importance of "sharing information in social networks" social feature ($M=4.41$). Additional research will be conducted to manipulate separately nominated social features using bigger sample and a product with a fictious brand name.

PRACTICAL IMPLICATIONS

The findings provide companies with new insight on which type of consumer interactions on e-commerce websites stimulated by social features is more persuasive when consumers make decision about purchasing a laptop computer. These results call for attention of managers with regard to the existing e-commerce applications and capabilities. Also the findings provide guidance for web designers to build more effective e-commerce platforms.

ORIGINALITY

The present research extends the existing knowledge about the influence of social features on e-commerce websites on consumer behavior. The pilot study is one of the first to conduct experiment to test the effects of social features on e-commerce websites on consumer impressions and behavioral intentions, recognizing that social features do not always influence consumer behavioral intentions and they are not equally important for consumers.

Keywords: *social commerce design features, e-commerce websites, consumer impressions, behavioral intentions.*

ISBN: 978-9963-711-37-6

THE IMPORTANCE OF BRAND LOVE TO EXPLAIN LUXURY BRAND CONSUMPTION AND LUXURY BRAND RELATIONSHIPS

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ABSTRACT

Symbolism in luxury consumption is built on the meanings that the relationships consumers establish with luxury brands bring to their lives. *Brand love* can be described as a measure of the emotional attachment between a consumer and a brand, leading to a feeling of love. This feeling can be compared to the interpersonal forms of love. In analyzing luxury brand relationships, two categories of consumption are considered: public consumption (consumption is a vehicle of social self-identity building) and private consumption (consumption foresees the pursuit of personal goals and preferences with no need for public recognition). Hence, this paper is aimed at understanding the importance of *brand love* on explaining luxury consumption and, in particular, luxury brand relationships. Based on literature review, a conceptual model was developed. The study hypotheses to be tested are: (H1) Consumer satisfaction has a positive effect on luxury brand relationship quality; (H2) Luxury brand relationship quality has a positive effect on brand love; (H3) There is an association between brand love and the type of luxury brand consumption; (H4) There is an association between the brand's social dimension and the public luxury brand consumption; (H5) There is an association between the brand's symbolic dimension and the private luxury brand consumption.

Hypothesis tests were carried on a sample of 326 luxury brand relationships. Three hundred eighty three luxury brand consumers were inquired through an on-line field survey. Thirty-four very well-known luxury consumption brands within different product category and brand personality were used as stimulus. Results indicate that brand relationship quality is an antecedent of brand love, brand love is more associated to private consumption than social consumption, and private consumption is associated to the brand's symbolic dimension. A relationship between the symbolic dimension of luxury brand and private consumption was observed. Surprisingly, none association between the social dimension of luxury brand and public consumption was obtained. This might be explained by the fact that participants could feel uncomfortable to admit that the aspect they more value in luxury consumption is the social image conveyed by products and brands. Further research would be necessary to clarify this issue. In general, findings suggest that private consumption of luxury brands is characterized by high emotional ties and deep feelings based on personal preferences and values, while public consumption is more oriented to capture social attention and approval. Managerial implications and future study directions are discussed.

Keywords: *luxury brands, symbolic consumption, luxury brand relationships, brand love.*

 ISBN: 978-9963-711-37-6

WHAT NOT TO DO IN IMPLEMENTING INTERNAL MARKETING WITHIN YOUR ORGANISATION: THE CASE OF A BANKING ORGANISATION IN CYPRUS"

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ABSTRACT

This abstract responds to the lack of research in the area of Internal Marketing (IM) and its practice in Cyprus within the business sector. It presents the perceptions held by senior level managers regarding the IM underlying ideas and implementation within the International Business Centre (IBC) of a leading bank in Cyprus (Bank A), whose name cannot be revealed for confidentiality reasons. At the time the study was contacted, the bank's IBC was the leader in the Cyprus banking industry in terms of the number of customers, customer service and information technology. The study sought to identify the rationale behind the adoption and implementation of IM and the extent to which the specific IM implementation strategy was successful.

The current IM literature reviewed revealed a lack of knowledge and understanding in relation to whether the IM concept is practised within the business sector and the way in which it is practised. IM refers to the application of marketing management knowledge which was originally developed for external marketing – on the 'internal market', that is the employees. At the heart of the concept is the idea of viewing and treating employees as 'internal customers'. The concept has the potential to get employees in tune with existing conditions and procedures as well as with changes. There is evidence to suggest that internal marketing is any form of marketing within an organisation which focuses staff attention on the internal activities that need to be changed in order to enhance external market place performance. By treating employees as customers, the employees' attitudes will change, employees will become more motivated and service minded which has the potential to lead to better service quality and a competitive advantage in the market place (Awwad and Agti 2011; Fang, Chang and Chou 2014; Boukis, Kaminakis, Siampos and Kostopoulos 2015).

The research was guided by the case study research methodology and was aimed at investigating the extent to which a formal IM strategy was implemented, managed and monitored throughout the three regional International Business Centres (IBCs) of the bank studied. The researchers used triangulation by retrieving primary data through observation and personal face-to-face interviews with employees and managers working at different levels within the bank's regional IBCs.

 ISBN: 978-9963-711-37-6

The focus of the study was an in-depth investigation and cross-examination of the perceptions, feelings, attitudes and experiences in relation to IM. Data was provided by different organisational members working at different managerial levels within the three regional IBCs owned by the bank studied in Limassol, Larnaca and Nicosia. The aim was to establish whether there was a perceptual gap or any inconsistencies in the way IM was conceptualised and practiced since the three centres had their own manager and employees. The researchers interviewed: the director of the IBB (head quarters), five regional IBCs managers, eight middle managers, and eleven lower level employees.

The rationale behind the adoption of IM within the IBCs was primarily as a change mechanism and as a means for minimizing the employees' resistance towards change. The bank had embarked on a series of internal changes and IM was seen as a strategy for overcoming the employees' resistance, fear and scepticism towards change. The study also revealed that IM was adopted in order to demonstrate that the bank (management) cares for its employees as a way to motivate them to work harder towards the achievement of organizational goals such as the achievement of customer satisfaction and sales mindedness.

One of the study's key findings was that the managers' interviewed appeared to be confused in terms of what IM is and although they recognised some of the key IM ideas it was clear that the bank had not adopted a formal and strategic IM implementation approach. The managers interviewed linked IM to external customer service and external customer satisfaction failing to recognise the idea of achieving employee satisfaction as a prerequisite for external customer satisfaction, which is at the heart of IM.

A number of discrepancies emerged from the data analysis contributing to the realisation that IM within the bank studied is simply a "façade" created to hide away an aggressive selling and promotional approach aimed at persuading customers to buy the banks' products. It was clear that the specific organization had adopted IM as a way to manipulate its workforce towards the achievement of organizational goals and implementation of strategies aimed at the external market by pretending that it cares for the welfare of its employees, when in reality it didn't.

The lower level employees shared the view that IM was not really adopted. The majority of the lower level employees agreed that senior level managers claimed that the IM ideas were practised within the bank simply in order to "show off" and pretend that the bank has a caring face towards its employees. The study revealed that the IM implementation approach was considered to be successful by the senior level managers, a view which was not shared by the lower level employees and by the majority of the middle-level managers. This perceptual gap led to conflicts and frictions across departments and units.

ISBN: 978-9963-711-37-6

The study's findings have serious implications for the success and competitiveness of the organisation and contribute to enhancing the current body of IM knowledge and understanding. Undoubtedly, the employees are the backbone of organisations. They experience the company's organisational culture on a daily basis. They are also interacting with other organisational members. The way they are viewed and treated has a direct impact on their attitudes and behaviour towards the external customers. Any negative employee feelings will be experienced by the external customers interacting with employees. Any initiative or strategy adopted at a headquarter level must be carefully implemented and monitored throughout the organisational units/departments in order to ensure its successful implementation. Failure to do so can result in employee dissatisfaction, frustration, and the whole process can be counter-productive. Although the bank studied 'embraced' internal marketing at a headquarter level as a change mechanism it failed to effectively monitor its implementation resulting in confusion, dissatisfaction and internal conflicts. Similarly, although the IM concept in theory nourishes the idea of taking care of customers, the bank studied 'uses' its employees as a way of aggressively promoting and selling its products to external customers. IM is founded on the core marketing idea of identifying and satisfying customers' needs. This should in essence be the starting point of any organisational efforts and not the management's desire of selling its products/services irrespective of whether customers really need or want them.

Keywords:*Internal Marketing, Customer Orientation, Banking Sector, Cyprus*

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 ISBN: 978-9963-711-37-6

THE ENVIRONMENTAL MONITORING ACTION OF PRODUCER ORGANIZATION ASSOCIATION

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ABSTRACT

New Common Agricultural Policy (CAP) principles aim at supporting the orientation of a durable agriculture towards the market, at facilitating the agricultural policy, at supporting the rural development and the conservation of the environment. The competitiveness of the agro-food products is based upon: use of qualification system; improvement of both production technology and quality; traceability issues; optimisation of product costs; and, finally, promotion of products worldwide. So, a greater integration of companies in the social, economic and tourist territorial reality is needed, with reduced impact on the environment. This may be achieved using the best tools that are able to give sustainable results such as reduction of toxic releases damaging global environment and human health, healthier air, surface and groundwater, energy saving, reduction of chemicals production, nutritional quality improvement.

The Common Market Organization (CMO) has established for the Producer Organizations (POs) to implement multiannual operational programs, co-financed by the producers and the Commission according to Reg REG. CE867 / 08 for oliveculture sector.

For this purpose Producers Organization Associations (POAs) were born to support implementation of those programs through actions for enhancement and protection of the natural environment, for increased commercialisation and valorisation of products, as well as for reduced production costs and strengthened market and bargaining power.

Indeed, POAs have already done all of the above in order to reach the "Eco conditionality" associated with the whole supply chains where they are involved. As per Environmental Assessment and Monitoring, as established by the CMO, those actions were mainly intended for: development of good agricultural practices based upon environmental criteria promoted by European Commission; and, implementation of dissemination tools and monitoring systems for improved application and promotion of those practises among growers. Such actions were implemented also by means of demonstration fields in order to test growing techniques, harvesting and processing systems characterized by low environmental impacts. Furthermore, they included implementation of recovery and reuse of agricultural residues so as to enable increased knowledge on techniques being compatible with both environment and landscape conservation.

 ISBN: 978-9963-711-37-6

Therefore, the present study arose with the aim of analyzing the action above "Environmental impact improvement" as the starting point to find potential completion and most of all to implement actions for those supply chains that have never been investigated so far in this field, thus contributing to creation of new POAs at national and international scales.

Keywords: *Environment protection , monitoring, land conservation, implementation actions*

ISBN: 978-9963-711-37-6

THE ROLE OF PO IN THE PROMOTION OF ECONOMIC AND ENVIRONMENTAL SUSTAINABILITY: THE CASE STUDY OF APROLI BARI

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ABSTRACT

Producer organizations (POs) and their association plays an important role in promoting the intrinsic characteristics such as quality, food safety, specific production method, labelling, nutritional and healthy value, animal wellness, and overall environmental respect. Furthermore, they use labelling system in order to inform consumers about control system and traceability. The main activities of these organizations are: monitoring and administrative management of the market; traceability issues; and, finally, improvement of environmental impact and quality production. POs with the aggregation of operators contribute to overcome the high fragmentation that characterize Italian agricultural firms.

This innovative organizational model allows Small and Medium Enterprises (SMEs) to concentrate their productions in order to increase their bargaining market power. The study aims to understand how the promotion and control of environmental and economic sustainability can be moved from the regional to the national and transnational scales. The case study of Aproli, an organization of olive oil producers, located in Puglia region, was analysed. A research project, named "Definition of reference standard for the interpretation of leaves and fruit analysis of the cultivar Coratina in Puglia", has been carried out through the cooperation between the PO Aproli and the Department of Agro-Environmental and Territorial Sciences- University of Bari.

The main project activities is to acquire information concerning nutritional standards of Coratina cultivar, which is very widespread in the above mentioned region, and to elaborate a reference table of nutrients and a specific fertilization plan.

The final goal is to disseminate among operators technical-scientific innovations such as fertilization practices, in order to allow an improvement of environmental and economic sustainability, as well as product and process quality.

Association at national and international scales is an important tool to support actions aimed at the enhancement and protection of the natural environment according to new Common Agricultural Policy (CAP) objectives, increase the commercialisation and the valorisation of product, reducing the production costs and strengthening the market and bargaining power.

Keywords: *technical-scientific innovations, environment and quality improvement, project activities, nutritional standards for fertilization.*

 ISBN: 978-9963-711-37-6

THE GROWTH PATH OF VENTURE-BACKED ICT SCALEUPS[1]

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ABSTRACT

In the last years, the global economic environment has undergone dramatic changes. The financial crisis of 2008 and consequent recession/depression of most of the developed economies are just a few examples. In this scenario, entrepreneurial activity through the exploration and exploitation of new opportunities (Venkataraman, 1997) and the implementation of new innovative value propositions and business models (Onetti et al., 2012) able to scale in this new competitive landscape, is of crucial importance for all the economies. The positive impact that entrepreneurship has on economic growth, innovation and job creation has been proved (Reynolds et al., 2001)[2]. However, new venture creation per se does not imply societal wealth creation. Focusing only on the number of new established firms may be misleading. In order to positively contribute to economic progress, startups are supposed to survive, break the early stage barrier, grow and scale-up.

Policymakers are therefore trying to actively support the growth process of new ventures through various initiatives. Also the European Union has shown a renovated interest in new innovative high-growth ventures operating in high-tech sectors, the so called scaleups[3]. The aim of these programs is not to foster new business creations per se, but to support new ventures in gathering the resources to enable them to scale-up (move from the startup phase to the scaleup one), i.e. to break the early stage barriers.

Since the seminal work of Penrose (1959), the growth path of new established companies has drawn insofar the attention of several scholars (Gupta et al., 2013). For startups, growth is an unavoidable and desirable condition in order to survive. New ventures are subject to a liability of newness where, in the absence of growth, their survival rate may be significantly reduced (Bruderl et al., 1992). Typically a firm's growth can be measured by considering different aspects such as cash flow, net income, profitability indexes, sales growth, market share, employment, customer base and so on (Gilbert et al., 2006). However, not all these measures are applicable to all ventures when considering

[1]Authors gratefully acknowledge the financial support from Ministero dell'Istruzione dell'Università e della Ricerca (MIUR National Research Project) through PRIN 2010 Project: "Scientific research and competitiveness. Variety of organizations, support systems and performance levels".

[2] Recent studies (see inter alia, Stangler and Kedrosky, 2010) show that startups are accountable for almost all the new jobs created in the United States (about 63%), net of jobs lost.

[3] According to Onetti (2014), "a scaleup can be defined as a development-stage business, specific to high technology markets, that is looking at growth in terms of market access, revenues, and number of employees, adding value by identifying and realizing win-win opportunities for collaboration with established companies".

 ISBN: 978-9963-711-37-6

their stage of development. There is a marked difference between young and growing ventures (the above mentioned startups and scaleups) and large mature established ones. The typical indicators of performance – such as profitability and cash-flow - taken into consideration to define the growth process of an established firm do not apply to new ventures/very young firms since in their first years of life they are negative or not available (Stuart et al., 1999). When considering new ventures, and in particular the early-stage phase, these two measures can be accompanied and - to some extent - also replaced by accumulation of assets and financial capital.

New ventures' processes of development/growth need to mobilize resources to form a resource base capable of allowing the company to generate market returns (Garnsey et al., 2006). In this respect, *financial capital raised to date* could be considered as an important measure of growth. In particular early stage equity financing plays a critical role in the survival and successful development of new high-growth ventures (Wetzel, 1986; Mason and Harrison, 2000). Several studies find out that lack of financial resources is the most limiting factor for startups' growth (Boeker, 1989). The acquisition of financial capital allows the firm to acquire other resources (i.e. human capital – talented employees - and or technological resources) that are fundamental for the development of the enterprise, thus it is a good predictor also for the future growth of the firm (Davila et al., 2003). Furthermore, if financial resources are collected from investors, it implies a growing acceptance of the new venture by the environment (Alsos et al., 2006). Recent studies indicate that angel investors are the major source of seed and start up capital for new ventures in US and Europe (Mason and Harrison, 2000; Sohl et al., 2000). The acquisition of angel capital can be a crucial step in receiving institutional venture capital (Mason and Harrison, 2000) to further boost the new venture business and consequently growth.

Extant research proved that venture-backed startups grow faster than their non-venture-backed counterparts (Davila et al., 2003). In this perspective, VC funding rounds are important events for a startup and could be considered as a proxy of the quality of the startup (Davila et al., 2003). Therefore, it could be of some importance to explore in-depth the characteristics of the funding rounds of new ventures (i.e. time, amount, rounds, typology/nationality of investors) to better understand their growth path, especially for those that are at an early stage of development. This aspect emerges as being largely overlooked by scholars.

To shed light on the proposed issue, we used SEP - Startup Europe Partnership[1] database. SEP mapping and scouting database contains up-to-date data on the company profiles of more than 2,000 ICT European scaleups (year and place of establishment, category/business, detailed investment profile, i.e. financial capital raised to date, investors' identity, no. of funding rounds, stage). Drawing from the above-described database, we focus the analysis on the specificities of the investment profile

[1] Established by the European Commission in January 2014, SEP is a Startup Europe initiative dedicated to support the growth and sustainability of European startups able to compete and raise funds internationally.

 ISBN: 978-9963-711-37-6

of each scaleup to better understand the "geography" of each funding round (i.e. the nationality of the investors of each round). With descriptive statistics we "draw" the funding process of the European ICT fastest-growing startups, in terms of number and geography of rounds and amount of capital raised in each round. Specifically, the ultimate goal is to better understand the relationship between the funding process and the international growth path of the new venture. Hence, the main research question we address is: how the geography of funding rounds (in terms of availability of venture capital) could affect the international growth path of new ventures?

The results have important implications both for policy makers and entrepreneurs. The study contributes to shed light on the possibility for European ICT startups to scale-up backed by domestic funding (national or European) and identifies the obstacles that may hinder the development of ICT industry in Europe as well as in single member states. At the same time, the study encourages future empirical research on this topic that has been insofar largely overlooked by scholars.

Keywords*:* *new venture/startup, scaleup, growth, financial capital raised, funding round*

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 ISBN: 978-9963-711-37-6

THE IMPACT OF COUNTRY IMAGE AND COUNTRY-OF-ORIGIN ON THE WILLINGNESS TO PAY A PREMIUM PRICE FOR FASHION PRODUCTS: A CROSS-NATIONAL ANALYSIS ON DEVELOPING COUNTRIES

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ABSTRACT

The constructs of country image and country-of-origin have been largely adopted in international marketing literature that has analysed them with respect to consumers' purchasing behaviours (Veale and Quester 2009; Teas and Agarwal 2000). Nonetheless, scant empirical evidence has been provided with respect to their impact on price-related issues (Koschate-fischer, Diamantopoulos, and Oldenkotte 2012; Agrawal and Kamakura 1999): to what extent are consumers more willing to pay premium prices for a particular product category from a foreign market? Is this difference, if any, country specific?

This paper provides first empirical evidence of a cross-national analysis on developing countries over consumers' willingness to pay premium prices for Italian fashion products. In doing that, we distinguish between country image, as the image consumers have of Italy as a country, and country of origin, as the image consumers have of "Made in Italy" fashion product (Pucci, Simoni and Zanni, 2012).

Results from an ordered logistic regression show that country image and country of origin are countries specific, presenting different roles in China, India, Thailand and Brazil. In particular, country image positively affects the willingness to pay of Chinese consumers, country of origin is positively related to willingness to pay for Italian consumers, while in Thailand only socio-demographic characteristics result significant. Finally, country image negatively affects (and country of origin image positively affects) the willingness to pay of Thailandese consumers.

Empirical as well as theoretical implications are then explored at length in the paper.

Keywords: *Country-of-origin; Country image; Made in Italy, Fashion*

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 ISBN: 978-9963-711-37-6

FINANCIAL RATIOS AND SECTOR KPIS: ARE THEY TWO FACES OF THE SAME COIN? EVIDENCE FROM A FEW SELECTED COMPANIES IN THE ITALIAN CONTEXT

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ABSTRACT

The financial ratios ROI, ROA, ROS and ROE in most companies are used as a measure of financial performance – for both internal and external use. They are easy to calculate and suitable for benchmarking processes in different sectors.

Financial ratios are utilized in managerial feedback processes to compare forecasted results and real values. In this case financial ratios need to be in combination with other measures, particularly if we drill down the management control at the function, process or activity levels.

For performance monitoring, managerial compensation, strategic and process management, financial ratios considered alone seen to be inadequate [Bryde, 2005]. Financial ratios are too general; they are too far from the activity and the key drivers of the business and they depend too much on the financial accounting process (which, whatever the case, is never quick enough).

Key performance indicators (KPIs) are internal measures, relevant for monitoring performance, both at top and bottom levels. Contrary to financial ratios, KPIs are not strictly codified by the literature and companies may develop their own indicators. KPIs are linked to management performance at different levels, in different processes and activities and various users [Walsh P., 1996]. Some KPIs are generic, valid for all companies or for those that belong to a particular sector; other KPIs are specific for a single company or for a certain process. KPIs may be used in benchmarking processes, for comparing results over time and for comparing companies.

KPIs are often linked to critical successful factors (CSF) and to business strategy, being part of the strategic control of an organization. [Adams S., 2013]. In some business sectors KPIs had a sort of predecessor, like the cost/income ratio or the cost per Km value in the railway sector. Those measures were designed for top level managerial control but were also used for strategic planning as real top level KPIs.

Railways, insurance companies, airline companies, large-scale retail channels, mobile phone operators and online travel agencies manage the business by controlling one or more sector related KPIs (i.e., the cost for train/Km, the load factor, sales per square meter, etc). Those sector KPIs are a measure of internal performance and can be used for managerial control and benchmarking processes.

 ISBN: 978-9963-711-37-6

Financial ratios and sector KPIs: Are they two faces of the same coin [Ganna D., 2011]? Do they reveal a different position in a hypothetical "best in class" analysis? Can we identify a link or a sort of prediction between those KPIs and the financial ratios ROA, ROS and ROE?

To answer this research question some Italian companies operating in sectors with "historical" sector KPIs have been identified and analysed. We have calculated financial ratios like ROA and ROS and also sector KPIs. Sectors considered were insurance, railways, mobile phone and distribution channels. From our analysis of the years 2012 and 2013, we found a significant correlation between the position of each company in the financial ratios and in the sector KPIs. The companies in top positions in sector KPIs were also those companies that had better financial ratios. This occurred even if the selected KPIs had general formulation and did not consider all the specifics of the business. In the selected case studies, the financial ratios considered and the sector KPIs were two faces of the same coin in the medium term view.

Keywords: *KPI, financial performance, performance management*

 ISBN: 978-9963-711-37-6

EMERGING GOVERNANCE PATTERNS FROM ITALIAN SOCIAL COOPERATIVES

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ABSTRACT

BACKGROUND

Social cooperatives (hereinafter "SCs") are a specific Italian form of non-profit enterprise usually owned and managed by a set of stakeholders, such as workers, volunteers and disadvantaged people (i.e. disabled, ex-convicts, minors misfits) or their relatives who benefit from the services provided by the SC itself. In Italy, SCs were codified by Law 381/1991 that recognizes their role as non-profit and private organizations operating in the care market. They are subdivided by Low 381/2001 in two main categories: "type A cooperatives", that operate in caring activities such as educational services, residential care and social and health care; "type B cooperatives", involved in introducing disadvantaged people in the labour market through a process of professional learning and integration in a work place.

At the beginning, the SCs' role in the economic and social context grown because of the decline of the traditional welfare state (Titmuss, 1963; Salvatori, 2011); this situation left an increasing number of people without the assistance previously granted by public organizations, thus opening up a wide range of activities for private non-profit organizations. Later, the financial crisis further encouraged the widespread of SCs to cover the increasing demand of welfare products coming from the "new poors" (i.e. singles, minors or elderlies without family) (Borzaga and Zandonai, 2009).

Such system of enterprises is facing today with a substantial change in the regulatory, social and competition framework. The recent Italian regulations on "social enterprises" have opened up the market to new players, especially in the area of community and welfare services (Thomas, 2004). At the same time, the steady reduction of public support – due to the gradually dwindling resources – is a cause for serious concern on the part of those cooperatives which are not yet market-oriented and have merely relied on their connections with policy makers and institutions (Borzaga et al., 2010). Mention should also be made of both the radical innovations which the welfare system is undergoing, contained in the EU Memorandum regarding SCs, and of the gradual intensifying - also due to the economic crisis

 ISBN: 978-9963-711-37-6

- of competitive pressure in those areas where social cooperatives have been traditionally involved, most notably that of work placement (Fazzi, 2008; Fiorentini, 2009).

For SCs, all such changes require to find new governance patterns to increase the level of engagement of their stakeholders with the aim of better using the (tangible and intangible) resources that they can offer for the enterprise survival and growth.

RESEARCH PURPOSE

SCs are based on what are known as "principles of cooperation": i) the principle of the "open door", which aims at extending membership to anyone who meets specific requirements and is willing to take on a stakeholder's responsibilities; ii) the idea of "one head, one vote", which prevents the asymmetric distribution of power among members based on the number or value of the shares owned; iii) the concept of "indivisibility of reserves", aimed at preventing the "capitalistic" enhancement of assets transferred to the cooperative (A.C.I., 1967). These principles, together with the availability of the local community to support a cooperative, tend to attribute an "open" and "variable" nature to a cooperative corporate structure. These principles inspire the SCs governance and stakeholders' engagement. According to the literature (Barrett, 2001) each SC can achieve its role by involving its closest stakeholders in its activities. The process of involvement is referred to in literature as "stakeholder engagement" (Sloan, 2009, p. 26). The literature argues that stakeholder engagement is an emerging concept in an under-theorized area (Greenwood, 2007). This gap is even more pronounced with regard to SCs because, to the best of our knowledge, there are no studies that deepen the governance policies which enhance stakeholder engagement in such enterprises. Our study aims at filling this gap by shedding light on the governance mechanisms that allow SCs to renew the contribution which stakeholders, as "co-entrepreneurs", can give to a sustainably governance structure.

RESEARCH DESIGN AND PRELIMINARY FINDINGS

In this study several cooperative companies have been examined for the purpose of answering questions of an exploratory nature centered around explaining the reasons (why) and the mechanism (how) which lead to a renewed relationship with stakeholders, and – as a consequence – to strengthening the financial structures of social cooperatives (Yin, 2009).

We collected the data through observations, meetings, interviews, and site visits to three Italian SCs over a five-year period. In the SCs selected, we interviewed SC's managers, volunteers, workers and disadvantaged relatives.

 ISBN: 978-9963-711-37-6

The case studies allow exploring the cooperative stakeholder governance implemented by the SC. We identified the three following mechanisms: *i)* the extension of the number of stakeholders in some categories; *ii)* the change in the nature of the relationship established and of the contribution provided by certain stakeholders; *iii)* the establishment of aggregation processes with other cooperative structures.

The first governance mechanism consists in the stakeholder enlargement aimed at taking advantage of the contribution – in cash, work and in kind – provided by a variety of subjects, thus reducing the "convenience gap" for each in participating in the cooperative project (Pennerstorfer and Trukeschitz, 2012). An example of this are the dimensional growth pathways – by internal or external lines – on which many cooperatives have embarked over the last decade, increasing the assets provided, the services managed, and the number of working members involved. In order to involve new stakeholders or to increase the contribution of existing stakeholder the cooperatives appeal to its fundamental values and activities.

The second governance mechanism is based on the group of voluntary members benefactors, whose number and level of involvement may change over time depending on the varying needs of the cooperative. Such mechanism consists for example in customizing the nature of the relationship established and the related contribution provided by members to make them more engaged in the cooperative's activities.

The third action is the creation of aggregations between cooperatives and other social enterprises working in the same region. For example, a widespread form of action among cooperative companies consists in establishing consortiums made up of cooperatives operating closely. Participation in consortium structures increases the intervention areas where government bodies can implement to consolidate the assets and financial structures of associated cooperatives.

The driving force behind these actions are cooperative members, who constitute the "core" around which the cooperative project revolves (Bontems and Fulton, 2009). Their engagement is aimed at searching for the highest productivity levels, designing innovative services, fostering customer loyalty (assisted and "paying") and so on. The study shows that these policies foster stakeholder engagement by increasing willingness of the members to support the "ability to thrive" of their enterprise.

This research contributes to the literature on the subject of stakeholder engagement (Grenwood, 2007; Sloan, 2009; James and Gifford, 2010; Girard and Sobczak, 2012) analyzing in depth the governance mechanisms effectively put in place by SCs Moreover the paper includes suggestions to SCs managers, as regards the actions which the latter could implement in order to deal with current difficulties.

 ISBN: 978-9963-711-37-6

Keywords: *social cooperative; corporate governance; stakeholders' engagement.*

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ISBN: 978-9963-711-37-6

ORDER PLACEMENT AND DISTRIBUTION: THEIR IMPACT ON SATISFACTION AND WORD OF MOUTH

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ABSTRACT

One of the key dyadic relationships across supply chain is between logistics service provider and the manufacturer. Over time the concept of logistics service provider developed toward service offering of greater complexity, combining new added value services they are often involved in the strategic coordination of their customers supply chain activities. This study investigates perceived satisfaction and the relative word of mouth in the Italian cold food supply chain, defined as the degree to which a logistics customer is satisfied with a third-party logistics provider's overall performance in the outsourcing relationship analyzing the order placement and distribution process as a baseline of the model. Moreover we added in our model returns management and customer value anticipation. We provided relevant insights for scholars and managers focalizing in a specific and less explored business context using the logistics service quality model.

INTRODUCTION

Customer service and relationship marketing are central topics for recent academic research pertaining to the business practice of logistics. Whereas logistics traditionally has referred to the physical flow connecting production with customers, modern research in logistics aims at integrating marketing notions and addressing the role of logistics in delivering quality and improving customer service and satisfaction (e.g. Stock and Lambert, 1992; Christopher 2012). Companies can achieve success by not only providing good products but also offering effective services and developing good relationships with supply chain members. To enhance their competitiveness, many companies outsource some activities, which enable them to improve their operational efficiency, to reduce costs, to focus more on their core competencies and to improve their innovation capabilities (Wagner and Sutter, 2012). Outsourcing thus spans multiple business functions, such as information technology management, service, logistics, manufacturing, financial services, and human resource management. Companies use their logistics network to deliver products to their customers, and therefore, it can significantly impact firm performance. As such, logistics customer service is the output of a firm's logistics system. Different scholars call for more valuable research on which elements of functional quality logistics customers perceive as most important (Thai, 2013) and there is an increasing interest on the collection and analysis of these situational factors in logistics outsourcing relationships

 ISBN: 978-9963-711-37-6

occurring outside North America (Leushner et al., 2014). In response, we conducted a national survey of customer perceptions about services provided by 3PL service providers in an Italian food supply chain. As an important service sector in all developed economies, third-party logistics offers a pertinent empirical context. Extending the work by Mentzer et al. (2001), Rafiq and Jaafar (2007) and Thai (2013), we investigated logistics service quality dimensions to assess overall customer satisfaction. We defined satisfaction as the degree to which a logistics customer is satisfied with a 3PL provider's and we investigate several logistics service quality dimensions to assess overall customer satisfaction among 3PL customers in the area of order placement and distribution: personnel contact quality, information quality, ordering procedures, order accuracy, order condition, order discrepancy handling, and timeliness. We also considered two more constructs: returns management and customer value anticipation. The main issue was to understand what the drivers of logistics service quality are to deliver satisfaction and word of mouth in 3pl-customer relationships. Briefly, we aimed at filling a research gap verifying the impact of satisfaction on word of mouth (WOM) in order placement and distribution customer service measurements in logistics and transportation area.

BACKGROUND

A considerable stream of literature has provided evidence that logistics customer service creates value and can lead to a competitive advantage (e.g., La Londe and Zinszer, 1976; Daugherty et al., 1998; Davis-Sramek et al., 2008; Leuschner et al. 2013).

Customer satisfaction, service and its measurements have been widely studied (e.g. Ballou 2006; Juga et al., 2010) , though no generally, universally accepted definition exists and it is widely accepted that perceived general service quality has an impact on customer satisfaction and firm performance, which it leads to later behaviors as word of mouth (Molinari et al., 2008). Traditional word-of-mouth has been shown to play a major role for customers' buying decisions (Litvin et al., 2008). Historically, the term ''word of mouth'' (WOM) was used to describe interactions (mostly verbal) among customers.

Mentzer et al. (2001) and Rafiq and Jaafar (2007) studied different logistics service quality (LSQ) dimensions, mostly related to the order placement process (information quality, personal contact quality, ordering procedures) and order distribution process (order condition, timeliness, order discrepancy and order accuracy). Bienstock and Royne (2010) adapted the LSQ dimensions from Mentzer et al. (2001) to investigate the relationships between the use of information technology and satisfaction with logistics services among industrial customers. Recently Thai (2013) showed a full picture of logistics service quality (LSQ) could be analyzed in a similar manner to understand the most critical to enhance the perceived LSQ. Leuschner et al. (2014) provided evidence that logistics customer service has a significant positive relationship with firm performance and that LSQ can

 ISBN: 978-9963-711-37-6

indeed be a source of competitive advantage. One dimension that appears increasingly relevant for customer satisfaction is returns management (Mollenkopf et al., 2011). The other one is customer value anticipation, meant as the ability of suppliers to anticipate customers' future needs, expectations, and requirements (Flint et al., 2011). This can be reached through the understanding of future requests for particular products and services from the demand.

RESEARCH METHOD

We adopted a quantitative methodology with a survey instrument collecting data from a global 3PL company that is a major player in the European 3PL food industry and operates as market leader in the Italian sector. The main services provided by the 3PL company include warehouse management, logistics, and transportation of fresh and frozen products.

The survey instrument was mailed to 257 3PL customer firms and we received 150 completed surveys. The data collection relied on a web-based survey on the Google Docs platform. The responding firms reported their views on the services they received from their main 3PL provider plus their overall satisfaction and intention to provide positive WOM. First, we measured the *demographic characteristics* of the customer firms. Second, the evaluation of nine multi-item constructs was requested: personnel contact quality, information quality, order procedure, order accuracy, order condition, order discrepancy, timeliness, returns management, customer value anticipation about *the service* provided by the supplier. Third, *overall satisfaction* was assessed referring to a three-item construct that measures the overall satisfaction respondents perceived and a three item construct measuring the willingness by these B2B customer to widespread positive Word of Mouth (*WOM*) about this supplier. All items were evaluated on a seven-point Likert scale (1 = highly dissatisfied, 7 = highly satisfied).

A Structural Equation Model was selected and performed to analyze the data in order to measure the impact of the nine service drivers on both satisfaction and WOM. Data analysis was elaborated using Lisrel 8.80 software.

FINDINGS AND IMPLICATIONS

The purpose of this study was to measure the most important drivers of logistics service quality, as perceived by 3PL customers, while highlighting the impact on overall satisfaction and WOM in a specific business context. Overall model fit was satisfactory. The chi-square statistic ($\chi 2$=936.43, df=421) was at a significant level (p=.000), and the fit indices were within accepted standards (RMR=.08, NFI=.93, CFI=.96, GFI=.8, RMSEA=.09). Three drivers appeared related to customer satisfaction and to WOM (significant at both total and indirect effect): on the side of order placement process we have personnel contact quality (β = 0.51; t = 5.44) while from the order distribution process

 ISBN: 978-9963-711-37-6

we have order accuracy (β = 0.42; t = 1.97), and order condition (β = 0.60; t = 1.90). In addition there was a strong impact of overall satisfaction on WOM (β = 0.80; t = 10.44). This confirms also in the B2B context how positive referral behavior does depend on previous positive experience with the supplier. Considering the increasing importance of logistics outsourcing and LSQ, it is highly relevant for managers to learn which drivers they should address to ensure the satisfaction and the WOM of their customers. With this study, we verify the importance of specific drivers in order placement and order distribution operations area in a cold food chain in Italian business context and their impact on satisfaction among customers of 3PL providers, which managers should attempt to improve in the context of their customer relationships. Further studies should investigate perceived overall satisfaction in different industry sectors, such as electronics, fashion, or furniture. Moreover, our study has tried to advanced LSQ beyond previous literature adding returns management and CVA, unfortunately that attempt in this business context wasn't significance. Due to the specific business context of the analysis, this research serves to guide further research on inter-organizational relationships that encompass both third party logistics and manufacturer/retailer side and loyalty.

Keywords: *outsourcing logistics, order placement and distribution, logistics service quality, third-party logistics, satisfaction, business-to-business relationships, word of mouth.*

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 ISBN: 978-9963-711-37-6

INVESTIGATING SALES MANAGEMENT ROLE IN COMMERCIAL RETURNS: ENHANCING THE CHANGES OF CUSTOMER NEEDS

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ABSTRACT

The business-to-business competitive environment is dramatically changing, and firms need to learn how to keep up. Manufacturers must attempt to deliver incremental value to enhance business relationships and to do this they have to satisfy customers' present needs and anticipate future and latent needs. Moreover, the shifts from transaction to relationship and from product to service are becoming always more evident as key success factors in the markets. In such a context, sales is gaining importance in the organizations shifting to a more strategic and cross-functional activity. Among the several strategic elements to be considered in this changed sales paradigm, we choose to focus on one in particular which is becoming increasingly more relevant: the process of returns management that touches numerous functions within a firm. The main objective of this research is to analyze how returns management influences the selling process and how it is perceived across different business functions. From an explorative prospective, a qualitative research was performed to fill in the gap around the phenomenon. We adopt an inductive approach using a multiple case study, interviewing 13 senior managers from five firms of the shoes sector. The main findings show how returns management seems to have an important impact on the selling process because it allows firms to put the customer at the center of their organizations, to improve customer service and after-sales service, and to enhance the relationship through a consultative and/or partnering approach. Most importantly, returns management is becoming an integral part of solution offering.

INTRODUCTION AND BACKGROUND

The evolution in the business-to-business context increasingly suggests that simply being market oriented is not enough to create value and improve market performance; in the context of changing conditions of competition, manufacturers must attempt to deliver incremental value to enhance business relationships and to do this they have to anticipate the latent needs of their customer. However today's business customers expect manufacturers not only to respond effectively to their expressed needs but also to understand their business development sufficiently well to proactively address their new, latent and future needs as part of an ongoing, value-creating, relational process

 ISBN: 978-9963-711-37-6

(Blocker *et al.*, 2011). Yet, research shows that many firms underestimate, misunderstand, or overlook these customer expectations.

Many academicians (Viio and Grönroos, 2014) have stated that sales is becoming a strategic activity, shifting from a 20th century 'selling products and services' model to a 21st century model in which the sale is made in order to build and maintain long-term relationships. Moreover, the sales function is moving away from this independent role towards a more cross-functional disposition (Storbacka *et al.*, 2011). In this regard, at firm level, it is important to find out how companies can best manage the intra- and inter-firm coordination processes effectively and efficiently (Zhang *et al.*, 2013). In marketing, the shift has been from transaction to relationship orientation, and the focus has turned to service and relationships instead of products and exchange (Vargo and Lusch, 2011). Moreover, the sales paradigm has shifted too. The focus is now on relationship selling (Viio, 2011) and is always more geared towards value-based selling (Terho *et al.*, 2012). In business market, sales departments are in a unique position to recognize when the new solution or value can deliver a superior benefit for a firm (Blocker *et al.*, 2012). That specific contact with the customers would be the first trigger to develop a customized business model involving all the functions in the organization with the goal of having satisfied customers. Among the several strategic elements to be considered, we focus particularly on one, which is becoming increasingly more relevant: the process of returns management that touches on numerous functions within a firm. Managing return product flow is becoming progressively more important to the success of a firms due to increased volumes of returned products, their value to customers, and the signaling effects of quality such programs implicitly suggest (Huscroft *et al.*, 2013). Recent studies have called for more inductive research in reverse activities (Bernon *et al.*, 2013; Huscroft *et al.*, 2013). Returns management is a cross-functional and cross-organizational business process that includes activities such as returns policy, reverse logistics, gatekeeping, avoidance, product recovery, disposition and processing, and crediting. The main objective of this research is to analyze how returns management influences the selling process and how it is perceived across different business functions.

RESEARCH METHOD

The nature of this research is explorative, just like other case studies of the literature (Eisenhardt and Graebner, 2007; Barratt *at al.*, 2011). From an explorative perspective and subsequent to the initial literature review, a qualitative research was performed to fill in the gap around the phenomenon of our interest and it also to respond on specific call for research (Bernon *et al.*, 2013; Huscroft *et al.*, 2013). Thus, we adopt an inductive approach using a multiple case study design (Barratt *et al.*, 2011) to investigate the role of sales management in managing returns flow. Such an approach is appropriate

 ISBN: 978-9963-711-37-6

for generating depth of understanding when a phenomenon is poorly understood. In seeking to understand the role of returns management within the selling process, a grounded theory approach was adopted (Strauss and Corbin, 1998). A modified theoretical sampling approach was used; the unit of analysis is the manufacturer through interviews with 13 senior managers from different functions (sales, customer service, logistics, and finance) of five firms in the shoe industry in the B2B context. Interviews were held individually with managers, and each interview lasted between 30 to 70 minutes; following an interview protocol guide, they were recorded and transcribed verbatim to follow up the analysis. The interviews provided a robust opportunity to explore issues in deep and detailed since it allowed our sample of managers to elaborate on specific processes/problems and implementation (Richey *et al.*, 2010). The interest in this sector stems from the observation of a few current trends: sales predictions are increasingly more difficult to make; a difficult inter-functional integration among logistics/production, marketing, and sales; and the need to guarantee a high value-added after-sales service. Moreover, in the footwear industry, we see a vast array of products and more and more frequent outsourcing of production activities which generates more challenge for the quality of products and the level of service (Russo and Cardinali, 2012).

FINDINGS AND IMPLICATIONS

The main findings show how returns management seems to have an important impact on the selling process. In particular, the managers interviewed perceive that their organizations need to turn the customer around. This customer-centric view is also reflected in the management of returns in all the companies because *"if there's a return, there's customer dissatisfaction, something isn't right"*. Putting the customer at the center of the sales organization means to have broader customer knowledge; for a firm, learning to track and to understand the information coming from a product return helps to deepen this knowledge across different functions. Once firms know and understand their customers, they can move away from the transaction approach to a relational one. The management of returns helps in this shift because *"…maybe to be able to understand the customer, his problem and to solve it, sometimes strengthens the relationship between the customer and the firm…"*.

A topic that emerges from the interviews is the service-dominant logic underneath the selling process-returns management integration. The main objective of the firms is not just to sell and to avoid returns but, on the contrary, the firm is increasingly implementing its customer service, which involves the management of returns. Firms, through a problem solving approach or a consultative approach, deal with their retailers' problems because *"maybe behind a product return sometimes there is also an opportunity"*. A customer's need, which is satisfied in an efficient and effective way through value-added selling, means repeated purchases and customer loyalty, and also in this case, returns

 ISBN: 978-9963-711-37-6

management seems to be an influencing factor for all the companies because *"…a customer, from a returns, can be made loyal, otherwise he doesn't buy from you anymore"*. Our research highlights new and important insight and implications. The most important one is understanding how the returns management is becoming an influential factor during the selling process and also during the specific step of negotiation, since at least three firms out of five have included this particular topic in their sales contracts. The management of returns is not seen as a simple after-sales service anymore, but rather a real important element of solution offering. A significant managerial implication is that the selling approach changes depending on how big or small the customer/retailer is: if the customer is a small retailer, firms adopt a consultative approach regarding the returns management, while if the retailer is a big one, with several stores, firms are more oriented toward a partnering approach. The most critical limitation of our research is that we investigated only one side of the buyer-seller relationship and did a specific industry sector. Future research could consider to analyze retailers in order to better understand if they perceive the returns management as an influencing element of the selling process. In terms of managerial implications, sales management is also moving toward a more integrated and cross-functional approach. In this vein, returns management is gaining importance, given its impact on customer knowledge, customer value creation and its involvement in cross-functional processes involving marketing, logistics and finance department.

In sum up the contribution of this paper is that sales management has never been combined with returns management in the sales literature or neither in the supply chain literature. This paper represents the first attempt to understand the linkage between the selling process and the influence that returns management might have on it.

Keywords: *sales management, after sales, product returns, relationship selling, value-based selling, multiple case study*

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 ISBN: 978-9963-711-37-6

THE MARKETING PROCESS OF MEDICAL TOURISM

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INTRODUCTION

In the globalized world today, medical tourism (MT) has emerged as one of the most popular service niches (Connell, 2006; Woo and Schwartz, 2014). MT refers to the practice of travelling across the borders to obtain medical healthcare that combines complimentary activities such as tourism services (Enderwick and Nagar, 2011; Heung *et al.,* 2010). The popularity of MT is indicated through the increasing number of countries that treat MT as their national industry, and growing research publication tackling the issue (Enderwick and Nagar, 2011; Woo and Schwartz, 2014). Furthermore, number of studies affirms the growth in MT's nascent market (Connell, 2006; Ehrbeck *et al.,* 2008). Due to rising global movement of people, it can be expected that the importance and application of MT will further grow. It can be assumed that managing different nationalities and cultures in this sector will not be an easy task for MT companies.

To respond to the increasing market demand, healthcare providers are now seen to modify their approach in accommodating international patients. Hospitals and clinics broaden the *network* with non-traditional partners (e.g. travel agencies, embassies) (Connell, 2013), by becoming more eager to build *trust* through seeking international accreditation (Jillapalli and Jillapalli, 2014) and creating specialize units to *adapt* to the needs of the foreign patients (Han and Hyun, 2015). But these issues cannot bring the fruitful result unless they are considered together and get integrated.

Literature reviews disclose lack of empirical support that can describe how firms such as healthcare providers work (Enderwick and Nagar, 2011) and a conceptual framework that illustrates the marketing process in MT. *This paper therefore aims to fill this under-research area by analyzing and examining marketing process of MT focusing on network, trust and adaptation.* It contributes with theoretical knowledge on MT by offering a theoretical framework on the international marketing integration process. The practitioners can be benefited on how to deal with complex situations that emerge from the involvement of different cultures and the sensitiveness of the service offerings.

 ISBN: 978-9963-711-37-6

THEORETICAL FRAMEWORK

Figure 1 presents the theoretical framework of the study. Network, trust and adaptation are illustrated by the three spheres that surround the circle. These constructs are interconnected and jointly constitute the marketing process. Patients rely on the hospitals and clinics' network during the initial part of the process, due to the limited knowledge about the service providers. Trust plays important role from the patients' first interaction with the providers till the end of the process. Adaptation, which is the third construct, shows MT companies willingness to offer service that suits and satisfy the customers' needs. In that case adaptation initiates trust and also strengthens the extant trust once it is built.

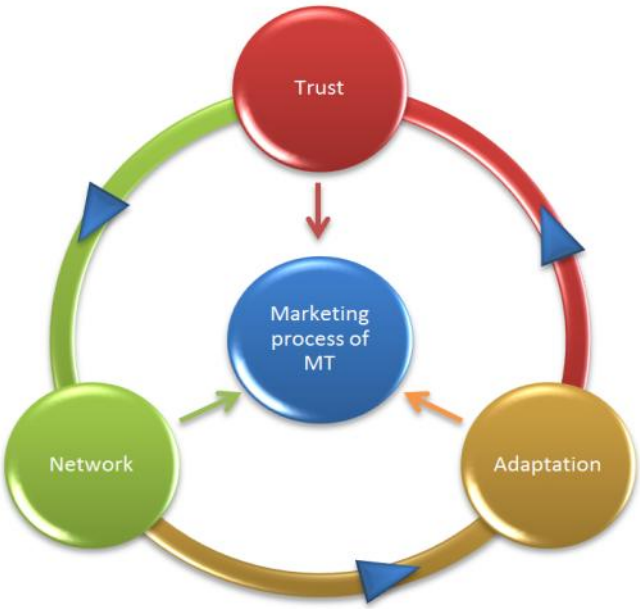

Figure 1 The Marketing Process of MT

Source: *Own Construction*

METHODOLOGY

Literature review was conducted to formulate a conceptual framework. To analyze the theoretical framework, three cases were developed following a qualitative research approach. 16 respondents from seven organizations holding key positions were interviewed. Observations, and secondary data, such as company websites, booklets and reports were used to complement the interviews. Data analysis was conducted by categorizing pattern and case comparison.

ISBN: 978-9963-711-37-6

FINDINGS

The result reveals that networks, trust and adaptation are important concepts among the institutions that dealt with MT. Network is a significant concept in the early stage while trust plays a major role throughout the process. Adaptation supports the two constructs.

This paper extends the understanding on how hospitals and clinics adopt to market their services to attract and serve international patients. Through the proposed framework, managers recognize the significance of network, trust and adaptation in international services marketing. However, further testing of the framework is recommended.

Keywords: *Network, Trust, Adaptation, Service Marketing, The Philippines, medical tourism*

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 ISBN: 978-9963-711-37-6

KNOWLEDGE MANAGEMENT IN ALTERNATIVE FOOD NETWORKS

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ABSTRACT

The basis of this paper are the results of a research work which has been carried out between 2010 and 2012 within the project 'Local agriculture and sustainable consumption in the alternative food networks' funded by the Ministry of Research (PRIN 2008). The main objectives of the project were to analyse the diffusion of the Gruppi di Acquisto Solidale (Solidarity Purchasing Groups; henceforth, GAS) in the city of Rome and to analyse their characteristics, current status and future prospects. The GAS are groups of households that cooperate in purchasing food and other goods directly from producers on the basis of ethical and environmental criteria and considerations of solidarity. They present themselves as a movement whose aim is to contribute to the construction of a more sustainable economy by promoting ecological citizenship and sustainable consumption. The GAS movement is a very interesting case of social innovation, In order to acquire information about this still mostly unknown and rapidly changing population, we followed a snowball sample technique. At the end of the survey (December 2010), we were able to list about 160 GAS operating in the roman area. We interviewed the representatives of 28 of these groups with face-to-face in-depth interviews.

The transactions between the Gas participants and their providers (farmers) take the form of a non market bi-directional commerce. The GAS is a space within which buyers and sellers whose contexts have sufficient similarity, in this case who share the same ethical principles in food and agriculture, get in contact. When products being offered and requested have a high degree of match, then the buyer and seller can come to agreement on price, location and timing, which will culminate in a transaction. The translation of ethical intentions into actual buying behaviour is a highly complex process though, since competing ethical and traditional concerns are combined, contrasted and traded-off. The matching is further complicated by the sparse nature of both supply and demand, low number of transactions and incomplete information about other operators. The main consequences of these characteristics are high external and internal search costs. These high search costs are counterbalanced by the savings resulting from the disintermediation, i.e. the removal of intermediaries between producers and consumers, and the co-production since consumers and farmers often become partners, joining together in both the planning and decision-making processes as well as sharing in both the benefits and risks.

In order to mitigate the negative effects of the mismatch between demand and supply lamented by both GAS consumers and suppliers, to reduce the information barriers and facilitate reconnection

 ISBN: 978-9963-711-37-6

between consumers and growers, the research group planned to build a digital map. The digital map, hosted in the website of the university of Naples (www.agriloc.unina.it) where the university research team was based, is composed of a Map with the geographical localization of the GAS in Rome, from which it is possible, clicking on the placemark, to access a card with some basic information about each GAS (name, address, contacts, objectives, specificities, providers). Similarly, when clicking on specific production units, Agriloc opens a card that allows the user to identify the food products sold by the specific farm. The map has been contested by some representatives of the GAS movement on the ground that the disclosure of information could prove to be detrimental for the movement since it could attract too much attention on the purchasing groups and, hence, expose it to competitive market pressure. For example, the participants to the GAS movement were worried by the chance that conventional farmers, aimed at harvesting the business opportunity being created by the GAS movement, may have free access to the list of providers selected with great care by the purchasing groups in this way mining the consumer trust.

Although the research project failed to alleviate the problems experienced by the GAS movement, still it contributed to a better understanding of the critical success factors for marketing ethical food products. First, one of the features of the social innovation proposed by the GAS movement is the search for a relationship-based commerce characterized by personal trust and private and contextual information as opposed to the impersonalized transactions mode typical of advanced market economies and supermarkets. Second, the translation of ethical intentions into actual buying behaviour is a highly complex process, since competing ethical and traditional concerns are combined, contrasted and traded-off. Hence, in the marketing of ethical food there is a problem of knowledge management that can be successfully tackled by using Information and Communications Technologies (ITC). Internet-based portals and databases that display knowledge and information about providers of ethical food can be used in market-oriented alternative food networks initiatives (e.g. box schemes) to support consumers in operationalizing their ethics when buying food. Consequently a new class of food intermediary is emerging. They are firms specialized in using digital technologies to establish networks with a large number of other like-minded individuals and coordinate them to ensure supply and harvest the business opportunities offered by the market of ethical food.

Keywords: *Alternative food networks, sustainable consumption, Information technology, niche markets, search costs, digital map.*

ISBN: 978-9963-711-37-6

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 ISBN: 978-9963-711-37-6

STILL SEEKING PATHWAYS FOR WOMEN TO ORGANIZATIONAL LEADERSHIP

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ABSTRACT

As a society, we should want to maximize the contributions of all citizens, both at leadership levels as well as lower levels in organizations. Likewise, if we are to continue as a society, we should want to encourage citizens to have children. Our study shows, women who have children are doubly disabled in terms of getting to the upper path to leadership. Since leadership opportunity is effectively denied to a large number of our female citizens, it is time to take steps to help remedy this type of discrimination.

Although there are obvious successes, gender discrimination and the glass ceiling are still firmly in place. This can be seen in areas such as the number of discrimination suits being brought, the lack of women in top leadership positions, and pay disparities. For example, in 2013, 46% of women said they had faced gender discrimination in the workplace (Nelson, 2013). Furthermore, things are not getting better; the figures are little-changed from a survey in 1997 and only slightly improved from 2000 (Nelson, 2013). In 2012, a record number of Title VII sex discrimination cases were filed (U.S. Equal Employment Opportunity Commission). Of course, some industries are worse than others. Women do worse in male-dominated, higher-paid professions.

This paper reviews previous studies to formulate hypotheses regarding how sharing cultural norms may influence experiences in the workplace and thus the pathway for women to rise to the top of organizational leadership. Research suggests that demographic characteristics such as gender and marital status can have differential associations with men's and women's career development and growth (Ramaswami, Huang & Dreher, 2014). Shared social and cultural identities facilitate interpersonal interactions (Chao and Moon, 2015). In addition, according to social identity theory, individuals categorize themselves and others into different categories (demographic, social, cultural, for example) and attach differing value to different social categories and maintain their self-esteem by valuing the categories they identify with personally (Chao and Moon, 2015). The similarity-attraction theory suggests that individuals who are similar or are perceived to belong to similar demographic, social, and cultural categories will be interpersonally attracted, leading to mutual liking and positive perceptions of each other (Byrne, 1971). Similarity in socio-cultural aspects suggests having the

 ISBN: 978-9963-711-37-6

similar socialization in values, beliefs, and assumptions, historical experiences and "cultural capital" that promote communication, trust and reciprocity (Bourdieu, 1973, Karabel and McClellend, 1987).

We seek to contribute to the literature by examining whether sharing cultural background with top managers in the organization will likely reduce the negative effects of family status especially for women. We hypothesize that sharing cultural background with top people in the organization will be particularly useful for women who are married or have dependents. We collected survey data to analyze whether sharing cultural background with top people in an organization influences career outcomes for men and women and whether those outcomes depend on whether these men and women are married or single.

Our methodology included sending surveys to 11,291 male and 3,198 female Masters of Business Administration (MBA) graduates, 173 female and 274 male Masters of Accounting (MAcc) graduates, and 1393 female and 2875 male Bachelor of Business Administration (BBA) graduates of the Ross School of Business at the University of Michigan, and 1643 MBA, MAcc and BBA graduates of the Warrington College of Business of the University of Florida. We received in total 887 usable surveys, 69% of the sample was male, 69% were in a committed relationship, and 71% reported having dependents.

Our study examines the relationships between family status (marital and dependent), sharing cultural background with top people in the organization and career, mentoring, and networking outcomes. We further address the extent to which sharing cultural background with top people in the organization influences career outcomes for men and women and whether these outcomes depend on whether these men and women have dependents.

We tested for whether sharing cultural background with top people in the organization helps women who are married or who have dependents to report higher outcomes (career success, mentoring, and network benefits) than their single counterparts. Our results suggest that sharing cultural capital with top people in the organization, and the associated understanding that arises from such similarity may not be enough to trump the negative associations of marital status on women's career satisfaction and organizational position. Sharing cultural background was positively related to all dependent variables. The results of our study suggest that family status continues to pose barriers for women's careers in the U.S.

Our study underscores the fact that diversity variables in isolation may not be able to paint the complete picture. Considering the intersection of multiple diversity as well as organizational or contextual variables may shed light on how gender and family status influence career, mentoring, and networking outcomes for men and women.

ISBN: 978-9963-711-37-6

This paper concludes with three proposals from which to begin to achieve more cultural diversity and thus, identity in the workplace. First, we advocate that firms take mentoring seriously - especially given the significance of cultural similarity - it is important that leaders look beyond mentoring those who share cultural similarity and provide mentoring and networking opportunities to others as well. Second, we see a role for regulatory authorities. To the extent firms manage what is measured, the Securities Exchange Commission could define diversity, in the reports already mandated, to include gender diversity. Finally, recognizing that unlike in the Nordic countries, quotas would not survive judicial scrutiny in the U.S. law, we advocate that in cases alleging gender discrimination, courts consider the paucity of women in leadership positions as a rebuttable presumption that discrimination has occurred. This analysis is a logical extension to the disparate impact analysis firmly established in judicial precedents.

Keywords: *employment discrimination, women, leadership, organizations*

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 ISBN: 978-9963-711-37-6

RECONCEPTUALISING THE CONSUMER JOURNEY IN THE DIGITAL AGE – AN EXPLORATORY STUDY OF THE UNITED KINGDOM RETAIL SECTOR

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ABSTRACT

This extended conceptual abstract which describes research that is still in progress provides an analysis of the evolving factors that influence buyer behaviour in the vitally important retail sector. The research originated as a consultancy project concerned with buyer behaviour undertaken on behalf of a specialist Pay Per Click advertising agency in a UK university business school/commercial sector collaboration which then evolved into a research project in its own right.

Group M, which is the global media buying organ of WPP (the world's largest communications services company), forecasts that online advertising spend in the United Kingdom (UK) in 2015 will be over £8 billion. Given that total advertising spend in the UK alone is expected to be £15.7 billion in 2015 this means that the UK is set to become the first country in the world where more than 50% of advertising expenditure will be on digital media (Gray, 2015).

The conceptual nature of the literature on the buyer decision-making process appears to lag behind these developments in digital marketing. The current literature (including many highly regarded undergraduate textbooks on marketing) extol a broadly similar model which is variously referred to as the 'buyer decision process', 'the consumer decision-making process', 'the simple buying model', 'the consumer proposition acquisition process' or 'the sales or conversion funnel model'. Ready examples of these are found in, for example, Kotler et al's (2012) *Principles of Marketing*, Fahy and Jobber's (2012) *Foundations of Marketing*, Jobber and Ellis-Chadwick's (2013) *Principles and Practice of Marketing*, McNeil, Lamb and Hair's (2011) *Introduction to Marketing*, Bains, Fill and Page's (2011) *Marketing* and Charlesworth's (2015) *Digital Marketing*. In all of these texts, the model that is presented is essentially linear in nature, although sometimes it is expressed horizontally, sometimes vertically and occasionally in other texts it is illustrated as a step-by-step process. The stages in the model are generally termed, for example, as 'need recognition', 'information search', 'evaluation of alternatives' and 'purchase decision and post-purchase behaviour'. According to Charlesworth (2015), the classic sales or conversion funnel model (Figure 1) and its variants all derive from the AIDA concept (Awareness, Interest, Desire, Action). This model was developed in the latter decade of the nineteenth century and popularised by E.K. Strong in his book 'The Psychology of Selling' which was published in 1925 (Charlesworth, 2015). In the digital age, the currency of such models is open to question.

 ISBN: 978-9963-711-37-6

Figure 18 The basic sales funnel (after Charlesworth, 2015)

Moreover, the contemporary age is characterised by 'Digital Darwinism' which is a term that apparently first appeared in the title of a book by Schwartz (1999). The futurist, Brian Solis, points to the rapacious exponential obsolescence and growth of technological capabilities and he describes Digital Darwinism as "the phenomenon where technology and society evolve faster than an organization can adapt'' (Solis, 2014). As a result of the rise of the digital age and an ever-widening gap between technology, business resources and capabilities we are now seeing a shifting paradigm in the field of consumer behaviour, specifically with regards to the consumer decision-making process.
The complexity of the consumer decision-making journey and the difficultly that is posed when attempting to map it has created challenges for marketers. In particular there is a growing need to gain insight into the behavioural processes of potential consumers in order that meaningful interventions can be made at key stages in the decision-making process. A number of authors have highlighted the changes that digital marketing has brought and Edelman (2010) has made a valuable early contribution in proposing a new consumer decision journey which moves away from the linear approach. Many of the UK's most successful retailers e.g. Topshop, John Lewis and Marks and Spencer have found a multi-channel approach to be most effective wherein customers can evaluate and purchase goods either online or in-store through the use of different channels or by using a combination of channels at different points in the process.

The research responds to these issues by seeking to reconceptualise and remodel the evolving notion of the customer decision making journey which, in turn generates a model that can be subjected to further extensive empirical testing of its adaptive applicability to the online retail sector. Grounded against the lacunae identified in the literature, the research methodology was based around a case study approach and it also included semi-structured interviews (Yin, 2003; Gubrium, Holstein,

 ISBN: 978-9963-711-37-6

Marvasti and McKinney, 2011). As the research develops it will include more semi-structured interviews together with elements of participant observation (Waddington, 2004).

The research used a qualitative methodological approach (Bryman and Bell, 2011; Eriksson and Kovalainen, 2008) to generate a new model of the customer decision making journey - Customer Journey Model (CJM) - which responds to the issues, factors and timeliness identified in the literature and the case context (Eisenhardt and Graebner, 2007). The emergent model represents a customer journey that may be subject to multi-faceted online and offline stimuli. It is intended that the CJM for the digital age will provide retailers with a better understanding of the B2C customer decision-making process than traditional linear models can provide. Given this greater understanding retailers may be able to refine and personalise their online offerings to anticipate the needs of individual consumers. It is further hoped that this enhanced understanding will enable retailers to take steps that could result in improved profitability through a better understanding of customer needs. The research will therefore be of primary interest to marketers, online retailers and academics.

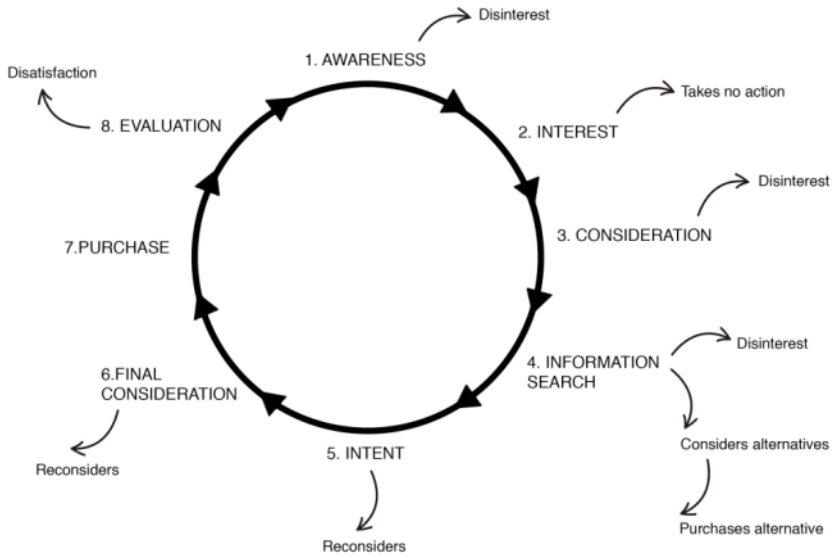

Figure 2 Customer journey model for the digital age (Tamsin Scott, 2015)

Keywords: *Digital, Marketing, Consumer, Customer, Journey, Online, Behaviour, Retail*

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 ISBN: 978-9963-711-37-6

INTERNATIONALIZATION AND OPEN INNOVATION: TOWARDS THE INTEGRATED FRAMEWORK

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ABSTRACT

INTRODUCTION

The last decades have been characterized by a significant growth in the number of small and medium size firms (SMEs) which start internationalizing at their inception or in their first years of activity (McDougall et al., 1994; Knight et al., 2004). Due to the increased competition in the global market innovation is considered to be an important source of competitive advantage (Pla-Barber and Alegre, 2007). In case of contradictory between changed environment and traditional approach to innovation, companies have started to transition towards a new, more open policy on innovations. The emphasis on open innovation primarily reflects the greater awareness of innovative activities (technological and non-technological) across firm boundaries that an organization obtains with a more equal balance of internal and external sources (Acha, 2008). The business ecosystems approach highlights that innovation is always a co-creational and ongoing process. There have been multiple studies on the collaborative approach to innovations and these studies have shown that external links and cooperation increase a company's innovation capability and have a positive effect on innovation output (Klomp and van Leeuwen, 2001; Vivero, 2004; Blomqvist and Levy, 2006).

Despite the fact that open innovation has developed rapidly as a new wave of research in innovation management, most insights are based on large, multinational enterprises. However open innovation is crucial for the entrepreneurial small and medium sized companies and entrepreneurial behavior. Some firms, with special attention given to knowledge-intensive products, are likely to have an accelerated internationalization that skips over some phases. Internationalization is pointed out as a mixed aspect regarding its relationship with innovation (Kafouros et al., 2008). Some studies have related internationalization and innovation in a direct path on a static approach (Golovko and Valentini, 2011; Knight and Cavusgil, 2004). Garrido et al. (2014) explained that in the process of internationalization leads to innovation.

However little attention has been given to the open innovation role of SMEs internationalization, even the SMEs are the predominant form of business in most countries (Chetty and Agndal, 2007). Also

 ISBN: 978-9963-711-37-6

there is a need to know how international knowledge can be best used for the innovation process of SMEs. According to Kafouros et al. (2008), the relationship between internationalization and innovation is still not very clear in academic research. We can state, that there is a lack of empirical work relating the open innovation and internationalization of SMEs. Based on the above arguments we propose the following questions to conduct this research: How open innovation could facilitate collaboration and creation of innovation in SME? What is the role of internationalization on the innovative SMEs capacity? What is the role of internationalization in open innovation?

The purpose of this paper is to provide a conceptual framework for understanding whether open innovation foster internationalization, also the SMEs internationalization through open innovation and to supplement the existing literature on internationalization process of SMEs.

DESIGN/METHODOLOGY

The paper is built on the analysis and synthesis of scientific literature which enables to describe the phenomenon of open innovation and the role of internationalization. Literature analysis was conducted and based on that a theoretical framework was proposed for further research.

FINDINGS

Results are grounded on the decomposition of open innovation process and internationalization as moderator of open innovation adoption and development the conceptual framework. We have formulated theoretical propositions, based on that we proposed the framework. Our proposed conceptual framework tries to incorporate the relationship between investigating variables. The early internationalization of SMEs is stimulated by a strong innovation culture, innovative capability and interest to pursue international markets. Innovations and R&D play an important role in overcoming barriers to internationalization, which recently became a strategic importance for survival of SMEs. The need for support stimulates SMEs to create a strong relationship with external environment, which is the main condition for open innovation. Generally, literature confirms a positive relationship between innovation and internationalization mainly because innovation confers market power and, as a consequence, facilitates internationalization (Love and Roper, 2013). On the other hand, it is like a closed circle – only innovative companies can succeed in international environment, thus SMEs seek to innovate their products, services or processes; but at the same time, being in the international environment provides an opportunity to expand SMEs business ecosystem by creating favorable conditions for innovations. What is more, the internationalization process can be also characterized as

 ISBN: 978-9963-711-37-6

an innovative act and can be either radical, or incremental depending on the geographic and cultural proximity to the domestic market.

This paper extends previous studies by providing theoretical framework which might be used for further research in fostering SMEs internationalization through open innovation.

Keywords: *Internationalization, Open Innovation, Innovation capability, Innovative culture, Business ecosystem.*

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 ISBN: 978-9963-711-37-6

BRAND LOVEMARKS: ESTABLISHING THE VALIDITY AND RELIABILITY OF A NEW MULTIDIMENSIONAL SCALE

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ABSTRACT

ABOUT THE RESEARCH

The current research establishs the validity and reliability of a new multidimensional Scale of brand Lovemarks. Lovemarks is an attitudinal construct that represents "desired brands" in the mind of customers. All brands aspire to be in such a market position (Kevin (2004). The Lovemarks theory introduced by Kevin Roberts (2004), CEO of Saatchi & Saatchi, suggests that two components for "Lovemarks brands", "love" and "respect", are the main drivers of brand loyalty. Despite its importance, Roberts (2004, 2005) did not offer a measurement scale to measure brand Lovmarks. Most marketing literature researched "brand love" (e. g. Batra et al. 2012, Broadbent, et al. 2010, Maxian et al. 2013, Ortiz and Mary 2011, Patwardhan and Balasubramanian 2013, Rossiter 2012, Rossiter and Bellman 2012, Sarkar 2011), but not with Lovemarks which underlines both "brand love" and "brand respect". Published research on the Lovemarks theory has so far been limited and did not present a reliable and valid scale of brand Lovemarks (Pavel 2013, Pawle and Cooper 2006, Shuv-Ami 2011, Shuv-Ami 2013).

Recently, Shuv-Ami (2014) offered an *exploratory study*, testing a new Lovemarks Scale. However, no other research up to date offers an explicit scale which effectively measures a brand's Lovemarks. The current study extends Shuv-Ami's (2014) exploratory research by testing the validity and reliability of this multidimensional scale using exploratory factor analysis (EFA), confirmatory factor analysis (CFA) and nomological network analysis.

BACKGROUND THEORY

The Lovemarks **theory** suggests that brands with low love and low respect are merely available "products". Brands with high love and low respect are "fads" that eventually will disappear. Brands with low love and high respect are "real brands", but brands with both high love and high respect are "Lovemarks", brands with "loyalty beyond reason". Respect, according to Roberts, represents the more functional attributes of the brand. Such attributes determine consumer perceptions of a product/brand

 ISBN: 978-9963-711-37-6

and the way consumers assess a brand's functional performance, especially quality and reliability. The sums of these characteristics reflect consumer preference for the brand (Roberts 2005, pp. 60-63).

Love of a brand, in the marketing literature, is mainly considered as a romantic love (e.g., Ahuvia 2005, Carroll and Ahuvia 2006, Sarkar 2011 and Whang et. al 2004) animated by intimacy and passion (Sternberg 1986). Caroll and Ahuvia (2006, p. 5) define love for a brand as "the degree of passionate emotional attachment that a person has for a particular trade name." Sternberg's research (1986) offered a tri-component model of love that includes *intimacy*, passion and commitment. Shimp and Madden's (1988) tri-component model of love consisted of liking, yearning and commitment. Whang, et al. (2004) used Rubin's scale (1970) for studying bikers' love for their motorcycles. Such a scale directly measures the romantic emotion of *intimacy* and passionate *longing.* Noël et al. (2008) found empirically that *joy* describes the love of a brand using words such as "dream" and "pleasure." Following Shuv-Ami's (2014) Brand Lovemarks scale, the current study measures love with three underlining dimensions; *intimacy*, *longing* and *joy*.

Respect, according to Roberts (2005, pp. 60-63) is functional and represents brand *quality, trust* and *honor* towards the brand which directly reflects Roberts' notion of consumer respect toward the brand. These three underlining dimensions are used by Shuv-Ami (2014) and are used here.

METHODOLOGY

The current study tested Shuv-Ami's (2014) Lovemarks scale in three studies each consisting of 2 samples, one for supermarket companies and the other for credit card companies. The data for all the studies was collected from an Internet panel. Each sample is distinct from the others and embodies separate and independent identities.The *first study* employed exploratory factor analysis (EFA) using a sample of 340 supermarkets' customers and a sample of 320 credit cards' customers. Confirmatory factor analysis (CFA) was employed in the *second study* with supermarkets sample of 335 customers and credit cards sample of 343 customers. The *third study* provides the nomological network analysis using a sample of 339 supermarkets' customers and a sample of 327 credit cards' customers.

FINDINGS

As hypothesized in the *first study,* the exploratory factor analysis (EFA) with Promax rotation extracted two factors, labeled "love" and "respect". These factors accounted for 89.1% of the common variance in the supermarkets sample and 90.7% in the credit cards sample. In all samples, all items loaded highest on the appropriate factor, had substantive loadings that exceeded .69. No cross loadings were found.

ISBN: 978-9963-711-37-6

The confirmatory factor analysis (CFA) in the *second study* shows that the alternative two correlated first-order factor also had acceptable fit indices. In the supermarkets sample and the credit cards sample the two factors were highly associated (r=.85, p<.001; r=.78, p>.001, respectively). These high correlations suggest that the factors are most likely dependent and might represent a higher order factor. Lastly, the one first-order factor had poor fit indices in both samples. Thus, overall evidence for convergent validity was gained and the hypothesized model can thus, be considered as a plausible and sufficient measurement for the Lovemarks scale. The nomological validity of the Lovemarks scale was assessed by in the *third study*, testing its relations with four relevant scales in its hypothesized nomological network in the two samples. As expected, results indicate significant and strong correlations of the Lovemarks sub-scales and an overall score with overall attitudes, recommendation, preference, and price premium. Thus these correlations provide evidence for the nomological validity of the Lovemarks scale.

The internal reliabilities were established in the *first study*. Cronbach's alpha coefficients for the three-item respect subscale were high in the supermarkets sample α = .96, and the credit cards sample α = .96. Similarly, Cronbach's alpha coefficients for the three-item love subscale were high as well: in the supermarkets sample α = .90, and in the credit cards sample α = .92.

CONCLUSIONS

The reliability and validity of the Lovemarks scale were established in two different product categories (supermarkets and credit cards). The scale provides the ability to evaluate "respect" – the factional and "love" – the main emotional strength and weakness of the brand. Thus, it gives directions for product adjustments and establishes effective advertising and marketing communication strategies. The significant and strong correlations of the Lovemarks sub-scales and "price premium" may also provide the direction for brand pricing strategy. From a managerial point of view, the scoring on the brand Lovemarks scale may represent the value of the brand, as measured by the price level that consumers will be willing to pay for that brand.

Analysis of Lovemarks between competitive brands represents strength and equity position of brands in the market. Monitoring brand Lovemarks over time can be an important managerial tool for marketing success. This scale helps in understanding consumer behavior but can also be used for market segmentation and marketing strategy. Understanding the differences between customers' brand Lovemarks may provide the basis for a marketing strategy in building strong brands.

Keywords: *Lovemarks, brand, love, respect, recommendation, price premium, preference*

ISBN: 978-9963-711-37-6

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 ISBN: 978-9963-711-37-6

BRAND EQUITY FOR FOOTBALL TEAMS

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ABSTRACT

ABOUT THE RESEARCH

The current research suggests two new brand equity models. One is a comprehensive theoretical model that combines and expands current conceptual brand equity models (Keller 1993, 2008, Aaker 1991, 1996 and Keller and Lehmann 2006); the other is an empirical model that makes it practical to measure the measure the marketing strength or the brand equity of football clubs. Most empirical academic researchers tend to measure customer attitudinal mindset, relying mainly on Aaker's (1991) conceptual framework of brand equity (e.g., Kim and Kim 2004; Tong and Hawley 2009; Yoo et al. 2000; Washbum et al. 2004) and Keller's (1993) Customer-Based Brand Equity (CBBE) model (e.g. Davis et al. 2009, Kuhn et al. 2008, Pike 2010). Some researchers have combined these models and presented integrated models (e.g., Oliveira-Castroa et al. 2008; Wang et al. 2008). The new empirical marketing brand equity model (MBE) suggested here provides a relative index of brand equity for football clubs that enable them to compare competitively the marketing equity of their club to that of their rivals. The MBE model also shows, for the first time, that commitment is a central component in the football club brand equity model. The current MBE is the only model that provides a weight for each of its component. Each respective weight represents the internal contribution of the respective component to the final brand equity index. These weights indicate where an effort should be made in order to improve the equity of the brand. The proposed model utilizes structural equation modeling (SEM) analysis to test the hypothesized MBE model.

THEORETICAL FOUNDATION

Keller's CBBE model (Keller 1993, 2008) is built by "sequentially establishing six 'brand building blocks' with customers" (Keller 2008, p. 60). These building blocks include: (1) brand *salience,* which relates to the awareness of the brand (category identification and needs satisfied); (2) brand *performance*, concerned with the satisfaction of customer functional needs underlined by the characteristics and features of the product (reliability, durability, service availability, effectiveness, efficiency, empathy, style, design and price); (3) brand *imagery,* linked to the satisfaction of the customer's psychological needs (user profiles, purchase and usage situations, personality and value history, heritage and

 ISBN: 978-9963-711-37-6

experiences); (4) brand *judgments* focus on customer opinions based on performance and imagery (quality, credibility consideration and superiority); (5) brand *feelings* are the customer's emotional responses and reactions to the brand (warmth, fun, excitement, security, social approval and self-respect); and (6) brand *resonance* is concerned with the relationship and level of identification of the customer with a brand (loyalty, attachment, and community engagement).

In presenting a conceptual framework of brand equity, Aaker (1991) defined brand equity as brand assets and liabilities that are added by a brand's name to the value provided by a product. High customer awareness, perceived quality and positive associations may result in greater customer demand, increased loyalty and the ability to charge a premium price. *Aaker's "Brand Equity Ten"* model extended the early conceptualization of a brand equity framework, utilizing five categories with a total of ten measures to assess brand equity (Aaker, 1996). The first category, loyalty, is measured by (1) price premium and (2) customer satisfaction and loyalty. The second category is measured by (3) perceived quality and (4) leadership or popularity. The third category, other customer-oriented associations or differentiation, is measured by (5) perceived value, (6) brand personality and (7) organizational associations. The fourth category, awareness, is measured by (8) brand awareness. The fifth category, market behavior, is measured by (9) market share and (10) market price and distribution coverage.

Keller and Lehmann's model of brand equity represents the antecedents and consequences of brand-equity measurement (Keller and Lehmann 2006). Their model is divided into five components: company action, customer mindset, customer performance, company "pay-off" and financial market impact. (1) *Company Actions* represent the marketing efforts and investments in brand strategies and programs. (2) Customer mindset deals with "what customers think and feel about a brand." This part consists of the "Five As": Awareness, Associations, Attitude, Attachment and Activity. (3) *Customer performance* deals with the consequences of customer mindset (Keller 2003). In their model and without discussing it, Keller and Lehmann added one outcome – satisfaction (Keller 2003) -- between customer mindset and company "pay-off". (4) The *company "pay-off"* represents "what customers do about a brand." This is the result of the customer mindset and performance that generates sales, revenues, market share and "…other things customers do, especially word of mouth, that impact future product-market results and need to be considered in any comprehensive model" (Keller and Lehmann 2006, p. 754). (5) The *financial market impact* is represented by the brand financial value, stock price and market capitalization.

ISBN: 978-9963-711-37-6

THE HYPOTHESIZED EMPIRICAL MODEL

The purpose of the present analysis is to test the validity of the suggested MBE model in sport marketing, specifically for football clubs/teams. The difference between the *conceptualized* Market Brand Equity presented above and the *empirical* model presented below is that the empirical model is a company-market brand equity model and the conceptualized model is a comprehensive framework that includes company actions and the financial aspects of the Shareholders Values. Furthermore, the empirical model includes only constructs with variability that are tested in the current study.

We introduce and assess an empirical and hypothesized model of market brand equity that has eight constructs. The first four constructs - knowledge, brand image, brand personality and brand overall attitude - represent customer mindset. Brand commitment represents customer performance outcomes that resulted from customer mindset. The last two measures are intention to recommend and purchase intention, both representing the company/market outcome or, more precisely, the performances that are the outcome of the previous stages of the brand value chain. While purchase Intention reflects potential market share and may change from one customer to another, market share is a constant at a certain point of time and thus, not part of the tested model. However, market share is measured and used in the current study when calculating the MBE value.

METHODOLOGY

This research's theoretical foundation, as well the conceptual development of the findings rests on an extensive literature review of both generic and sports-specific branding theory. The empirical part of the research stems from a large survey of 1300 Israeli football fans. Participants ages ranged between 17 to 81 with a mean age of 37.5 (sd = 14.4), 57% were males and 57% had an academic education. Based on the theoretical and empirical findings of the research, a parenthetical theoretical research is undertaken. The findings are developed conceptually to provide a provisional empirical framework for club branding and a solid basis for industry (managerial) application.

RESULTS

The hypothesized model was analyzed with AMOS 18.0 structural equation modeling (Arbuckle, 2009) using the maximum-likelihood estimation method. The models fit was assessed using the following goodness-of-fit indices: Chi-square, Root-Mean-Square Error of Approximation, Normed Fit Index, Tucker-Lewis Index, and Comparative Fit Index. A NFI, CFI, and TLI close to or greater than .95, and SRMR equal to or less than .08, are indicative of an acceptable fit. Results indicated excellent model fit with $\chi2(4)=3.65$, $p=0.46$, RMSEA=.00, NFI=.99, TLI=1.00, and CFI=1.00.

ISBN: 978-9963-711-37-6

In order to test for meditational effects in the model, I followed the guidelines described by Kenny and other significant researchers (Baron and Kenny, 1986; Kenny, Kashy, and Bolger, 1998) indirect effect test. First, I established a significant association between each predictor variable and the mediator variable. Second, I established a significant association between the mediator and the outcome variable. In the third step, I estimated the indirect effect of the predictor on the outcome through the mediator by using Preacher and Hayes' (2004) bootstrapping procedure. In the present set of analyses, parameter estimates were based on 1,000 bootstrap samples. The bias-corrected, accelerated 95% confidence intervals are similar to the 2.5 and 97.5 percentile scores of the obtained distribution over the samples, but with z-score based corrections for bias due to the underlying distribution. The indirect effect was statistically significant when the confidence intervals did not contain zero.

CONCLUSIONS AND IMPLICATIONS

The new Marketing Brand Equity Model (MBE) suggested here provides a relative index of brand equity for football clubs that enables them to competitively compare the marketing equity of their club to that of their rivals. The MBE model also shows that commitment is a central component in the football club's brand equity model. The current MBE is the only model that provides a weight for each of the components. Each respective weight represents the internal contribution of each component to the final brand equity index. These weights indicate where an effort should be made in order to improve the equity of the brand. The proposed model utilizes a Structural Equation Modeling (SEM) analysis to test the hypothesized MBE model. The total Marketing Brand Equity (MBE) value was calculated by the weighted sum of all of the seven model variables (parameters) of the hypothesized empirical model. The linear regression that extracted the model parameter weights was highly significant and explained a 52% variance among fans and their willingness to pay premium price for the membership, game tickets or merchandizes of the football club.

Keywords: Sports Clubs, Branding, Brand Equity, Fans, Value, Stakeholders, Football

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 ISBN: 978-9963-711-37-6

THE INFLUENCE OF MANAGEMENT FRAMEWORKS ON THE ACCOUNTING INFORMATION SYSTEM: THE SPECIFIC CASE OF PUBLIC HOSPITALS

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ABSTRACT

PURPOSE

The present study seeks to examine the extent to which and in which ways, the implementation of private oriented management approaches in public hospitals have improved efficiency and organizational performance.

INTRODUCTION

In the last decades, the influence of New Public Management principles along with economic and financial constraints have, in many developed countries, originated deep changes in Public Sector organizations. Public health organizations, in particular, have been under tremendous pressures to change and to incorporate private oriented management frameworks. Following this trend, Portugal has undertaken significant reforms to improve efficiency and performance in the public sector. With respect to the health sector, profound changes have taken place affecting the management and the juridical domains which frame the hospital units functioning. Assuming that being managed under a private oriented management framework would facilitate the improvement of efficiency and effectiveness measures, a new legal arrangement was then conceived to juridically change public administration hospital units into public entrepreneurial entities. This new juridical modality would allow the introduction of private concepts, models and techniques in these "new" organizational and legal configuration.

Departing from both, institutional and stakeholder theories, the present study seeks to examine the extent to which and in which ways, the implementation of private oriented management approaches influence key areas such as the management information system design, the design and adoption of particular management tools, or the hospital's management performance.

 ISBN: 978-9963-711-37-6

DESIGN/METHODOLOGY/APPROACH

The study adopts a mix methodological approach in which quantitative and qualitative techniques are used to collect data from a representative sample of Hospital units operating in Portugal. The empirical data was collected by applying a survey to hospital managers. This data was complemented with qualitative data gathered from exploratory and confirmatory interviews undertaken with top managers within the hospital sector.

FINDINGS

The results from this study did not allow us to establish a direct link between management frameworks and performance improvements as it was found there was not a distinctive pattern in the adoption of management tools. However, the results suggest that managers exhibit specific preferences related either to the use of Cost Benefit Analysis and SWOT Analysis (strengths, weaknesses, opportunities and threats). With respect to the remaining management frameworks, it should be noted that *Benchmarking* and *Tableau de Bord* are mostly used by private management oriented hospitals.

ORIGINALITY/VALUE:

This study contributes to uncover some of the assumptions of new public management, according to which the adoption of private based models and management tools would result in effective improvements in the performance management. Therefore, this research adds to existing literature in the field of hospital management by empirically testing the relevance of widely assumed assumptions associated with New Public Management principles in the specific context of hospital organizations.

Keywords: *Hospital management; Management Accounting; New Public Management; Stakeholders Theory; Institutional Theory; Health Sector*

ISBN: 978-9963-711-37-6

PERCEPTIONS OF HOSPITAL LEADERSHIP CONCERNING THE RESOURCE TO BENCHMARKING METHOD AS A MANAGEMENT TOOL

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ABSTRACT

Currently, as a result of the influence of New Public Management principles, a hospital leadership management concept, introduces itself more oriented as an enterprise management. This fact, has been shown in the last years on countless challenges for the hospital leaderships, mainly at quality, efficiency level but also on expenses control by the Health National Service (SNS). Therefore, the administration, has been establishing and becoming very solid on the finding of innovate management tools resources, aiming the hospitals improvement. However, to achieve this gold; the effective introduction of this several management tools it becomes essential to improve all the human resources with a certain high knowledge and labour motivation level. On this same context we intend to underline the use of *benchmarking* by hospitals.

This resource brings together a whole of indicators that will supply information to support the hospital managements on the search of better conditions concerning quality, efficiency and also an effective hospital activity.

So, this way, the use of *benchmarking* by CEO`s in hospitals has a main achievement which is to improve the quality access in a better conditions context such as economical and financial performance. On this thought, the currently investigation, has the main gold of study and analyse the perceptions of hospital managers about the use of *benchmarking* method as a managing tool. Meaning that, our study seeks to feature the hospital leadership's perception about *benchmarking*. We also tried to analyse the skill level of the economic, financial performance evaluation of a hospital. For that, our effort concerns the hospital CEO´s knowledge about the *benchmarking* appliance.

Our study took a methodical strategy; known by a positive approach, turned to a survey.

The sample collected is formed by 45 inquiry questionnaires applied on June and July 2014, which analysis allow us to build the Hospital Leaderships *benchmarking* users profile and also their perceptions through *benchmarking* method as a management tool.

In conclusion, the hospital deciders present a positive perception about *benchmarking* as a management tool, as well as a high knowledge level on this matter. These factors prove the existence of human resources for an efficacy and efficient implementation of *benchmarking*. These deciders believe that

 ISBN: 978-9963-711-37-6

benchmarking can respond to the current challenges of the hospital management in spite of the obstacles to his successful implementation.

Keywords: *Benchmarking, tool management, hospital leadership, indicators, health sector, hospital deciders*

ISBN: 978-9963-711-37-6

LIMITING QUALITY FACTORS IN WINE TOURISM SERVICES

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ABSTRACT

This paper is dedicated to the field of wine tourism; more specifically it examines factors of service quality provided within wine tourism. The level of services is a critical moment and challenge for this dynamically growing industry in the Czech Republic. The importance of wine industry for agriculture is furthermore seen is its ability to be the source of development because they affect positively other related industries. The paper summarizes outcomes of research among providers of wine tourism in the South Moravia Region (CZE) and seeks for a relation between perceived limiting quality factors and size and type of the providing institution/enterprise, and relation between these factors and factors of loyalty. Further on the connection between type of wine tourism destination and quality monitoring is described.

Approaches to service quality are frequently discussed topic among scholars and managers for past decades. Number of studies attempts to examine different methods of quality measurement. In tourism industry most attention is paid to client satisfaction with provided services, when different tools are used for measurement, mostly comparing "what" (technical aspects of quality) and "how" (factional aspects of quality). One of the commonly used tools is for instance SERVQUAL model developed by Parasuraman et.al. (1985). The tool is based on GAP model (5 dimensional). Later studies proved that the SERVQUAL is not appropriate for all types of services. Another tool used in the tourism is importance-performance analysis (IPA) - Although it is popularly used method in many research areas, academics mainly criticise it because of its relative structure and lack of consideration of competitors. In this paper the data would be analysed in order to uncover the most limiting quality factors, the use of key component analyses is likely to be used to narrow the number of the factors for further work. The paper should be focused on quality perception from the provider's side. The outcomes would instruct the services providers on what factors are seen as critical and should advise on improvements.

The second part of the paper is focused on the sole destination management. On the basis of strength of respondents' cooperation with destination management institutions the authors attempt to state whether destination management in the region generally performs on a good level or it does not. The institution with the highest influence in the region in this regard is "Tourist authority South Moravia" established by both public (municipality authorities) and private spheres (tourism agencies). The

 ISBN: 978-9963-711-37-6

effectiveness of the decision making and its implementation should be evaluated based on the results of this research.

METHODOLOGY AND DATA

For purposes of the paper, primary research would be undertaken using quantitative methods. Namely a questionnaire would be distributed among wine companies in spring 2016. The reference group would be created by 560 wine enterprises across the Czech Republic and respondents quota allocated based on – according to a size of the winery (litres of wine produced per annum) reflecting actual situation on the Czech wine market. In these terms the wineries are divided into1:

- micro size producers (annual production up to 10 000 l)
- small size producers (annual production between 11 000 and 50 000 l)
- medium size producers (annual production between 51 000 and 250 000 l)
- large size producers (annual production more than 250 000 l).

The research questions would be both closed questions and semi-open, but mainly scale questions and will be focused on specific factors of service quality. The aim is to relief what quality factors the respondents state as limiting and what reveal a possible relation between the perceived limiting quality factors and size and type of the providing institution/enterprise, and relation between these factors and factors of loyalty.

Keywords: *Wine tourism, quality, sustainability, destination management, quality management*

THE IMPACT OF DIGITAL MARKETING & SOCIAL MEDIA IN HIGHER EDUCATION MARKETING STRATEGIES. THE CASE OF KOSOVO.

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ABSTRACT

INTRODUCTION

The latest developments in the marketing environment have created new opportunities and implications for higher education marketers. As digital marketing is still an under-researched area, academics and practitioners have indicated various issues in adapting a digital approach to higher education marketing strategies (Zinck Stagno, 2010; Constantinides and Stagno, 2012). In this context, many studies note that higher education institutions can use a service marketing approach of "relationship marketing" and "co-production" as appropriate methods of increasing their competitiveness, improving their students' satisfactions and attracting new students (Alexa et al, 2012). By using a multiple case study design with a focus on private higher education institutions (HEIs) within Kosovo, this paper indicates that these approaches may present various implications from both marketers and organization's perspectives that need to be addressed.

Being an under-explored research area, numerous literature gaps have emerged in applying digital marketing to higher education marketing. These gaps suggest that little is known about the issues universities encounter while adopting a digital marketing approach into their marketing strategies and about the way in which social media platforms are being used for marketing purposes. There is some debate over whether higher education should embrace a business service approach, using relationship marketing and web 2.0 channels to engage with their students thus increasing their satisfaction or whether they should preserve their academic and social nature. In case of Kosovo, no academic research has been found to serve the questions of this research, or its potential and strategies; neither is there any evidence that a conceptual foundation of such strategies is available.

PURPOSE

Diversification of and competition between higher education institutions has made the education sector more competitive in teaching-learning quality and student services, while the shift from traditional marketing to DM requires changes in their approach to communication from communication to

 ISBN: 978-9963-711-37-6

customer voice listening and engagement (Chaffey and Smith, 2013; Constantinides and Stagno, 2012). However, limited research has been conducted about the adoption of DM strategies in HE. The purpose of this study is to reveal the ways that higher education institutions are using DM and SM to achieve marketing objectives. Therefore, the following objectives have been defined:

To uncover the implications of adopting DM in Higher Education Institutions

To explore the use of DM and social media (SM) from a student-university relationship marketing approach

METHODOLOGY

As this research's questions attempt to understand the implications of a particular contemporary phenomenon and build theory based on contexts, it was decided that there is no intention to influence results. Hence, a qualitative methodology has been chosen over a quantitative one. Primary data have been collected through three semi-structured interviews with marketing representatives of three of the largest private HEIs in Kosovo, each interview lasting 35-55 minutes. In addition there are two focus group interviews with students of two of the universities studied at the first part. This target group is considered to be an important source of information to meet this research's objectives.

FINDINGS

Findings reveal that there is a lack of knowledge and skills in the field of DM from an HE marketer's perspective, as well as a lack of awareness about DM opportunities, strategic planning and analytics platforms. However, the scale of these deficiencies varies across each institution. An interpretation of this is the digital approach from a strategic management level and the reluctance of upper management and academic staff to embrace digital marketing due to the academic nature of educational institutions. Nevertheless, there was no perception that actions have been taken to fill the subject's knowledge gaps. Concerning the use of DM and social media for relationship marketing, it is evident that HEI marketers are using social media to communicate and collaborate with their students, however, lecturers seem to be reluctant to participate in these communities, in an effort to keep communication as formal as possible, also in consideration of internal institutions' policies. Moreover, findings confirm existing DM literature, that marketers are likely to play a limited role in social media, which suggests an increased role in observation and monitoring activities. Although the HEI representatives identified social media as a marketing channel, the focus groups revealed that some students might be reluctant to engage with university staff via this channel due to the academic nature of their relationship. While this corresponds with findings from the interviews, others welcomed such initiatives and showed

 ISBN: 978-9963-711-37-6

appreciation when they were promoted on the university's social media pages. Finally, this research revealed that digital marketing as a new phenomenon is approached differently by HEIs, as there are still opportunities to explore, challenges to be solved and strategies to be developed. Findings suggest that in certain situations, universities can benefit from new technological developments when supporting their organization's strategies, although the capacity and resource that would support such a transition might be limited.

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 ISBN: 978-9963-711-37-6

BIG DATA AND THE CONSTRUCTION OF CALCULATIVE CENTRES: HOW BIG DATA RESHAPES ORGANIZATIONAL POWER RELATED TO INFORMATION MANAGEMENT

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ABSTRACT

Big Data are normally associated with the technology used within organizations to store, aggregate and process data in real time. However technical features represent only one side of this buzzword and it is important to know how organizations manage the data. While some studies have already investigated the external impacts of Big Data technologies, there is a research gap on how these technologies impact on organizations and their departments. The paper aims to explore the organizational implications of the corporate adoption of Big Data technologies. In particular, the research investigates how organizational departments are implicated in performing corporate strategy when a company adopts Big Data technologies to collect information in order to improve its customer relationship.

The Big Data era is really underway (George *et al.*, 2014). Conversely, in both academia and practice an unambiguous definition has not been coined yet, and the concept of Big Data finishes to act as an umbrella that covers several research areas and definitions.

Big Data are normally associated with the technology used within organizations to store, aggregate and process data in real time (Chen *et al.*, 1014; Bhimania and Willcocks, 1014). However technical features represent only one side of this buzzword. As technology is neither good nor bad, nor is it neutral (Boyd and Crawford, 2012), Beath *et al.* (2012) argue that it is important to know how organizations manage the data, and in particular the unstructured data (usually external) that are not easily retrievable or interpretable.

While some scholars (e.g. Cheng et al., 2012) have already investigated the external impacts of Big Data (i.e. increased sales and customer satisfaction, Financial fraud detection, etc.), there is a research gap on how Big Data have an impact within organizations and their departments.

Aiming at filling this gap, the present paper explores the organizational implications of the corporate adoption of Big Data technologies. Starting from the idea that "bigger data are not always better data" (Boyd and Crawford, 2012; pp. 668), the research investigates how organizational departments are implicated in performing corporate strategy when a company uses Big Data technologies to collect information to manage customer relationship. The analysis focuses on how accounting, IT and other

 ISBN: 978-9963-711-37-6

functions create "centres of calculation" (Latour, 1987), where information made available by Big Data technologies are calculated and judged. In particular the paper investigates how these "centres" create "enclosures", relatively bounded locales within which power and authority are concentrated (Rose and Miller, 1992).

The research draws on governmentality framework, as depicted by Foucault (1991) and developed by Rose and Miller (1992). This framework represents a referent point for the exploration of how calculative technologies (Big Data) are implicated in the governance of organizations, considering that these devices confer power to the "experts" that manage the information created by mean of these technologies. The paper also benefits from the concept of "mediating instruments" (Miller and O'Leary, 2007): Big Data technologies can be interpreted as an instrument that mediates the conflicting interests of different corporate departments.

The research is based on a case study analysis, developed through semi-structured interviews to managers and workers engaged in the management of Big Data technologies and in the performance of corporate strategy. The company on which the case study is developed is an Italian listed multi-utility company that uses Big Data technologies in the process of monitoring customer behaviour and providing customized services.

The analysis shows that the introduction of Dig Data technologies contributes to the creation of "centres of calculations" that modify how corporate departments interact in process of performing corporate strategy. The analysis also demonstrates that the introduction of Big Data technologies reshapes the power exerted by different functions in the implementation of corporate strategy: departments engaged in the calculation and judgement of information made available by Big Data technologies expand their influence on the processes of customer relationship management.

The paper contributes to accounting literature on Big Data by highlighting how accounting and other "technical" departments (e.g. IT) are implicated in the performance of corporate strategy by participating to the creation and government of Big Data information.

Keywords: *Keywords: Big Data, inter-organizational relationships; accounting; corporate strategy; organizational power; decision-making processes; governmentality.*

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 ISBN: 978-9963-711-37-6

A CROSS-CULTURAL EXAMINATION OF NEGOTIATION OUTCOMES EMPLOYING SCENARIOS

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ABSTRACT

This research investigates negotiation outcomes employing seventeen different scenarios. Drawing on a Mediterranean sample from Greece, Israel and Turkey, it assesses negotiation outcomes under diverse circumstances, such as negotiating with new and existing customers, negotiating with colleagues, subordinates and superiors, or negotiating under time pressure. Furthermore, the research investigates whether negotiators from diverse cultures tend to respond differently given the same sets of scenarios. A survey questionnaire was translated from English to Greek, Hebrew and Turkish, and nine hundred forty-two responses were collected from negotiators who worked in industries such as banking, insurance, construction, manufacturing, retailing, tourism, and public authorities in the three countries. The research findings suggest significant variations in the reactions of negotiators under different negotiation scenarios. Very interestingly, a number of statistically significant variations among the responses of Greek, Israeli and Turkish negotiators were also corroborated. The present study contributes to negotiation theory and the understanding of practices, offering original cross-cultural empirical insights regarding negotiation contingencies.

Keywords: *Negotiation, scenarios, culture, Greece, Israel, Turkey.*

ISBN: 978-9963-711-37-6

THE USE OF SOCIAL MEDIA IN CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE

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ABSTRACT

Corporations are rapidly expanding their use of social media in corporate disclosure, and many corporations are now entering into a virtual dialogue with stakeholders to communicate their economic, social and environmental impacts on society. However, the use of social media as corporate social responsibility disclosure form still remains an under investigated research topic. Stemming from these considerations, the purpose of the paper is to analyse the extent to which the Italian listed companies are using social media platforms to disclose their corporate social responsibility in order to engage stakeholders in compelling and on-going virtual dialogs, comparing how Socially Responsible and Not Socially Responsible companies use social media platforms to report their CSR initiatives and interventions. The analysis supports the current calls for innovative forms for corporate disclosure and provides a large-sample evidence on the corporate use of social media.

INTRODUCTION

Corporate social responsibility (CSR) has become a well-established concept whereby companies integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close cooperation with their stakeholders (EU, 2011a). As defined by the European Commission, CSR is "the responsibility of enterprises for their impacts on society" (EU, 2011b, p. 6).

According to the triple bottom line approach, CSR outcomes encompasses economic, social and environmental dimensions (Elkington, 1998). Economic responsibility references a company's contribution to the on-going viability of the larger economic system. Social responsibility considers the company's impact on the local communities in which it operates, ranging from corporate philanthropy to providing safe working conditions. Environmental responsibility regards a company's effect on the physical environment.

In turn, companies have rapidly entered a dialogue with their stakeholders to communicate their CSR initiatives and interventions and their impacts on society (Freeman and Moutchnik, 2013; Gibson, 2012; Gray *et al.*, 1995; Morsing and Schultz, 2006).

 ISBN: 978-9963-711-37-6

Prior research has noted the role of corporate disclosure in sharing CSR initiatives with stakeholders (for an overview, see, e.g., Branco and Rodrigues, 2007; De Bakker *et al.*, 2005; Parker, 2011). The early research on CSR disclosure has primarily focused on financial reports (Deegan and Gordon, 1996; Gray *et al.*, 1995; Gray *et al.*, 1987; Guthrie and Mathews, 1985). Afterwards, studies have shifted their focus on voluntary nonfinancial reports such as social and environmental reports (Crawford and Clark Williams, 2011; Deegan *et al.*, 2002; GBS, 2013; Gray *et al.*, 1996; Guthrie and Parker, 1990; Roberts, 1991), sustainability reports (GRI, 2013; Gray, 2010; Kolk, 2004) and integrated reports (Busco *et al.*, 2013; Cheng *et al.*, 2014; IIRC, 2013, Eccles and Krzus, 2010).

Over the last decade, research have begun to analyse the Internet as new tool for communicating with stakeholders (Campbell and Beck, 2004; Frost, 2005; Patten and Crampton, 2004; Williams and Pei, 1999). It is widely recognized that Internet has completely changed the communication channels; as a matter of fact, delivering a message through the web is the easiest and the most effective way to reach a great amount of public. Indeed, Internet offers to companies the possibility to update information in a faster way and, above all, grants the possibility to reach a very great audience. The web has turned around even the way in which companies communicate their CSR initiatives and interventions (Tagesson *et al.*, 2009). Thus, studies analysing the Internet has a CSR disclosure form has been growing in the recent years (Bolívar, 2009; Bravo *et al.*, 2012; Capriotti, 2011; Capriotti and Moreno, 2009; Chaudhri and Wang, 2007; Forte, 2013; Tang *et al.*, 2015).

More recently, some authors have begun to analyse the corporate adoption of social media as communication channel with stakeholders (Kietzmann *et al.*, 2011; Ngai *et al.*, 2015; Paniagua and Sapena, 2014; Peters *et al.*, 2013). Research has noted that in the digital age corporations are rapidly expanding their use of social media (such as Facebook, Linkedin, and Twitter) as an instrument for corporate disclosure (Alexander and Gentry, 2014; Jung *et al.*, 2014; Paniagua and Sapena, 2014; SEC, 2013; Zhou *et al.*, 2014), and many corporations have added social media as disclosure form of their CSR initiatives and interventions (e.g., Capriotti, 2011; Reilly and Hynan, 2014; Reilly and Weirup, 2010), entering into a virtual dialogue with their stakeholders (Korschun and Du, 2012). In fact, social media provide the opportunity to convey a message linking a company with broader humanitarian causes, environmental solutions, or economic issues. However, little is known about the diffusion of social media usage as a CSR disclosure form to communicate with stakeholders and how this process functions.

Reilly and Weirup (2010) have argued that the organizational culture supporting CSR initiatives and interventions will also support the corporate use of social media. In fact, the level of resources a corporation dedicates to its CSR initiatives may reflect the company's openness to change and

 ISBN: 978-9963-711-37-6

innovation, that is a key dimension of organizational culture. In the same manner, as suggested by Reilly and Hynan (2014), social media represent a key arena for innovative corporate practices thanks to their rapid pace of change, which offers almost instantaneous information sharing. Thus, the values and priorities fostering a socially responsible organization's innovative culture may support the company's strong presence in social media platforms. Socially responsible corporations may prove to be first movers in responding to shifts, such as sustainability and social media, in the business landscape.

RESEARCH QUESTION

Stemming from these considerations, the purpose of the paper is to analyse the extent to which the large Italian listed companies are using social media platforms to disclose their CSR initiatives and interventions in order to engage stakeholders in compelling and on-going virtual dialogs, comparing how Socially Responsible and Not Socially Responsible companies use social media platforms to report CSR initiatives.

We believe this research is important because even though the growing use of these innovative disclosure forms by corporations has been highlighted in the business press and documented in surveys (KPMG, 2013; Harvard Business Review, 2010; Larcker, Larcker and Tayan, 2012) and some empirical analyses about the corporate adoption of social media to foster CSR disclosure have been made (e.g. Kim and Rader, 2010; Reilly and Hynan, 2014; Reilly and Weirup, 2010), an extensive analysis of the social media usage for CSR disclosure in Italy is still missing. To date, studies on CRS disclosure in Italian listed companies have mainly paid attention to the effect of CSR on financial performance (e.g. Fiori *et al*., 2007) and the quality of CSR reporting (e.g. Fossati *et al*., 2009; GBS, 2013; Romolini *et al*., 2014). Whereas another stream of research have focused on the sustainability reporting in public administrations (e.g. Farneti *et al*., 2011). Indeed, we believe the research results of this study contribute useful insights about the CSR agenda.

Thus our research proposition are as follows:

Research Proposition 1: the more a company is socially responsible the more it is active user of social media, and the more likely it is to maintain a strong corporate presence in the key social media platforms Facebook, LinkedIn and Twitter.

Research Proposition 2: the more a company is socially responsible the more likely it uses social media for disclosing CSR information, and the more likely it engages stakeholders in compelling and on-going virtual dialogs.

ISBN: 978-9963-711-37-6

RESEARCH METHODS

Sample and Data Selection

This paper builds on an empirical analysis on the corporate use of social media for CSR disclosure. The sample consists of the 40 largest companies listed on the "Mercato Telematico Azionario" (MTA) of the Italian Stock Exchange "Borsa Italiana" (BIt), that compose the FTSE MIB Index. These companies has been selected according to a metric based on size (in terms of market capitalization) and liquidity (in terms of selling rapidity and bid/ask spread). Capturing approximately 80% of the Italian market capitalization, these companies are the most visible Italian firms, and then they are the most important as perceived by investors, business analysts and the public.

We construct a dataset on the corporate use of social media by the largest Italian listed companies. Our dataset identifies the social media presence of the companies, the extent of social media usage in terms of "posts", the size of the social media audience in terms of "likes" and "followers", the presence of CSR information in the social media platforms, the extent of social media usage for CSR disclosure in terms of "socially responsible posts", and the variety of socially responsible information disclosed through social media in terms of "kind of information disclosed". The quality of CSR disclosure, the corporate visibility in the major social networks and also the use of advanced web metrics will remain topics for further research.

To collect data on social media platforms, we use secondary information retrieved from corporate web sites. Data on social media usage refer to one year, the period that goes from January 1st, 2014 to December, 31st 2014.

Research Design

In this empirical study we use a combination of research methods for investigating the corporate use of social media for CSR disclosure: the content analysis technique for gathering and examining data on social media usage and the external rankings information for comparing Socially Responsible and Not Socially Responsible companies.

Firstly, we adopt a content analysis to quantify the social media usage and classify the corporate posts. It is widely recognised that this research method provides researchers with a systematic approach to analyse large datasets (e.g., Krippendorff, 1980; Guthrie and Abeysekera, 2006; Branco and Rodrigues, 2007). Moreover, the content analysis is a widely used research method by which selected items of qualitative data are codified and systematically converted to numerical data (e.g., Abbott and Monsen, 1979; Collis and Hussey, 2009).

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Secondly, we use external ratings information to compare and explain differences in the extent and comprehensiveness of CRS disclosure in the social media platforms Facebook, LinkedIn and Twitter (Guthrie and Abeysekera, 2006). The external ratings are measures that serve to systematically, accurately, consistently, and transparently assess the economic, social and environmental performance of companies (Windolph, 2011). So, in this paper we use the Standard Ethics Ratings of the large Italian listed companies as a proxy of the CSR performance (Gray and Herremans, 2012). Based on the Standard Ethics Ratings (Tomasi and Russo, 2012) we divide the sample into two matched subsamples: the Socially Responsible (high-rated) companies and the Not Socially Responsible (low-rated) companies in order to compare their social media usage for disclosing CSR.

RESEARCH FINDINGS

This study contributes to the corporate disclosure literature by examining the use of social media as an innovative form of disclosure by the largest companies in Italy and their specific use to disseminate CSR and to engage stakeholders in compelling and on-going virtual CSR dialogs. Thus the paper provides a large-sample evidence on the corporate use of social media to disseminate CSR in Italy.

Preliminary results show that social media usage varies across firm and industry regarding types of CSR initiatives reported, metrics employed, and social media used. Indeed, preliminary results provide support for our research propositions: compared to Not Socially Responsible companies, Socially Responsible companies seems to be more active on social media platforms and more likely to disclose their CSR initiatives through social media.

The results could be useful for both academics and practitioners that need some initial and reliable background data on the diffusion of social media usage for CSR disclosure.

Keywords: *corporate social responsibility, corporate disclosure innovation, social media, Italian listed companies.*

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 ISBN: 978-9963-711-37-6

THE IMPACT OF MARKET ORIENTATION ON DIFFERENT TYPES OF FIMRS' INNOVATION

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ABSTRACT

Market orientation is an integral part of a corporate culture that represents an organizational response to consumer needs and tastes. Today, most firms accepted this strategic orientation as a way to achieve their goals and be successful in the market. Narver and Slater (1990) gave the principal definition of market orientation and it referred to "the organization-culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus continuous superior performance for the business" and includes both responsive and proactive market orientation (Nasution, Mavondo, Matanda, & Ndubisi, 2011; Pinho, Rodrigues, & Dibb, 2014). It is widely recognized that market orientation has a positive influence on firms' performance (Deshpandé & Webster, 1989; Narver & Slater, 1990; Wang, Chen, & Chen, 2012; Pinho, Rodrigues, & Dibb, 2014). Several previous researchers have recognized the mediating role of innovation between market orientation and firm's performance, and positive impact of market orientation on firms' innovation (Keskin & Halit, 2006). A certain number of studies claim that a market orientation generates superior product innovation performance (Zhang & Duan, 2010).

However, there is a gap in literature about the impact of market orientation on individual types of innovation besides product innovation. Taken in consideration previously said, this paper seeks to address two main problems: (i) it analyses independent effects of market orientation on different types of innovation namely, product innovation, process innovation (Škerlavaj, Song, & Lee, 2010), and management innovation (Vaccaro, Jansen, Van Den Bosch, & Volberda, 2012); (ii) it evaluates independent and the interaction effect of different types of innovation on firms' performance. We conceptualize our research from the dynamic capabilities view - DCV perspective (Winter, 2007) and position different types of innovation within the firm as firm capabilities (Day, 1994). Resource based view perspective - RBV considers a firm as a bundle of resources and capabilities (Lockett, Thompson, & Morgenstern, 2009) and this theory is upgraded to DCV because of the broad consensus in the literature that resources have to be concerned with change, where dynamic capabilities govern the rate

 ISBN: 978-9963-711-37-6

of change of ordinary capabilities (Winter, 2007). Nguyen & Nguyen (2011) pointed out that "the firm's resources include tangible and intangible assets such as financial and physical assets, human capital and know-how. Capabilities are the ability of the firm to effectively use its resources to achieve its objectives". Market orientation is positioned as the firm strategic orientation element, as well as the firm culture and we rely on the recent frameworks that link strategy to capabilities and then to firm performance (Mintz & Currim, 2013). Among firm capabilities, marketing and innovativeness capabilities are types of dynamic capabilities and perhaps the most important capabilities for the firm (Nguyen & Nguyen, 2011). Innovative capabilities are defined as "firm's competence in generating, developing and implementing new ideas, products, or processes that improve the firm's competitive advantage and performance" (Hult et al., 2004). Therefore, innovative capabilities can be measured with existence of different types of innovations.

Hence, from the conceptual framework we develop two general hypotheses: (H1) Market orientation has positive and significant effect on product/service innovation, process innovation and management innovation, (H2) Product/service innovation, process innovation and management innovation all positively and significantly influence firm performance.

We empirically tested the conceptual framework in a developing European country on the convenient sample of 109 companies. Questionnaire was developed relying on the pre-existing scales and an online survey was used as the dissemination tool to firms. Model was tested by using the covariance-based structural equation modeling in LISREL 8.71. Through the analysis, a two-step approach was followed (Anderson & Gerbing, 1988) and reliability and validity of the measurement model was assessed.

The results for the structural model and hypotheses test (that demonstrated a good model fit with indices: df=29, Chi-square=49.342; Chi-square/df=1.70, RMSEA=0.0806, NNFI=0.898, CFI=0.935, GFI=0.917, SRMR=0.065) suggest that the market orientation is important driver of innovation (general H1 confirmed), but it doesn't have same effect on all types of innovation. Namely, market orientation has the highest impact on the product/service innovation (β=0.36***), followed by the impact on management innovation (β=0.25***), and the lowest impact on the process innovation (β=0.23***). Interestingly, only the process innovation significantly impacts the firm performance in the conceptualized model (β=0.30***), that makes general H2 partially confirmed.

Above stated findings signal the importance of market orientation for firm innovativeness and demonstrate that there are differences in importance depending upon the type of innovation. Furthermore, our results show that, when we account for three types of innovation simultaneously, process innovation stands out as the only one contributing to firm performance. In general, evidence

 ISBN: 978-9963-711-37-6

from this study underscores the importance of market orientation for all types of innovation, especially for product/service innovation. However, process innovation appears to be the most important determinant of business performance (Wolff & Pett, 2006).

By empirically validating an integrated research model, this study offers significant contributions to the literature on innovation and dynamic capability theory. The findings of this study contribute to the theoretical development of the relationships among market orientation and business performance, but with types of innovation as mediators. In addition, findings in this research support those different types of innovation impact business performance with different magnitude.

The practical implication of the results is that managers need to be responsive to the consumer needs and tastes and motivated to invest financial resources as well as their time and commitment in order to enhance firms' innovation capabilities in order to respond to these needs. Also, in their efforts to respond to the customers' needs through product/process innovation, managers must not underestimate the other types of innovations, such as management and process innovation. The most critical for managers and executives is to understand the importance of innovation and innovative capabilities as well as market orientation and how they can put it into their consideration about decision making process especially regarding organizational culture and market orientation and innovativeness as its parts.

Keywords*: Market Orientation, Innovation, Product Innovation, Process Innovation, Management Innovation, Business Performance*

ACKNOWLEDGMENTS

Research for this paper has been conducted within the project PACINNO (code 1° STR/0003), funded by Adriatic IPA Cross-border Cooperation Programme 2007-2013

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 ISBN: 978-9963-711-37-6

MANAGING EXPLORATIVE ACTIVITIES AND DUAL EMBEDDEDNESS IN FOREIGN SUBSIDIARIES: A CASE STUDY IN JAPANESE MNCS

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ABSTRACT

Lately, the center of growth spots in the world economy has shifted from developed countries to emerging countries. Hence, multinational companies (MNCs) throughout the world are focusing on accessing emerging markets, thereby sensing and developing new business opportunities (Doz et al. 2001; Govindarajan and Trimble, 2012).

However, the business environment in emerging markets is significantly different from that of developed countries. In order to develop new business successfully in emerging markets, it has been argued that MNCs need to completely change their mindset and to formulate a new strategy specifically for emerging markets (Govindarajan and Trimble, 2012). In that sense, it is required for MNCs to focus not only on the current strategy which has contributed to their competitiveness, but also on introducing totally new products or business. Therefore, it is necessary for MNCs to concentrate not only on exploitative activities, but also exploratory activities in the international business (IB) context (Kuwana and Yamamoto, 2013).

It is argued theoretically that managing the coexistence of both exploitative and explorative activities (i.e. ambidexterity) is very challenging for incumbent firms, because of reasons such as relying too much on short-term managers' orientation, a shortage of risk-taking activities, or "NIH (not invented here) syndrome" (Benner and Tushman, 2003), which derives from their successful past experience. Extant studies have shown that some firms can manage ambidexterity through various mechanisms, such as change in organizational structure or contextual aspects (Gibson and Birkinshaw, 2004; Mom et al., 2007). However, considering the IB context, research on how to deal with ambidexterity in the IB context is still unresolved with the exception of a few studies (eg. Fourné et al., 2014). Therefore, in this study we focus on a research question about how incumbent MNCs deal with ambidexterity management through "dual embeddedness" in foreign subsidiaries. "Dual embeddedness" encompasses both intra-corporate embeddedness and local embeddedness in a foreign subsidiary (eg. Figueiredo, 2010; Forsgren, et al., 2005).

In order to analyze this research question, we draw on a case-study approach which focuses on foreign subsidiaries (i.e. production, marketing or trading subsidiaries) in several Japanese MNCs (JMNCs), which have long experience operating overseas. As foreign subsidiaries in JMNCs have had

 ISBN: 978-9963-711-37-6

extremely close relationships with their headquarters (HQs), they usually have been over-embedded in the relationship with their HQs. In addition, they have not built close relationships with local actors in the local environments. However, JMNCs also need to establish relationships with local actors in order to manage explorative activities. More specifically, we explain how such MNCs have dealt with organizational inertia by accessing and assimilating heterogeneous knowledge from local environments. Extant studies have paid little attention to this issue. Using the case-study, we show that some Japanese MNCs deal with dual embeddedness by changing the management orientation of expatriates in foreign subsidiaries, creating close relationships with a variety of local organizations, and appropriate "voicing" activities (Bouquet and Birkinshaw, 2007) towards their HQs.

* This research was partially supported by the Ministry of Education Culture, Sports, Science and Technology (Japan), Grant-in-Aid for Scientific Research (C), No. 25380526 and Grant-in-Aid for young Scientists (B), No. 30318761.

Keywords : *foreign subsidiary, exploration, dual embeddedness, organizational inertia, heterogeneity, Japanese MNC*

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ISBN: 978-9963-711-37-6

TALENT MANAGEMENT THROUGH EMPLOYER BRANDING

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ABSTRACT

The purpose of the present study is to investigate the role of strategic human resource management (SHRM) in constructing "employer branding" both conceptually and empirically with a case study of a holding company. The prior research on employer branding focused either on appealing to expectations of external stakeholders, or attraction of prospective employees with respect to reputation. With an increasing interest on internal stakeholders, mainly employees, the emphasis has shifted to talent management and the value that human capital brings to the company which cannot be imitated.

`Employer branding` has been the application of branding principles for competitive advantage in SHRM. Employer branding represents an organization's efforts to promote, a coherent view of what makes the firm different and desirable as an employer, i.e., the distinct "employee value propositions" (EVP) offered as well as experienced. The presumption of employer branding is to make customer-conscious employees to add value and handle services better by being aligned with business mission and goals.

In sum, talent management as well as employer branding is at the heart of strategic human resource management which aims at fulfilling the expectations of stakeholders with an inside-out perspective. Whether adapting to a commitment-oriented or collaboration-oriented strategy and how to prioritize between exclusive and inclusive human resource strategies for talent management is the main research question.

By using structured interviews of key managers and then focusing on EVP by using analytical hierarchy process methodology (AHP), I have questioned whether these brand values are conceived well. This pilot study may be the initial steps for understanding employer branding and explaining how to choose the human resource management strategy, particularly in paradoxical choice situations that holdings or conglomerate companies face lately.

Keywords: *Employer Branding, Employee Value Propositions (EVP), Exclusive Talent Management, Inclusive Talent Management, Analytical Hierarchy Process (AHP), and Strategic Human Resource Management (SHRM), Holding Company.*

ISBN: 978-9963-711-37-6

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ISBN: 978-9963-711-37-6

THE IMPORTANCE OF TRANSNATIONAL COOPERATION OF POS: THE CASE STUDY OF PUGLIA FRUIT JOINT WITH SPANISH SANLUCAR

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ABSTRACT

The Fruit and Vegetables sector has a relevant rise of market shares in the EU, about 20% of the total value of agricultural production; the main countries involved are Greece, Spain and Italy (Camanzi *et al*, 2009). The fruit and vegetables supply chain has a different and complex organizational structure in each EU country. There are multiple factors influencing this diversity such as the characteristics of the farm structures, the nature of the production, the innovation and technology level, and the role of operators along the supply chain. In particular, the operators influence the market, the farms fragmentation, and the development of distribution and retail systems, which have to perform organizational systems, adequate size and logistic platforms (Camanzi *et al.*, 2009). Today structural problems relate to the small size of the farms and scarce ability to aggregation and to concentrate their efforts for production and commercialisation, negatively affects the Italian producers.

The introduction of the EC Regulation n. 1308/2013 on the Common Organization of Agricultural Markets and so the recent Ministerial Decree n. 9083/2014 on integration of the National Strategy regarding the recognition and control of fruit and vegetable Producers Organizations (POs) and their associations support POs as the right tool for delivering a more effective food chain organization through supply concentration. Therefore, the POs and their associations represent a very important innovation for the competitiveness of the national production systems, improving bargaining power, and reaching new market channels (Hollaway *et al*, 1999). The promotion of the Association of Producers Organizations at international level ensures at the same time:

- autonomy that is the aggregation form allows the preservation of autonomy and identity of companies;
- and aggregation: indeed the association's size is very important to face international competition.

The aim of this work is to perform an explorative qualitative analysis using the case-study methodology (Yin, 1994; 2013; Mills *et al.*, 2006); the selected firm is the Giuliano Puglia Fruit, located in Apulia region (South Italy) that is an Italian PO specialized in the production and commercialisation of fresh fruits and vegetables. Giuliano Puglia Fruit jointed since 2000 with SanLucar PO, a Spanish Group selling fruits and vegetables from 35 different countries and specialized in marketing and brand diffusion. The abovementioned alliance allowed Puglia Fruit to increase its turnover (70,000,000 €) by opening new export channels and by consolidating its market

 ISBN: 978-9963-711-37-6

share. In particular, Giuliano Puglia Fruit extended its operations to Germany, Austria, France, Portugal, Turkey, Egypt, Tunisia, South Africa, Central and South America so improving competitiveness at international level; furthermore, it implemented logistics platform located in Germany allowing distribution in channels of the large retail patterns. Giuliano Puglia Fruit's commercial strategy is an example for all stakeholders and Italian agri-food chain operators.

Findings of this paper suggests the POs can be a valid organizational model so having a crucial role in indicating appropriate marketing and business strategies. As regard managerial implications, it appears desirable to aggregate all stakeholder of the agri-food supply chain in order to obtain through cooperation an improvement of competitiveness at national and international level.

Keywords: *producers organization, organizational model, cooperation, competitiveness, market channels*

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ISBN: 978-9963-711-37-6