



**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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BOOK OF CONFERENCE PROCEEDINGS

PROPOSALS FOR FUNDING INVESTMENT IN GOAT FARMS BASED ON OF PRODUCTION COST RESTRUCTURING

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ABSTRACT

Livestock production is an important sector of the agricultural economy of Greece, not only due to tradition, but also due to the great adaptability to specific climatic and soil conditions that the country has. In Greece, livestock production accounts for about 1/4 of the gross value of agricultural production, while goats contribute 16% to the total gross value of animal production. Greece is ranked fourth in global goat milk and second in Europe. The national flock reached 5 million heads. The level of competitiveness and sustainability of the goat industry is significantly influenced by the level and the structure of capital that it is invested in goat farms. Specifically, it is influenced by the financing profile, the degree of utilization of the available production factors, the productivity and cost-effectiveness.

This paper presents a method for the rational evaluation of the production cost of farms, based on their systematic ranking, according to qualitative economics characteristics and the further analysis and investigation of the sector in basic components-axes. The analysis may also lead to the creation of suggestions for restructuring the goat sector financial support.

1. INTRODUCTION

Goat farming is considered to be one of the most dynamic sectors of animal production in Greece, as it contributes significantly to the national economy. It provides income and employment to thousands of families, contributes to regional development and the preservation of the social fabric, particularly in mountainous and disadvantaged areas.

Greece is ranked first with 38.8% of the total EU goat census. National flock consists of 4.2 million goats, followed by Spain with 2.9 million, France with 1.2 million and Italy with 891 000 animals (FAOSTAT, 2013).

The overall annual goat milk production is about 340,000 tons, ranking third in goat milk production in EU, after France (580.694 tones) and Spain (471.999 tones) (FAOSTAT, 2013). Moreover, Greece has

the highest proportion of milked adult female sheep and goats, approaching 95% of the total. (Zervas et al.,1999).

The traditional goat farming system in Greece is semi-extensive. It is worth mentioning that Greece is the only European country where the semi-extensive system is dominant compared to semi-intensive and intensive system which are dominant primarily in other European countries with developed dairy goat sector.

It is a fact that the semi-extensive breeding system exploits the natural flora during grazing in inaccessible mountainous and disadvantaged areas. This has as a result the goat feeding to be enriched with the native flora of these areas, while this form of farming is an alternative source of food of animal origin, without requiring the commitment of cropland. In addition, the semi-extensive breeding system is a low input system, very close to the principles of organic farming, with which it is often identified; a fact that can yield specific qualities in goat milk produced by goats which are breeding under this farming system.

Not only in Greece, but also in other EU countries, there have been many research efforts, in order to investigate the viability and the competitiveness of the sheep and goat sector. However there are only limited researches focusing on the formulation of proposals on how to strengthen the competitiveness, exclusively at the goat sector, based on the restructuring of the production factors.

2. LITERATURE REVIEW

Sheep and goat sector in Greece is considered one of the most dynamic sectors of the agricultural economy and for this reason it has been focus of many research efforts, on a national and international level. It is worth mentioning that many researchers have studied the economics and sustainability of sheep and goat sector and the potential for further improvement of the competitiveness.

Aggelopoulos et al., (2010), mentioned that one of the major problems of the sheep sector is the high production cost, which affects competitiveness. This paper investigates the configurability and business development of sheep farms in Greece, by reducing the production cost and suggesting funding proposals. This work leads to suggestions, that concerns the restructuring of production costs, exploring basic parameters such as land cost, family labour cost, foreign labour cost, expenses of animal food, drug costs, costs of using fuel / electricity power / water resources, costs of using foreign engineering work, current assets interest, depreciation, maintenance, insurance, fixed assets interest.

Theocharopoulos et al. (2007) measured the expenses of the use of production factors and determined the technical efficiency of sheep farms. They determined the potential of reducing production costs by improving technical efficiency of farms, in order to address the elimination of subsidies in the context of CAP measures. Fousekis et al., (2001), using the DEA model, determined the overall efficiency on

sheep farms. Galanopoulos et al. (2011), mentioned that, despite of the diminishing number of transhumance farms, they remain an essential activity in less-favoured and mountainous areas of the country. This article applies DEA (Data Envelopment Analysis) in a sample of transhumance farms in Greece in order to assess the technical efficiency of sheep and goat transhumance flocks and determine the factors that affect their performance. Their results reveal that the overall technical efficiency of transhumance farms in Greece is quite low and it is affected by herd size and subsidies.

Milan et al. (2003), studied the economic results of Ripollesa breed sheep farms in Spain, and established a typology which would clarify the characteristics of the different types of exploitation. To establish a typology, the data was treated using a multivariate statistical analysis (principal component analysis). Subsequently, a hierarchy analysis (cluster analysis) of the coordinates of the farms was applied. The results indicated that, in general and under working conditions, the most diversified farms obtain higher income and higher net added value at factor cost. Toro-Mujica et al., (2011) investigated the technical efficiency and viability of organic dairy sheep farming systems in Castilla-La Mancha, a Spanish region with tradition in sheep rearing. To establish a typology, the data were analyzed using a multivariate statistical analysis (principal component analysis) and subsequently, a hierarchy analysis (cluster analysis) of the coordinates of the farms was applied. The results indicated that the most efficient farms had higher net added value at cost factor.

Gaspar et al. (2008), studied economic factors affecting the livestock farms in Extremadura, in Spain. The data was analyzed using a nonparametric Data Envelopment Analysis (DEA) model. The influence of the European Union's Common Agricultural Policy (CAP) subsidies (taken as an output) on the farms' efficiency was determined. The measurement of the efficiency has taken place from inputs per hectare thus allowing a different interpretation from the scale efficiency that, instead of referring to the dimension of the farm, refers to intensification. Thanks to the input-oriented analysis it can be established that the farms could maintain similar production levels by introducing a 30% reduction of their inputs.

Gaspar et al. (2007), studied the zootechnical and economic factors that affect the sheep farms in Extremadura, in Spain. Data was analyzed using a multivariate statistical analysis (principal component analysis) and then the methodology of analysis in clusters (Hierarchical Cluster Analysis) was applied. The analysis yielded five clusters which are related to intensification, profitability, and mixed production system.

Milan et al. (2014), studied twenty dairy sheep farms of Assaf breed, located in the Spanish autonomous community of Castilla y León and included in a group receiving technical support, were used to study their production cost structure and to assess their economic profitability. The results indicated that most Assaf dairy sheep farms studied were economically profitable, with flock size, milk yield, and feeding costs key for their profitability.

Tolone et.al., (2011)

used a deterministic static model in order to estimate the economic values of production and functional traits in Valle del Belice dairy sheep.

In this study, the feeding cost accounted for 95% of total variable costs, whereas fixed costs were low and reflected traditional and small ruminants' husbandry system. Sensitivity analysis of economic values to changes in prices indicated that future economic values for traits might change dependent on output and price levels, in particular on milk and meat price level. This study suggests that genetic improvement of milk production, lamb and adult survival rate, fertility and prolificacy will have a positive effect on profitability of pasture based dairy production system.

3. RESEARCH AIM AND OBJECTIVES

The purpose of this paper is to examine the restructuring opportunities and business development of goat farms in Greece, by reducing the production cost. In particular, it examines the "internal cohesion" of the factors that shape the overall production costs, as well as their significance in shaping it, while analyzing the structural relations between their primary parameters (land cost, imputed rent, family labour cost, foreign labour cost, expenses of animal food, drug costs, costs of using fuel / electricity power / water resources, costs of using foreign engineering work, current assets interest, depreciation, maintenance, insurance premiums, fixed assets interest). This work seeks to highlight the distinctive (discrimination) ability of the cost components.

4. MATERIALS AND METHODS

For the research financial data from goat farms in the Prefecture of Thessaloniki was used. The techno-economic data in this study was collected using a properly structured questionnaire, after personal interviews with farm-owners of farms during the 2014 period. The sampling method was layered randomly (Siardos, 2005). The variety of rearing conditions in this area allows the generalization of the research results, with no significant deviation from reality.

It is worth mentioning that, in the final analysis, small, medium and large farms were included and as a result there is a great variation in the cost parameters that are taken under consideration. The final sample included 84 goat farms.

According to the literature (Doll and Orogen, 1984; Damianos and Skuras, 1999; Kitsopanides, 2006; Aggelopoulos et al., 2009) the factors that compound the overall production cost are the labour cost, the annual expenditure of fixed capital (buildings, machinery), the cost of livestock breeding, the cost of animal feed, the total expenditure of variable capital (veterinary costs).

Table 1 shows the classification of the basic components and the costs of production and the basic economic results of the goat farms of the sample. In particular, this data relates to a sample of 27,027 total number of animals, averaging 322 per farm.

Table 1. Production expenses of goat farms

Production cost categories	Total of all the farms	Average farm	Per animal	%
Land costs				
Hired land expenses	22.475	267,05	0,83	27,03
Imputed rent	60.710,10	720,72	2,24	72,96
Labour costs				
Family labour expenses	864.349,61	10.289,56	31,98	75
Hired labour expenses	288.215,18	3.429,85	10,66	25
Production costs				
Feed costs	2.640.557,52	31.434,97	97,70	52,56
Drugs	58.632,40	694,98	2,16	1,16
Fuel/Electricity power/Water	87.461,10	1.039,25	3,23	1,73
Foreign engineering labour costs	147.672,85	1.756,75	5,46	2,93
Current assets interest	154.946,02	1.843,62	5,73	3,08
Depreciations	1.074.214,59	12.786,35	39,74	21,38
Maintenance	143.707,61	1.708,49	5,31	2,85
Insurance premiums	65.127,83	772,20	2,40	1,29
Fixed assets interest	651.278,37	7.750,95	24,09	12,96
Total production costs	5.023.598,32	59.803,67	85,87	100
Profit				
Farm income	-453.612,93	-5.398,97	-16,78	
Family farm income	1.588.361,37	18.906,03	58,76	
Family farm income	1.281.770,18	15.257,38	47,42	
Annuity capital	352.611,47	4.195,62	13,04	
Capital efficiency	2,20	2,20	2,20	

Through the application of principal component analysis, the structural cohesion of variables comprising the overall production cost, and their importance in its final formulation are examined (Hair et al., 1995; Sharma, 1996; Cattell, 1978; Dunteman, 1989). These variables are represented using non-observable variables-factors, according to the following mathematical formula:

$$F_i = \sum_{j=1}^p w_{ij} Z_j = w_{i1} Z_1 + w_{i2} Z_2 + \dots + w_{ip} Z_p, \quad (i = 1, \dots, m \leq p \text{ and } j = 1, \dots, p),$$

Where 's are the coefficients (or loadings) for factor or component,

i () multiplied by the measured value for variable j (). So, each principal axis is a linear combination of the original measured variables.

Then, for each goat farm , a degree (score) per cost component using the regression method was calculated by PCA (Hair et al., 1995). Based on these scales, farms were grouped into two large clusters, with the application of Hierarchical Analysis on Clusters (Hair et al., 1995; Sharma, 1996). The

formation of clusters of farms was based on the criterion of Ward, while the squared Euclidean distance was used as a measure of (in) similarity of farms (Ward, 1963; Hair et al. 1995, Sharma 1996). The analysis was performed with the statistical package SPSS ver. 18.0.

5. RESULTS- DISCUSSION

The purpose of this study is to investigate the structural relationships between the twelve variable production costs. In particular, it studies the possibility of grouping the variable cost components in the total cost, in order: a) to highlight the relative importance of variable costs in each cost component and b) to demonstrate the relative importance of the cost components. Limits were set, so that the cost variables in every component have a high correlation with each other, while the discrete components to be as uncorrelated as possible.

Principal Component Analysis (PCA) was applied to the available data, with a Varimax rotation of the axes (orthogonal maximum variance rotation). The factors considered important were those with a value greater than or equal to 1.

The application of PCA highlighted two axes (components) that explain the 83.39% of the total variance: the first axis explains 75.31% of the total variance, while the second 8.03% of the total variance.

According to Table 1 the first component is associated with all parameters of the cost, except from the land costs. For this component the relevant importance of cost parameters is reflected with the price of factorial loads that are presented in Table 2. Also, due to the fact that the first component explains a very high percentage of the total variance (75.31%), it can be described as component of the general cost.

As it can be observed, current assets interest, feed, depreciation, insurance, fixed assets interest, maintenance, family labour cost, cost of the use of fuel / electricity power / water resources and drugs have the greatest influence in determining the general cost. The expenses of hired labour and foreign engineering labour costs have the least influence.

This is justified by the existence of high costs in consumable capital, as well as from the big burden of the feed cost. The existence of high-value fixed capital, which is accompanied with a dedication of financial resources, was also considered important. For these reasons, the need for rational management of circulating capital and the reduction of financial costs is necessary.

Moreover, the need to reduce the feed costs is necessary. The choice of appropriate and more effective method of feed preparation, the development of a well-balanced and economic diet, the supply of the cereal at low price (use of contract farming is recommended) as well as the good feed mixing purveyance and the storage of feed leads to a better use of that rate and thus reduces the cost of usage.

Also, the limitation of the over-investment in fixed capital is expected to lead in a reduction of the cost of using.

The second component constitutes typical dimensions of cost, with high significance. Particularly, the second component is constructed mainly from the parameters of hired land expenses and imputed rent. Hired land expenses have the biggest impact on determining the component of this cost.

It should be noticed that the emergence of land use costs as a separate component of cost, shows the need of goat farms to find a grazing land.

Based on the values of Cronbach's α reliability coefficient, we observe that both the first and second component present a high internal cohesion score. For the first component, the α coefficient is 0.87, and for the second it is 0.79. Both indexes are above the acceptable limit of 0.70. If we examine the suitability of principal component analysis, the KMO (Kaiser-Meyer-Olkin) measure that is equal to 0.7 (above the acceptable limit of 0.60) and the Bartlett sphericity test, we will observe that Pearson's correlation table between the nine cost parameters, presents a statistically significant difference in relation to the identity matrix ($\chi^2=1032.14$, d.f.=36, $p<0.001$). Finally, the common factorial variance indicators (communalities) show that the three-component model explains the structure of the nine cost variables to a very satisfactory degree. All the values of the communalities, as quality indicators of the three-component solution, are above 0.60.

Table 2 presents the factorial loads, which are on an absolute value greater than 0.50.

After the application of Hierarchical Analysis of Clusters, based on grades (score) for every cost component that the goat farms of the sample achieved, followed a grouping into two large clusters. In the first cluster C_1 60 farms were placed, while in the second C_2 50 goat farms. The first cluster C_1 includes farms with complex cost (first component), which is above the general average, while the second component is slightly below the general average. These include intensive farming system farms with a clear business orientation. These farms are characterized of high fixed capital investments and financial costs. Also, these farms have little overhead to the total cost of land use.

Table 2. Components of cost production

Parameters of cost	Components of cost			Communalities
	C ₁	C ₂	C ₃	
Maintenance	0.867			0.79
Depreciation	0.814			0.68
Other capital expenses	0.792			0.75
Interest	0.767			0.78
Expenses of consumable capital	0.766			0.75
Expenses of animal food		0.962		0.93
Insurance premiums	0.632			
Interest of circulating capital	0.510	0.767		0.89
Family labour cost			0.947	0.90
	α Cronbach=0.91	α Cronbach=0.85	*	

The second cluster C₂ includes farms with complex cost (first component) below the general average and the second component is slightly above the general average. These farms follow the extensive farming system with traditional orientation.

Table 3. Degrees (scores) per cost component

FACTOR SCORE	C ₁	C ₂
F ₁	-0.141	0.167
F ₂	-0.325	0.385
F ₃	0.637	-0.756

Values are expressed as z-scores (MO = 0, Std = 1).

6. CONCLUSIONS-SUGGESTIONS

Goat farming is considered to be one of the most dynamic sectors of the rural economy in Greece, employing a considerable workforce, while also making use of mountainous and disadvantaged lands. Despite the significant investments that have occurred in recent years, the sector of goat farming in Greece presents significant organization weaknesses that are due to small business development rates of the sector. These weaknesses result in reduced competitiveness and considerable loss of revenue, compared with the comparative advantage of the clear benefits of the sector (eg variety of products with significant added value). The competitiveness of the Greek goat farming can

be improved either by further increasing the productivity or by reducing the total production cost. This study investigates the business development of goat farms in Greece, through the restructuring and reducing of production costs.

The implementation of PCA revealed two important components that explain 83.39% of the total variance. The first component is significantly associated with all parameters of cost, excluding the cost of land use. Due to the fact that the first component interprets a very high percentage of the total variance (75.31%), it can be classified as the component of general cost. Of greatest importance are, in descending order, the interest of circulating capital, feed, depreciation, insurance, fixed assets interest, maintenance, family labour cost, cost of the use of fuel / electricity power / water resources and drugs. Hired land expenses and the foreign engineering labour cost have the least influence. The second component constitutes typical dimensions of cost, with high significance. Particularly, the second component is constructed mainly from the parameters of hired land expenses and imputed rent. Hired land expenses have the biggest impact on determining the component of this cost.

After the application of Hierarchical Cluster Analysis, based on grades (score) per cost component, the sample of goat farms is grouped in two clusters. The first cluster (C_1) includes farms with complex cost (first component) above the general average, while the cost of land use (second component) is just below the general average. These include intensive farming system farms with a clear business orientation.

For the farms that are included to cluster C_1 , the rational management of circulating capital in order to limit the financial costs is proposed. Also, it is necessary to reduce the "nutrition" factor. The choice of appropriate and more effective method of preparation of food, supply of cereal fruit at low price (the use of contract farming is recommended), and investments in modern feed mills are expected to lead the effect of reducing the cost of use. Also, the limitation of the over-investment in fixed capital, is expected to lead in a reduction of the cost of using. Sales increase is necessary in order to balance the over-investment from previous years due to bad investment management. Direct funding for sales support is based on the gradual conversion of durable assets into current assets. Additionally, the integration of farms in financial Rural Development Programmes will lead to the reduction of the investment cost.

Second cluster C_2 includes farms with complex cost (first component) below the general average while the cost of land use (second component) is slightly above the general average. These include farms that follow the extensive farming system with traditional orientation. These farms have significant cost burden by using foreign land for grazing. Generally, the geotechnical services, with the collaboration of farmers and communities can study the pastures and make plans for improvement and management that can be for the benefit of the livestock and the environment.

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THE PROGRESS OF AGRICULTURAL ENTREPRENEURSHIP FOR YOUNG FARMERS: EVALUATION OF INVESTMENT PLANS

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ABSTRACT

The developmental actions in agriculture seem to impact, inter alia, on basic structural problems affecting the whole of the EU, such as the ageing population involved in agriculture, and the issues regarding the succession of agricultural farms. More specifically, a reduction in the mean age distribution, along with the professional upgrading of the agricultural workforce, constitute priorities of the CAP measures. Several attempts have been made by the EU to strengthen the “social capital” of agriculture, through a series of relevant European regulations and directives. In Greece, the aid measures for young farmers, which aim to help them set up their own farm and improve their competitiveness, have essentially been applied since the early 1990s, in the framework of the operational programmes of the Ministry for Agricultural Development and Food. The aim of this paper is to study the investment plans, and evaluate the effectiveness of the financing-installation programme for young farmers, based on parameters which also constitute the admission criteria for this particular programme. Furthermore, a diagnostic test of the progress of this particular aid programme is carried out. Based on the typological analysis of the investment plans, specific policy measures can potentially arise for targeted groups of agricultural farms belonging to young farmers.

Keywords: Agricultural Finance, investment plans, Gross Value Added, Man-Work Units, Cluster Analysis

INTRODUCTION

Greek agriculture needs to adapt to the modern demands of a competitive agricultural economy. It should therefore address the problems it has been facing -which stem from specific structural weaknesses- and exploit its comparative advantages, in order to improve its competitive profile (Rezitis et al., 2002, Aggelopoulos et al., 2011).

The structural problems affecting the agricultural sector in Greece involve the limited size of agricultural property, the multi-fragmentation of agricultural farms, the non-rational use of modern technology, divestment, high production costs, a lack of commercial focus, the age and educational level of those involved in agriculture, the decrease in investments, and the lack of financing resources. These problems have led to a reduction in the competitiveness of Greek agricultural products, both in the domestic and international market (Rezitis et al., 2002, Galanopoulos, *et al.*, 2004, Sergaki et al., 2014).

In recent years, the noted decline in the Greek economy has led to a decrease of the GDP at an annual rate of approximately 6.5%. Since the beginning of the crisis, the exports of Greek agricultural products have presented a minor gradual increase (2009-2013). In 2014, there was a drop in figures for the first time, which can be partly attributed to the decrease in exports to Russia, due to the imposed embargo. More specifically, the exports of agricultural products as a percentage of total exports (excepting fuel) of Greece dropped to 30.5% in 2014, from 32.0% in 2013 and 30.7% in 2012, but nevertheless remained at a high level. During the same period, imports have remained almost stable and are consistently higher than exports, thus resulting in a decreasing, negative balance (Ministry of Agricultural Development and Food, 2013, PASEGES, 2013).

An improved trade balance and some relief can be given to the Greek economy only through targeted developmental actions in the agricultural sector that will lead to the production of higher-quality products that are competitive in the global markets. Within the framework of this effort, it is deemed necessary to support small food supply chains, small agricultural farms and young farmers, and to promote innovation in the agricultural sector, through the exploitation of all financing measures offered by the Agricultural Development Programmes. (Kasimis and Papadopoulos, 2013)

Nevertheless, any developmental actions in agriculture seem to impact, *inter alia*, on basic structural problems affecting the whole of the EU, such as the ageing population involved in agriculture, and the issues regarding the succession of agricultural farms (Gidakou, 2002, Alexopoulos et al., 2006, Fennel, 1997). More specifically, a reduction in the mean age distribution, along with the professional upgrading of the agricultural workforce, constitute priorities of the CAP measures (Kazakopoulos and Gidakou 2003, Labrianidis, 2006).

Several attempts have been made by the EU to strengthen the “social capital” of agriculture (European Union, 2010), through a series of relevant European regulations and directives. One such initiative took place in 1981 with Directive 81/528/EEC; it was followed by a range of related regulations and national laws (Reg.797/85, Reg.1760/87, Reg.2328/91, Reg. 950/97, Reg. 1257/99, L. 2520/97, Reg. 1698/2005, Reg. 1974/2006, Reg. 1320/2006, Reg. 1305/2013, etc.).

In Greece, the aid measures for young farmers, which aim to help them set up their own farm and improve their competitiveness, have essentially been applied since the early 1990s, in the framework of the operational programmes of the Ministry for Agricultural Development and Food (Papadopoulos and Liarikos, 2007).

In fact, Measure 1.1.2. "Installation of Young Farmers" - Priority Axis 1 "Improving the competitiveness of the agricultural and forestry sector", aims to financially assist young farmers in all Regions of Greece, on the basis of the natural disadvantages of their place of residence, their production focus and the overall income from their agricultural farms (Ministry for Agricultural Development and Food, 2013).

The Measure is addressed at people under 40 years of age, who have sufficient vocational skills or aim to acquire them within a 3-year period from their installation at the farm, the size of which accounts for a minimum of 0.5 man-work units (MWU) (as regards labour requirements), and who also intend to pursue activities that will improve the sustainability level of their farm.

To take part in the Programme, young farmers are invited to present a detailed dossier (investment plan), with full information regarding the initial economic level of the farm (*current status*), and the target level the farm aims to reach, following the elaboration of the investment plan (*future status*). A binding objective of the programme is the creation of an agricultural farm, with a total level of labour requirements that exceeds one (1) MWUⁱ and an agricultural incomeⁱⁱ (defined according to the Gross Value Added) which is higher than 80% of the reference income (as defined in each case) upon completion of the business plan. In any case, it is essential for the income from the agricultural farm to increase by at least 10%, in relation to its current status when the aid application is submitted. The level of aid per investment plan amounts to a total of 20,000€, with a minimum of 10,000€, and varies according to the following criteria (Ministry for Agricultural Development and Food, 2013)

- the area where the agricultural farm is located (the areas are divided into mountain, less-favoured and regular),
- the production focus of the farm upon completion of the business plan
 - (a. perennial crops: tree crops, vineyards, b. market-garden and floricultural activities
 - c. other plant production activities, d. animal farming activities, e. mixed activities),
- the total income of the agricultural farm upon completion of the investment plan.

¹The term HWU is used to describe the labor performed on a farm by a natural person on a full employment contract during a calendar year; it is equal to 1,750 hours of employment.

² Agricultural income pertains to the Total Gross Value Added (G.V.A.) of the agricultural holding. The latter is defined as the value of sales from all the production sectors-products at the farm minus the sales VAT, minus the obvious expenses (sum of paid expenses and depreciations).

Several calls have been published in a large number of programming periods, as regards the provision of financial aid to farmers based on Measure 1.1.2.

Nevertheless, the effectiveness of the financial aid mechanism for young farmers has not been substantially tested, nor any improvement to their level of competitiveness (Menexes and Aggelopoulos, 2008).

The purpose of this paper is to study the investment plans, and evaluate the effectiveness of the financing-installation programme for young farmers, based on parameters which also constitute the admission criteria for this particular programme. Furthermore, a diagnostic test of the progress of this particular aid programme is carried out.

MATERIALS AND METHODS

The data used for this paper refer to a sample of 150 investment plans and concern a single premium for the initial installation of young farmers. The plans were submitted for approval to the Authorities of the Region of Central Macedonia, in the framework of Measure 1.1.2. "Installation of Young Farmers", from 18.3.2014 to 16.5.2014. The sample was determined through stratified random sampling (Siardos, 2005), with the Prefectures in the Region of Central Macedonia representing the strata under study.

Of the total sample, 62.3% of the investment plans involve men, while the remaining 37.7% involve women beneficiaries. As regards age, they all belong to the required 18-40 age group. Regarding the location of the agricultural farm, 27.2% are active in regular areas, 38.4% in mountain areas, and 34.4% in less-favoured areas. Concerning the focus of their agricultural activities, 70.2% are involved in perennial crops, 6% in horticultural activities (floriculture, market-garden crops etc.), 19.2% other, 2% in animal farming activities (mainly milk production) and 2.6% in mixed production. Moreover, 58.3% of the plans include investment proposals over 50,000€, while 41.7% are under 50,000€.

In particular, when evaluating the effectiveness of the aid programme for young farmers, the correlations were examined between the parameters that also form the admission criteria for the Programme. The Mann-Whitney parametric test was used to compare the medians (Tsantas et al., 1999, Hinkle et al., 1988, Toothaker, 1993).

Next, a typology of the investment plans in the sample was developed. The typology was defined based on the MWU, the gross value added (GVA), as well as its variation rate, as described in the future target-status, following the completion of the investment plans. Hierarchical Cluster Analysis was used to develop the typology. The cluster formation was carried out based on the Ward criterion, while the Euclidean squared distance was used as a (dis)similarity measure for the farms (Hair *et al.*,

1995, Sharma 1996). The analysis was carried out using the SPSS ver. 17 statistical package. Before being used in the analysis, the variables were transformed into z-scores.

Then, with the help of the Double Entry Tables and based on the test of independence (χ^2 -test), the second level profile of the clusters was defined, as regards the typology of the improvement plans (Yung and Chan, 1999, Kirkwood, 1996, Daniel, 1995). More specifically, the following relationships were examined:

-Among the clusters formed and the location of the agricultural farms.

-Among the clusters and the level of realized investments.

RESULTS

As shown in Table 1, a statistical differentiation in MWU (Man-Work Units) and GVA (Gross Value Added) isn't observed in mountain areas, when comparing their current to their future status. In less-favoured areas, no statistically significant differentiation is observed between their current and future status, both as regards GVA and MWU. In regular areas, a statistical differentiation is only observed as regards MWU. More specifically, a 45.7% increase in MWU is observed, namely from 1.64 to 2.39 in the future status.

Table 1. Correlation of geographical area to MWU and GVA

Location of agricultural farms		MWU (current status)	MWU (future status)	GVA (current status)	GVA (future status)
Regular area	Mean	1.64 ^b	2,39 ^c	14,936.36 ^a	21,945.94 ^a
	Std.Deviation	0.75	1,20	5277,08	5281,85
	N	41	41	41	41
Mountain area	Mean	2.50 ^a	4.18 ^a	10,325.51 ^b	18,992.52 ^b
	Std.Deviation	0.96	1.50	3,263.18	3,852.83
	N	58	58	58	58
Less-favoured area	Mean	1.77 ^b	3.11 ^b	11,071.87 ^b	20,372.27 ^b
	Std.Deviation	0.85	1.50	4,985.71	6,260.19
	N	52	52	52	52
Total	Mean	2.01	3.33	11,834.49	20,269.59
	Std.Deviation	0.95	1.59	4,861.67	5,273.26
	N	151	151	151	151

*Means in the Table characterized by the same exponent on the same row, do not present a statistically significant difference, at a significance level $\alpha=0,05$, according to the Mann-Whitney parametric test (Tsantas et al., 1999, Hinkle et al., 1988., Toothaker, 1993), realized in the present research.

Table 2 presents the correlation between the level of planned investments and the MWU and GVA data, as described in the investment plans. The MWU and GVA data do not present a statistical difference between the current and future status, based on the level of planned investments.

Table 2. Correlation of level of investments to MWU and GVA

Planned Investments		MWU (current status)	MWU (future status)	GVA (current status)	GVA (future status)
1 >50,000	Mean	2.16 ^a	3.64 ^a	12,508.29 ^a	21,629.16 ^a
	Std. Deviation	0.98	1.68	4,554.73	4,433.87
	N	88	88	88	88
2 <50,000	Mean	1.80 ^b	2.89 ^b	10,893.30 ^b	18,370.50 ^b
	Std. Deviation	0.88	1.36	5,150.56	5,779.36
	N	63	63	63	63
Total	Mean	2.01	3.33	11,834.49	20,269.59
	Std. Deviation	0.95	1.59	4,861.67	5,273.26
	N	151	151	151	151

*Means in the Table characterized by the same exponent on the same row, do not present a statistically significant difference, at a significance level $\alpha=0,05$, according to the Mann-Whitney parametric test (Tsantas et al., 1999, Hinkle et al., 1988., Toothaker, 1993), realized in the present research.

Table 3 presents the correlation between the production sectors and the MWU and GVA data. It is noted that the sectors were divided into two categories (perennial crops and other) for the statistical processing of the data. A statistically significant differentiation was observed between the current and future status, as regards the relationship between growing perennial crops and gross value added, whereby the GVA increases by 70.6%, from 11,329.13 euros in the current status to 19,322.59 euros in the future status.

Table 3. Correlation of the production sectors to MWU and GVA

Production Sectors		MWU (current status)	MWU (future status)	GVA (current status)	GVA (future status)
Perennial Crops	Mean	2.08 ^a	3.51 ^a	11,329.13 ^a	19,322.59 ^b
	Std.Deviation	0.97	1.71	4,020.81	4,120.72
	N	106	106	106	106
Other	Mean	1.86 ^a	2.89 ^a	13,024.87 ^a	22,500.28 ^a
	Std. Deviation	0.89	1.17	6,319.19	6,857.60
	N	45	45	45	45
	Mean	2.01	3.33	11,834.49	20,269.59
Total	Std. Deviation	0.95	1.59	4,861.67	5,273.26
	N	151	151	151	151

*Means in the Table characterized by the same exponent on the same row, do not present a statistically significant difference, at a significance level $\alpha=0,05$, according to the Mann-Whitney parametric test (Tsantas et al., 1999, Hinkle et al., 1988., Toothaker, 1993), realized in the present research.

Next, following the application of Hierarchical Cluster Analysis on the investment plan data, as formulated in the future target-status, the typology of the agricultural farms is identified (Table 4). The analysis identified three clusters of investment plans for agricultural farms: cluster C₁ with 43 farms (28.5%), cluster C₂ with 73 farms (48.3%) and cluster C₃ with 35 farms (23.2%). The formation of the three clusters is statistically significant.

Cluster C₁ will account for a mean of 5.39 MWU in the future status, which is more than the two other clusters; it is expected to achieve a GVA of 22,118.81 euros, which is an increase of 147.46%, compared to the current status.

Cluster C₂ is expected to account for a mean of 2.55 MWU, while its GVA will reach 16,331.23 euros in the future status, which is an increase of 108.88% compared to the current status; it presents the lowest GVA among the three clusters.

Cluster C₃ is expected to achieve the highest GVA of 26,211.96 euros in the future status, which is an increase of 174.69% compared to the current status; it accounts for the lowest number of MWU, namely a mean of 2.42.

Table 4. Investment Plan Typology

Clusters of Farms		MWU (future status)	GVA (future status)	GVA variation rate in the future status (%)
C ₁	Minimum	3.49	18,169.88	121.13
	Median	5.41	22,869.31	152.46
	Maximum	7,07	25,624.18	170.83
	Mean	5.39 ^a	22,118.81 ^b	147.46 ^b
	Std.Deviation	1.07	2,151.18	14.34
	N	43	43	43
C ₂	Minimum	1.01	12,016.19	80.11
	Median	2.50	18,222.75	121.49
	Maximum	4.52	20,272.19	135.15
	Mean	2.55 ^b	16,331.23 ^c	108.88 ^c
	Std.Deviation	.96	2842.31	18.95
	N	73	73	73
C ₃	Minimum	1.22	22,609.47	150.73
	Median	2.32	24,521.76	163.48
	Maximum	3.59	41,016.70	273.44
	Mean	2.42 ^b	26,211.96 ^a	174.69 ^a
	Std.Deviation	.59	5,086.96	33.94
	N	35	35	35
Total	Minimum	1.01	12,016.19	80.11
	Median	2.96	18,979.92	126.53
	Maximum	7.07	41,016.70	273.44
	Mean	3.33	20,269.59	135.12
	Std.Deviation	1.59	5,273.26	35.15
	N	151	151	151

Next, the second level profile is examined for the three clusters of agricultural farms.

Table 5: Profile of clusters in relation to the geographical area of the farms

Clusters of farms		Location of farms			Total
		Regular areas	Less-favoured areas	Mountain areas	
C ₁	number	5	26	12	43
	(%)	11,6%	60,5%	27,9%	100,0%
C ₂	number	15	29	29	73
	(%)	20,5%	39,7%	39,7%	100,0%
C ₃	number	21	3	11	35
	(%)	60,0%	8,6%	31,4%	100,0%
Total	number	41	58	52	151

(%)	27,2%	38,4%	34,4%	100,0%
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Table 5 shows that the first cluster C_1 includes farms, whose beneficiaries are mainly residents of regular areas (60.0%). The second cluster C_2 includes beneficiaries from mountain and less-favoured areas, while the third cluster C_3 includes beneficiaries from mountain areas.

Table 6. Cluster profile in relation to the level of planned investments

Clusters of farms		Level of Investments		Total
		over 50000	under 50000	
C_1	number	31	12	43
	(%)	72.1%	27.9%	100.0%
C_2	number	37	36	73
	(%)	50.7%	49.3%	100.0%
C_3	number	20	15	35
	(%)	57.1%	42.9%	100.0%
Total	number	88	63	151
	(%)	58.3%	41.7%	100.0%

As we can observe in Table 6, the first cluster C_1 includes large-scale investments (over 50,000€). There seems to be an equal distribution of investments in the second cluster C_2 , while large-scale investments also predominate in the third cluster C_3 .

CONCLUSIONS - PROPOSALS

The aim of this paper is to examine the investment plans of young farmers, and to conduct a diagnostic test of the progress of this specific aid programme.

An analysis of the investment plans indicates no statistical differentiation of MWU and GVA (between the current and future status). In regular areas, a statistical differentiation is only observed regarding MWU data. The above results identify a weakness of the investment plans to substantially alter the competitiveness level of the farms, as defined according to MWU and GVA. Furthermore, the focus on perennial crops leads to an increase in gross production value.

Next, the application of Hierarchical Cluster Analysis on the investment plan data, as formulated in the future target-status, highlighted three clusters of agricultural farms.

Cluster C₁ achieves the highest level of MWU, includes farms located in regular areas, and planned large-scale investments (over 50,000€). The second cluster C₂ presents the lowest MWU and GVA values, and includes farms in mountain and less-favoured areas. The third cluster C₃ achieves the highest GVA values, and includes farms in mountain areas, and large-scale investments.

The absence of statistical differences between the current and future status reveals an inability for substantial changes to affect the economic data of the agricultural farms, a fact that serves to prove the ineffectiveness of this particular financing mechanism for young farmers. It is also proven, that the installation of perennial crops results in increased productivity and a rise in agricultural income.

The formulation of the typology indicates that the holdings in cluster C₁ manage to better exploit the “labour” coefficient. The holdings in cluster C₃ achieve a higher revenue, combined with an increase in productivity. This is also ascertained by the fact that this cluster is predominated by farms located in regular areas, where there is potential for higher productivity.

The typological analysis could potentially lead to specific agricultural policy measures adapted to the profile of the agricultural farms they will refer to.

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TOURIST DESTINATION IN A SUSTAINABILITY PERSPECTIVE

“TOURIST KIT”

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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; PostelItaliene.*

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 “RioPlusFive”.

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, González, 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; Melià-González & García-Falcón, 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/posteitaliane-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 PostItaliane 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 Britain) and communitarian (e.g., Egypt, Morocco) ideologies. Individualism 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, François-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 Femininity: 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:

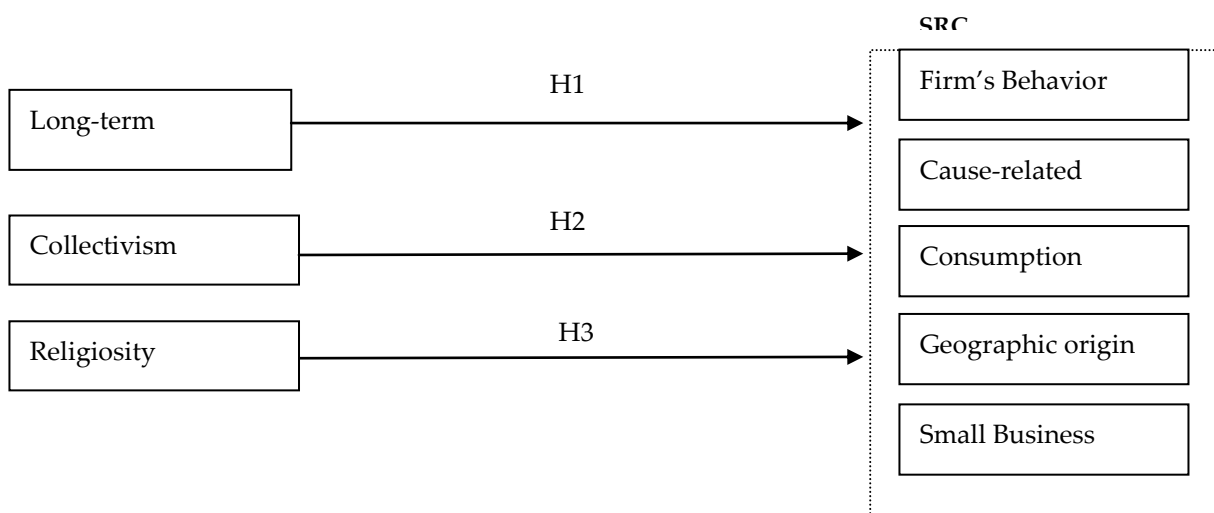


Figure1. *Research framework*

METHODOLOGY AND RESULTS

In-depth Interviews

The first research method used for the empirical part of this study is the semi-structured 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 threatens 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, $\alpha=0.716$), and Collectivism (Yoo and *al.*, 2011, three items, one dimension, $\alpha=0.665$). We used the Worthington *et al.* (2003) scale to measure religiosity. Factor analysis results showed a two dimension structure (three items for spiritual religiosity, $\alpha=0.718$ and four items for religious practices, $\alpha=0.813$).

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-collinearity 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”) SRC 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" (solidarity). 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). Carroll 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*.

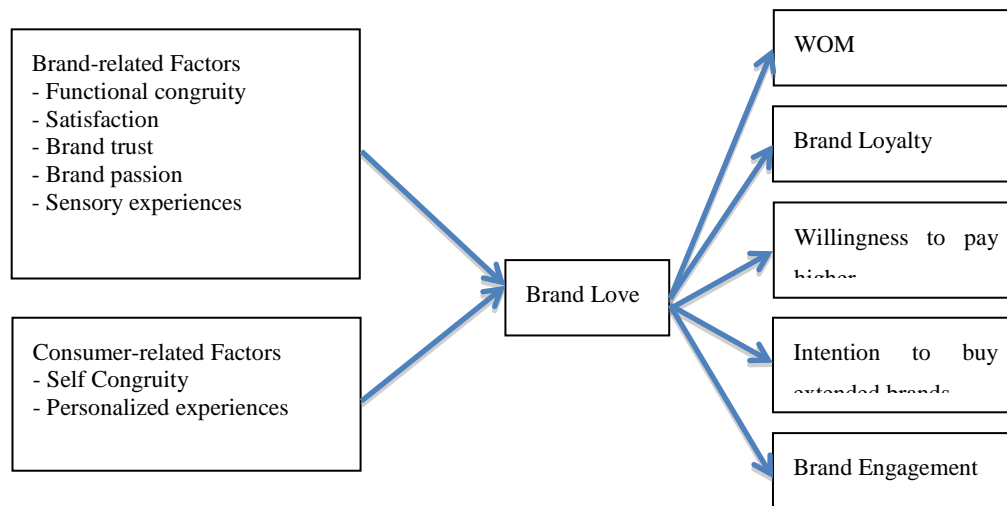


Figure 1: The Proposed Brand Love Model

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, equilibratory, 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 word-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.

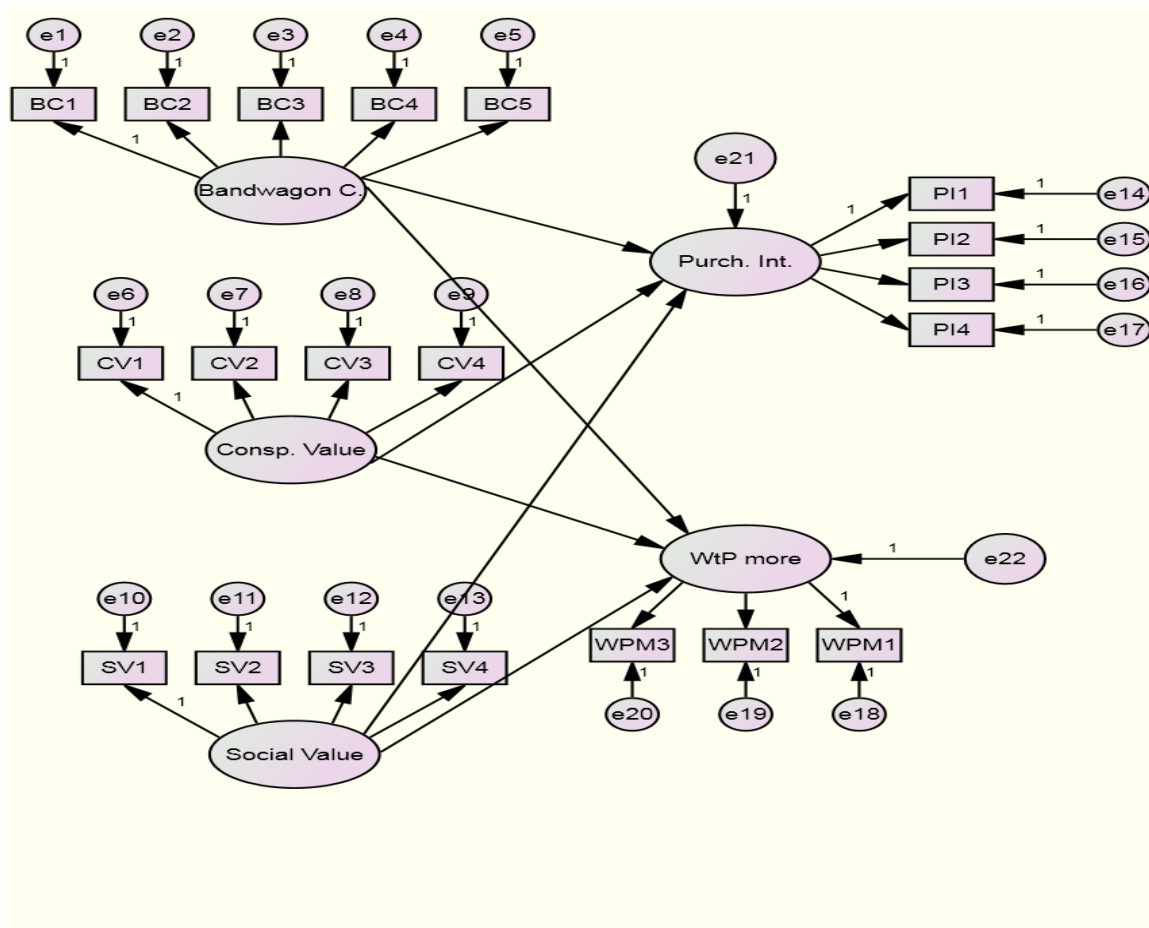


Figure- 1: Model of Hypothesized Relationships

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.

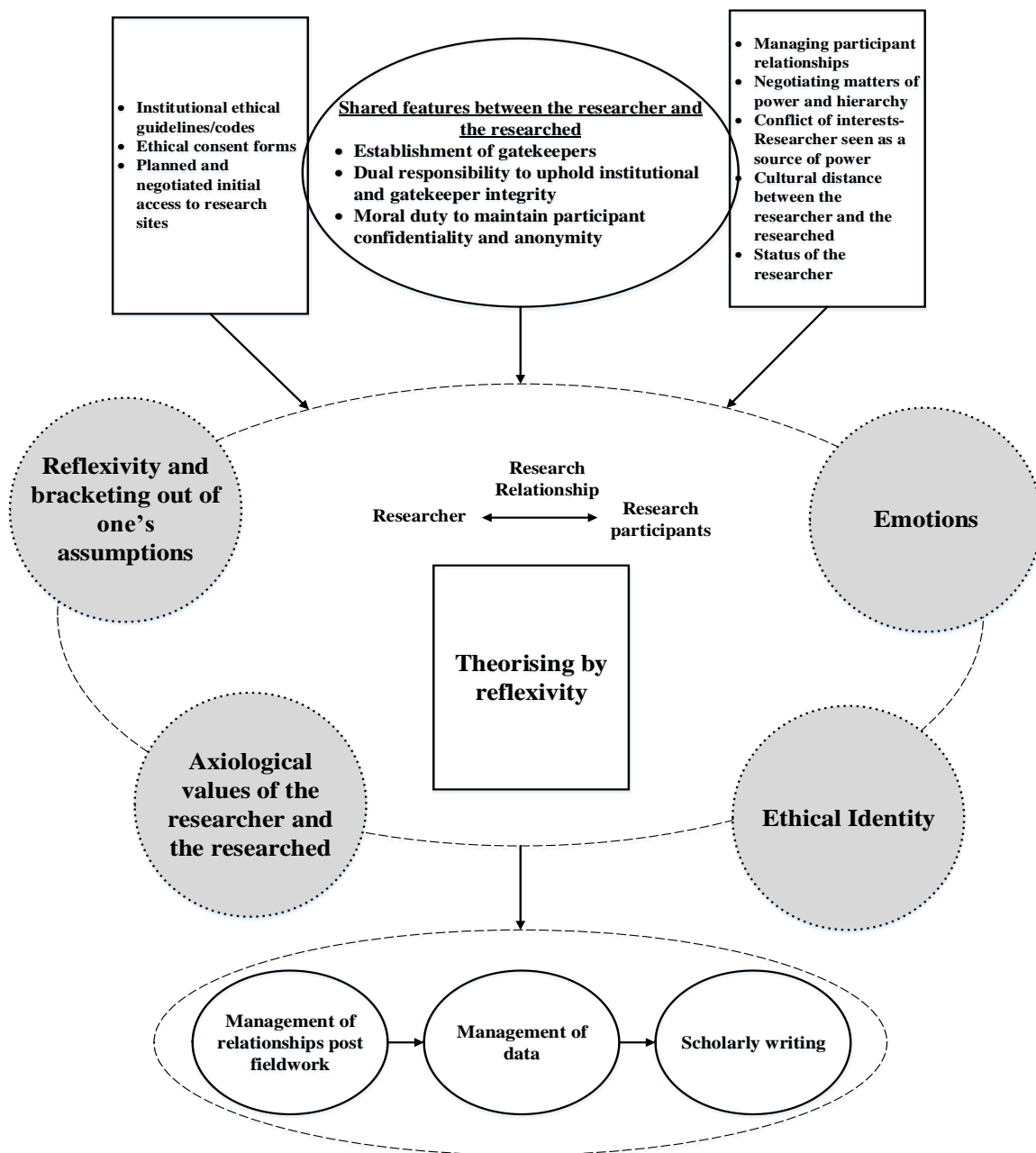


Figure 1: Ethical framework adapted from Michailova et al. (2014).

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 inhibitor 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).

<p style="text-align: center;">Egypt</p> <p>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.</p>	<p style="text-align: center;">Libya</p> <p>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.</p>
<p style="text-align: center;">China</p> <p>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.</p>	<p style="text-align: center;">Bangladesh</p> <p>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.</p>

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 & Mínguez-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 Turgut, 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-Fejoo 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:

- $Y_{i,t}$ is the vector of the dependent variable (the total yearly amount of donations and sponsorships)
- $F_{i,t}$ represents the percentage amount of women in the Board of Directors (BoD)
- $B_{i,t}$ is a vector of variables that controls for other characteristics of the BoD
- $C_{i,t}$ is a vector of variables that controls for other financial characteristics of the company
- GEO_i is a dummy variable that controls for location effects

- ε_t is the vector in terms of error.

The vector β , 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 γ , 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:

$$\begin{aligned}
 E(\varepsilon_t) &= 0 & \forall t \\
 E(\varepsilon_t \varepsilon_s) &= 0, & \forall t \neq s & \quad (\text{absence of correlation}) \\
 E(\varepsilon_t^2) &= \sigma^2, & \forall t & \quad (\text{constancy of the variance})
 \end{aligned}$$

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. *Analisis 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 lead 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 companies 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 (Kholaf, 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 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).

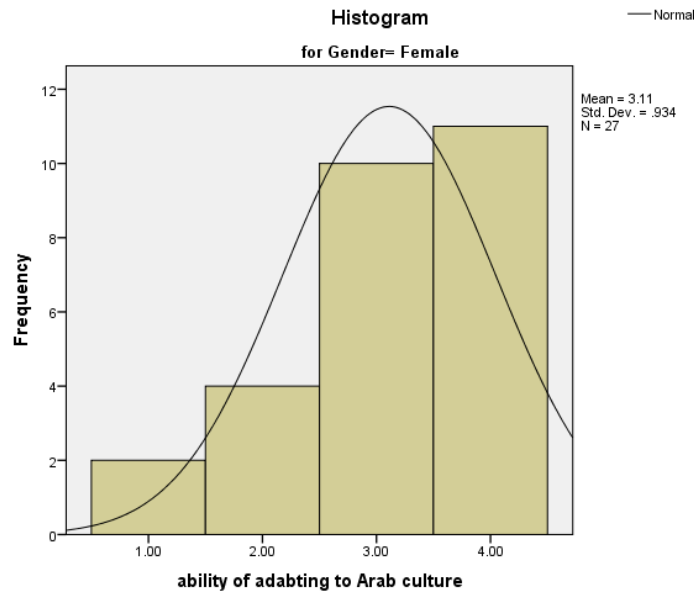


Figure 1. *Female European Expatriates' Ability to Adapt to Arab Culture*

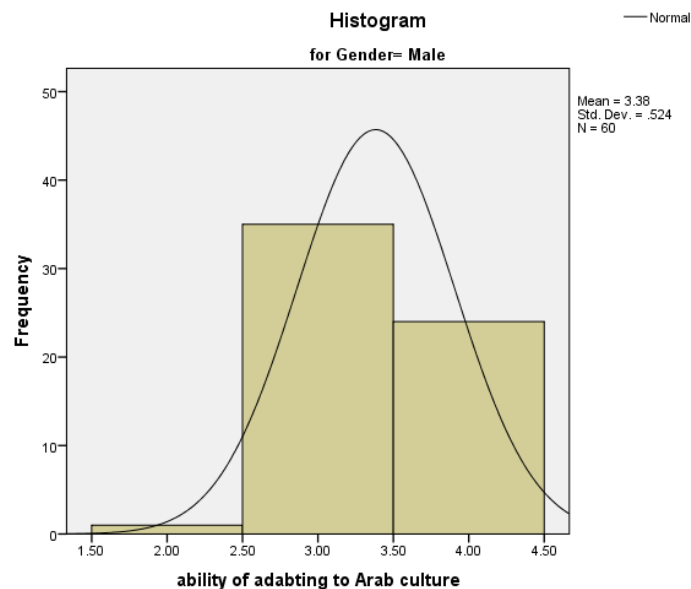


Figure 2. *Male European Expatriates' Ability to Adapt to Arab Culture*

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 investments. 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 energy¹ and to reduce emissions of carbon². 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 Brundtland 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 if 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.

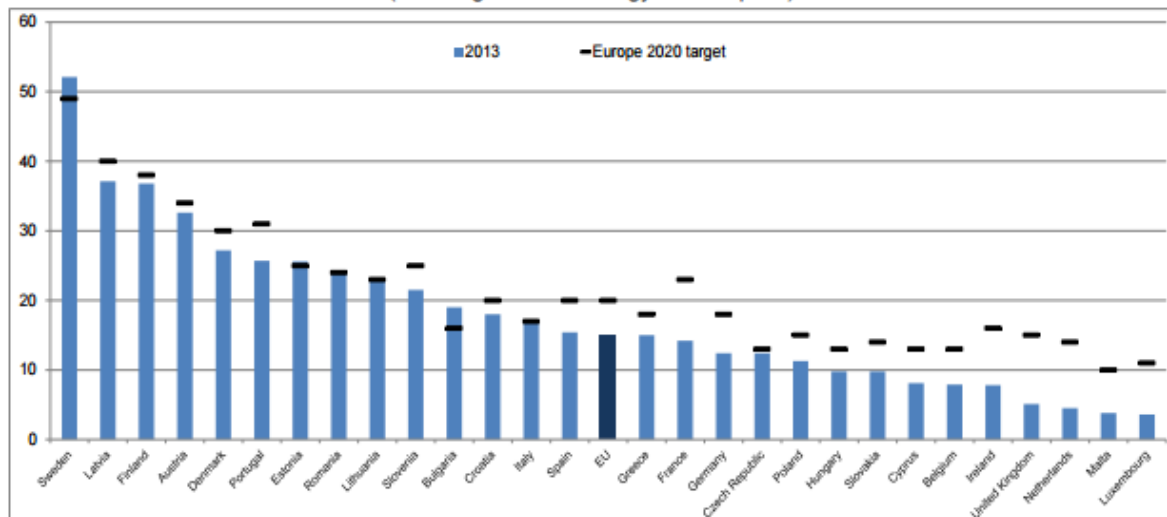
Share of energy from renewable sources⁶
(in % of gross final energy consumption)

	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 purpose 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 system, 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):

- o Encouraging the presence of solar thermal and photovoltaic facilities in municipal building (schools, hospitals, offices, libraries);
- o Endorsing or promoting building regulations that encourage the use of renewable energy sources, energy conservation and green building;
- o 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;
- o Providing for allocation of funds to encourage the use of sources;
- o Establishing information desks for citizens and businesses;
- o 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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INCLUDING THE CHAMBER OF COMMERCE CUSTOMERS: SATISFACTION AS TRUST PREDICTOR

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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 become 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 presumption 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 (Ekinici, 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

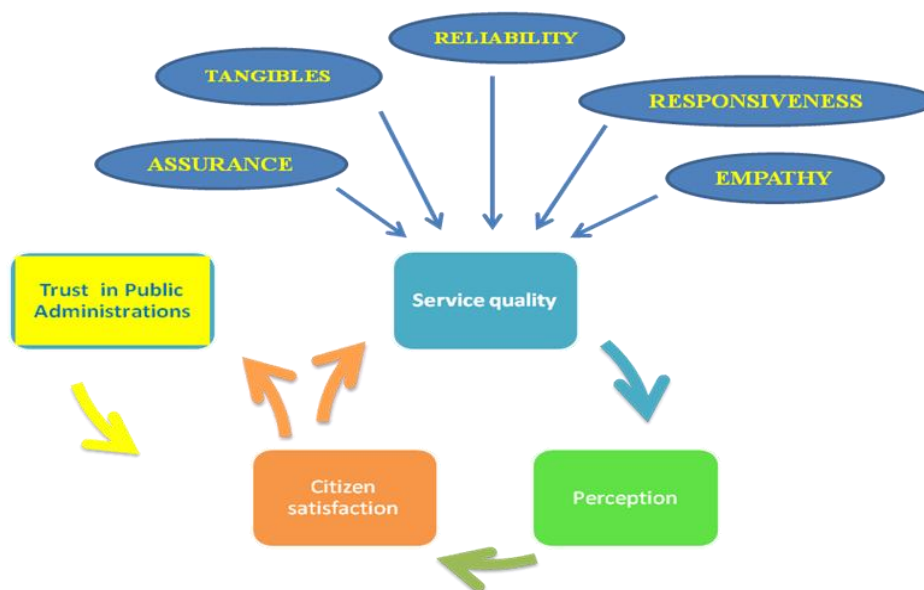
to the user. At the level of local authorities citizens' satisfaction has the closest interconnection with the trust level: the more satisfied are citizens with the work of the local authority the higher the trust level (Seimuskane & Vorslava, 2013).

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)

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

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)

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

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

TRUST 4	=	$\frac{\text{promoters (8 → 10) - detractors (0 → 5)}}{\text{total respondents to the question}}$
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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 then 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 to explore the relationship between customer satisfaction and trust, to show how and what is the perception and the participation of the citizen in the public life.

The present work moved from the conviction 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' Greening 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 et al. 2010; Dixon-Fowler et 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.

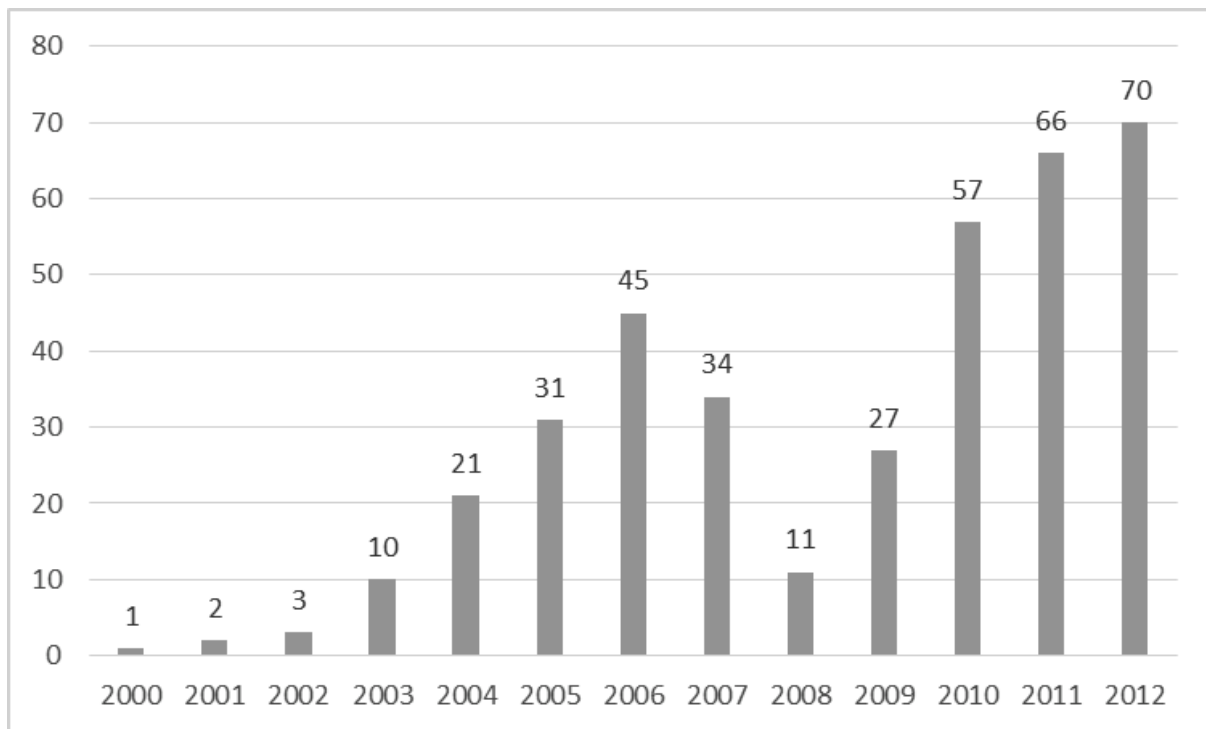
(Oikonomou et al., 2012) cited (Sharfman and Fernando, 2008) and showed that environmental risk management can lead effectively to a lower cost of equity capital in multiple ways among them is the increased tax benefits the systematic risk lowering, this result was demonstrated in their research that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

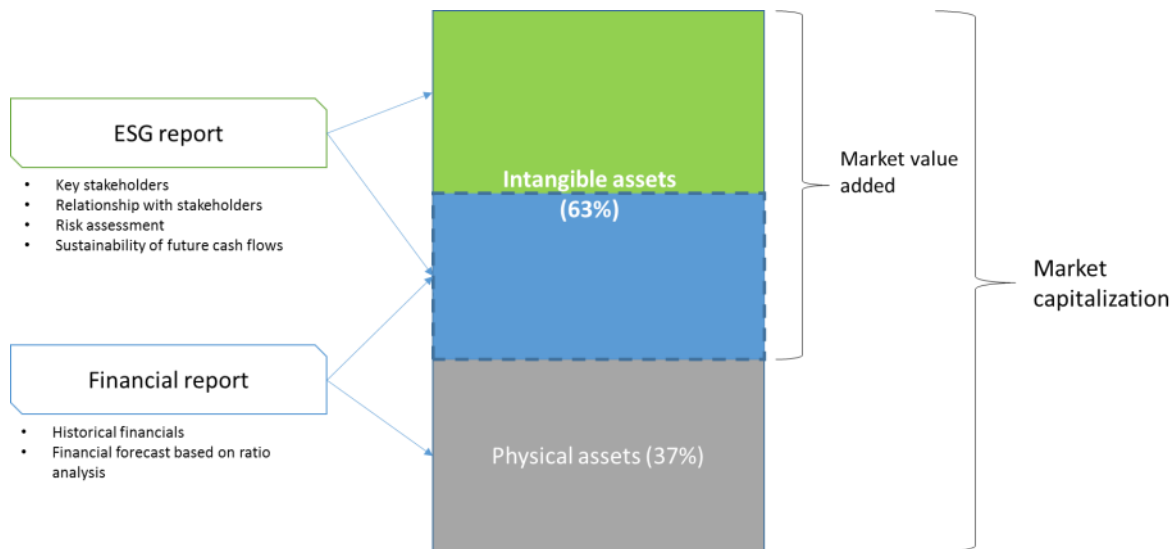
We will try to offer models for each of both aspects, not trying to answer whether Russian businesspeople and managers believe in the social responsibility of business as it is stated by social and integrated reports.

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 Wesley, 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.

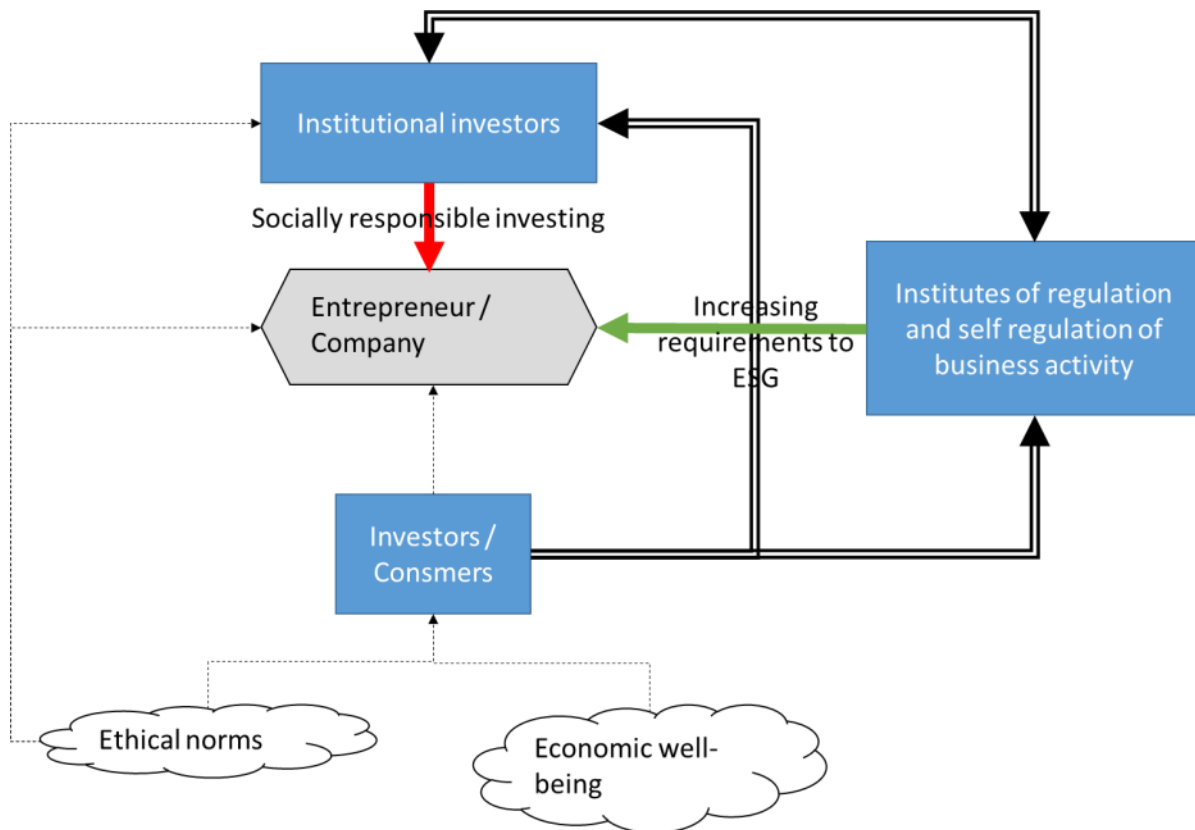


Figure 3. The grounding of SRI.

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 particular 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 legitimize 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 <i>ad hoc</i> 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 RANEPА 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.

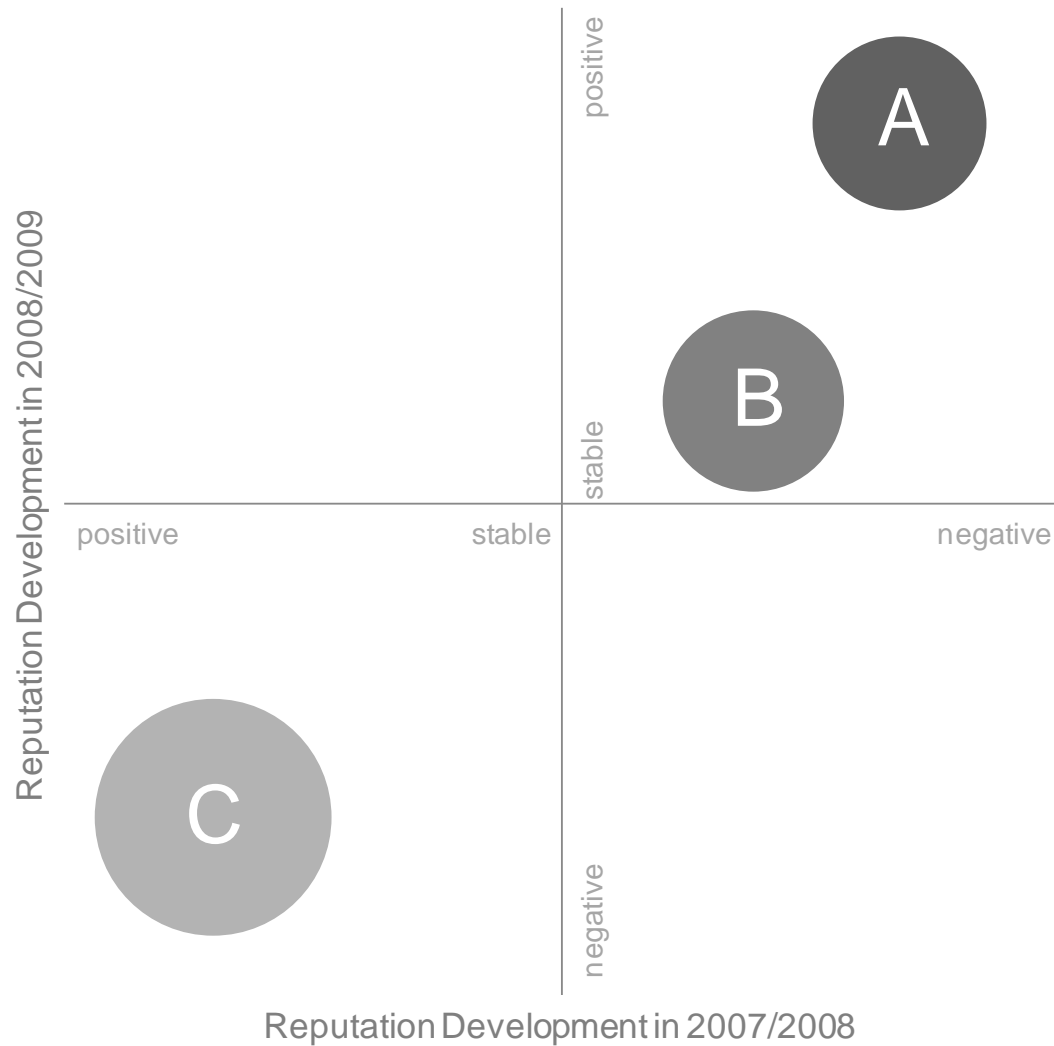
In a similar vein, a corporation's entrepreneurial orientation has a significant impact on a corporation's future performance across a wide selection of performance measures (e.g. Antoncic and Prodan 2008; Covin et al. 2006; Dimitratos et al. 2004; Phan et al. 2009; Zahra 1991). The basic idea behind 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 and 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.

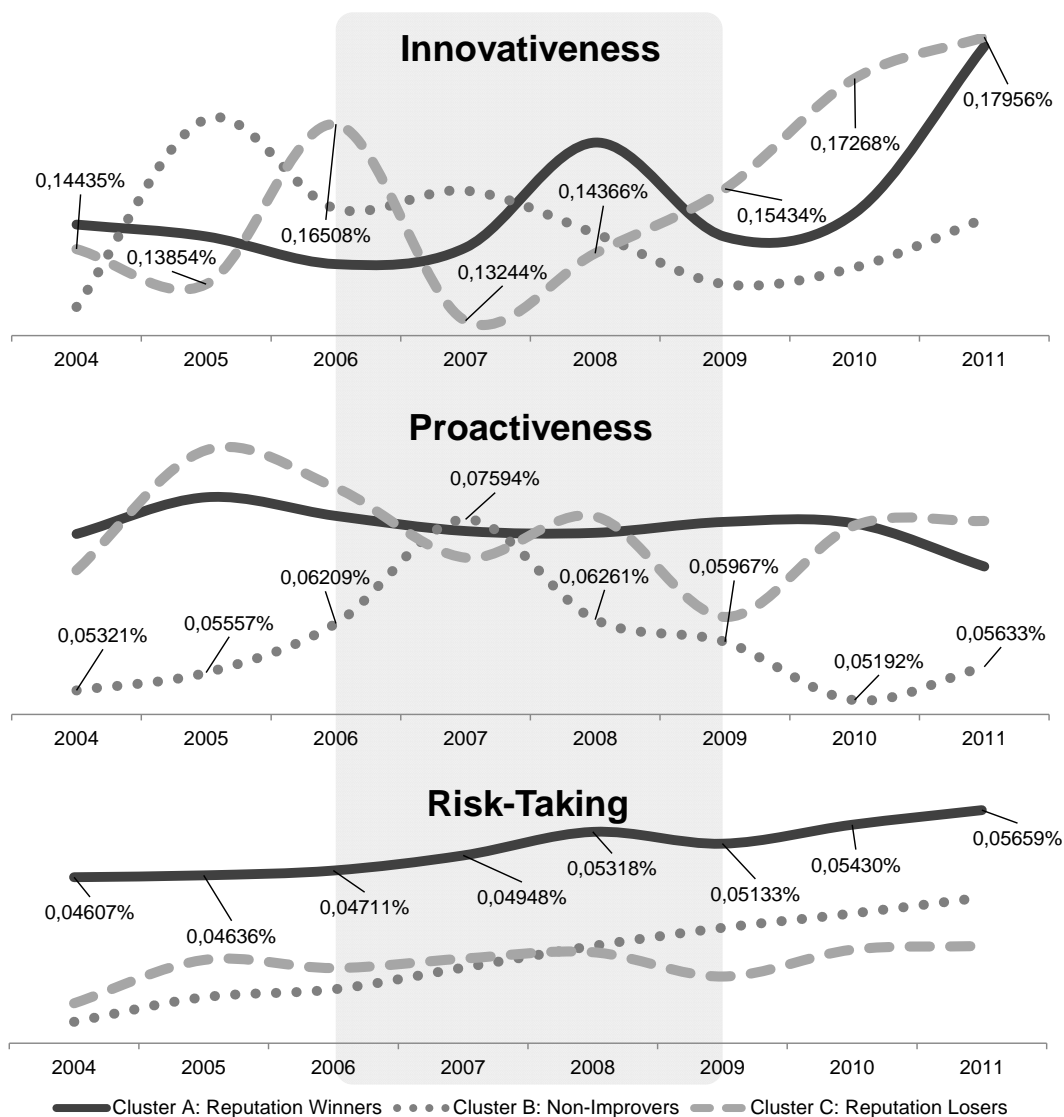


Figure 3: Three Different Corporate Reputation Development Stories

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 turnaround 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 data 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).

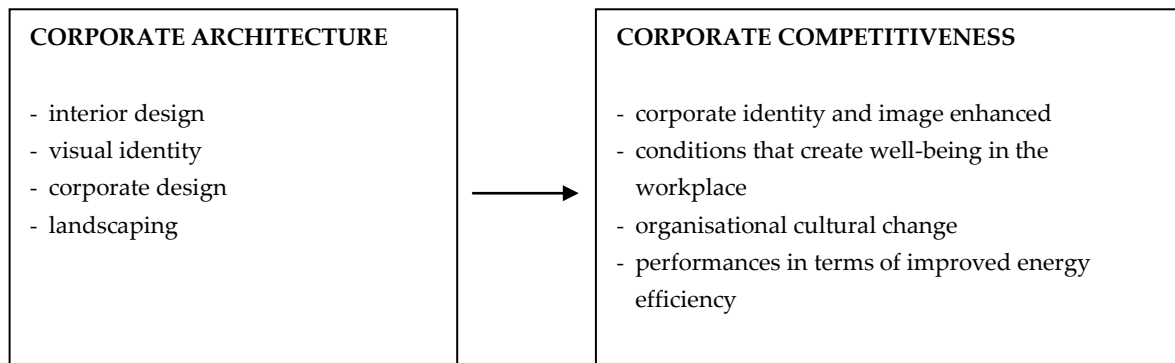


Figure 1. Corporate architecture and competitiveness: Advantages in terms of competitive position

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

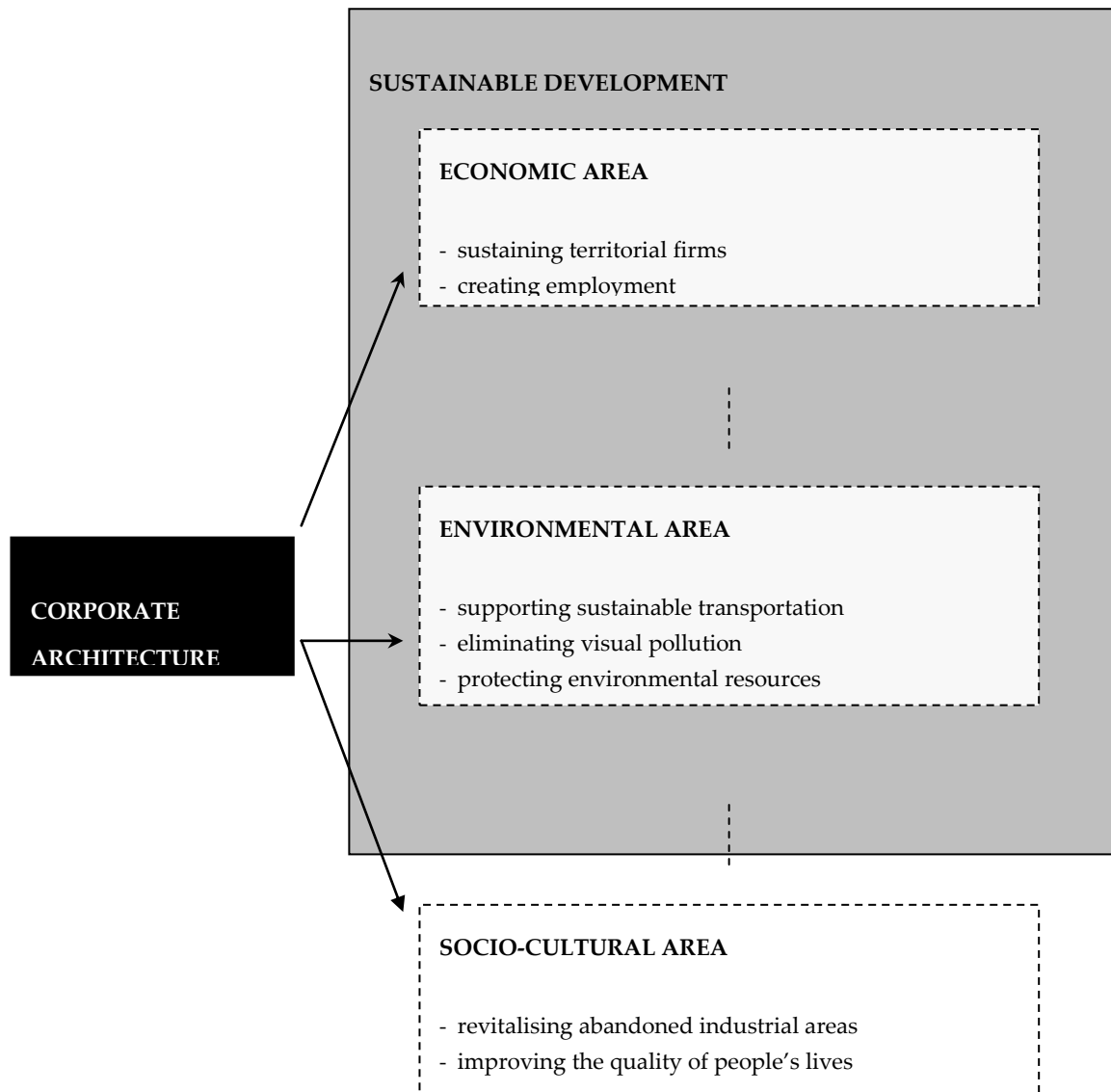


Figure 2. Main effects of the corporate architecture in sustainable development terms

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 Pratic'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), *emprededorismo* (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.

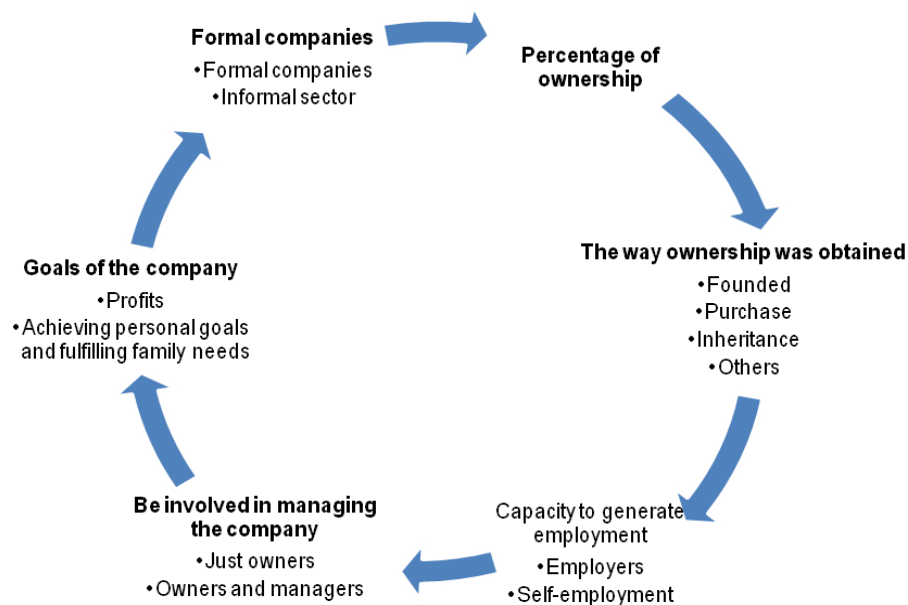


Figure 1. Criteria to Define Women Entrepreneurs

- (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, manager, 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 *entrepreneurship* 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., Cuclari, 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

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)

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 that 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

Year	Authors	Definition of Women Entrepreneurs
	Panatula, M. K.	

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

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.

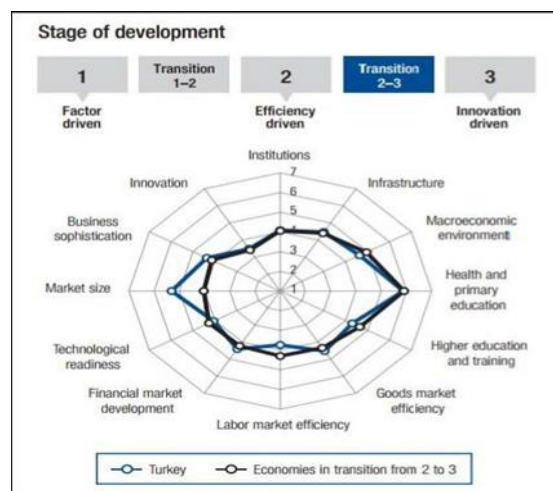


Figure 4. *Stages of Development (Source: World Economic Forum, 2013)*

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

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.

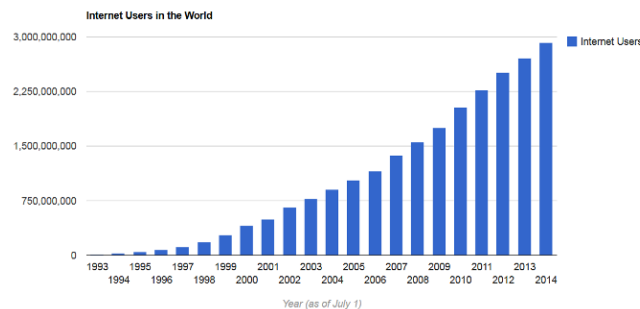
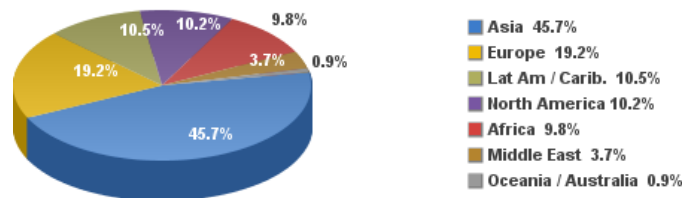


Figure 5. *Number of Internet Users 1993 through 2014*

Of domestic GDP 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.



Source: Internet World Stats - www.internetworldstats.com/stats.htm

Figure 6. *Internet Users in the World – Distributed by Regions (2014 Q2)*

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)

Rank	Country	Market type	Online market size (40%)	Consumer behavior (20%)	Growth potential (20%)	Infra-structure (20%)	Online market attractiveness 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	78.7
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

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.

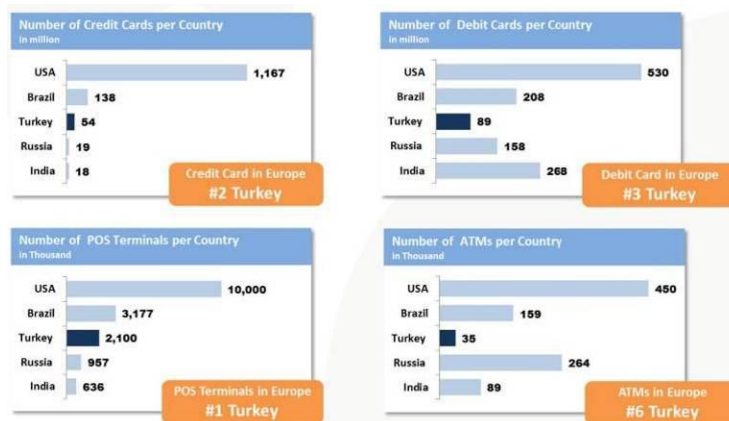


Figure 9. Credit and Debit Cards use in Turkey Compared (Source: Afra, 2013)

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

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.

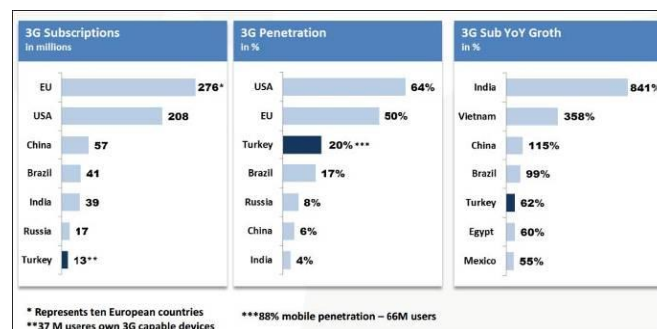


Figure 11. *Mobile Use in Top Nations*(Source: Afra, 2013)

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

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.

<p>S: Strengths</p> <ul style="list-style-type: none"> • 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. 	<p>W: Weaknesses</p> <ul style="list-style-type: none"> • Lack of sufficiently reliable, • Internet penetration and mobile commerce in the country is not yet high enough level, • Internet subscription is relatively expensive.
<p>O: Opportunities</p> <ul style="list-style-type: none"> • 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 	<p>T: Threats</p> <ul style="list-style-type: none"> • 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 case 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.

- 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

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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SYSTEMIC APPROACH 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

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.

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 et 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.

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

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 HEL, 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).

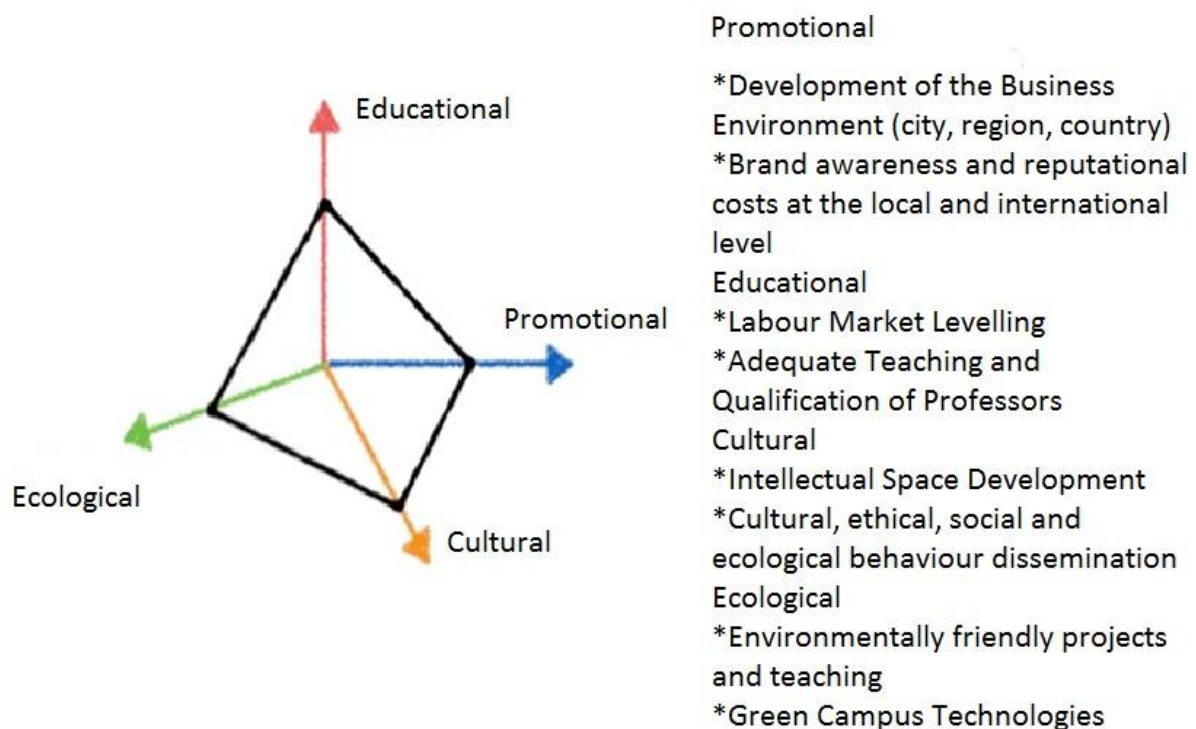


Figure 1- Impact-based USR Model

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 than integrating sustainable solutions in its strategy systemically.

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

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).

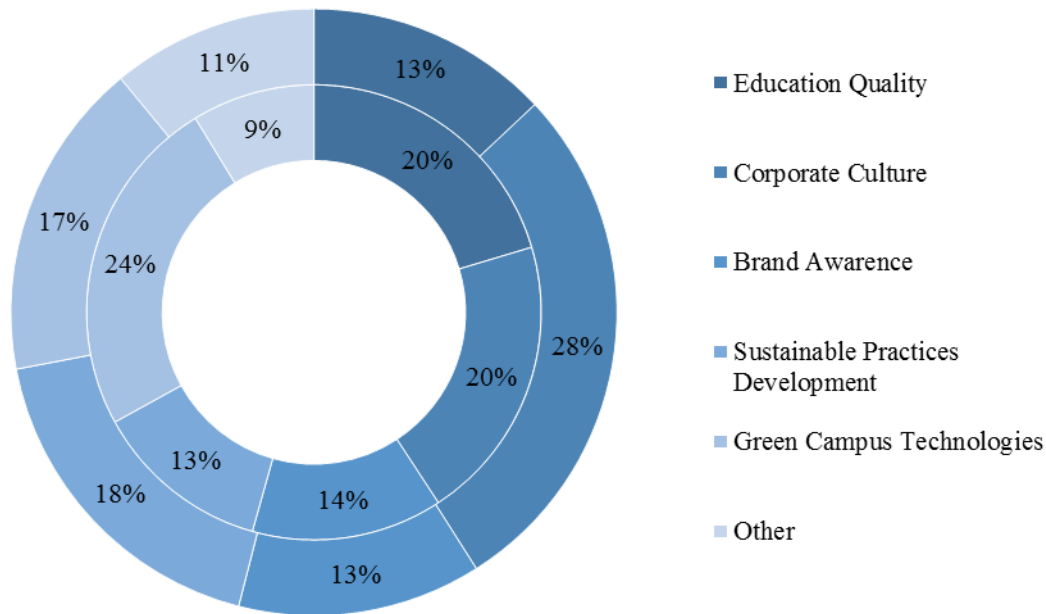


Figure 2. *USR importance for Students (Inner Circle) and Professors (outer circle)*

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.

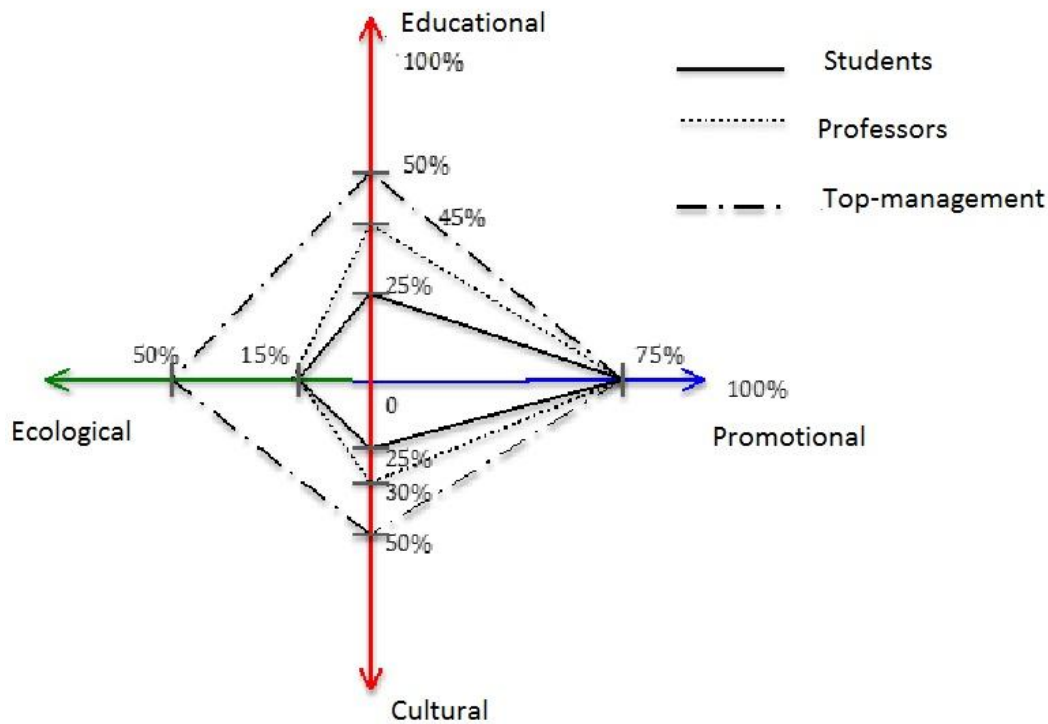


Figure 3. Diffusion of USR model perception in URFU

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

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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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

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.

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

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

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 criteria and methodology – aimed at higher education institutions.

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*

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*.

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

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).

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).

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.		.73										
Q49. Good atmosphere prevails in University.		.69										
Q47. Openness and sincerity is encouraged in University.		.68										
Q50. Ethical standards are followed.		.66										
Q52. High quality performance culture is being created in University.		.66										
Q56. Conflicts are harmonized and resolved effectively in University		.65										
Q53. Environment is community-friendly.		.65										

Q46. Constructive criticism is appreciated.	.65	1
Q44. Informal communication is frequent.	.56	4
Q48. Creativeness and initiative is fostered in University.	.55	8
Q54. Academic freedom is valued.	.50	2
2. Fairness & Trust	.930	
Q9. Remuneration system is clear and objective.	.75	1
Q8. Procedures promoting transparency are developed.	.73	6
Q13. Equal opportunities are ensured.	.70	5
Q12. Clear standards for promotion and tenure are articulated.	.70	3
Q16. Promises are kept in my University.	.69	8
Q17. I have trust in University leadership.	.66	0
Q11. Decisions are made without bias.	.64	6
Q10. Employees are treated fairly.	.64	2
Q15. Words match with actions in my University.	.61	7
3. Teamwork	.902	
Q71. I can rely on my colleagues.	.79	6
Q70. I enjoy <i>working alongside like-minded people.</i>	.76	2
Q73. I have good relationships with my colleagues.	.73	3
Q69. My colleagues are helpful and supportive.	.68	6
Q72. Effective internal communication is developed.	.62	9
Q74. Cooperation is promoted to get the jobs done.	.53	5
Q68. Employees share their ideas and knowledge.	.52	5
4. Academic Environment	.839	
Q38. High study quality is pursued	.76	7
Q35. My peers are best scientists and lecturers.	.73	1
Q37. Students are good and motivated in my University.	.70	5
Q34. Innovative training methods are encouraged in	.68	6

my University.

Q40. A favourable research environment is created in my University. .63
4

5. Strategic Management .870

Q64. Organizational, departmental and employee integrity is ensured. .77
2

Q65. Policies, procedures and responsibilities support strategy implementation. .74
6

Q63. Sustainability and corporate social responsibility are fostered. .65
9

Q66. Employee participation in decision making is promoted. .63
1

Q67. University is building positive reputation and image. .60
1

Q62. A clear strategy and direction is set and aligned with University vision and values. .57
9

6. Job Satisfaction .891

Q23. I like my job and find it interesting. .67
8

Q18. My job is intellectually challenging. .65
0

Q19. I can realize my ideas and potential. .63
7

Q21. I know what is expected of me at work. .62
6

Q25. My job meets my experience and abilities. .54
8

Q20. My job feels meaningful. .52
9

Q24. I feel that I and my efforts are valued. .50
4

Q22. I have career opportunities in my University. .46
4

7. Supervisor Relationship .874

Q7. My supervisor gives me feedback about my progress. .75
4

Q1. My supervisor listens to me and regards my opinion. .70
4

Q5. My supervisor supports me. .68
4

Q2. I have trust in my supervisor. .66
8

Q3. My supervisor gives me guidance. .62
4

8. Compensation and Benefits .922

Q58. Effective employee incentive scheme is functioning in University (for loyalty, achievement, etc.).	.70 9
Q60. Additional benefits are offered to motivate employees.	.65 9
Q57. I am getting paid enough for my job.	.65 3
Q59. Best employees are appreciated in University.	.63 4
Q61. Employee's performance results and competencies are recognized and rewarded.	.57 9
9. Training and Development	.857
Q30. I receive enough training to do my job in best manner.	.77 8
Q32. I have opportunities for personal growth in University.	.69 8
Q31. Employee training and development meets University aims and objectives.	.69 3
Q33. Talents are nurtured in University.	.49 4
10. Work-Life Balance	.714
Q28. I have enough flexibility in my work.	.77 1
Q29. I may harmonize my work and personal life needs.	.74 0
Q27. My work load is manageable.	.64 9
11. Working Conditions	.721
Q41. I am provided with all necessary equipment and resources to do my job well.	.74 3
Q42. Safe and comfortable working environment is created in my University.	.65 5
Q39. The consistent administrative support is provided to faculty members.	.49 4
Q43. I am not experiencing stress in my work.	.45 0

Table 2. *Organizational Attractiveness Extraction Scale*

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 (N=117)		KUT (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

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 dimension	attractiveness	Reliability for initial data	Reliability for total 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

	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	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

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 (Murmans 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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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

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.*,

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.

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, customer 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;

- 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 identify 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.

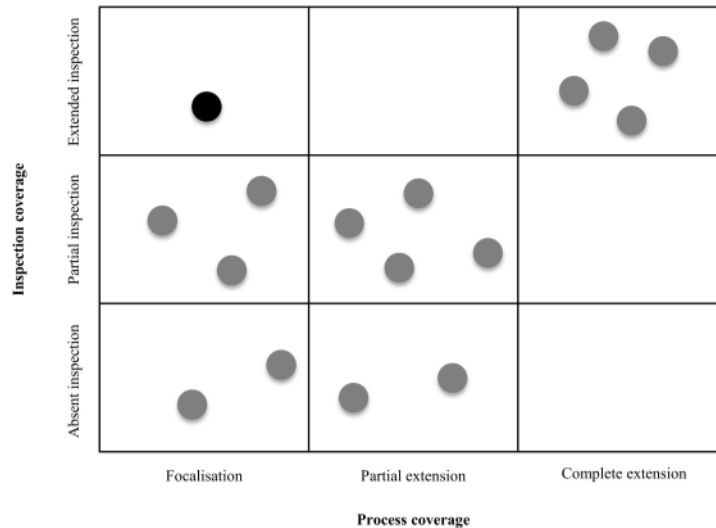


Figure 1. *Figure 1: Pharma machinery players' positioning*

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

- 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.

Entry new businesses	YES		
	NO		
		NO	YES
		Exit old businesses	

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).

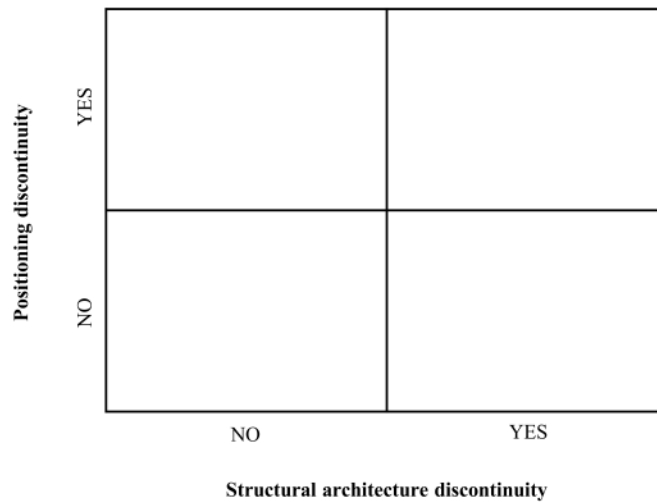


Figure 3. *Figure 3.* Positioning and structural architecture discontinuity

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).

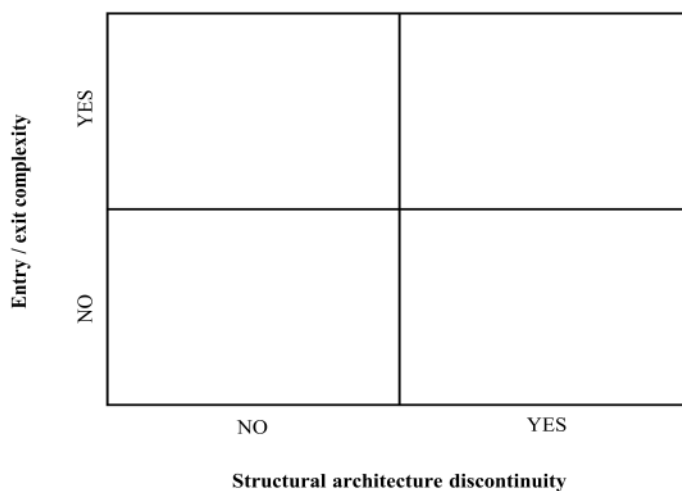


Figure 4. *Figure 4.* Entry/exit complexity and structural architecture discontinuity

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

- Further refining the level of coverage of the inspection phase (Option 2).

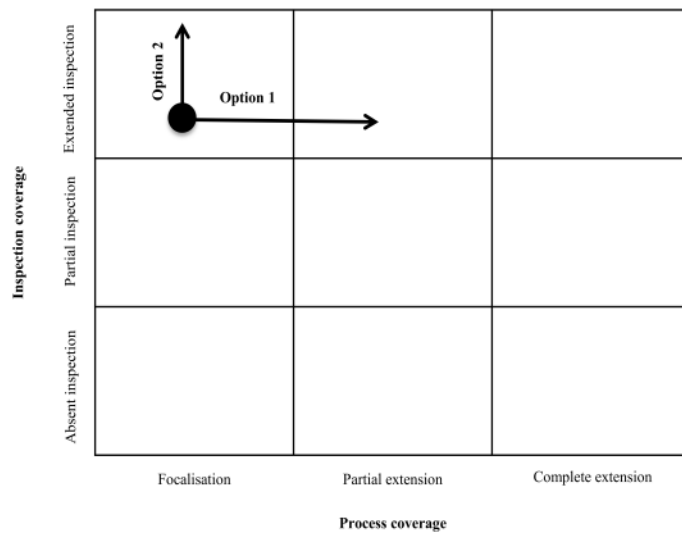


Figure 5. *Figure 5.* Alba' options

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

architecture. Indeed, it requires only marginal changes to resources and activities and no changes to ownership structure or mission.

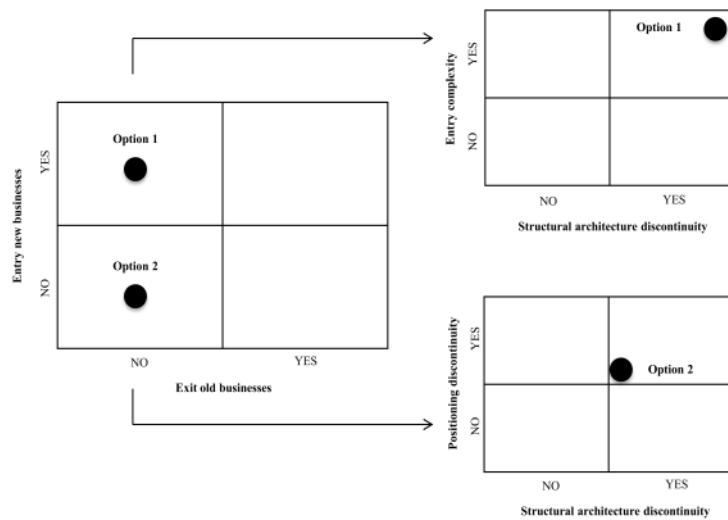


Figure 6. *Figure 6.* Impacts of Alba's options

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 (k_e), 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).

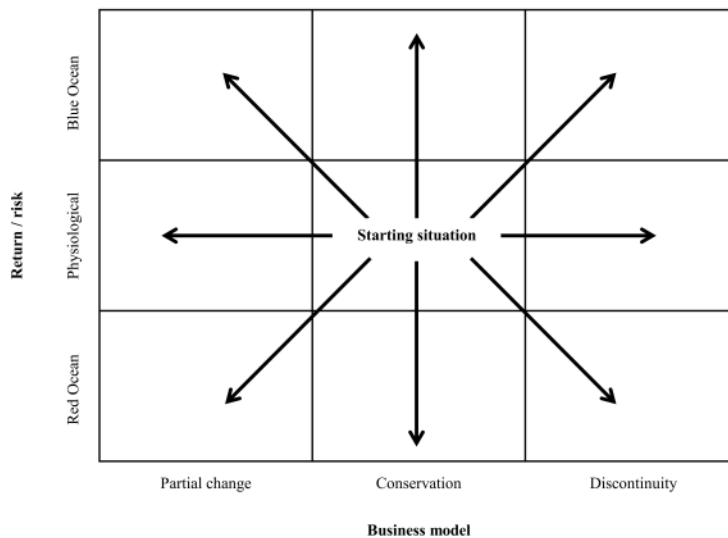


Figure 7. *Figure 7. Options evaluation*

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).

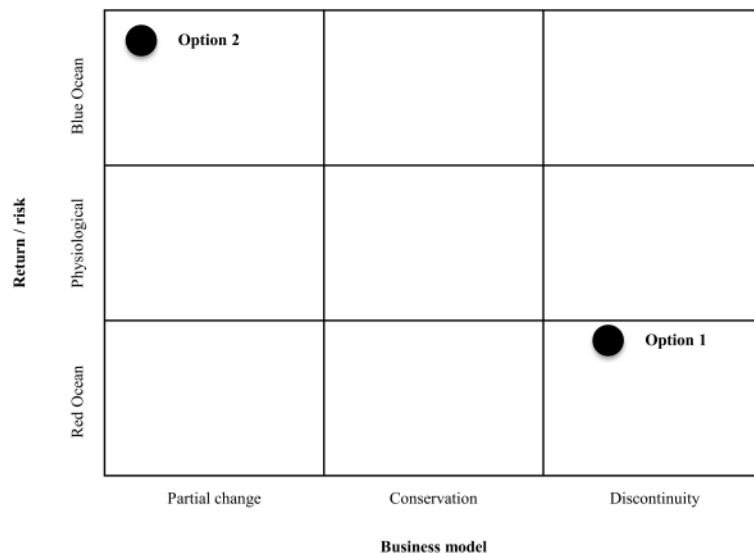


Figure 8. *Figure 8.* Evaluation of Alba's options

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.

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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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 (Tece, 2010).

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 than 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

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

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

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; licensee 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.

The Business Model Maturity Indicator was designed based on an overview of the literature on measuring the maturity of organisations (Crosby, 1979; SEL, 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.

$$BMMI = \frac{1}{n} \sum_{i=1}^n \left(\frac{1}{k_i} \sum_{j=1}^{k_i} x_{ij} \right),$$

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.










Key Partners  partnership with suppliers, distribution networks, business partners, research institutes, financial partners	Key Activities  operational effectiveness, efficiency, building relationships, searching for financing, management processes, IPP	Value Propositions  meeting the needs of customers, customer satisfaction, synergies between products and services, competitiveness of products/ services on a national/ global market	Customer Relationships  counteract the loss of customers and attract new ones, building national/global relationships, use of methods and tools to build relationships	Customer Segments  separation of customer segments, matching offers and channels to segments, diversity of relationships
	Key Resources  availability of material, financial & human resources, predictability of resource demand, resource protection		Channels  efficiency and effectiveness of distribution channels, diversity and adaptation of channels to customer segments	
Cost Structure  cost structure, predictability of costs, economies of scale, cost advantages, flexibility of the organisation, grants		Revenue Streams  satisfaction with the margins, predictability, stability and diversification of revenues, revenue planning, pricing policy		

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.

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.

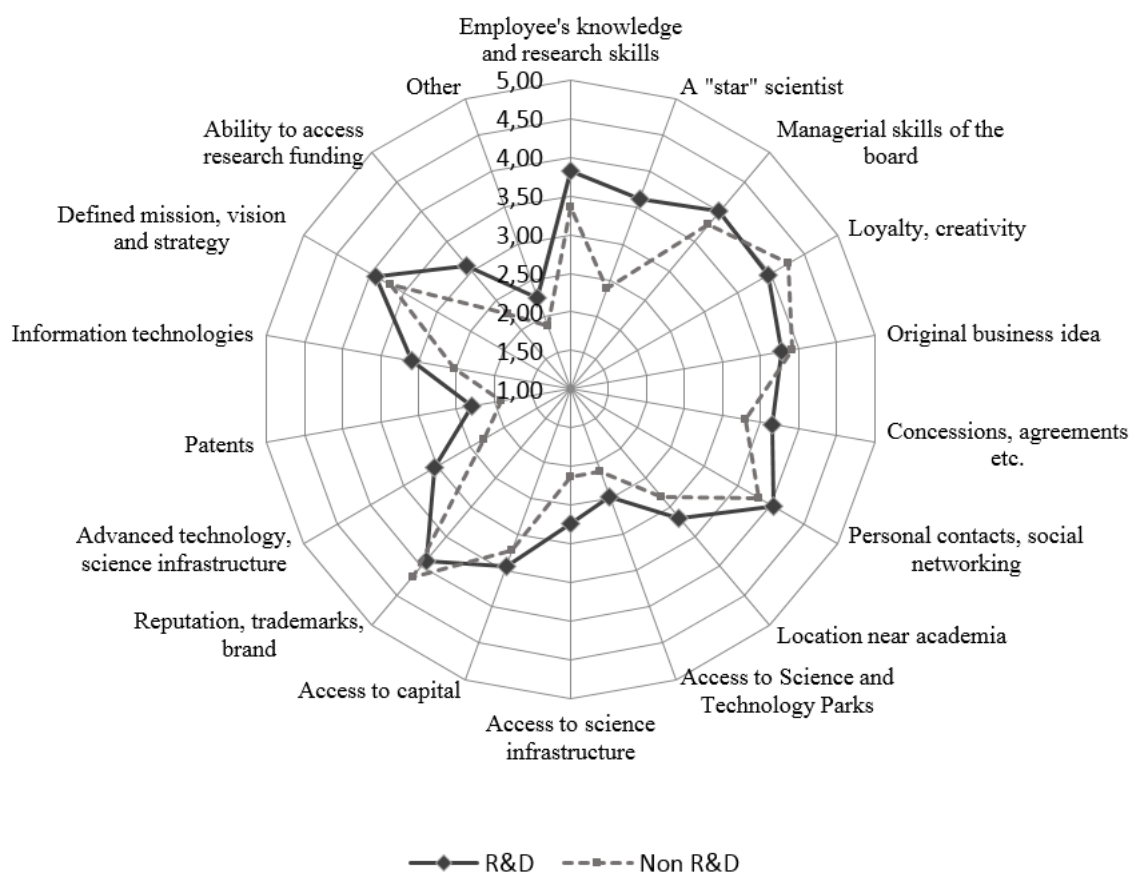


Figure 2. *The role of resources in the business model development*

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

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

	Non R&D	1.86	4.00	3.04	2.86	0.4646
	Total	2.00	5.00	3.34	3.25	0.4927
Channels	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
	Total	1.00	4.00	2.88	2.86	0.5248
Cost structure	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
	Total	1.00	4.00	2.91	3.00	0.5416
Revenue Streams	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.

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 a 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

“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

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 cyclicity 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

supporting entrepreneurship, as well as for start-ups themselves, with regard to development of their innovative business models.

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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.

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).

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, and at a required level of performance.
- The promoter's role is to be in charge of the communication with the customers because he 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).

Haas (2013) differentiates between four types of necessity entrepreneurs, according to 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 & Sz wajkowski, 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—belongs 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."

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; Venkataraman, 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.

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

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.

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.

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

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

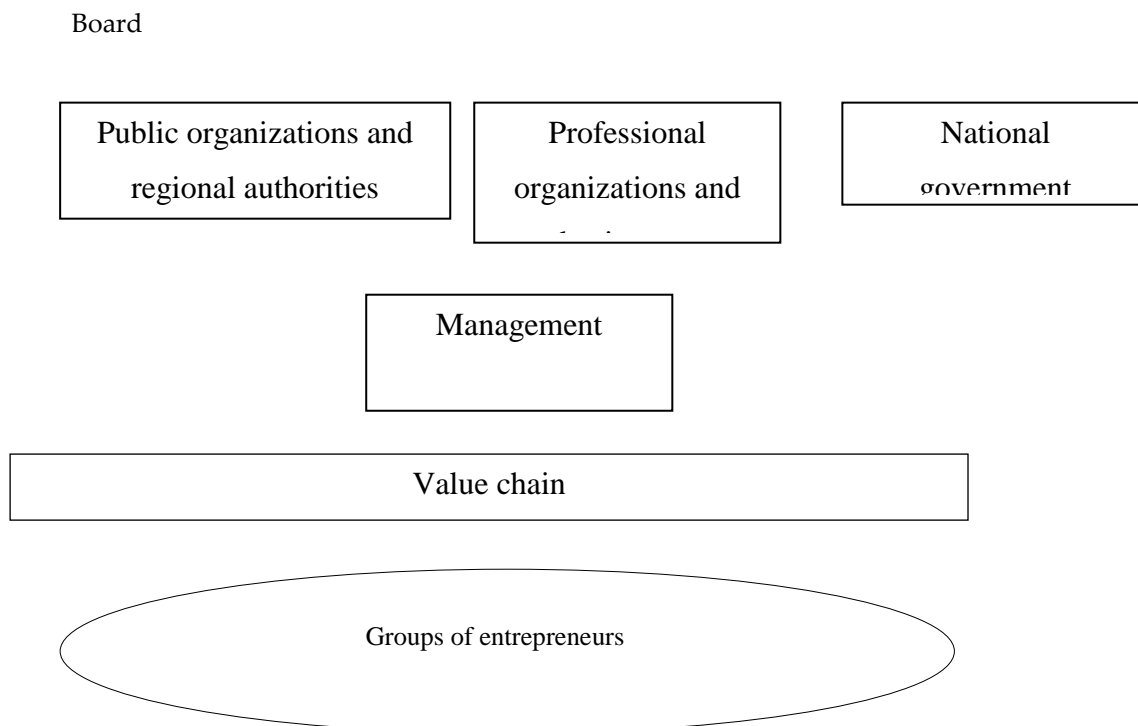
The regular incubator supports only entrepreneurs who are prepared to join a common location from which to operate. In the open incubator model, entrepreneurs remain in their original location and need not relocate to a common site, as in the case of the classic incubator.

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

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), McClelland'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

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

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 25 years 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:

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

	B	Std. Error	T	Sig.
R Square: .163 N= 46				
(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

	B	Std. Error	T	Sig.
R Square: 187 N= 49				
(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).

Table 3: Regression with "to work in a farm" as dependent variable

	B	Std. Error	t	Sig.
R Square: .231N=49 (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

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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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 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.

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

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), Fujairah (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.

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 shoemsmiths 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

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 be 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

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 nutraceutical 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.

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 cooperation and 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

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.

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



Region	Suitable Crops		
Greenbelt	<ul style="list-style-type: none"> ▪ Maize ▪ Fruits ▪ Vegetables ▪ Irish Potatoes 	<ul style="list-style-type: none"> ▪ Oil palm ▪ Tea ▪ Coffee 	<ul style="list-style-type: none"> ▪ Tropical Forestry ▪ Horticulture ▪ Gum Arabic
Ironstone Plateau	<ul style="list-style-type: none"> ▪ Sorghum ▪ Groundnuts ▪ Sesame 	<ul style="list-style-type: none"> ▪ Sunflower ▪ Livestock 	<ul style="list-style-type: none"> ▪ Oilseeds ▪ Gum Arabic
Nile Sobat	<ul style="list-style-type: none"> ▪ Sugar Cane ▪ Rice 	<ul style="list-style-type: none"> ▪ Oilseeds ▪ Gum Arabic 	<ul style="list-style-type: none"> ▪ Sorghum
Flood Plains	<ul style="list-style-type: none"> ▪ Rice ▪ Sugar Cane 	<ul style="list-style-type: none"> ▪ Sesame ▪ Gum Arabic 	<ul style="list-style-type: none"> ▪ Groundnuts ▪ Oilseeds
Hills and Mountains	<ul style="list-style-type: none"> ▪ Wheat ▪ Fruits ▪ Forestry 	<ul style="list-style-type: none"> ▪ Tea ▪ Coffee 	<ul style="list-style-type: none"> ▪ Horticulture ▪ Gum Arabic
Arid Zone	<ul style="list-style-type: none"> ▪ Gum Arabic 	<ul style="list-style-type: none"> ▪ Livestock 	<ul style="list-style-type: none"> ▪ 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).

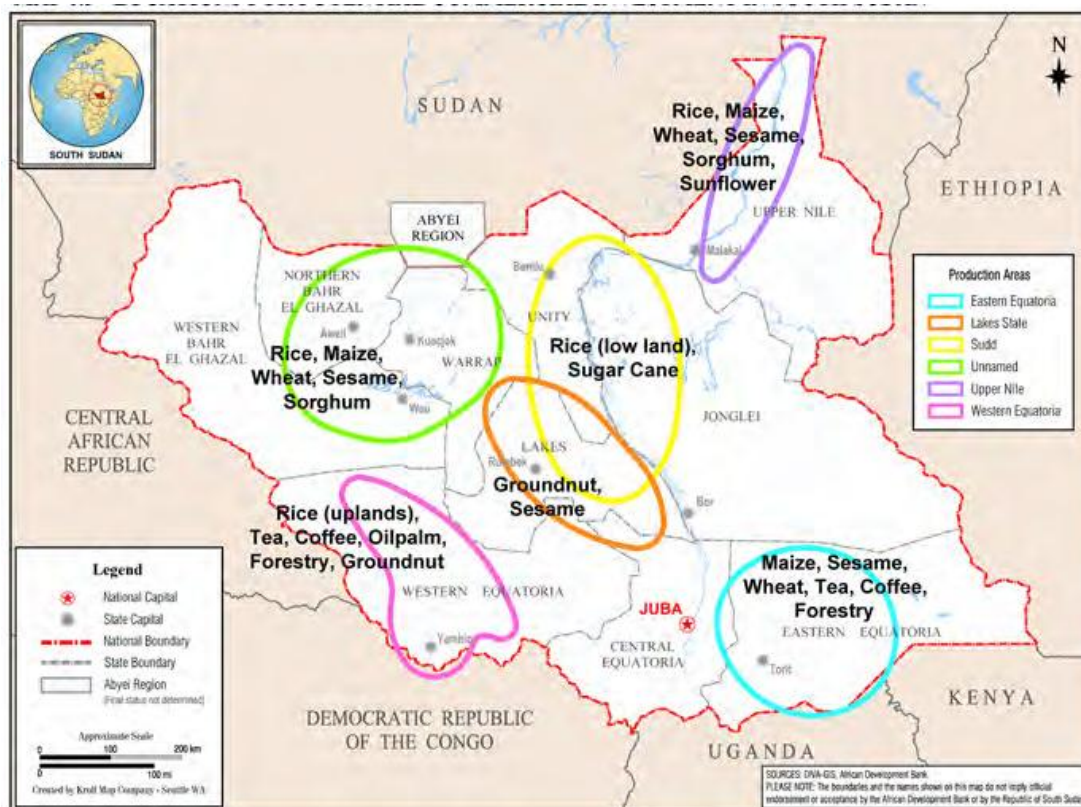
Currently, the total consumption of wood in Africa is about 700 million cubic meters (m³) per year— with approximately 75 million m³ consumed for industrial wood products and the remaining 625 million m³ consumed for fuel wood including charcoal (FAO, 2011)

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.

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 (nespresso website).

Vegetable oil cluster

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 Kernel 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.

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 al, 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

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.

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, bribes). 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

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

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

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.

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 were 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.

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

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 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

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

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

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.

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.



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European Social Fund



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MANAGING AUTHORITY



EUROPEAN SOCIAL FUND

Co- financed by Greece and the European Union

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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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.*

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,

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.

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.

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:

$$U_{nit} = V_{nit}(\beta, X_{nit}) + \varepsilon_{nit}, \quad (1)$$

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:

$$Pr_{nit} = \frac{e^{\mu V_{nit}}}{\sum_{j=1}^J e^{\mu V_{njt}}}, \quad (2),$$

where

$$V_{nit} = \beta' x_{nit} \quad (3)$$

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: $w = \frac{w_j}{w_0}$. 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 $\varphi(\cdot)$. 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).

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

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 (μ) and the spread of the distribution (σ). 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.

	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)

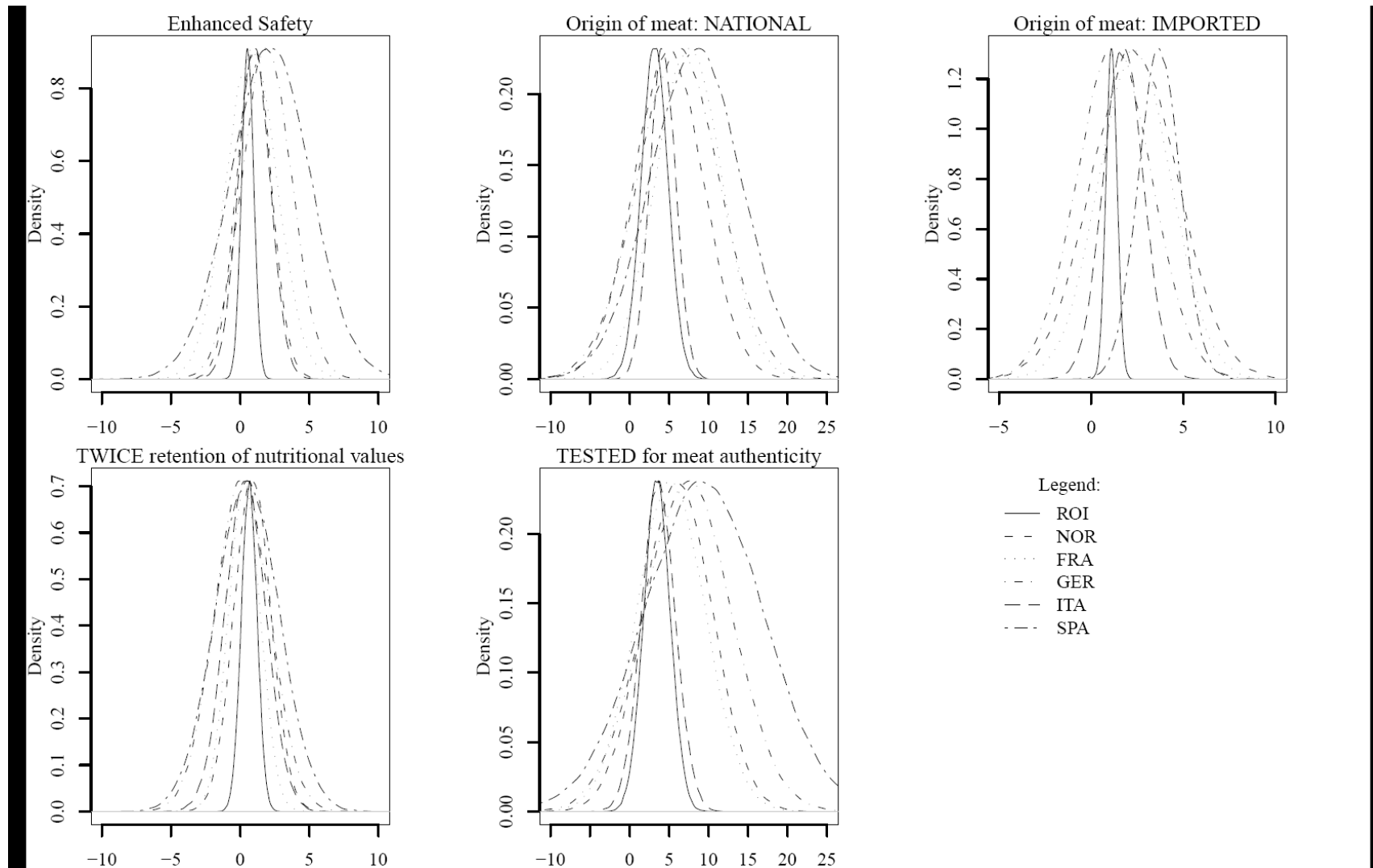


Figure 2 Kernel distribution of WTP for each attribute across the six countries

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

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 event, 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.

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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 lose 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*

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 remainder 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

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?

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?

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

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?

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 a 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.





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

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

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,

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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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; García-Ramos and García-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).

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;

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);

- 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 Smyrniotis, 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 Papisolomou, 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:

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

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).

	Response Percent	Response Count
<i>FFs</i>	47.8%	132
<i>NFFs</i>	52.2%	144
<i>Answered questions</i>	276	
<i>Skipped questions</i>	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	
	<i>Response Percent</i>	<i>Response Count</i>	<i>Response Percent</i>	<i>Response Count</i>
<i>Yes</i>	66.0%	62	56.6%	64
<i>No</i>	34.0%	32	43.4%	49
<i>Answered questions</i>	94		113	
<i>Skipped questions</i>	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 Smyrniotis, 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).

	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
<i>Answered questions</i>	71		77	
<i>Skipped questions</i>	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
<i>Internal innovation</i>	40.6%	26	61.6%	45
<i>External innovation</i>	7.8%	5	5.5%	4
<i>Both</i>	51.6%	33	32.9%	24
<i>Answered questions</i>	64		73	
<i>Skipped questions</i>	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:

- 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
<i>High competences</i>	50,0%	11	56,7%	17
<i>High effectiveness</i>	13,6%	3	20,0%	6
<i>High reliability</i>	9,1%	2	0,0%	0
<i>Strategical reason</i>	22,7%	5	13,3%	4
<i>Small dimension</i>	4,5%	1	10,0%	3
<i>Answered questions</i>	22		30	
<i>Skipped questions</i>	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).

	FFs		NFFs	
	Response Percent	Response Count	Response Percent	Response Count
<i>High competences</i>	71.4%	5	0.0%	0
<i>Introduction of new competences</i>	14.3%	1	0.0%	0
<i>A continuous investment is not possible</i>	14.3%	1	33.3%	1
<i>A specific company of the group is dedicated</i>	0.0%		33.3%	1
<i>Effectiveness</i>	0.0%		33.3%	1
<i>Answered questions</i>	7		3	
<i>Skipped questions</i>	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.

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

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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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).

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 liberalisation enhances international business by the way of FDI flows (Rugman and Collinson, 2009; Rugman and Verbeke, 2009). Consequently, FDI undertaken by Multinational

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).

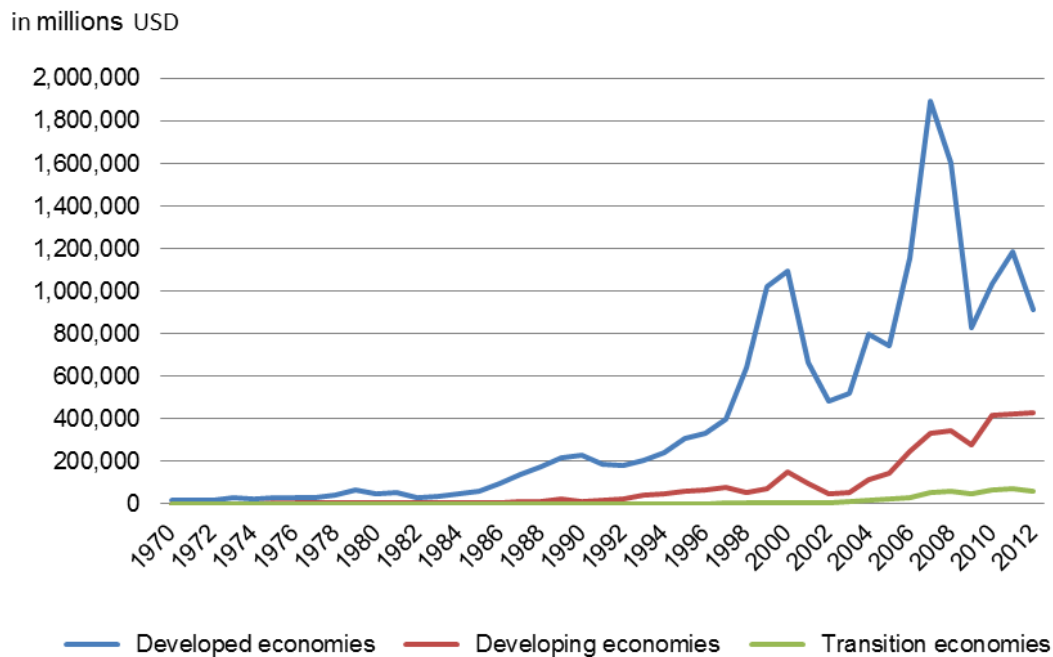


Figure 1. Development of OFDI from 1970-2012 (<http://unctadstat.unctad.org/TableViewer/tableView.aspx>)

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

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.

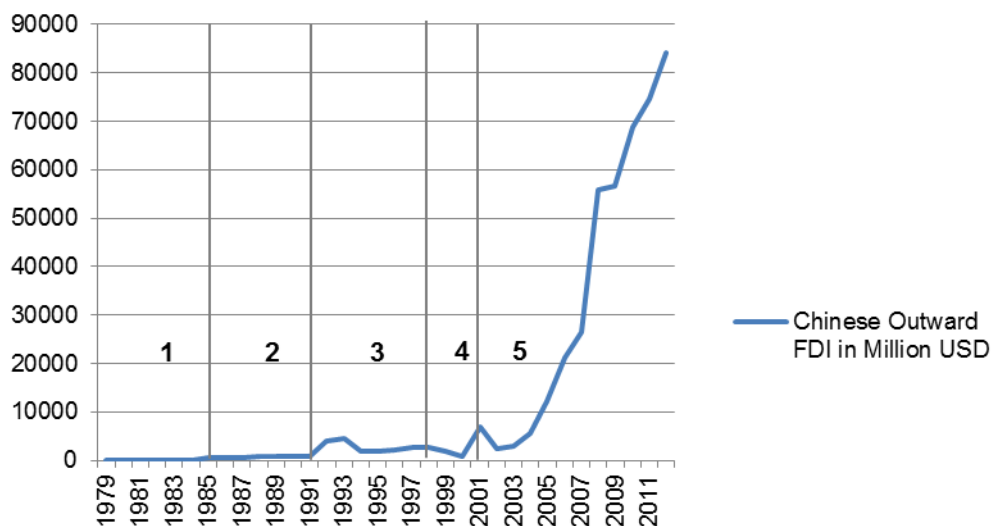


Figure 2: Development Chinese OFDIs since 1979 (<http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=88>)

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.



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.

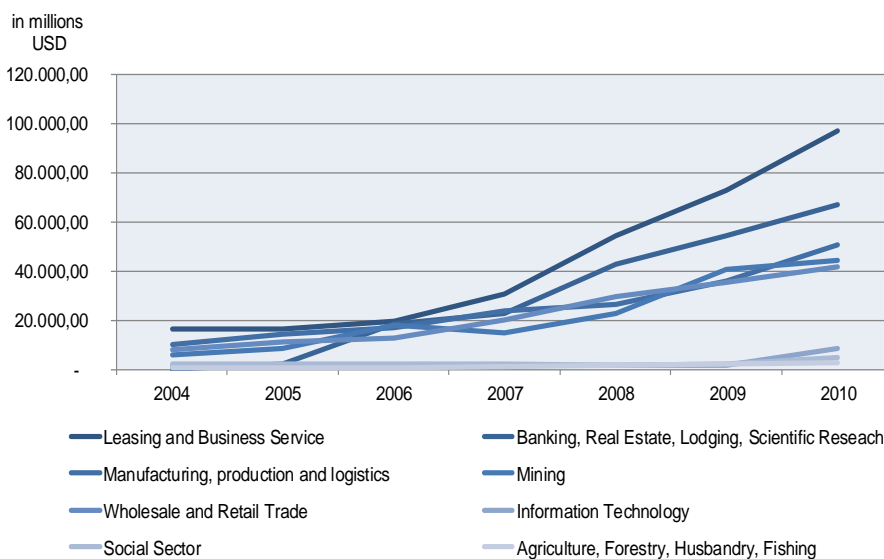


Figure 5: Development of China's OFDI stock by industries

(<http://images.mofcom.gov.cn/hzs/accessory/201109/1316069658609.pdf>)

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.

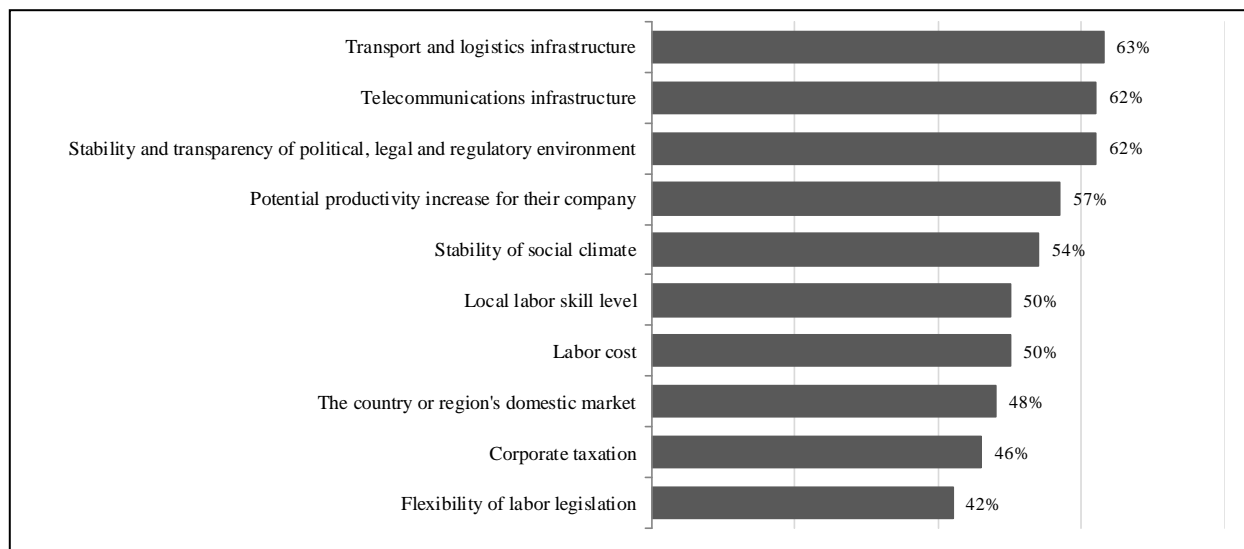


Figure 6.: Crucial factors for decision on a location to establish operations (Ernst & Young, "Restart – Ernst & Young's 2011 European attractiveness survey," Ernst & Young, 2011. [http://www.ey.com/Publication/vwLUAssets/Europe_attractiveness_2011_web_resolution/\\$FILE/Europe_attractiveness_2011_web_resolution.pdf](http://www.ey.com/Publication/vwLUAssets/Europe_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

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.

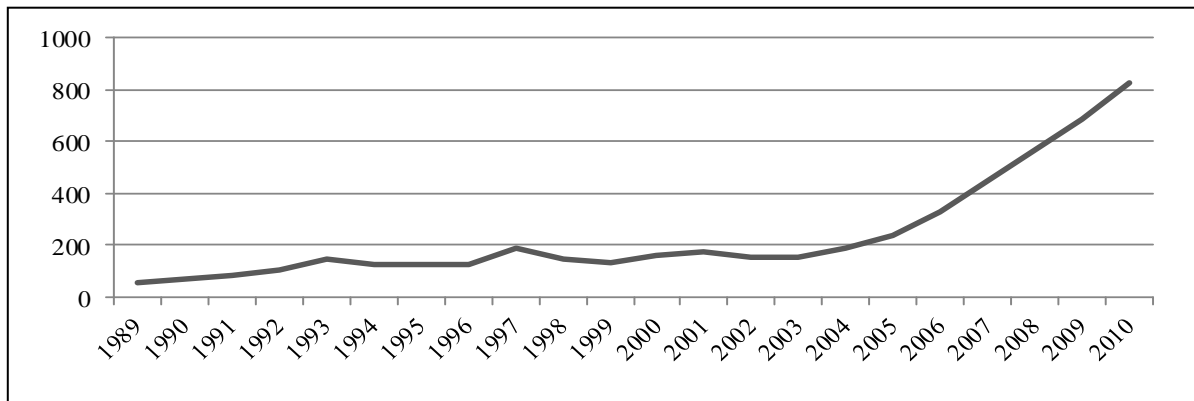


Figure 7: Chinese ODI in Germany (unit: DM/EURO millions)

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 excluded. 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

subsequently to stick to the rules of the Chinese investor. Consequently, doing business with the Chinese investor starts running well.

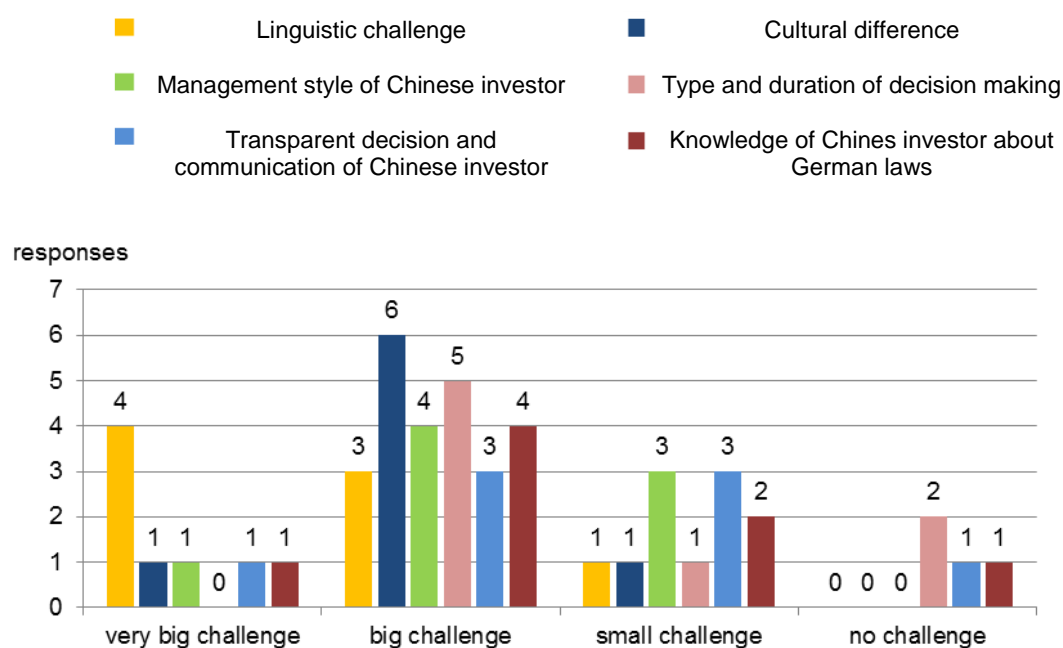


Figure 8: Challenges of collaboration with Chinese investors

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.

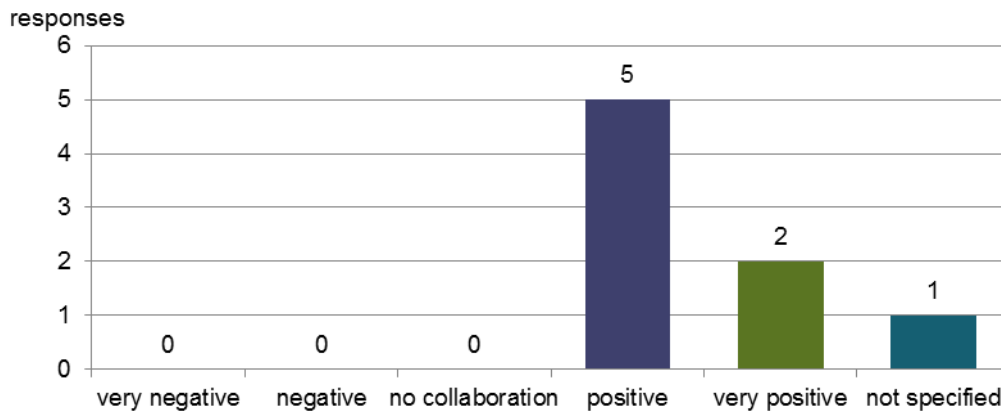


Figure 9: Chinese-German collaboration

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.

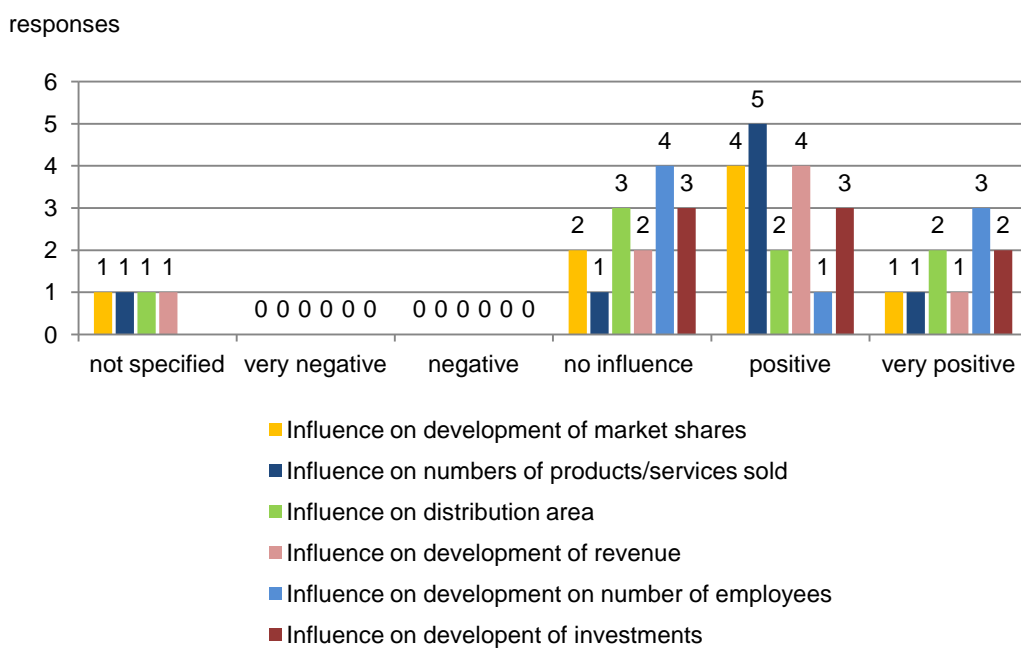


Figure 10: Influence on the development of key figures

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

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.

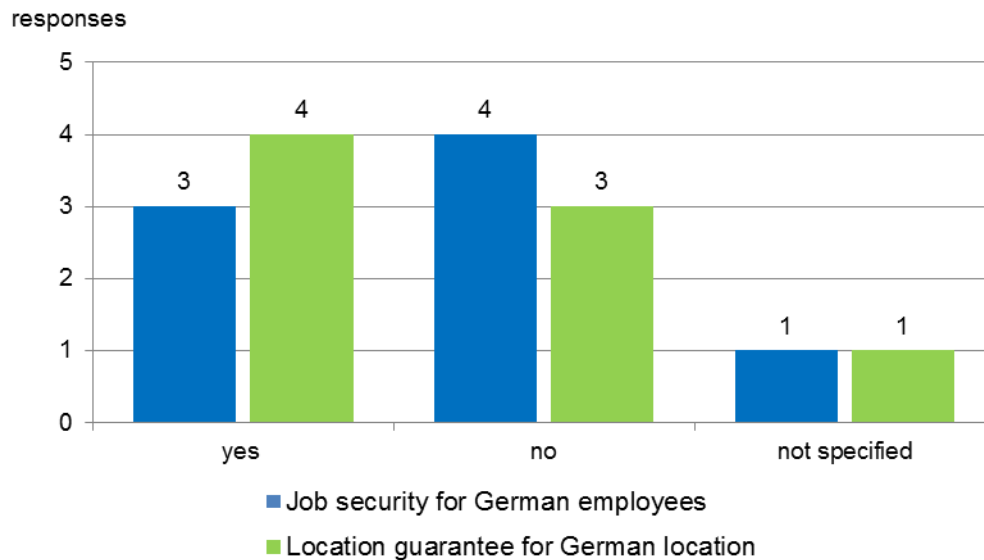


Figure 11: Job security for German employees & location guarantee for German location

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.

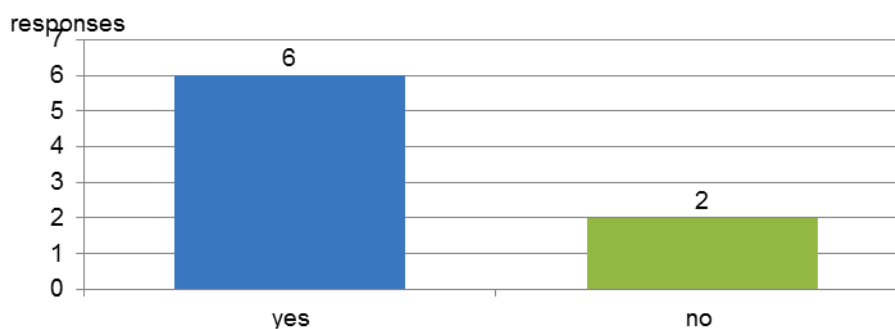


Figure 12: Achievement of synergy effects

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 two times).

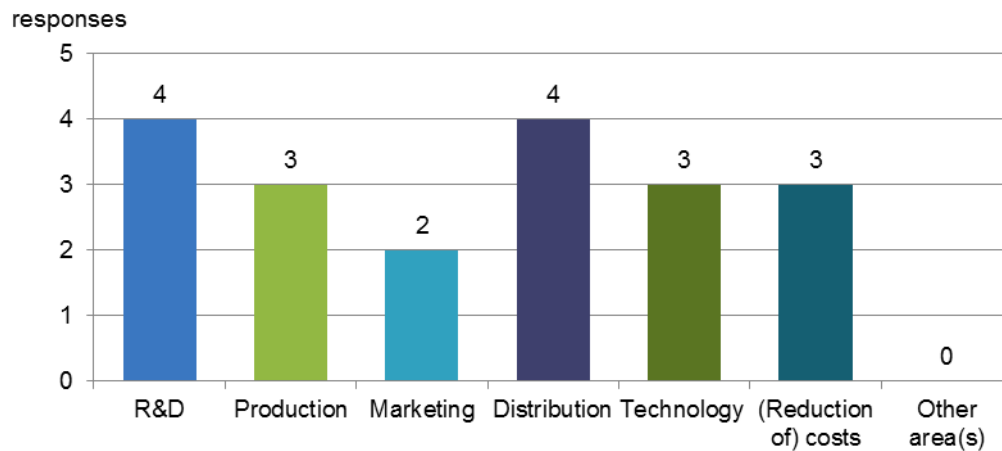


Figure 13: Areas of synergy effects

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.

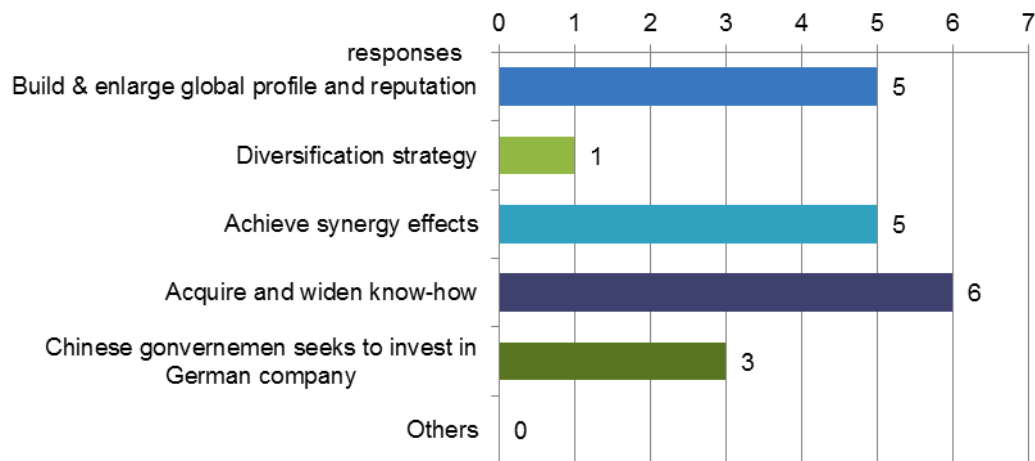


Figure 14: Strategy of Chinese investment

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

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 the 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.

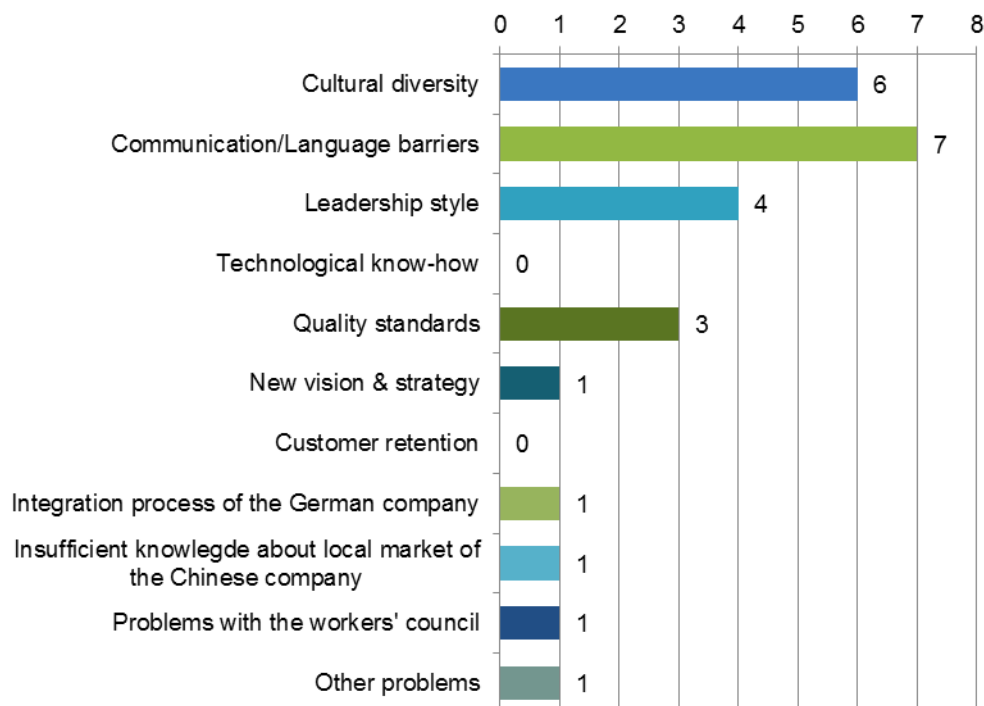


Figure 15: Summary of issues of German company with Chinese investor

The final assessment of the M&A transaction is illustrated in figure 16.

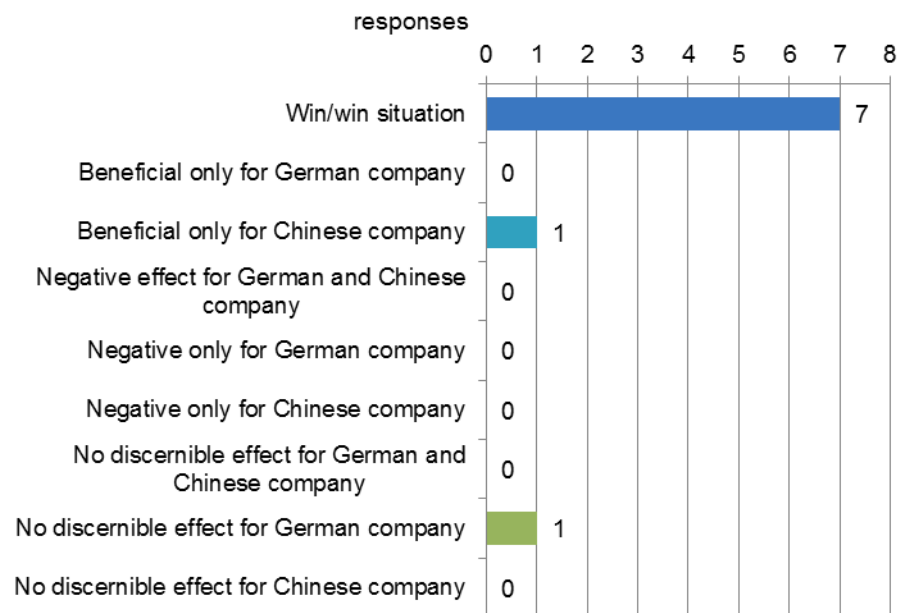


Figure 16: Final assessment of M&A transaction

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.

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

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 OFDI. 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 OFDIs 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.

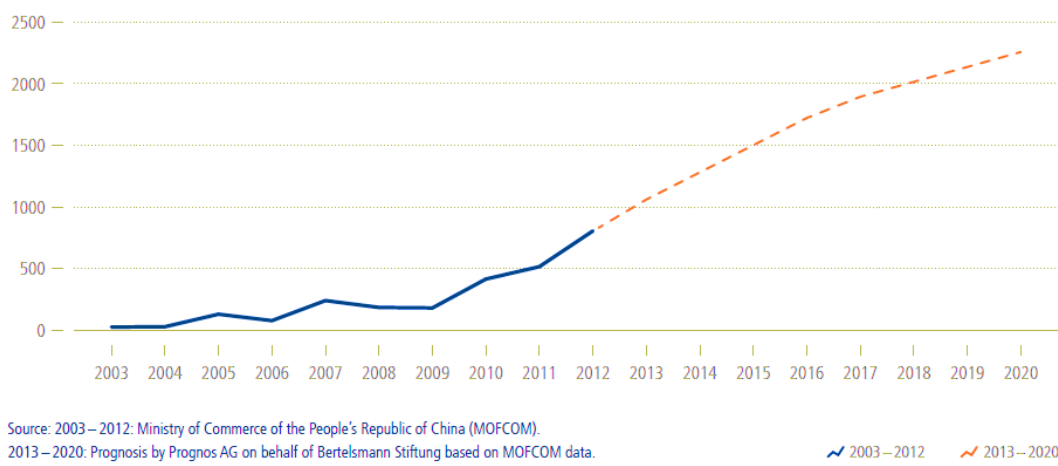


Figure 17: Projection of Chinese OFDI flows to Germany 2003 - 2020: (Jungbluth, 2014)

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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APPENDIX: SEMI-STRUCTURED QUESTIONNAIRE FINAL VERSION

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)

- | | |
|---|---|
| <input type="checkbox"/> Machinery | <input type="checkbox"/> Bank & Investment Property |
| <input type="checkbox"/> Automotive | <input type="checkbox"/> Building & Construction |
| <input type="checkbox"/> Energy | <input type="checkbox"/> Logistics & Transportation |
| <input type="checkbox"/> Chemistry | <input type="checkbox"/> Cloth |
| <input type="checkbox"/> Pharmaceutical | <input type="checkbox"/> Textile |
| <input type="checkbox"/> Electricity | |
| <input type="checkbox"/> Other sectors: | |

- 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?

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- Chinese State-Owned-Entity
 Chinese Private-Owned-Entity

7) In which sector does the Chinese company operate? (Multiple choice possible)

- | | |
|---|---|
| <input type="checkbox"/> Machinery | <input type="checkbox"/> Bank & Investment Property |
| <input type="checkbox"/> Automotive | <input type="checkbox"/> Building & Construction |
| <input type="checkbox"/> Energy | <input type="checkbox"/> Logistics & Transportation |
| <input type="checkbox"/> Chemistry | <input type="checkbox"/> Cloth |
| <input type="checkbox"/> Pharmaceutical | <input type="checkbox"/> Textile |
| <input type="checkbox"/> Electricity | |
| <input type="checkbox"/> Other sectors: | |
-

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:

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

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

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

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)

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)

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

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?

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

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 turbulent 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.

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.

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

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).

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	(%)
<i>Manufacturing</i>	60.28
<i>Services</i>	22.76
<i>Trade</i>	8.48
<i>Transport</i>	4.02
<i>Building and construction</i>	4.02
<i>Agriculture</i>	0.44
<i>Total</i>	100
Dimensional features	(%)
<i>Revenues between 5-10 mln €</i>	43.10
<i>Revenues between 10-20 mln €</i>	29.60
<i>Revenues between 20-50 mln €</i>	27.30
<i>Total</i>	100

Figure 1: characteristics of the sample

Research question

The main research question arised from an extensive analysis of the literature is the following:

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.

<i>Does the company adopt managerial accounting tools?</i>		
<i>Answer Options</i>	<i>Response Percent</i>	<i>Response Count</i>
<i>Yes</i>	84,8%	190
<i>No</i>	15,2%	34
<i>answered question</i>		224
<i>skipped question</i>		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.

<i>If no, why?</i>		
<i>Answer Options</i>	<i>Response Percent</i>	<i>Response Count</i>
<i>the company does not know these tools</i>	17,1%	6
<i>too much costs</i>	40,0%	14
<i>tools too much difficult to use</i>	14,3%	5
<i>these tools are not useful</i>	17,1%	6
<i>other answers</i>	17,1%	6
<i>answered question</i>		35
<i>skipped question</i>		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.

<i>Management control is handled</i>		
<i>Answer Options</i>	Response Percent	Response Count
<i>internally</i>	75,9%	154
<i>externally</i>	3,0%	6
<i>both</i>	21,2%	43
<i>answered question</i>		203
<i>skipped question</i>		106

Exhibit 3. Managerial Control internal/external

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.

<i>Reporting and Management Control timing</i>		
<i>Answer Options</i>	Response Percent	Response Count
<i>monthly</i>	60,2%	121
<i>two months</i>	2,0%	4
<i>quater</i>	20,9%	42
<i>four months</i>	3,0%	6
<i>semester</i>	2,5%	5
<i>yearly</i>	3,5%	7
<i>when there is a need</i>	8,0%	16
<i>answered question</i>		201
<i>skipped question</i>		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%).

<i>In your company the management control is used</i>		
<i>Answer Options</i>	<i>Response Percent</i>	<i>Response Count</i>
<i>to better draw up the financial statement</i>	43,0%	86
<i>define the selling price</i>	45,5%	91
<i>to have information to take better the decision</i>	89,5%	179
<i>to evaluate managers</i>	17,5%	35
<i>to define the future strategic goals</i>	55,0%	110
<i>other</i>	1,5%	3
<i>answered question</i>		200
<i>skipped question</i>		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.

<i>Is the management control used as a tool to make responsible the managers?</i>		
<i>Answer Options</i>	<i>Response Percent</i>	<i>Response Count</i>
<i>yes</i>	66,7%	130
<i>no</i>	33,3%	65
<i>answered question</i>		195
<i>skipped question</i>		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%).

<i>If yes, how the managers are made responsible</i>		
<i>Answer Options</i>	Response Percent	Response Count
<i>sanctions</i>	3,0%	4
<i>center results monitoration</i>	65,4%	87
<i>cost analysis for each center</i>	64,7%	86
<i>corrective actions in each center</i>	64,7%	86
<i>number of work hours</i>	18,0%	24
<i>other</i>	3,8%	5
<i>answered question</i>		133
<i>skipped question</i>		176

Exhibit 7. Managerial Control responsibilities

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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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.

The destinies 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 journals 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

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

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) legitimitative 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. 53), and scholars have proposed various ways of making academic studies more relevant. Van de Ven and Johnson (2006)

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 (Giarretta 2013), mainly because of differences in their objectives and interests

(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 to the main business organisations; although it will initially be restricted to the Veneto region, but the intention is to extend it to 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.

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

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.

<i>International general management highly ranked journals, without geographical characterization / focus on internationalization</i>	<i>Exclusion criteria</i>
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.

Journal title (Aims and Scope)	2013 5-Year IF	Publisher (Affiliation)	Started in	Issue s per year
Academy of Management Journal "All articles published in the <i>AMJ</i> 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. <i>BH</i> 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 <i>BH</i> 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 <i>JBR</i> applies theory developed from business research to actual business situations. (...) Published for executives, researchers and scholars alike, the <i>Journal</i> 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 " <i>JOM</i> , 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. <i>JOM</i> encourages new ideas or new perspectives on existing research"	8.027	Sage (Southern Management Association)	1975	7
Journal of Management Inquiry " <i>JMI</i> , peer-reviewed and published quarterly, is a leading journal for scholars and professionals in management, organizational behavior, strategy, and human resources. <i>JMI</i> 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 " <i>JMS</i> 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. <i>JMS</i> has an inclusive ethos and is open to a wide range of methodological approaches and philosophical underpinnings"	5.196	Wiley	1964	8
Management Science " <i>MS</i> 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	Informa	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

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"				
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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.

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.

Most cited	<ul style="list-style-type: none"> • Huselid, M.A. (1995), "The Impact of Human Resource Management Practices on Turnover, Productivity, and Corporate Financial Performance", <i>Academy of Management Journal</i>, Vol. 38 No. 3, pp. 635-672. • Barney, J. (1991), "Firm Resources and Sustained Competitive Advantage", <i>Journal of Management</i>, Vol. 17 No. 1, pp. 99-120.
Casual selection	<ul style="list-style-type: none"> • Evaristo, R. and Zaheer, S. (2014), "Making the Most of your Firm's Capabilities", <i>Business Horizons</i>, 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", <i>Journal of Business Research</i>, 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", <i>Journal of Management Inquiry</i>, 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", <i>Journal of Management Studies</i>, Vol. 51 No. 3, pp. 406-432. • Lim, N. and Ham, S.H. (2013), "Relationship Organization and Price Delegation: An Experimental Study", <i>Management Science</i>, Vol. 60 No. 3, pp. 586-605. • Schulz, T. and Voigt, G. (2014), "A Flexibly Structured Lot Sizing Heuristic for a Static Remanufacturing System", <i>Omega</i>, 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?	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
3. Is the article comprehensible?	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
4. Is the article/research useful (even only potentially)?	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
5. Is the article/research usable or might it have an impact on company management?	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 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 distortions 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

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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 300 practitioners • owners/managers • north-east italy • national databases (CCIAA, Federmanager, ALVEC,...)
E-MAIL CONTACTS	<ul style="list-style-type: none"> • 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)	<ul style="list-style-type: none"> • 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

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.

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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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

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).

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.

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.

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.

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 - 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.

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 find 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

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.

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.

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,

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 continuous 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.

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:

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 choose 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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ECOLOGICAL CARBON ACCOUNTING: A LITERATURE REVIEW

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ABSTRACT

The aim of paper: The objective of the present paper intends to pursue is to analyze the impact and scope of emission rights accounting changes, in relation to concession services in enterprises and service dealerships in Italy through a first organic literature survey on the subject.

Research methodology: The methodology of this research is theoretical and empirical (Yin, 1984, 1995, 2000), based on the systematization of theories with empirical verification of the evolution of business models analyzed, up to outline possible future situations. We propose to improve a theoretical framework on ecological carbon accounting and evolution in the Italian, European and international comparisons.

Expected results: This scientific investigation can be regarded as a starting point to develop new lines of research and future research on ecological carbon accounting, including through international comparisons.

Keywords: *IFRIC 3; emission right; green accounting; outsourcing arrangements; ecological carbon accounting; accounting regulation*

1. INTRODUCTION

The problem of climate change, caused by the emission of gas, has been an irrelevant issue until the last decade to many States and businesses. The Kyoto Protocol, introduced by Directive 2003/87/EC (transposed in Italy with Legislative Decree of April 4th, 2006, n. 216), established the need of a common law. The objective is to achieve a reduction of emissions of greenhouse gases. This might be accomplished by improving the technologies used in the production of energy and industrial processes, as well as with a more efficient use of energy. The Community system, called European Emission Trading System (EU ETS), follows a cap and trade scheme, which sets a maximum limit to the emissions of greenhouse gases produced at European level in a defined period.

Climate change and the issue of emission rights of greenhouse gases produce relevant effects on the financial performance of companies. Their effects fall on models of accounting and reporting that are called upon to detect them, report and monitor them. For this reason, companies can develop a process « (...) of translating ecological concerns into economic phenomena, which will then impact

upon accounting practice» (Bebbington and Larrinaga-González, 2008, p.698). The global carbon market is approximately equal to US \$ 141.9 billion. In 2010, about 84% of this amount was made up of emission rights in Europe (World Bank, 2011). The loud impact of emission rights in the current economy makes useful and interesting to see how these emission rights can be found in the detection systems of accounting and enterprise reporting. Their management requires and generates a set of data and information, even if not strictly economic and financial. It should monitor and detect them in two main systems of carbon accounting: the ecological and carbon financial accounting (Ascui and Lovell, 2011: 987-991; Quagli and Sostero, 2013; Tarquinio, 2012, 2013).

2. METHODOLOGY

The research methodology is both theoretical and empirical:

- Theoretical framework of ecological carbon accounting and its evolutionary path in the Italian, European and international context. Review of literature;
- Significant analysis of literature through a survey process according to the different applications of ecological carbon accounting and the interpretive positions by various organizations (World Bank, OECD, IASB, EFRAG, Eurostat, OIC, AVLP, Court of Auditors);

Theoretical/deductive (Yin, 1984, 1995): systematization of theories by means of an empirical verification of the evolution of the selected business models, up to an outline of future potential circumstances. Critical reflection and proposals.

3. THE REGULATION

The European Directive Emission Trading System is based on two pillars. The first is the authorization to emit greenhouse gases. This step occurs through a request to the competent national authority by the plant operators working in different sectors. The second consists on the emission rights that allow the holders to enter into the atmosphere – during the year of the reference share - a certain quantity of greenhouse gases, expressed in tonnes of carbon dioxide (Jacometti, 2010; Quagli, 2013). The early stages of its implementation have seen mainly the free allocation of emission rights, through a practice called "grandfathering". This mode was considered preferable to that of the auction of the rights, so called "auctioning", because considered more politically acceptable than the system of European Emission Trading System by businesses. To investigate the reason, you can just look at the advantage achieved by companies that receive rights free of charge with a market value, without having to buy them on the market (Woerdman et al., 2008). The choice of a free distribution of these emission rights is considered preferable to the auction because it allows the holders to input an equivalent ton of carbon dioxide during the reference year of the share. These rights can also be exchanged between the

participants, through the instrument of the "trading". The management model of emission allowances proposed by the European Union is a "cap-and-trade" scheme, judged from the literature and from some empirical studies as preferable both for reasons of efficiency and effectiveness (Egenhofer, 2007). Companies operating in the areas that are subject to the directive on greenhouse gases may decide to invest in low carbon technologies. This could be done to avoid entering pollutants in excess of the maximum allowed. It is clear, however, that the choice between purchasing emission allowances and investing in technologies to reduce emissions depends on the comparison between the "marginal abatement cost" and the market price of the same (Bode, 2006).

4. FINDING AN ALLOCATION FOR EMISSION RIGHTS

The effects that the Directive on European Emissions Trading System can generate on reductions in carbon dioxide emissions have been the subject of several studies (Gibson, 1996; Gagelmann and Frondel, 2005; Quagli 2013) of economic and management literature. Some of these highlight the possible disadvantages of using emission rights for pollution control, also emphasising the potential little effect produced on innovation (Gibson, 1996). Other studies, however, point out that it can generate an impact on innovation only in its first stage of adoption. Still others argues that innovation depends on different methods of allocation of emission rights. They point out that the free allocation of rights may generate a disincentive to innovation, which would instead be encouraged by the presence of "auctioned allowances" (Jung et al., 1996). Other works based on empirical analyses processed after the adoption of the Directive on European Emission Trading System, and the results of theoretical analysis, highlight how limited is their effect on research and development; on investment on a large scale and on the set of "corporate climate innovation activities" (Rogge et al., 2011; Hoffman, 2007; Egenhofer, 2007). The adoption of the Directive on European Emission Trading System can generate organizational and managerial effects on business as:

- the identification of a responsible for the Directive's implementation;
- the bureaucratic burden;
- the increased risk lied to the application of binding standards;
- the increased attention from investors and stakeholders;
- the adaptation of the processes of emission monitoring.

Managing the European Directive on Emission Trading System turns into opportunities for competitive advantage only to those companies that measure their emissions, assess the risks and opportunities related to their management and adjust their business requirements to reduce emissions (Porter and Kramer, 2006; Lash and Wellington, 2007). Physical-quantitative and qualitative data related to the emission rights can be found in the different detection models of ecological accounting

and reporting. Their goal is to collect the data, to process information relating to the management and to the environmental performance of the company, and to communicate them to external stakeholders through the preparation of periodic reports (Schaltegger e Burrit, 2000; Tarquinio, 2012, 2013). The projects for carbon disclosure gather information about the wide type of activities related to climate change, such as the measurement of emissions, the effects on strategy and governance, the risks and opportunities that are ahead for business and future prospects. Opposite, the models of carbon accounting are related to the quantification of emissions (Kolk, Levy, Pinkse 2008; Tarquinio, 2012, 2013).

5. ECOLOGICAL CARBON ACCOUNTING

Ecological carbon accounting deals with the non-financial measurement of emissions (Kolk et al., 2008; Quagli and Sostero, 2013, Tarquinio, 2012, 2013). Despite the economic-business literature has focused on the financial carbon accounting, the abovementioned proves to be essential to understand the management of possible effects on companies by climate change (Gibson, 1996; Bebbington and Larrinaga-González, 2008). The word "carbon accounting" is used with different meanings, so as to indicate that it has as many as are its operators. Even the carbon disclosure falls within its concept and focuses on estimation, calculation, validation and evaluation, on reporting, verification, on auditing, on monitoring of greenhouse gases for different purposes (Ascui and Lovell, 2011). The ecological carbon accounting is "an activity, carried out in a careful and formal way, aimed, more stringently, to the quantification of emissions that can be purchased or sold under a given set of legal rules and limits" (Kolk et al. 2008). The projects of ecological carbon disclosure propose, instead, to collect information on different activities related to climate change. Examples may be the measurement of emissions, their effects on strategy and governance, the risks and opportunities that are emerging in various businesses and future prospects. The main difficulties related to the construction and holding of the carbon accounting are related to the adoption of a correct and shared methodology. This, however, should allow the transformation of polluting activities in corresponding emissions (Kolk et al. 2008). Several authors, as Southworth, Cortese or Lowell, have shown how it is looking for a solution to the main problems of the models for carbon accounting and reporting, such as:

- the absence of shared standards;
- the lack of transparency;
- the difficult of comparability;

the high self-referentiality, in absence of an audit by an independent third party (Southworth, 2009; Ascui and Lovell, 2011).

6. ACCOUNTING TREATMENT OF EMISSION RIGHTS AND IFRIC 3

Some of the main issues on the accounting treatment of emission rights are:

- the balance sheet article in which the rights are to be collected;
- the "accounting" nature of emission rights;
- the disclosure in documents accompanying the balance sheet;
- the evaluation criteria to be taken (Tarquinio, 2013).

These rights, as activities, can be classified as controlled resources by the enterprise, arising from past events and from which future economic benefits are expected. These rights are obtained for free or purchased (past event) by companies subject to the Directive 87/2003 in order to run their business (future event). Activities are also detectable in the balance sheet because the economic benefits that flow to the enterprise from such activities are subject to valorisation. Emission rights have similar characteristics to inventories, financial instruments and intangible assets, although they cannot identify themselves completely with any of these items. In fact, they may be held for the company's own use, or be sold and considered as production costs. Unlike inventories, however, they are not tangible, nor of nature nor necessarily held for consumption (Wambsganss and Stanford, 1996). Emission rights may also be treated as financial instruments held to cover emissions in the current period or held for speculative purposes. This interpretation was judged inadequate by IFRIC stating: "even if the allowances possess characteristics that are generally present in financial assets rather than in intangible assets - for example, be treated in a ready market - they are not financial instruments" (MacKenzie, 2009; Cook, 2009). The rights held for trading are considered as assets held for sale, then configured as "merchandise-assets", and qualified as inventory to be entered and evaluated based on IAS 2. Conversely, the rights held in the exercise of its business activity are considered as intangible assets. This happens because they are identifiable non-monetary assets, without physical substance, from which are expected future economic benefits capable of economic assessment, evaluated in accordance with IAS 38 (De' Capitani di Vimercate, 2010). The evaluation criteria that can be employed range from fair value, current cost, to historical cost (Ferrero, 1977; Pizzo, 2000, p.86-106). From an economic and "environmental" point of view, it would be preferable to use the model at current values because: «only the use of a current market value allows the marginal costs of pollution prevention to be compared with the present marginal (opportunity) costs of keeping the permits» (Schaltegger e Burrit, 2000). The historical cost, however, is based on the valorisation of the rights on the amount paid at the time of acquisition. Initially, these are freely allocated to the companies and so no amount is paid and no accounting detection would be required. For this reason, the historical cost does not reflect the market value of the rights. The management would therefore incentivise the investments in emission reduction or sale of unused entitlements «because no recognition is given, in

the financial statements, to the allowances, to cost savings if pollution is reduced or to gains from trading pollution allowances» (Schaltegger e Burrit, 2000). If the rights are obtained for free, there is no need to do any detection. It generates, thus, a lack of information about those facts that "although they have not yet resulted in quantitative changes to the magnitudes of capital and income, they alter their quality in relation to the commitments contracted to third economies (or from these to the considered enterprise) or to the risk of more or less substantial monetary disbursements, related to particular classes of transactions already been received to a legal relevant phase" (Tessitore, 1987). Considering the free assignation of the rights, made by the national competent authority, the company agrees to make no more emissions than the obtained rights. It accepts, then, to return, at the agreed time, equal allowances to the emissions issued, that do not have trace in the accounting system (Tessitore, 1987). The problem related to the emission rights is not how to detect them, but how to realize that they rely on the principle that "the environment in which we live can be forced within the artificial construct of 'the market', while only when we begin to see the problem in ecological terms more than economic, the solution can become a bit 'lighter'" (Wambsganss e Sanford, 1996). As McNichols and Windsor highlight (2011) if we take so long to reach an international agreement on how to account the ecological environment, "the planet will be in danger". In response to the several criticisms received on the document IFRIC 3, IASB, after about six months of its issue, proceeded to its retire. The content of the interpretation, despite its elimination, is however, still today, a guide for their proper accounting. In support of the approach of IFRIC 3, it should also be noted, however, that the past event, which is invoked in the definition of liabilities, is configured with the production of emissions. From this comes the need for the company to "use resources" that "embody economic benefits", such as the skill of the rights to be used to cover bonds or for sale (Cook, 2009). In 2008, the FASB and the IASB have signed an agreement to develop a "comprehensive guidance". The work of the two standard setters have not produced useful results yet, but it seems that the publication of an International Financial Reporting Standard is hampered by conflicts between the principle-based approach of the IASB and the FASB's rules-based approach (Lovell et al., 2010; Lovell and MacKenzie, 2011). Among the most common approaches, the net liability approach is certainly one of the simplest. This, however, only detects, in presence of rights obtained free of charge, a liability for deficit allowances. As a result, it does not allow appreciating the overall position of the company regarding the rights and obligations arising from the management of emission allowances (Lovell et al., 2010). Even the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB), in 2003 had added to its agenda the Issue 3-14 whose objective was to provide a "comprehensive accounting model" for all participants to a program to reduce "cap and trade" emissions. In November 2003, the Task Force has removed the project from its agenda. There have been various explanations: the consequences that this issue would

have produced even in different areas than the "cap and trade", the effects of the budget generated by the proposed accounting treatment and the perception of a lack of "practical situations" and models of accounting useful to justify the efforts (Rogers, 2005). The lack of an internationally accepted and shared accounting standard in the field of detection of emission rights and the absence of a global disclosure framework do not favour the comparability and usefulness of financial business for potential users (Peeters, 2008).

7. COMPARISON BETWEEN OIC AND IASB

It would be appropriate to compare the rules established by the international accounting IASB and those determined by the system of the provisions of the Civil Code and the principles of the OIC. In the scope of application of the Directive of the European Emission Trading System you can find companies that prepare their financial statements in accordance with IAS / IFRS principles or enterprises that adopt the rules of the Civil Code, despite the fact that among these disciplines there are points of contact. The first "systematic" contributions on the issue of accounting and reporting of emission rights that have been developed in Italy have in fact referred to the international disposal (Mio, 2004; Tarquinio, 2012, 2013). The framework for the reduction of emissions of greenhouse gases aims to economically discourage the use of technologies that release these gases in the atmosphere. For these companies, the emission allowances represent a penalizing system that force them to buy the shares required to fulfil legal obligations, with the result of an increase in production costs (OIC 8, par. 20). These costs are recorded in the period in which the obligation arises, in proportion to the emissions of greenhouse gases produced during the same year. While preparing the balance sheet, the company notes a debt to the competent national authority, as a liability in the balance sheet, like a counter to the recognition of the relative cost accrued in the income statement. In case of emission allowances allocated free, the company highlights their release noting, in the memorandum accounts, the commitment to produce a quantity of emissions of greenhouse gases in proportion to the allowances received. This commitment is stated at market value of the shares at the time of assignment. Commitment is deleted from the memorandum accounts at the end of the year, in relation to the actual emissions of greenhouse gases (OIC 8, par. 21 ss). While preparing the financial statement, we note the costs relating to the obligation for the year. These are determined on the actual production of emissions of greenhouse gases, taking into account the emission allowances freely allocated, those purchased on the market and held in treasury. If there is a deficit, the company detects the residual charge to be sustained for shares issued but still not purchased, as a counter to the liability to the competent national authority. If, however, there is a surplus of allowances, the company recognizes, at the closing of the year, a prepaid expense in an amount equal to the costs to be

rectified, as pertaining to the following year (OIC 8, par. 30 ss). The trader companies do not conduct an industrial activity, whose issue is recognized or obligation to deliver emission allowances is arose. These, in fact, buy rights in order to sell them on the market (OIC 8, par. 47). Those still available, at the date of preparation of the financial statements, are recognized as inventory (OIC 8, par. 51). Under article n. 2427, paragraph 1 of the Civil Code the notes must provide the following information:

- the criteria applied in the assessments, value adjustments and in the conversion of the values originally not denominated in euro;
- the changes in receivables and payables from the previous year;
- the composition of "Prepayments and accrued income" and "Prepaid income" when their amount is appreciable;
- the commitments arising from off-balance sheet and the information on the composition and nature of these commitments and memorandum accounts;
- the nature and purpose of economic agreements arising from off-balance sheet, with indication of their effect equity, financial and economic, provided that the risks and benefits derived from them are significant.

Under article n. 2423, paragraph 3 of the Civil Code, considers complementary information to provide in the notes:

- the amount of emission allowances for the year and the market value of the same at the closing date of the financial statements;
- the amount of emission allowances allocated by the national competent authority and the surplus or deficit that occurred during the year;
- the effect of the change in the quantities and prices on the consistency of the final inventory of emission allowances;
- the existence of liens, covenants of title or any other charges attributable to emission allowances held (OIC 8, par. 69 – 70).

8. CONCLUSIONS

Because the main goal is to reduce emissions of greenhouse gases, it is possible to reach it through the improvement of the technologies used in the production of energy and industrial processes. Adopting the European Emission Trading System (EU ETS), which follows a cap and trade scheme, we are trying to limit emissions of greenhouse gases produced at European level in a specific time. This happens because the directive is based on two pillars. The first focuses on the authorization to emit greenhouse gases. Issuers are then obliged to apply for them to the relevant national authority. The second consists on the emission rights that allow the holders a maximum quantity of emission of

greenhouse gases, expressed in tonnes of carbon dioxide. In the interests of efficiency, therefore, the companies involved may decide to invest in low carbon technologies. This could be done to avoid entering pollutants in excess of the maximum allowed. It seems clear that the choice between purchasing emission allowances and investing in technologies to reduce emissions depends on the comparison between the "marginal abatement cost" and the market price of the same. The emission rights have various criticisms in their accounting treatment, especially with regard to their accounting nature; the balance sheet item in which to detect them; the disclosure in the documents accompanying the budget; the evaluation criteria to be taken. The International Accounting Standards Bureau (IASB) issued the IFRIC 3, but after only six months from its release, it has proceeded to its retire. However, its content is still an important guide for the treatment of emission rights. The lack of an accounting standard internationally accepted and shared in the field of detection of the emission rights and a global disclosure framework do not favour the comparability and usefulness of financial business for potential users.

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PUBLIC PRIVATE PARTNERSHIPS: SOME EVIDENCE FROM ITALY AND SPAIN IN THE TRANSPORT SECTOR

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ABSTRACT

The study proposes i) to achieve a consistent systematization of business and economic literature on Public Private Partnerships (PPPs) and Service Concession Arrangements (SCAs), in favour of the implementation and management of public assets granted to contractual entities falling within the discipline of IFRIC 12, before and after its adoption by scholars from different countries; ii) to individuate the relationship between accounting regulation under IFRIC 12 adoption and the business models of the companies adopting the reference guide; iii) to highlight in a systematic manner the weaknesses linked to the application of contractual PPPs and SCAs in Italy and Spain, detected by different scholars with regard to the adoption of IFRIC 12. The concluding reflections trace the interpretative features of IFRIC 12, useful and essential in order to avoid confusion in the activity of classification, measurement and recognition the PPP and Service Concession Arrangements and to visualize the business models involving public sector entities and private sector entities, such as outsourcing contracts, contracts of network capacity and take-or-pay agreements.

Keywords: *Public Private Partnership (PPP), Service Concession Agreement (SCA), public*

INTRODUCTION

The present paper aims:

- (i) to achieve a consistent systematization of business and economic literature on Public Private Partnerships (PPPs) and Service Concession Arrangements (SCAs), in favour of the implementation and management of public assets granted to contractual entities (Foldvary, 1994, 2010), falling within the discipline of IFRIC 12, before and after its adoption by scholars from different countries;
- (ii) to analyze and systematize the clarification provided by IFRIC 12 (Laghi, 2010; Campra, 2012: 2675), in relation to service concession for concession operators providing a public service or public work, especially in Italy and Spain, by means of a "literature survey " also evaluating the bibliometric analysis from other studies (Capellaro, Cuccurullo, Marsilio, 2009, 2011).

(iii) to determine to what extent IFRIC 12 helped to improve the order and to simplify the conceptual vagueness and chaos of definitions applying to the different forms of PPPs and SCAs. How much evidence does currently exist in the literature subsequent to the introduction of IFRIC 12. Will the analysis of the selected case studies proposed in this paper be able to get an answer to this question.

The accounting treatment to be applied to "Service Concession Arrangements" (SCA) and Public Private Partnerships (PPPs), under IFRIC 12 adoption, represents one of the most significant and emblematic cases where the principle of the prevalence of substance over form prevails (Meyer, 1976; Shere, 1986; Adwinckle, 1987, Di Pietra, 2010), as to highlight "typical light and shade" of a principle which is the basis of IAS/IFRS accounting model (Laghi, Giornetti, 2009; Laghi, 2010).

IFRIC 12 gives guidance on the accounting by operators for Service Concession Arrangements (SCAs) between a public sector body and a private sector entity, it does not specify the accounting by grantors, and provides for the concession assets, once verified some objective and subjective conditions (Laghi, 2010: 127), an alternative way to recognize them. In fact, infrastructure within the scope of this Interpretation shall not be recognised as property, plant and equipment of the operator because the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator. Infrastructure shall not be recognized as material activity (highways, water supply, etc.), but as a right to charge users (intangible asset); or a right to receive consideration from the grantor for utilities paid (financial assets); or a mixed method, forked method (Campra, 2011). The proposed systematization of business literature, even in the presence of a weak and not systemic defense of the doctrine on the subject, would make it possible:

- a.) to highlight in a systematic manner the weaknesses linked to the application of contractual PPPs and SCAs in Italy and Spain, detected by different scholars with regard to the adoption of IFRIC 12;
- b.) to provide a starting point for future researches, identifying elements that are capable to predict crisis or scandal (Di Pietra, McLeay, Ronen, 2010; Di Pietra, Gebhardt, McLeay, Ronen, 2012), even through subsequent international comparisons by scholars from different countries (stone, 2000, 2002; Ronen, 2008; Dean, Gebhardt, 2008).

2. RESEARCH OBJECTIVE

2.1 Research objectives

The study of the field first attempt to identify the central value present in the companies studied, consequently, the impact on relationship between accounting treatment under IFRIC 12 adoption and

the business models useful to identify the business model of the companies; its reflections on the structure of the companies and the presence of key features focused from IFRIC 12.

2.2 The propositions posited at the base of this study are the following:

Proposition one IFRIC 12 reinforces and facilitates the convergence between mission, governance, accountability – reflected positively on the governance of SMEs.

Proposition two Among the Italian experts who research PPP accounting treatment, define tenuous and weak presence of Italian corporate economic doctrine within the complex and multiform rules concerning Private Public Partnership (PPP) arrangements and concession services (SCA) falling within the application discipline offered by IFRIC 12, in spite of the robust and growing interest by scholars of international law and economists, particularly by scholars of public management in the international business economic doctrine.

First, this requires attention to be focused on the elements of the business literature on PPP.

In Italy, the development of the business literature on IFRIC 12, is being merely guaranteed by some authoritative scholars in addition to a large and growing group of professionals (Campra, Oricchio, Braja, Esposito, 2014; Campra, 2005, 2012; Laghi, 2009: 26; Giussani, 2009: 180; Delladio, Gaiani, Meneghetti, Pozzoli, 2011: 168), despite the strategic importance and interest expressed by international literature. Shown below are the research questions to which we will try to provide an examination in the next few paragraphs:

- Is it unclear the overview on business models and on the accounting treatment of concession services linked to PPP? If Yes, why?
- Is the theoretical approach by Italian scholars, on service concession, different from the theoretical approach by scholars from other countries? If Yes, why?
- Do literature-identified cases find a response in the empirical evidence offered by the selected case studies?

Second, this implies that after having identified the different approaches to the research theme, we will develop evolutionary profiles and any emerging experiential practice raised in literature. The systemization of literature, will detect the emerging practices in the business economic doctrine, in order to verify, in a context of growing scarcity of financial resources, the identification of new business models supporting public decision-makers in an increasingly complex financial framework, in an effort to combine the pursuit of economic balance under the respect of rules, needs and rights.

This systematization can be regarded as a starting point to develop new lines and future research on PPPs and SCAs falling within the application of IFRIC12, through international comparisons, analyzing business models and specific mostly.

The objective of the present paper is to analyze the impact and the scope of IFRIC 12 's innovative discipline on accounting , in reference to PPP, and in particular with regard to service concessions for concession operators offering public service or public works in Italy, through an organic systematization of the business literature on the topic (Laghi, 2010; Campra, 2012: 2675). The work is divided into four main sections. The first section describes the relevance of the research theme, its practical implications, the historical reconstruction and the regulatory framework referring to PPP in Italy. The second section is divided into two parts. The first part, highlights the phenomenological trend in Italian PPPs; the second part proposes a classification of literature on PPPs and the SCA (literature survey), before and after the adoption of IFRIC 12. The third section, considers the study that aims at locating an atypical case within the panel of listed Italian and Spanish companies adopting IFRIC 12, revealing pathological and discursive aspects in the application of IFRIC 12 and identifying forms of PPP that are, substantially, public. IFRIC 12, provides a set of guidelines on accounting by concessionaires for Service Concession Arrangements (SCA) between public authorities and private companies, it does not deal with the accounting by the grantor, and provides for the concession assets, once verified some objective and subjective conditions (Laghi, 2010: 127), an alternative way to recognize them. In fact, infrastructure within the scope of this Interpretation shall not be recognised as property, plant and equipment of the operator because the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator. Infrastructure shall not be recognized as material activity (highways, water supply, etc.), but as a right to charge users (intangible asset); or a right to receive consideration from the grantor for utilities paid (financial assets); or a mixed method, forked method (Campra, 2011). The fourth section describe the business model of the listed companies under the IFRIC 12 adoption., describing a pilote cases.

The proposed systematization of business literature, even in the presence of a weak and not systemic defense of the doctrine on the subject, would make it possible:

- a) to provide a systematization of economic literature on the complex and multi-faceted discipline of Public Private Partnership (PPP) and Service Concession Arrangements (SCA), falling within the interpretation of IFRIC 12;
- b) to highlight in a systematic manner the various problems of interpretation, legislation, regulation and application of the different types and different models of Public Private Partnership (PPP) and Service Concession Agreements (SCA), before and after the application of the interpretations offered by IFRIC 12;
- c) to offer subsequent international comparisons by scholars from different countries.

3 METHODOLOGY

3.1 Methodology

The following study was developed according to a qualitative approach and a methodology based on field case studies.

The fieldwork approach, as suggested in the literature (Adams 2002) facilitates the involvement of the researchers of business economics in the actual activities of the companies to study the processes and the organizational practices of PP accounting treatment on the business models (Del Baldo 2012).

This methodology consist of individuating the internal factors (business models, price cap, control, risk transfer, etc.) that, together to with the corporate characteristics (factor, size, business, etc.) and the general contextual factors (economic, political, cultural, etc.), explain the complexity of the nature and the elements of the economic sectors .

In general terms, the case method (Yin, 1994, 2003; Ferraris Franceschi, 1993), has the double aim of detailing the principle characteristics of the phenomena, and to both understand and analyze the dynamics of a given process. Under the methodological profile, the development of a case study represent a "strategy of research that is concentrated on the comprehension of the dynamics that characterize specific contexts"(Eisenhardt 1989, p. 532). The qualitative approaches and the forms of research in action (Fayolle 2004) allow for one to describe, explain and understand the entrepreneurial situations in their own dynamics and their own evolution.

Specifically, the case method continues a precious instrument of "capturing" the diverse manifestations of socially responsible government as well as of stakeholders relationship and to utilize the results both with a cognitive aim as well as with normative merit; such "cases for PPP or normative cases" can indicate best practices and to suggest criteria for further action (Craig 2003).

Specifically, the study was centred on the analysis of case studies(multiple case study approach) that belong to mature and emergent sectors.

Two clarifications are necessary regarding the firms selected, with specific reference to their seize, economic sectors activities, and geographic area in which they are found.

First, the companies are listed companies. Secondly, the companies are Italian and Spanish listed companies in transport sector.

The research methodology is both theoretical and empirical

- Theoretical framework of Service Concession Agreements and its evolutionary path in the Italian, European and international context. Review of literature;
- Significant analysis of literature through a survey process according to the different applications of IFRIC 12 and the interpretive positions by various organizations (World Bank, Oecd, the IASB, EFRAG, Eurostat, OIC, AVLPL, Court of Auditors);

- Analysis of development applicative models based on differentiating variables, highlighted by the empirical analysis (case method. Triangulation: sources, methods, results);
- Case studies (Yin, 1984, 1995), "testing", new areas of investigation.

The selected case studies, have in the first case, an atypical nature, representing an anomaly for survey and accounting treatment models of IFRIC 12 (financial model); in the second case, a typical scenery, a listed company which is representative of the whole sample of reference in the panel of analyzed and classified Italian and Spanish listed companies. The first case study, is characterized by being held in a majority of capital shares by the same public body which is the grantor of functional privatization (grant) for the realization of interests and works of public interest and utility. The control upon the concessionaire is held by the grantor that corresponds to the majority shareholder of the concessionaire providing public assets or services. The selected methodological support provides an answer to the following questions: does IFRIC 12 apply in the case the private entity is essentially a public body and coincident with the grantor? Would it be a public-private partnership or, would it be appropriate to consider Public Public Partnership? And does IFRIC 12 apply?

Theoretical/deductive (Yin, 1984, 1995): systematization of theories by means of an empirical verification of the evolution of the selected business models, up to an outline of future potential circumstances. Critical reflection and proposals.

4. PPP, PF, SCA AND IFRIC 12.

4.1 The prevalence of the legal approach: a classification.

4.2 PPP (Public Private Partnership)

The Public-Private Partnership (PPP) refers to contract forms, based on the cooperation between a public sector entity (grantor) and a private sector entity (operator) through which their respective expertise and resources are integrated in order to perform public works or services and related management services.

A PPP process- wholly or partly - embraces the following activities:

- design;
- funding;
- construction or renovation;
- management;
- maintenance.

4.3 SCA - Service Concession Arrangements

The absence of a precise definition of service concession both in national and EU legislation was filled by Community directives no. 17 and no. 18 of 2004. They both defined the service concession as "a contract that has the same characteristics of a public service contract, except for the fact that the consideration received or receivable by the operator providing public services solely consists in the right to operate the service or in this right together with payment.

Moreover, apart from the merits of defining the provision of services, the above mentioned directives exclude service concession within the Community framework. In fact, article 18 of Directive 17/2004 states that its rules do not apply to work and service concessions as well as article 17 of Directive 18/2004 provides that, without prejudice to the application of the provisions referred to article 3, this Directive shall not apply to service concessions. The above definition of service concession was drawn from the Public Contract Code (art. 3, c. 12), which also provides, at article 30 ("service concessions") the discipline of the institution for ordinary sectors and at article 216 ("work and service concessions")-containing a reference to article 30 – the discipline for special sectors.

This definition is based on the one referring to public procurement contract: a notion concerning the concession contract is not provided as considered necessary within the European Community. However the definition solves the thorny question concerning the delineation of service contract institution, in relation to the contiguous notion of service concession and similar figures, that have been engaging both internal and European doctrine and jurisprudence, for many years.

5. THEORY-ELABORATION OF THE REFERENCE THEORETICAL FRAMEWORK

5.1 PPP, SCA and IFRIC 12: A literature survey ("Before" and "After" the application of IFRIC 12)

In some countries, infrastructure for services and public works (stadiums, kindergartens, roads, ports, airports, hospitals, cemeteries, prisons, parking lots, telecommunications networks, water distribution systems, networks for the supply of energy), is created, managed and controlled directly by the public sector taking care of the maintenance over time through direct financial allocations (Campra, Oricchio, Braja, Esposito, 2015; Campra, 2005, 2012; Hall, 2008).

However, subsequent to the introduction of new stringent budgetary constraints, the respect of general government budgetary balances (Stability Pact in EU countries), and the increasing scarcity of resources, worsened by the financial crisis, in some countries, over the past twenty years, (Borgonovi, 2005, 2006, 2009; Amatucci, Vecchi 2009, 2011), governments have introduced (as shown in the following table), public-private partnership (PPP), through contractual service arrangements (Robinson 2001; Hawksworth, 2001), in order to attract private sector participation in the development, financing, operation and maintenance of works and utilities (Laghi, 2010), even to keep

their rising debt under control (Broadbent, 2001; (Broadbent, 2001; Broadbent, Laughlin, 1999, 2002, 2004; Ricci, 2005; Eurostat, 2004).

The agreements regulating the different concession services in the recurring form of PPP (Parker, Gould, 1999; Pisani, 2001; Grimsey, Lewis, 2005; Guthrie, 2005), fall within the scope of IFRIC 12 (Campra, 2012: 2675) and the different accounting treatment of the operator's rights on infrastructure, depending on the different tasks of control and regulation to be provided to the public on behalf of the public sector in accordance with the terms specified in the contract for a specified period of time (Hall, 2008), and on the identification and detection of the party on whom demand risk stays (Campra, Faraudello, Malfatti, Passarani, 2011),

The accounting treatment of "Service Concession Arrangements" (SCA), ruled by IFRIC 12, represents one of the most significant and emblematic cases of the application of the principle of the prevalence of substance over form (Meyer, 1976; Shere, 1986; Adwinckle, 1987), to highlight "typical light and shade" of a principle which is the basis of IAS/IFRS accounting model (Laghi, Giornetti, 2009; Laghi, 2010). It is a significant case because it falls within the definition perimeter of the concession services (SCA), all forms of public-private partnership and Project financing, particularly focused and copiously considered and debated in the business literature over the past fifteen years (Vecchi, Amatucci, 2008).

In the following paragraphs, business literature on different forms of PPP and SCA before and after the adoption of IFRIC 12 will be separately analyzed and reclassified, in order to determine the contribution that IFRIC 12 interpretation produced in favour of the improvement of the conceptual vagueness characterizing such instruments even under an increasing normative isomorphism (DiMaggio, Powell, 1983, 1991; Sullivan, Skelcher, 2002; Dickinson, Glasby, 2010).

5.2 PPP, SCA: The theoretical Framework "before" the application of IFRIC 12

"Service Concession Arrangements" (SCAs) refer to those forms of PPP projects through which a public sector entity (grantor), entrusts to a private sector entity (operator), the concession to construct or to operate a public work or infrastructure, in order to perform a public service in the public interest, upon consideration, and resulting in deep functional privatization processes (Pivato, 1958; Amaduzzi, 1978: 227; Caramiello, 1988: 546; De Robertis, 1992; Guatri, 1992: 498; Kunz, 1997; Perfolini, 1999; Dell'Atti, 2001; Rijna, 2010). The operator's consideration may consist in a right to charge users of the public services (intangible asset), or in an unconditional contractual right to receive cash or another financial asset (financial asset) from or at the direction of the grantor for the construction services (Campra, 2011; Laghi, 2010). In the national scenario, business and economic literature on the topics of the PPP and the SCA remains weak and non-systemic, there is small evidence of PPPs and SCA

application. This is partly compensated by students of industrial engineering who have tried to classify standards, dimensions, variables and recurring characteristics of a number of PPP arrangements (Carbonara, Costantino, Pellegrino, Sciancalepore, 2012), reclassified on the basis of the legislation on PPPs and of their division into contractual and institutional PPPs.

These configurations are reproduced in various search models identified as distinct disciplinary sectors, even divided within the same sector (SECS P07), similarly to the several pieces of a puzzle to be recomposed, into fractionated subsets of specific interest depending on scholars specializations and interests (public companies and private companies), delivering to professionals and operators a confuse interpretation without any systemic and comprehensive vision of criticality, models and configurations assumed over time.

5.3 PPP, SCA: Theoretical Framework "after" IFRIC 12 application

The discipline of IFRIC 12 is essential and also constitutes an "emblematic" case, even if it is partial and partially satisfactory, for the application of the principle of prevalence of the substance over form (Laghi, 2010), since all aspects determining the accounting treatment of "service concession arrangements" (SCA), starting from the same definition of the scope of IFRIC 12, ending with the accounting models to be used for the purpose from the representation of the effects of SCA are "filled" by the continuous research of the representation in the "economic substance" (Heald, Georgiou, 2011), regardless of the legal form they are regulated the transfer of risk and responsibility for the realisation of the works or services under concession and the management of public services or in the public interest. The continuous research of the economic substance of the SCA, becomes a crucial condition for achieving the reliability of financial information and to avoid errors and distortions in relevant economic and financial communications.

Support and expected effects of IFRIC 12, published on November 2006, are also found in literature (Laghi, 2010), and are linked to the need to frame, simplify and clarify the complexity of the accounting treatments relating to different forms of PPP and ASC, caused by a stress between orientations and operational practices and legislation hypertrophy (Capaldo, 1998; Pinto, 1996; Pisani, 2002; Laghi, 2010), as well as to avoid any confusion in the scope of other international accounting standards. The Regulation (CE) n°. 254/2009, regarding the SCA and IFRIC 12 interpretation, places in the introduction to the same interpretation, references to the basis of the number and complexity of the different principles:

<i>IFRIC 12 Interpretation – Service Concession Arrangements. References</i>
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IFRS 1, IFRS 7, IAS 8, IAS 11, IAS 16, IAS 17 e IFRIC 4, IAS 18, IAS 20, IAS 23, IAS 32, IAS 36, IAS 37, IAS 38, IAS 39

IFRIC 12, provides guidance on the accounting by operators for public-to-private service concession arrangements, it does not deal with the accounting by grantors, and provides for the concession assets, once verified some objective and subjective conditions (Laghi, 2010: 127), an alternative recognition according to which infrastructure shall not be recognised as a material activity (highways, water supply, etc.), but as a right to charge users of the public service (intangible assets); or a right to receive a payment (Laghi, 2010), namely a consideration by the grantor for the utilities paid (financial assets); or through a mixed or forked method (Campra, 2012). IFRIC 12 then provides an analysis to verify, for subsequent grades, which types of concession come or do not come under its scope, and when falling within the discipline of IFRIC 12, the application of Financial Asset Model or the Intangible Asset Model. The path is defined below.

Few years after the adoption of IFRIC 12 and the previous long, tiring, unclear (Frab, 2007; Nobes, 2008: 183; Martiniello, 2011) and controversial (Kaufmann, 2006), endorsement on accounting treatment of concessions (European Commission, 2008: 15; Campra, 2012), literature, especially international literature paid more attention, (Paris, Cruz, Rodriguez, Brugni, 2011), to the outline of the different evolutionary developments, applications and interpretation of IFRIC 12, in different countries (Zeff, Nobes, 2010).

International literature has carefully investigated the application of IFRIC 12, and in some EU countries (Bing L., Akintoye A., Edwards, P. J., Hardcastle C., 2005, 2007; Treasury, 2008; McQuaid, Scherrer, 2010; Heald, Georgiou, 2010; Camfferman, Zeff, 2011; Zeff, Nobes, 2010; Heald, 2011), such as Spain (Acerete, Shaoul, Stafford, 2009; Rangel, Valende, 2009; Rangel, Vassallo, Galende, 2010), France (Schevin, 2001; Marty, 2011; Dupas, Marty, Voisin, 2011), Denmark (Petersen, 2010), Greece (Rouboutsos, Anagnostoupoulos, 2010), UK (Bringhlie, 2005; Li, Akintoye, Edwards, Hardcastle, 2005, 2007); and other non-EU countries, such as Brazil in particular (Cruz, Silva, Rodrigues, 2009; Lima, 2010; Martins, Andrade, 2009, 2010; Costa, 2010; Paris, Rodrigues, Cruz, Brugni, 2011), Japan (Uozumi, 2007) or Australia (Raisbeck, Duffield, Xu, 2010) offering comparative analysis with applications in different countries.

These comparative analyses highlighted application problems and confusion in the various systems of service agreements involving public authority and private entities, in relation to creative accounting treatments asymmetries (Martiniello, 2011), produced by (immaterial and financial) unusual methods, as well as by the responsibility of the entities or parties affected by the demand risk (Campra, 2012: 2705), also through the different models of accountability adopted (Ricci, 2005, 2010).

The theoretical framework that outlines, making it useful to deepen the evolutionary trends in the application of IFRIC 12 in different countries, in the light also of new paradigms that are setting up new conceptual-logical cognitive maps in re-thinking the common goods, contractual communities (Foldvary, 2010), the collective property; the allocation and risk management; report systems and (in) dependency between ownership and control (Flick, Cearns, 2008; Ellwood, Lacalle, 2012), and control over significant residual interest of infrastructure (Campra, 2012: 2678).

In Italy, business literature on IFRIC 12, is solely developed by some scholars and a large and growing group of professionals (Campra, Oricchio, Braja, Esposito, 2014; Campra, 2005, 2012; Laghi, 2009: 26; Giussani, 2009: 180; Delladio, Gaiani, Meneghetti, Pozzoli, 2011: 168; Giovando, 2012: 200; Rotondaro, Zambon, 2010: 2010; Leo, 2011: 164; Brescia, Muraca, 2011: 381; Cordazzo, 2008: 40; Bauer, 2007: 327), notwithstanding the strategic importance and interest manifested by the international literature on the one hand, and the continuing lack of an overview on the accounting treatment of the PPP concession services by local authorities (Ricci, 2005, 2007, 2009).

The interpretation of IFRIC 12 also allows researchers to avoid confusion in the classification, measurement, and detection of SCAs involving public and private entities such as outsourcing contracts, contracts of network capacity, take-or-pay contracts, ruled instead by IFRIC 4 (Treasury, 2008; Heald, Georgiou, 2010. Laghi, 2010: 6); or even errors in classification of PPP, where the prevalence of economic substance is entirely public, as in the case study, and then can be traced in the discipline of IAS 20.

Among other positive aspects of IFRIC 12, there is the attempt to improve the budgetary information for investors, clarifying the nature and risks of the ASC, object recognition and measurement.

However, several authors in literature measure that the centrality of complexity is also interpretative effect and not only because of the demands of public finance (Laghi, 2010).

The registration or cancellation of a budget, are sometimes connected and based on the model of "risk/benefit" transfer, sometimes related to the prevalence of the "control" on the activity (Laghi, 2010; Martiniello, 2011; Head, Georgiou, 2011), which leads to an absolute complexity of interpretation. Complexity that recurs like a mirror (Head, Georgiou, 2011), evaluating the adoption of IFRIC 12 compared to evaluation based on the model of "control" (control model), or to risk/benefit model "(risk and renard model), or the new information provided by institutions such as the UTFP sustaining principle-related costs for implementation and management (Martiniello, 2011) and not dependent on budgetary implications of local and more generally on public finances (Internal Stability Pact).

6 IFRIC 12 – ACCOUNTING MODEL

6.1 The Italian experience: An empirical analysis.

The adopted accounting model

According to the provisions of IFRIC 12, concession infrastructure shall not be recognised as property, plant and equipment of the operator because the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator.

The operator has access to operate the infrastructure to provide the public service on behalf of the grantor in accordance with the terms specified in the contract (Campra, 2012). Infrastructures shall be recognised according to the following items:

- Model of financial activity;
- The intangible asset model;
- Mixed model.

The prerequisite for the application of the model of the financial asset is the operator's right to receive cash flows from the grantor contractually guaranteed for construction services, irrespective of actual use of the infrastructure.

With reference to the intangible asset model grantor, in return for construction services and infrastructure improvement, acquires the right to charge users of the infrastructure and, therefore, the concessionaire's cash flows do not result from the grantor, but are related to the actual use of the infrastructure by users so that demand risk is supported by the concessionaire.

Finally, there are some cases where the concession agreement envisages the chance for the concessionaire to be paid for its construction services in part by a financial asset and partially by an intangible asset. In such cases the accounting model is mixed and the two components of the agreement should be separated, in particular the distinction of the financial activity fraction from the intangible asset fraction (Campra, 2012).

7 A COMPARISON BETWEEN ITALY AND SPAIN IN THE SECTOR OF RAIL TRANSPORT

7.1 Financial Reporting and Business Models: the case studies

7.1.1 An atypical Case Study: Ferrovie Nord Milan Group.

Ferrovie Nord Milan Group is the leading integrated group in the field of transport and mobility in Lombardy as well as the most important private Italian operator in the industry. It aims to meet the needs of communication and mobility of people and businesses, and it is developing in order to meet the challenges arising from the new requirements to "move" people, goods and information, expanding and diversifying their activities on other markets of ICT, energy and sustainable mobility. The Ferrovie Nord Milan is a holding company listed on the stock exchange and serves as a strategic

and operational management and coordination entity for all subsidiaries. Lombardy Region is the reference shareholder, owning 57.57% of the shares.

Ferrovie Nord Milano S.p.A is a joint stock company. It is a holding company that provides for:

- an executive role, coordinating strategies and operations of the subsidiaries, the most important of which are active in the rail sector;
- an administrative role, providing the functions and support services for conducting the management that is typical of the subsidiaries. The Ferrovie Nord Milan Group represents the national most important railway company following the Ferrovie dello Stato and operates mainly in Ticino and Lombardia, Piemonte.

7.1.2 Business Model

The company is listed on the Milan Stock Exchange. The share capital is held for 57.57% from the Lombardy region, for the 14.5% by the Ferrovie dello Stato, Aurelia S.p.A 3.078%. . The remaining free float is in the hands of a shareholding spread between individuals.

On January 2010, subsequent to the sale of a further share of 11%, DB Schenker Rail Italy S.r.l became the majority shareholder of Nord Cargo S.r.l. The Ferrovie Nord Milan Group continues to hold a share of 40%. FerrovieNord SpA is the group company that manages the network of regional property entrusted to railways in concession to the group. It was established in 1985, in the context of the transformation of the company³ Ferrovie Nord Milan Spa into a holding company. It was named Ferrovie Nord Milan and its purpose was the management and maintenance of the rail network and transport services. In 2010 the Ferrovie Nord Milan Group continued the path of refocusing on its core business, represented by the local public transport, consolidating the experiment started on August 4, 2009 with the establishment of the new company Trenitalia-LeNORD, exclusively dedicated to regional rail. A project carried out by Regione Lombardia, FNM and Trenitalia S.p.A. with the objective of providing local citizens with an appropriate response to the increasingly growing demand for local public transport. The positive results achieved by this new company, both in terms of service quality and profits, have shown the effectiveness of this new management model and set the stage to go to the next step: on May 3, 2011 the company Trenitalia-LeNORD became Trenord, with a significant increase in capital even more relevant thanks to the merger of LeNORD and conferral of Lombardy Regional Division of Trenitalia. The new company intends to pursue the business model that has characterized the recent industrial history of FNM, budgets and profit reinvestment in innovation, in order to ensure a service more and more at the level of the best European standards. TRENORD opens a new age for regional rail transport and for the whole group which will be certainly defining new goals and new strategies. It's a challenge that the company is ready to harvest, strong of its 130 year history serving the Lombard territory and the capital strength that the company

has been able to build, step by step, opening itself to the diversification and exploration of new market areas, but always loyal to its original mission. The "contributions for financed investments " and its " financed investment costs ", found in application of IFRIC 12, amount to 103.459 million euros.

Important events that occurred after September 30, 2012. On 1 October was signed the new contract for the management of local public rail transport between Trenord and Regione Lombardia into effect on January 1, 2012 and deadline on December 31, 2014.

The shareholders meeting of Trenord, held on October 26, 2012, decided to amend article 3 of the bylaw, introducing the following second paragraph "the company may also take equity in the company Gruppo Torinese Trasporti S.p.A.". The Assembly then decided to authorize, pursuant to article 10, paragraph 5, c) of the Statute, a "preliminary and non-binding" and therefore revocable at any time, for the purchase of participation equal to 49% in the social capital of Gruppo Torinese Trasporti S.p.A. .

8. SPANISH CONTEXT

In Spain, the major push for using systems of cooperation with the private sector for the execution of projects which have generally been carried out by the government has been put into practice by the autonomous communities (state government), and to a lesser degree by the local government. Normally, the main objective for making use of formulas permitting PPP's type contracts is that different administrations may supply quality public services without the high infrastructures cost falling on the government deficit and debt, by means of financing techniques and private management control. The restrictions in our country of the General Law for Budgetary Stability, as well as the compliance with the rules of the Excessive Deficit Protocol (EDP) in the EU, are putting pressure on the government to find alternate resources for the development of infrastructures for collective use.

8.1 The Public-Private Partnerships contracts in the Spanish legal framework

The concept of PPP does not exist in Spanish legislation and the same is true in the majority of the EU States, although the different legal regulations do not exclude its possibility. Concerning this, Eurostat considers that most countries are expecting to adapt their legal systems in accordance with the requirements of these new systems of cooperation.

The common Spanish legal framework which regulates all contractual relations between public units and private units is further developed in the Revised Text of the Law of Contracts of the Public Administrations which includes the Law 13/2003 regulating the contracts awarding public works.

Therefore, the analysis of contracts (PCAP and PPTTE contracts) by the Work Group (INE, BE and IGAE) is carried out taking into account the legal scope of said legal framework and the underlying economic reality which imposes the application of national accounting criteria.

8.2 Construction risk evaluation

The Spanish legislation does not prevent the transfer of construction risk to the private partner: “the construction will be carried out at the grantee’s risk”.

Confirm that the contract does not provide for payments from the government to the private partner until the construction is ended and the rendering of services linked to the asset has begun. Check the existence of penalties due to non-compliance with the contractual conditions relative to the construction: delivery times, technical standards, etc.

Verify that possible increase of construction costs, as compared with the initial costs forecast, does not translate into higher costs than the services supplied by the private partner, except cases of force majeure or by actions directly imputable to the administration.

8.3 PPP in Spanish Rail Transport: The case of Ferrovial

8.3.1 The Spanish experience with PPP

According with Allard and Trabant (2008), Public-Private Partnerships (PPP), is a “marriage” between public- and private-sector activity, a sort of a “third way to optimize the use of public funds and boost the quality of services traditionally provided by the public sector” (Allard, Trabant, 2007). Public-private partnerships (PPPs) have been extensively used in Spain for the procurement of light rail systems (Carpintèro, Barcham, 2012; Carpintèro, Petersen, 2014).

In Europe, Spain is not a newcomer to PPP when projects involving agreement and cooperation between the public and private sectors began to spread in size and variety at the end of the 1990s. “There are records of privately constructed highways in Spain in the 19th century, and former dictator Francisco Franco used a simple form of BOT successfully in the 1970s to construct numerous toll highways. It appeared natural for Spain to explore the PPP option under the conservative government that came to office in 1996, whose platform focused on deregulating and privatizing the economy. The first PPP projects in Spain in the 1990s were in the traditional transport sector, particularly highways. Budgetary constraints, as well as the belief that the private sector can in some circumstances be more cost-efficient than the public sector, mean that governments worldwide are using public-private partnerships (PPPs) to construct and operate infrastructure. Innovation is an important factor that can enable the private sector to provide more cost-efficient services than the public sector” (Spackman, 2002; Rangel, Galende, 2010), with particular attention to the risk transfer

(Vassallo, Ortega, 2012). Spain has a long history of using the private sector to help build and operate public infrastructure, particularly roads (Baeza, Vassallo, 2010), and toll motorway concessions (Vassallo, Sánchez- Solino, 2007). One of the most important listed companies in the Spanish experience of PPP in Transport Sector (with particular attention to roadway and railway transport) is Ferrovial SA, better explained in the next paragraph.

8.3.2 PPP in Spanish Rail Transport: The case of Ferrovial

Ferrovial, S.A. previously Grupo Ferrovial, is a Spanish multinational company involved in the design, construction, financing, operation (DBFO) and maintenance of transport, urban and services infrastructure. It is a publicly traded company and is part of the IBEX 35 market value-weighted stock market index. The company is headquartered in Madrid.

The company was founded by Rafael del Pino y Moreno in 1952 as a railroad construction company called Ferrovial, from the Spanish word for "railroad". Ferrovial acquired 98.27% of Agromán, another leading Spanish contractor in June 1995 and then set up Cintra in February 1998. In June 2002, Ferrovial acquired the concession for Sydney airport, the largest airport in Australia.

The company then expanded in the United Kingdom acquiring Amey plc, a British contractor and major investor in Tube Lines, one of the two public-private partnership companies responsible for the maintenance of London Underground's lines and rolling stock in April 2003.

Ferrovial is the world's leading private investor in transportation infrastructures, with a workforce of approximately 57,000 employees and operations in more than 25 countries. The Company manages key assets such as Canada's 407 ETR highway and London's Heathrow Airport. It also provides municipal services to more than 800 cities and towns in Spain and to the millions who use the Madrid metro system, and the hundreds of kilometers of streets and highways where Amey performs maintenance services in the United Kingdom. Ferrovial is listed in the Madrid Stock Exchange and is included in the prestigious Dow Jones Sustainability, FTSE4Good and Ethibel indices. Ferrovial's activities focus on four business lines.

Spanish infrastructure management company Ferrovial offers a range of services, including airport, tollroad, and parking construction, and specialized services for developing, financing, maintaining and managing transport, urban and services infrastructure. With operations in 49 countries and a workforce of 107,000 employees, Ferrovial's business model is focused on end-to-end infrastructure management, design, construction, financing, operation and maintenance.

8.3.3 Ferrovial under IFRIC 12 adoption

In addition to the description of Ferrovial's activities, the projects of PPP are conducted mainly in the Toll Roads and Services areas under long-term arrangements in which the concession operator, in which the Group generally has interest together with other partners, finances the construction or upgrade of public infrastructure and which fall within the scope of application of IFRIC 12, Service Concession Arrangements.

8.3.4 Amortisation and depreciation methods: IFRIC 12 - Intangible asset model

All initial investments relating to the infrastructure that is subsequently returned to the grantor, including expropriation costs and borrowing costs capitalised during construction, are amortised on the basis of the expected pattern of consumption applicable in each case (e.g., forecast vehicle numbers in the case of toll roads) over the term of the concession.

The investments contractually agreed on at the start of the concession on a final and irrevocable basis to be made at a later date during the term of the concession, and provided they are not investments made to upgrade infrastructure, are considered to be initial investments. For investments of this nature, an asset and an initial provision are recognised for the present value of the future investment, applying a discount rate to calculate the present value that is equal to the cost of the borrowings associated with the project. The asset is amortised based on the pattern of consumption over the entire term of the concession and the provision is increased by the related interest cost during the period until the investment is made. Where a payment is made to the grantor to obtain the right to operate the concession, this amount is also amortised based on the pattern of consumption over the concession term.

A provision is recognised for replacement investments, which must have been set up in full by the time the investment becomes operational. The provision is recognised on the basis of the pattern of consumption over the period in which the obligation arises, on a time proportion basis. Infrastructure upgrade investments are those that increase the infrastructure's capacity to generate revenue or reduce its costs. In the case of investments that will be recovered over the concession term, since the upgrade investments increase the capacity of the infrastructure, they are treated as an extension of the right granted and, therefore, they are recognised in the consolidated statement of financial position when they come into service. They are amortised as from the date on which they come into service based on the difference in the pattern of consumption arising from the increase in capacity. However, if, on the basis of the terms and conditions of the concession, these investments will not be offset by the possibility of obtaining increased revenue from the date on which they are made, a provision will be recognised for the best estimate of the present value of the cash outflow required to settle the obligations related to the investment that will not be offset by the possibility of obtaining increased

revenue from the date on which the investments are made. The balancing item is a higher acquisition cost of the intangible asset. In the case of the proportional part of the upgrade or increase in capacity that is expected to be recovered through the generation of increased future revenue, the general accounting treatment used for investments that will be recovered in the concession term will be applied (Annual Report, 2012).

8.3.5 Held-to-maturity investments and accounts receivable: Financial asset model provided for in IFRIC 12

This key element, includes the service concession arrangements related to infrastructure in which the consideration consists of an unconditional contractual right to receive cash or another financial asset, either because the grantor guarantees to pay the operators specified or determinable amounts or because it guarantees to pay the operator the shortfall between amounts received from users of the public service and specified or determinable amounts. Therefore, these are concession arrangements in which demand risk is borne in full by the grantor. In these cases, the amount payable by the grantor is recognised in assets in the consolidated statements of financial position as a loan or a receivable.

To calculate the amount payable by the grantor, the value of the construction, operation and/or maintenance services provided and the interest implicit in arrangements of this nature are taken into consideration.

Revenue from the services provided in each period increases the amount of the related receivables with a credit to sales. The interest on the consideration for the services provided increases the amount of the receivables with a credit to other operating income. Amounts received from the grantor reduce the total receivable with a charge to cash.

9. CONCLUSION

The construction and management of infrastructure in the framework of concession relations between public sector entities and private sector entities, presents, from the financial point of view, several critical aspects, especially with reference to cases in which the public work or infrastructure construction is entrusted to an undertaking which draws up the budget according to the IAS/IFRS accounting standards. For IAS adopter subjects operating on the basis of concession agreements, starting from the budgets relating to exercises that began after January 1, 2010, the new rules on financial representation provided by IFRIC 12, already subject of analysis by the OIC in application No. 3 of July 2010, have become compulsory rules. The new rules on financial representation provided by IFRIC 12 apply to public-to-private service concession arrangements when: the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide

them, and at what price;. and the grantor controls — through ownership, beneficial entitlement or otherwise — any significant residual interest in the infrastructure at the end of the term of the arrangement.. According to the new rules laid down by the IFRIC 12, the grantor who builds and manages a public work shall not list tangible assets among the goods to be transferred at the end of the concession, but grantor must include the fair value of the performance. In particular, in accordance with IAS the concessionaire/operator shall recognise (Laghi, 2010; Campra, 2011):

- a financial activity when having an unconditional contractual right to receive cash or another financial asset from or following the instructions of the grantor for construction services;
- an intangible asset when from the construction of the asset the concessionaire/operator draws the right to exploit the work in relation to third parties, acquiring the right to charge users of the public service,

In the comparison between the Italian and Spanish experiences in PPP transports, many similarities emerge. Among these, a formal legal approach on the substance of PPP framing.

The Italian case is characterized in particular by an improper use of IFRIC 12 as the subject of the PPP tried andis in the "substance" means any public service concession granting. So the public sector "transfers" the risk to the private entity, owned almost entirely public. The concessionaire/operator that is required to apply IFRIC 12 shall recognise in the income statement, on the one hand, the construction cost and, secondly, the amount that is determined by reference to the relative fair values of the services delivered, already incorporating an estimated contract margin. In this regard, it should be firstly noted that, by virtue of the principle of reinforced derivation art. 83 of the Tax Code, in the version in force since 2008. qualifications, charges, classifications of financial statements arising from the adoption of IFRIC 12 find direct recognition from the point of view of taxation. In particular, subsequent to the recognition of the intangible asset it will become applicable the discipline under the art. 103, paragraph 2 of the Tax Code, which, with reference to the cost of the concession rights and other rights recognized in the balance sheet provides that the accumulated depreciation charges are deductible in proportion to duration of the use specified in the contract or by law. Some doubts arise with regard to the possibility of using the so-called sinking fund provisions according to the art. 104 of the Tax Code, which allows the deduction of variable depreciation charges in lieu of ordinary depreciation. There are, however, no good reason to exclude the application of this discipline in the case of IAS adopter entities, provided that the same art. 104, paragraph 1 of the Tax Code provides that this type of depreciation is allowed in a planned ordinary depreciation for both physical assets and intangible assets. Another problem of a fiscal nature in respect of operations of replacement and restoration that, according to IFRIC 12, must be calculated pro rata basis taking into account the time of maturation of the bond and its deferral in time: this involves the necessity to account, in each year, a

special fund, based on its current value. With reference to the above provisions, it is believed that the art. 107, paragraph 2 of the Tax Code can be applied, it allows the deduction within the limit of 5% of the cost of each item, and up to the total amount of expenses incurred for each item in the last two years. A number of systematic reasons, lead to the conclusion that it can not be accepted the argument of those who believe that the under discussion provisions concern the constructed item which does not appear in the financial statements of companies IAS adopters. Other themes of interest regard the improvements to be borne by the concessionaire without the recognition of tariff increases. It may happen, in fact, that the concession agreements require the concessionaire the construction of real additions or additional works without additional economic benefits. In this case, according to the interpretative guidance of the OIC, the accounting practice is to be preferred to enrol at the time of incurrance of such liabilities the present value of future liabilities in return for a corresponding increase in intangible asset, which is thus subjected immediately to the amortization procedure, in full respect of the principle of correlation with revenues. This system is not dissimilar to the one provided for the costs of remediation and environmental restoration, for which the explanatory report on the Ministerial Decree of 1st April 2009 stated that the accounting rules of IAS express a qualification designed to find direct tax recognition. Therefore, it seems logical to assume that the costs for improvements to be borne by the concessionaire, capitalized on the value of the intangible asset, conform to the same treatment as the cost of remediation and environmental restoration. IFRIC 12, although addressed to the concessionaires/operators, then to private sector entities, however, is of fundamental importance for scholars of public enterprises and public management, as the same definitional framework, stressing the principle of substance over form, highlights a central need for further reflection on some issues and some key concepts, such as:

- The boundaries for public and private entities;
- The identification and allocation of risk;
- Infrastructure;
- Public utilities, public interest services and / or benefits;
- Major economic and social;
- Price/value of the services;

The interpretative usefulness of IFRIC 12 is essential in order to avoid confusion in the activity of classification, measurement and recognition of ASCs involving public sector entities and private sector entities, such as outsourcing contracts, contracts of network capacity, take-or-pay agreements, all regulated instead by IFRIC 4 (Laghi 2010: 6), or even errors in the PPP framework, where the prevalence of economic substance is entirely public, as in the selected case study, and then having reference to the discipline of IAS 20. Among other positive aspects of IFRIC 12, there is an attempt to

improve the financial reporting for investors, clarifying the nature and risks underlying the ASCs subject to measurement, recognition and assessment. However, several authors in the literature reveal that the centrality of the interpretative complexity is an effect and not just source of greater needs of public finance (Laghi, 2010). In fact, the entry or cancellation of balance sheet assets, are sometimes linked and based on the "transfer risk / benefit" model, sometimes they are linked to the prevalence of the activity "control" model (Laghi, 2010; Martiniello, 2011; Head, Georgiou, 2011), this circumstance generates an undoubted complexity of interpretation. Such a complexity comes back as in a mirror (Head, Georgiou, 2011), when assessing the adoption of IFRIC 12 with respect to the choice of evaluation based on the "control" model (control model), or to the "risk / benefit " model (risk and renard model), or to the new information provided by institutions such as the UTFP related to the principle of incurring the construction and management costs (Martiniello, 2011; Campra, Oricchio, Braja, Esposito, 2014).

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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

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).

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

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” website¹ 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/>

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.

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.

<i>variables (% variation)</i>	<i>test</i>	<i>p-value</i>	<i>n. network firms</i>	<i>n. non- network firms</i>	<i>median network</i>	<i>median non- network</i>
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

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 were compared respectively with the years 2012 and 2013).

<i>variables (% variation)</i>	<i>test</i>	<i>p-value</i>	<i>n. network firms</i>	<i>n. non- network firms</i>	<i>median network</i>	<i>median non- network</i>
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.

<i>variables (% variation)</i>	<i>test</i>	<i>one-year lag</i>			<i>two-year lag</i>		
		<i>p-value</i>	<i>median network</i>	<i>median non- network</i>	<i>p-value</i>	<i>median network</i>	<i>median non- network</i>
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.

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 from 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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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

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.

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);

- 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).

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

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.

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)

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

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

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.

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.

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

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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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.

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 (Halonon-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

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, scopophilia 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);

- 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’ scopophilia 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

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.

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

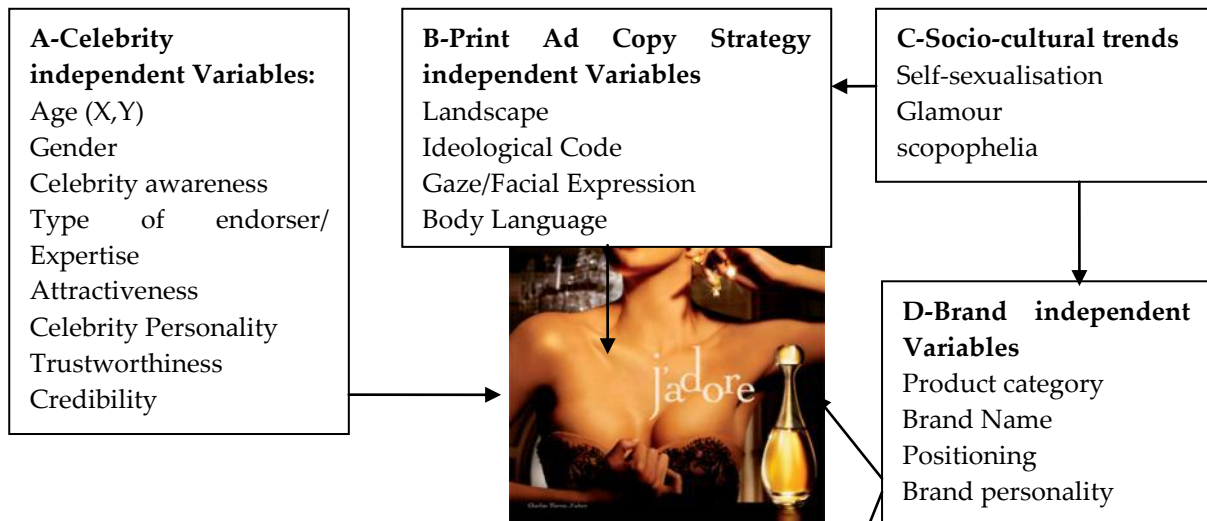
An experimental study was designed to assess and validated the relationships postulated in the conceptual model.

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)

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

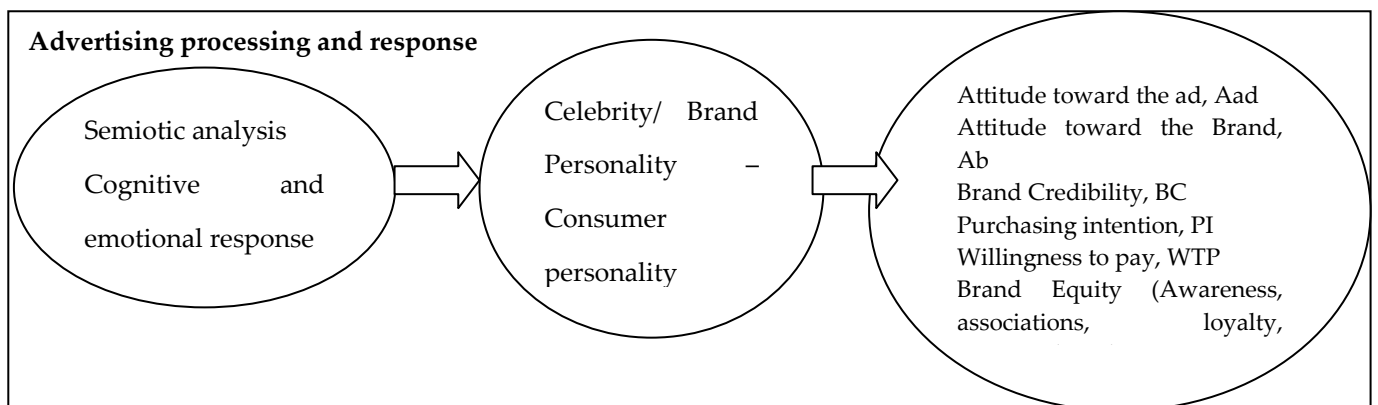
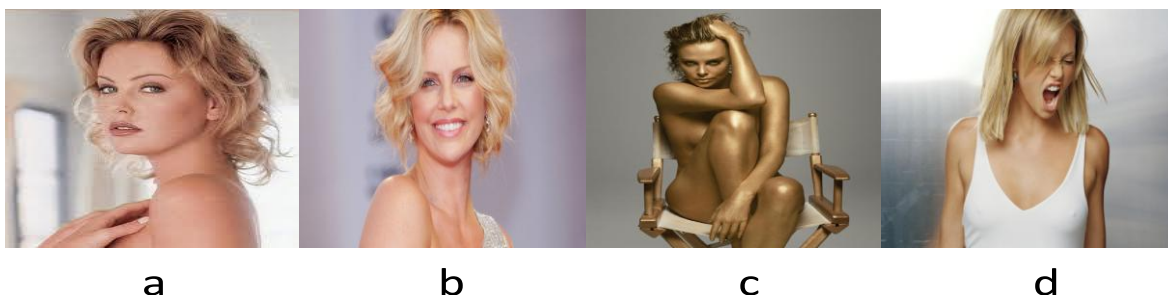


Figure 6- Type of advertising copy strategy (cool, smile appeal, sex-appeal and disruptive).



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);

- f) Type of landscape (urban, luxury, country, ocean, interior, wild nature).

Figure 7- Type of body language/ photography code.



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 scopophilia 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

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
Intellectual	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	androgina-man	1,0							indirect cool	4		
		androgina-woman	,0							indirect sexy	4		
Total	100	Total	100,0	Total	100	Total	100	Total	100	Total	100	Total	100

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

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 Attitude toward brand	7,15 6,33	2,24 2,51	6,17 6,14	2,76 2,59	6,29 6,76	2,27 2,34	6,58 6,61	2,38 2,24	6,66 7,21	2,24 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. 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

In terms of relevance of social cultural trends, the results show that post-feminism self-sexualisation and scopophilia (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	Partial	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 Strenght person.	-4,739	1,644	-,294	-2,883	,006	-,040	-,388	-,268	,831	1,203
		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 Women Power	2,607	,965	,279	2,702	,010	,443	,374	,268	,919	1,088
		-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: Scopophilia, glamour and selfsexualisation

	Mean	SD
Scopophilia-“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.

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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.

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).

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).

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

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.

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.

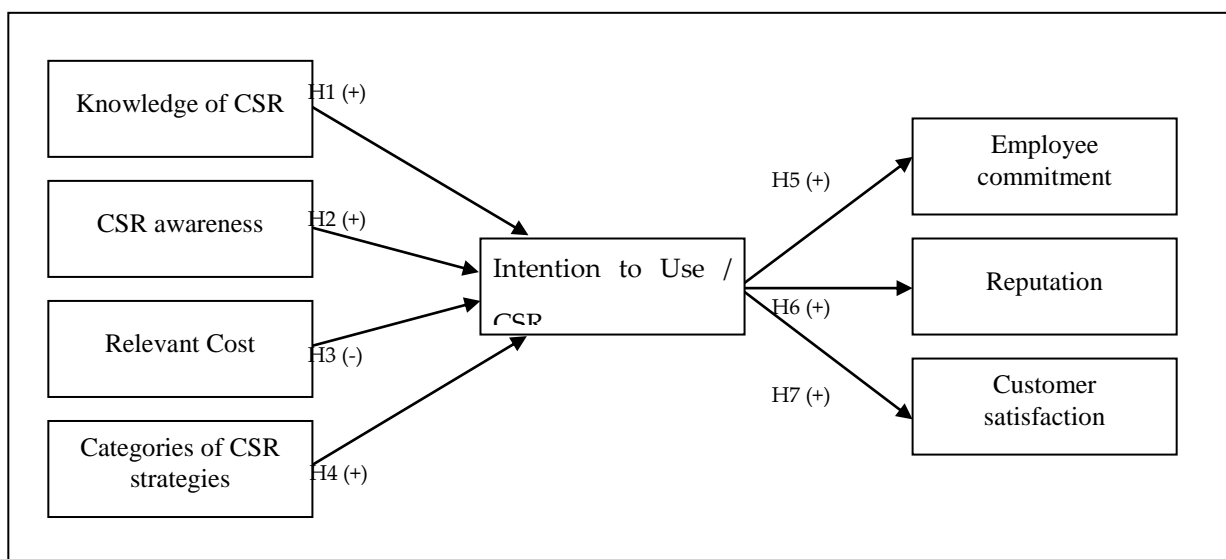


Figure 1. Research framework

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

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 <i>et al.</i> , (2009) (+)
CSR awareness	<i>Rate how important are the following factors when deciding about implementing CSR:</i> 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 <i>et al.</i> , (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 <i>et al.</i> , (2005) (-)
Categories of CSR strategies	<i>Community</i> > 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. <i>Environment</i> > 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. <i>Employees</i> > 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 <i>et al.</i> , (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

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

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.

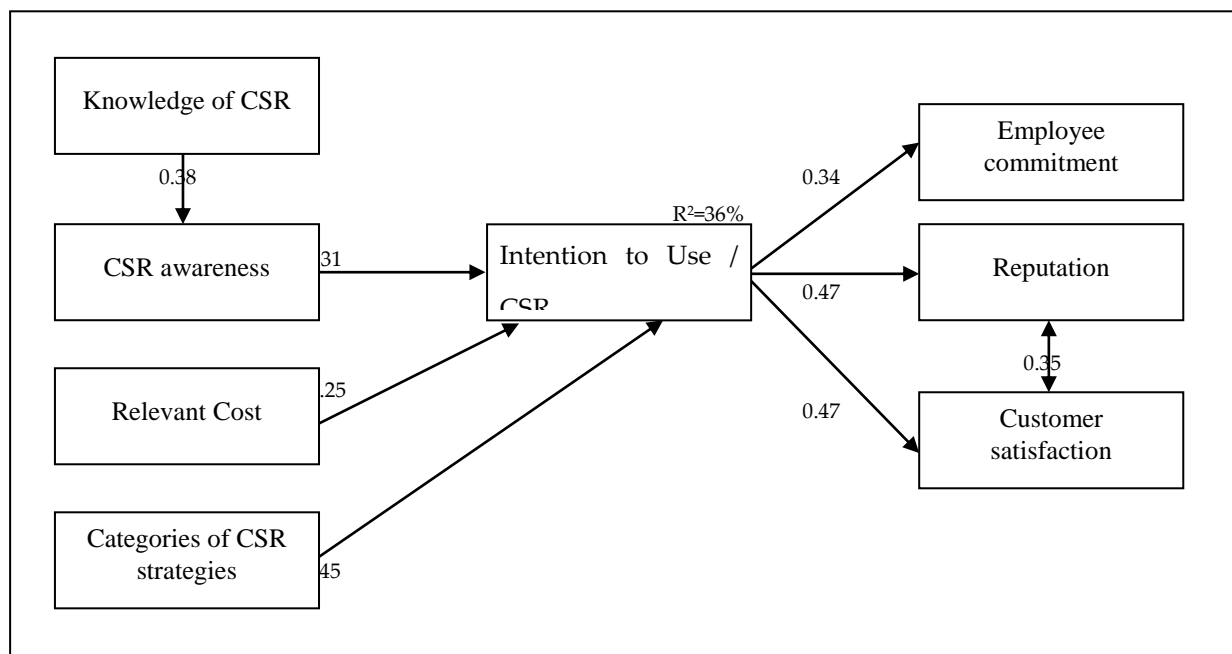


Figure 2. Final model

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

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

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 Resource 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).

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 than 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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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.

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

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

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

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 from subjective interpretation of scores (Wajrock, et al., 2008). The *Cluster Analysis* starts from a matrix ($n \times p$) containing n objects measured on p variables, in our study the matrix was (15×60) 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

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

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.

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
<i>Wine shops</i>	1. Wine tasting; 2. Wine sale.	NONE (Only the host)	1. Bulk wine; 2. Bottles of wine.	NONE (Only sales)
<i>Wine shops and wine bars (wine offered also with food)</i>	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.
<i>Wine shops and wine restaurants</i>	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	<i>Industry:</i> types of wineries selected	1. Traditional 2. Innovative
	<i>Company size:</i> size of wineries selected and size of wine shops	3. Small 4. Medium 5. Large
	<i>Income:</i> wineries selected and size of wine shops	6. Small 7. Medium 8. Large
	<i>Location:</i> geographical area of wine selected	9. Regional 10. Domestic 11. Foreign countries
Purchasing Approaches	<i>Nature of existing relationship:</i> Strong relationships established, Desirable companies	12. Consolidated clients 13. Open to new relationship

Selling Approaches	<p><i>General purchase strategies:</i> Furniture contracts</p> <p><i>Purchasing criteria:</i> Price from wineries, type of wine, quality criteria (e.g. certifications)</p>	<p>14. Consolidated wine sales representatives</p> <p>15. New wine sales representatives</p> <p>16. Small price (<10€)</p> <p>17. Medium price (10-25€)</p> <p>18. High price (>25€)</p> <p>19. Bulk wine</p> <p>20. Bottled wine</p> <p>21. White wine</p> <p>22. Red wine</p> <p>23. Rose wine</p> <p>24. Sparkling wine</p> <p>25. Sweet wine</p> <p>26. CDO</p> <p>27. CPDO</p> <p>28. GIT</p> <p>29. BIO</p> <p>30. Other certification</p>
	<p><i>Selling criteria:</i> general sales strategies; Communication strategy</p>	<p>31. High margins</p> <p>32. Low prices</p> <p>33. Personal communication channel</p> <p>34. Dissemination of information</p> <p>35. Promotion</p> <p>36. Events and experiences</p>

Table 2. Segmentation Variables and Indicators

Profile/Cluster Name	Demographic characteristics	Purchasing Approaches	Selling Approaches
Cluster 1 - Quality Oriented	<ul style="list-style-type: none"> - Traditional and innovative industry; - Select small, medium and large wineries; - Medium and large income; - Regional, domestic and foreign countries wineries selection. 	<ul style="list-style-type: none"> - 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. 	<ul style="list-style-type: none"> - High margins strategies; - Face-to-face communication strategies: promotion, events, dissemination of information, etc.; - Mainly consolidated clients.

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

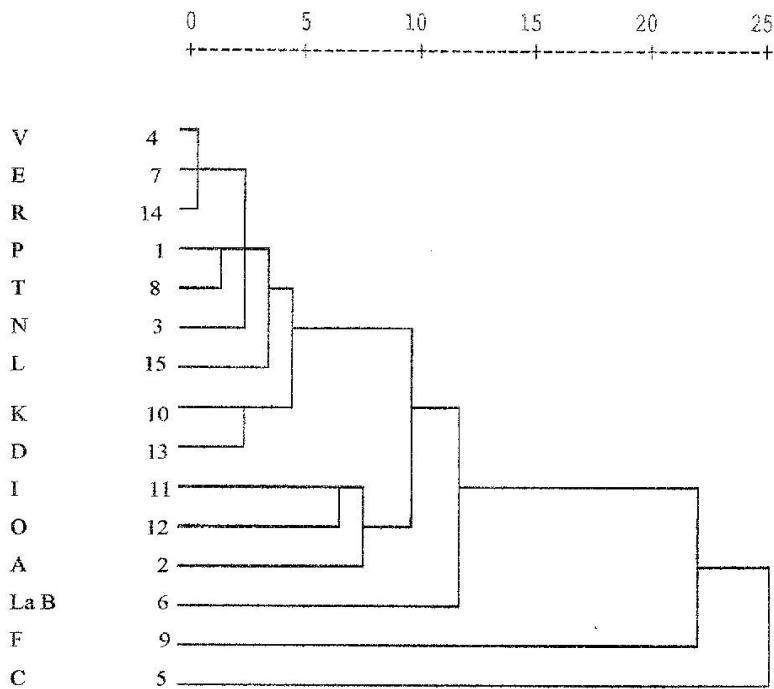


Figure 3. Dendrogram. (Method: Average Linkage Between Groups)

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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

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 *et 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

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

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.

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.

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

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

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

- 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

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

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.

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.

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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POS TO ENHANCE FARMERS POSITION IN GLOBAL VALUE CHAINS CASE STUDY: APULIA REGION AND IONIAN ISLAND

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ABSTRACT

The strong integration of markets occurred in the last 20 years both in and outside Europe has determined an exponential growth of competitive pressure on the agricultural supply side, especially in less advanced and developed regions. The need to deal with increasingly complex markets and trade dynamics forces the agri-food industry to find new forms of organization, coordination and management to assure their survival and enhance their competitiveness. This is a central issue especially for smallholders since they face higher transaction costs and lower bargaining power in international markets, thus resulting in the inability to control price formation and to have a solid position in Global Value Chains.

This paper proposes a model for aggregating agricultural producers in order to allow them to get access to the international markets, enhancing the competitiveness of their respective local and national sectors. In particular, the paper analyses the sustainability of aggregating agricultural producers and processors at a transnational level, thereby proposing an Association of Producer Organizations to put together stakeholders from Apulia and the Ionian Islands, two strategic regions in the Mediterranean area.

Keywords: *Producer Organizations, Global Value Chain, Market Integration, Apulia, Ionian Islands, transnational cooperation, aggregation, financial sustainability, agri-businesses.*

INTRODUCTION

The global financial and economic crisis has impacted the various economic sectors through different transmission channels and in different ways: the crisis started in 2007 somehow reflects the complexity of the globalization of production, thus demonstrating the integration and interdependencies in world economies.

In the agri-food sector, the crisis has exacerbated some critical factors such as the high level of fragmentation of production and the organizational deficiencies that characterise the whole industry (Cagliero *et al*, 2013). In particular, from a GVC point of view, as Gereffi states, the crisis illustrates how GVC has become the main world's economy structural feature (Gereffi *et al*, 2005).

A value chain describes all the activities that both firms and workers do in order to bring a product from its conception to its end use and beyond (Gereffi and Fernandez-Stark, 2010). GVCs can also be described as market-focused collaboration among different stakeholders who produce, market and trade value-added products at an international level (Rota and Sperandini, 2010). In the agriculture and food sector, value chains thereby describe the entire sequence of activities carried out by the different participants in the value chain, including farmers, traders, processors and the Large Scale Distribution, as well as the value added by each participant in the chain (Da Silva and De Souza Filho, 2007). Global agri-food chains have therefore some specific features that reflect features and the functioning of the agricultural sector. As a consequence, the world agri-food industry is increasingly structured around global value chains led by the Large Scale Distribution (Meyer and Von Cramon-Taubadel, 2004). This power imbalance in the GVC can generate serious competition problems for farmers who are marketing in the global economy.

Market liberalisation and the rise of new international actors from developing countries, together with the rise of new international value chain (such as those for biologic, organic and fair trade products) and the strengthening of the role of the Large-Scale Distribution, are all factors demonstrating the need for organization and coordination to strengthen farmers' position (especially smallholders) in the global markets. Compared to the Large Scale Distribution, food producers, especially small farmers, normally face higher transaction costs and lower bargaining power in international markets. This is especially true for the EU agricultural sector since it is mainly characterized by many small enterprises with limited available areas and then small production. In such a disaggregated structure, producers cannot control price formation, which is mainly established by the biggest processing and sales companies, mainly the Large Scale Distribution Meyer and Von Cramon-Taubadel, 2004). In addition, farmers struggle with the defence of their common interests since they are less organised, thus resulting in a limited access to public services and policy processes (World Bank, 2007). In increasingly globalized markets, this can jeopardize farmers' survivability if they don't manage to organize themselves around their common interests to better compete in the global economy. On the other hand, organizational innovation, even only organizational renewal, needs investment in terms of management, training, facilities, etc., thus making cost management for small agri-businesses more difficult. Especially for small agri-businesses, the cost management is a critical factor from both a financial and an organizational point of view. This regards in particular the lack of economies of scale and of trained staff. In addition, the difficulties in having access to pre-competitive service at a reasonable price and linked to their turnover often put small agri-businesses and small farmers in a vicious circle.

Given this context and the connected dynamics beyond it, producers aggregation can stem structural

and organizational delays, and thus allowing a better positioning in the international markets and quick responses to economic downturns. By participating in a cooperative venture, farmers can aggregate their offerings, putting together a series of activities, such as packaging of products, storage, processing and marketing. Cooperative ventures therefore allows farmers to minimize the critical aspects connected with the structure and organizational system of agri-food companies as well as to benefit from economies of scale, without jeopardizing the independence of individual farms (Malpel *et al*, 2012).

Various models have been proposed to facilitate and promote integration across the agricultural supply chain: clusters, consortium, integrated projects for supply chain, districts, producer organizations, cooperatives. This paper proposes a model for a transnational Association of Producer Organizations as a way to strengthen the position of food producers in international markets, in particular for those who are located in less competitive areas. Starting from the experience of the project I.S.C.I. "Innovative Services to strengthen Cooperation and Internationalization between SMEs in the field of agro - food industry" (Axis 1 of the European territorial cooperation INTERREG program Greece-Italy 2007-2013), the paper analyses the sustainability of a transnational association between the POs of two Ionian areas (Apulia Region and the Ionian Islands) characterized by features of convergence but also divergence, thereby opening potential scenarios for the scalability of the model.

The paper is organized as follow: in the first part we analyse the role, activities, functions and objectives of Producer Organizations focusing on POs' functions along the value chain; in the second paragraph we extend the analysis including the role of the Associations of POs. Afterwards, starting from the experience of the project I.S.C.I., we present the transnational Association of Producer Organizations as a solution to strengthen the position of local food producers in international markets. To this extent, the SWOT analysis carried out highlights some major challenges to be addressed in order to ensure the sustainability of the model. The last 2 paragraphs thereby analyse these challenges, thus proposing some options to address them. In particular, a paragraph is dedicated to verify the economic and financial sustainability of the proposed association. Even if the analysis is focused on the case study earlier presented, it is supposed to be replicable to other contexts and production systems, as outlined in the conclusions of the paper.

PRODUCER ORGANIZATIONS AND GLOBAL VALUE CHAINS

POs are legally constituted groups of farmers and growers. Among the different form of aggregation of supply of farms, Producer Organizations (POs) are specifically aimed at reducing organizational, structural and commercial weaknesses, derived by the high fragmentation of the sector. Thanks to

their organizational structure, POs help farmers to better compete in the international markets by reducing transaction costs, strengthening their bargaining power and possibly defending their interests in the policies forum.

They also encourage their members to adopt good environmental practices, thus contributing to product quality and safety. Product quality is a key factor for success in modern globalised chain and POs contribute to this aim in various ways: implementing quality control systems, providing information to farmers about customers attitude and certification requirements, providing technical and managerial assistance to farmers, taking the marketing and processing functions themselves. To this extent, they can be considered instrumental in increasing the value generated throughout the value chain since they assist in the distribution and marketing of products and promote their higher quality. POs can have many forms, ranging from formal organizations to informal groups, thus they can take on various legal forms, such as cooperatives, associations and societies. There are several methodologies to classify POs but comprehensive typologies and classifications of POs still lack. In addition, definitions for POs are often took from the development literature, where it refers to a wide range of different organizations of farmers and growers. The term “producer organization” thereby represents an umbrella concept for different aggregation of agricultural producers.

The World Bank classifies POs on the basis of their functions distinguishing among commodity-specific organizations, advocacy organizations and multipurpose organizations (World Bank, 2007). Multipurpose organizations carry out a wider range of functions of diverse nature: economical, social and political, as a consequence of their embeddedness in the rural communities where they operate (Bijman and Hanisch, 2012). Without underestimating these important social and political functions of POs, in this paper we accept the definition proposed by Penrose-Buckley (2007) who stresses the centrality of the economic function of the POs and specifically of marketing as the main POs function. Producer Organizations, including multipurpose POs, are therefore rural businesses, owned and controlled by producers and primarily working as a collective marketing organization. Although POs can be engaged in several activities among the supply chains, indeed, the core activity that all POs have in common is that they collectively market their members’ products. This definition thereby allows focusing on the primary activity of POs along the value chains, from both a local and global perspective (Bijman and Hanisch, 2012). Since one of the main reasons for agri-businesses to become international is gaining market shares, this definition allows highlighting the main activity of POs in Global Value Chains.

Multipurpose POs are often structured as federations, with the lower-level organizations being members of the higher one. To this extent, it possible to separate POs in the strict sense and the Associations of POs, the top level defined by the different members.

Both can perform the same functions and must prepare an economic Operational Programme, in which defining actions to be taken. This is financially supported by a special fund for the year to which they contribute in a joint European Union (50%) and farmers members of the PO (50%). Operational Programmes usually have a duration of 3-5 years and provide a variety of actions, ranging from production planning to improve the quality of products, to marketing, and may also include funds dedicated to environmental or conservation facilities, processing and transformation.

TRANSNATIONAL ASSOCIATIONS OF POS TO FOSTER COMPETITIVENESS IN GVC

Associations of Producer Organizations differ from POs because of the types of their members, since Association of POs' members are the POs. Some literature refers to such organizations as secondary or federated cooperatives and to their members as "primary cooperatives" (Bijman *et al*, 2012). Since these organizations combine economic and political functions, the development of APOs in Europe, especially in the fresh fruits and vegetables industry, is strongly supported by the EU in order to enhance the profitability's distribution along the sector's value chain (EC, 2007).

A transnational APO, as the one proposed in this paper, is an Association of POs with members in more than one Member State of the EU (figure 1).

The first experience of a transnational Association of Producer Organizations is F.IN.A.F (First International Association Fruit Srl). This aggregation experience is the result of the cooperation between the Italian PO Apoconerpo and the French PO Conserve Gard. The association includes some of the main productive realities in the sectors of fresh and processed fruits (conserves) in the concerned territories.

Through the promotion of the Associations of Producer Organizations at an international level, it is possible to develop "hybrid" forms of aggregation, ensuring at the same time:

- Autonomy: the aggregation form allows the preservation of autonomy and identity of individual companies that will participate;
- Aggregation: the association's size is consistent to the needs of international competition.

As about international competition, the global economic and financial crisis has amplified the traditional difficulties of production systems based on small and medium-sized enterprises. To this extent, if on the one hand smaller size allows flexibility and dynamism in the productive fabric, on the other hand it cannot compete in Global Value Chain where more structured and bigger players operate, thus taking advantage of economies of scale to invest in processes of innovation and internationalization. In addition, the prospect of a sluggish domestic demand makes international markets a forced path for the growth and competitiveness of the national firms (Contò *et al.*, 2012).

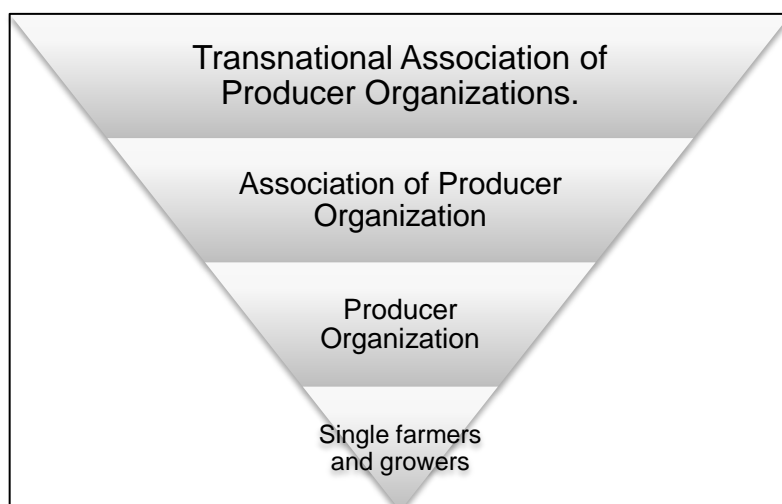


Figure 1: Transnational APO, APO, PO and respective members

Services and functions for the Association of Producer Organizations have been designed to incorporate and integrate features and tools from the experience of other models of aggregation, such as the national POs, districts and integrated chain projects. It therefore systematizes and improves the potential of previous available tools aimed at carrying out processes of growth through the free association of enterprises (such as partnership agreement, consortium, etc.), while amplifying the opportunities for the interested economic actors (Giacomini, 2011).

Thanks to their flexibility and adaptability, transnational Associations of Producer Organizations can therefore contribute to the different dimensions of sustainable development (table 1) and increase competitiveness in less innovative areas such as those analysed in this paper.

Functions	Sustainable Development dimensions
Improving the terms of access to output and input markets.	Economic
Supporting the generation and adoption of technological innovations and diversification into new activities.	Economic
Fostering collaboration among different stakeholders in the value chain.	Economic
Assuring the quality and safety of food products.	Economic, Environment and Social
Contributing to natural resource management.	Environment
Fostering participatory governance, particularly in relation to decentralization and community-driven development approaches.	Social inclusion
Participating in trade negotiations and European agricultural policy-making.	Economic, Environment and Social

Table 1: Transnational Associations of Producer Organizations' functions and contributions to sustainable development

The transnational Association of Producer Organizations can work as significant opportunity for agri-businesses in the selected areas, including the smallest ones, as it improves the relationship between

businesses and territories while allowing entrepreneurs to deal with market changes. It is an extremely flexible tool, in which the companies decide on what aspects cooperate and that allows preserving the autonomy of individual members. However, such a transnational aggregation of POs may encounter critical aspects too, such as problems related to coordination, governance and support to the operation. These problems may still be circumscribed by promoting the sharing of best practices among the POs part of the association through the support of organizations such as service companies.

Eventually, Associations of Producer Organizations are extremely flexible and adaptable to current different legislations in different countries, which is essential in the case of agreements between transnational corporations. Moreover, the possibility of using operating models widely tested and experimented inside national POs simplifies and reduces the needs for updating of the different POs parts of the Association.

The flexibility and adaptability of transnational aggregations of POs result in an extremely varied range of services that is carried out within the association. The ratio of these services is based on the vertical and horizontal integration of many business functions and on a modular structure for the services offered in order to achieve significant costs reduction and improved ability to penetrate the market. To this extent, the main proposed tool is an ICT platform that would allow the use and administration of network services without implementing additional costly physical structures. The operating costs of a computing platform will also reduce the response time of the system and allow high levels of communicability within the network. The platform includes services, solutions and means by which it is possible to manage the food chain and activate pathways of integration between the world of research dedicated to the food, the sector's stakeholders and the vast world of consumers (Contò *et al.*, 2013).

OPTIONS FOR POS AGGREGATION IN THE IONIAN AREA

The project I.S.C.I. "Innovative Services to strengthen Cooperation and Internationalization between SMEs in the field of agro - food industry" is aimed at strengthening the presence of local agri-food SMEs in the international markets through the improvement of coordinated cross-border cooperation and the support to innovation processes. In this way it is possible to integrate areas divided by national boundaries, and thus enhancing a common approach to common problems.

National borders still represent a major obstacle to SMEs in Global Value Chains: data show that only a fifth of EU SMEs are exporting in international markets and only 3% has its own agency, a branch or an affiliated company abroad (EC, 2011b).

On the other hand, several studies show that in the case of small and medium-sized enterprises, internationalization is directly related to greater profits, since it reinforces the company's growth, increases competitiveness and increases the chances of success of the company in the long run. However, internationalization not only refers to exports: internationalized SMEs combine various approaches to the market that are the result of a coordinated international strategy orientation. In this sense, cross-border cooperation, participation in efficient networks of economic exchange and the search for competitive suppliers or new technologies are some of the main incentives for SMEs to enter into international markets.

The context analysis carried out through the I.S.C.I. project reveals synergies between Apulia and the Ionian Islands that can facilitate cooperation among the stakeholders, in particular concerning the geographical closeness to the emerging markets of the Mediterranean area and Eastern Europe (Contò *et al.*, 2012).

A comprehensive SWOT analysis has been carried out in order to demonstrate the effectiveness for the proposed solution as well as to highlight the main critical factors that could affect its success.

From a members' perspective, the main strengths are connected with the improvement in market access, in processes' efficiency, in the organization of the supply, in the production outputs and in particular, in the quality of the production outputs. Thanks to less product wastage and high quality products, product processed through the APO is more efficient, thus becoming better marketable and available to everyone.

The transnational APO improves the terms of access to output and input markets for its members and allows achieving best guarantee conditions to accede to the credit market, thus improving their bargaining power and fostering participation in Global Value Chains. The membership thereby supports members to market their product and helps them to get sustainable market. Moreover, significant number of farmers can be encouraged to participate in the POs, thus improving opportunities for the whole local agricultural sector and allowing the achievement of economies of scale even for the smaller actors participating in national POs.

From the input's point of view, the participation in the Association facilitates the concentration of agricultural inputs (crop seed, fertilizers, nutrients, but also processing machinery and equipment) and lowers transaction costs.

In addition, through the transnational Association, members have more access to knowledge about production, marketing and innovations in the agribusiness sector. The existence of newly service and technology facilitates the administration of the provided services and encourages members to supply more product to the national POs. As a consequence, this allows undertaking farmer-to-farmer extension in production and marketing. On the other hand, the innovative technological services

provided through the Association supports the generation and adoption of technological innovations and the diversification into new activities. Finally, developed computer assisted financial accounting system facilitates the accounting function within the Association.

However, the development of new services and technology comes together with the maintenance of existing facilities, thus allowing:

- Basic communication facilities to lead the daily business operation of the APO.
- Processing plants with technologically flexible capacity that can produce diversified products.
- The implementation of strategically located product collection centres, chilling centre, manufacturing and various product storage units.

The flexibility of the tool, based on the voluntary cooperation of the members, and its financial sustainability preserve the autonomy of its members, thus working as a significant motivation factors for the internationalization of the local SMEs. From a membership perspective, motivation is a crucial factor to take into account as it results in the commitment of members to the Association's vision and in the willingness to share their capacity and experience with each other.

This last aspect is important from a management perspective too, since members from the APO Board and APO's management bodies are expected to be trained and with diversified experiences, expertise and knowledge in the agro-business sector. As a consequence, the staff training is a crucial factor to the success of the whole operation. This can allow, among other benefits, long-term collaborations among different stakeholders in the value chain. In addition, from a membership perspective, long-term collaborations may result in improved relations between the involved agri-food businesses and the territories where they operate, as well as better means for having access to public services and policy processes.

The main weaknesses are related to members' relationships (poor internal communication and mutual trust between staff members and members), difficulties in concentrating the production according to the demand from members due to the under-capacity of the processing machine and the lack of trained and skilled technical and support staff members. Once again, therefore, training activities within and along the transnational APO emerges as a crucial factor for the Association's objectives. To this extent, the main weakness are related to:

- The inability to give equal chance of training and employment opportunities.
- The theoretical-oriented training provided, rather than practical-oriented.
- Deficiencies in the existing organizational structure to accommodate existing and new *vis-a-vis* programmes for the training of technical and support staff members.

Finally, other critical aspects, such as problems related to coordination, governance and support to the operation, represent major weaknesses for the outcomes of the cooperation between POs in the selected areas. These critical aspects are relevant especially taking into account the heterogeneity in the membership's composition and the various and diverse functions that the Association should carry out. In particular, such critical aspects are connected with:

- The lack of structured and clear benefit packages to keep up the motivation of employees.
- Participation asymmetries that results in the lack of willingness for some members to participate in capacity building training and, on the other hand, in unnecessary interference of some members on the management of the cooperative.
- The lack of promoting members to openly communicate with the board members for the diffusion of innovative ideas and knowledge.
- The poor management of members' data.

As about the opportunities, they have been analysed from the perspective of: (i) customers needs; (ii) producers needs; (iii) both consumers and producers needs. To this extent, the main opportunity relies on reconciling supply and demand, that is: if producers get the required quantity and quality products, then there are potential customers.

We highlight three main groups of threats:

- Threats related to challenges in waste disposal and cleanness. In particular these challenges deal with the needs to achieve greater efficiency in both the production processes and the logistic management.
- The lack of appropriate policy supporting the agribusiness sector with respect to policy and access to credit.
- The critical factors characterizing the areas in which the transnational APO is proposed, such as a poorly developed secondary sector, low investments in PDO products (protected designation of origin), few regional partnerships, poor development of seasonally adjusted tourism, low level of public investment, scarce presence of co-operatives, low level of human capital skills. In addition, SMEs in the two affected areas, due to the different changes in the political, economic, regulatory and legislative contexts are actually completely exposed to the pressure of international competition.

Figure 2 thereby summarizes the SWOT analysis carried out.

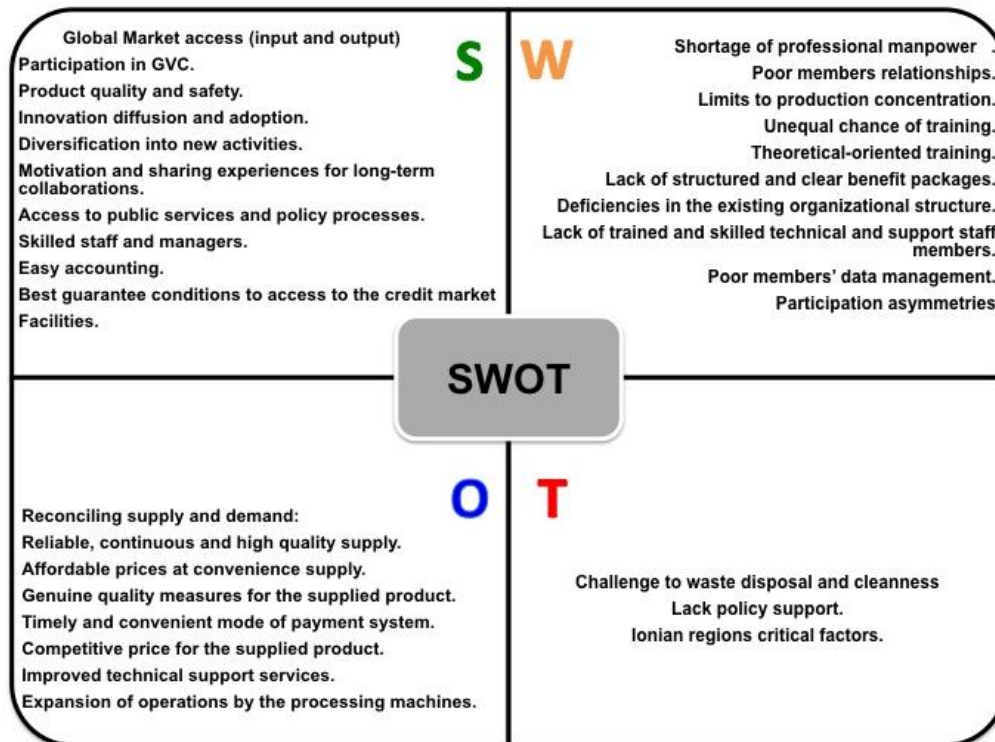


Figure 2: SWOT Analysis

The ICT platform developed through the I.S.C.I. project is aimed at allowing a reduction in the transaction costs and improving the vertical integration along the supply chain, thus allowing:

- More effective and quicker transaction;
- A reduction in the intermediate costs;
- The online management of the whole order (from the selection of the agricultural goods to market, to the recognition of the possible partners, from the bargaining to the order's completion);
- Mechanism for the internal monitoring of the involved SMEs;
- The price of goods to be determined by the producers;
- The integration between collection of customers' orders and the logistic management;
- A custom-tailored supply organization;
- An expanded market for the products;
- The traceability of input and output;
- An open space for sharing the most innovative production techniques.

Finally the ICT platform is expected to be a place for enhancing cooperation among the POs participating in the proposed transnational APO. Through the platform, the APO will be able to work as a network of collaborative POs, helping local farmers and agri-businesses in general to market in the global arena and strengthening the competitiveness of their respective local systems, as other similar experiences stress (Karantininis and Nilsson, 2007).

The SWOT analysis carried out highlights a list of major challenges that have to be addressed by the proposed transnational association of POs in order to assure its successful implementation. Such challenges are related to the heterogeneous membership of the APO; the need to improve the managerial capacity and to balance the different functions carried out; the trade-off between equity and efficiency; and the need to assure the autonomy for the members of the APO. Since this last challenge is directly linked with the financial sustainability of the Association, in the next chapters we analyse the different challenges that a transnational Association of POs should face in the Ionian area starting from this crucial aspect. Even if the analysis is context-oriented, it comes out with general recommendations and principles thus allowing the replicability of the model.

FINANCIAL SUSTAINABILITY

The projection for the financial sustainability of the POs has been carried out taking into consideration an agreement between Italian and Greek companies and processors for a total of 20 units. In addition, the turnovers of these companies have been estimated in order to determine the incidence and benefits arising from participating in the agreement.

PARTNERS	N° Partner	Tot Ha	Tot Turnover	Tot employees
Agricultural partners from Apulia	10	400	5.389.100,00	30
Agricultural partners from Ionian Islands	6	150	2.329.100,00	20
Apulian processors	2	0	1.500.000,00	40
Ionian Islands processors	2	0	500.000,00	30
TOTAL	20	550	9.718.200,00	120

Table 5: Probable composition of the Apulian and Ionian Islands POs

To quantify the size of the companies, we used the data from the 10th Census of Agriculture and the information from the regional economic accounts published by ISTAT (as for Italy) and data from Eurostat (as for Greece). The calculation of the total turnover of the companies-type has been carried out taking into account the major cultures in the 2 countries together with the mean of their distribution on agricultural land.

Within the major categories we considered various types of agricultural products (e.g. vegetables: tomatoes, zucchini, eggplant, fennel, etc.); and the average closing price per 100 kilos refers to the mix of crops.

Product	Ha	Market Production 100 kilos	Value
Grapes	120	36.000,00	€ 1.260.000,00
Vegetables	160	96.000,00	€ 4.800.000,00
Fruits	70	10.500,00	€ 1.575.000,00
Oil	200	260,00	€ 83.200,00
Processed products			€ 2.000.000,00
Total	550		€ 9.718.200,00

Table 6: Total turnover calculation for companies-type examined

As about the costs related to the various services within the Association, as showed in figure 9, in terms of percentage, the total financial burden of the network represents about the 10% of the total costs of the companies. Within these costs are included, however, numerous services and products that would have cost considerably higher if acquired separately by individual companies. Moreover, these costs should decrease considering the contributions and tax benefits from the legislation on network arrangements and organizations of producers or association of producer organizations. This should significantly reduce the weight of the running costs for the structures of the APO. In this study, however, these benefits will not be considered since the analysis is intended to be purely financial.

	2014/15	2015/16	2016/17	2017/18	2018/19
OUTPUTS					
Structure					
Spaces	36.000	39.600	43.560	47.916	52.707,6
Machinery	24.000	26.400	29.040	31.944	35.138,4
working					
labor	43.200	47.520	52.272	57.499,2	63.249,12
advice	60.000	66.000	72.600	79.860	87.846
leadership	42.000	46.200	50.820	55.902	61.492,2
materials	240.000	264.000	290.400	319.440	351.384
services					
maintenance	12.000	13.200	14.520	15.972	17.569,2
cleaning	6.000	6.600	7.260	7.986	8.784,6
marketing					
target a	120.000	132.000	145.200	159.720	175.692
target b	120.000	132.000	145.200	159.720	175.692
overheads	40.000	440.00	48.400	53.240	58.564
total expenses	743.200	817.520	899.272	989.199,2	1.088.119,12
TOTAL	7.714.800	8.486.280,00	9.334.908,00	10.268.398,80	11.295.238,68
OUTPUTS					

Table 7: Costs for services within the Association

The set of possible budgets for the 20-object type of organizations has been reclassified in order to make a sustainability analysis. Possible advantages and disadvantages for the transnational POs Association were included among costs and revenues, expecting them to increase revenues (thanks to the APO's activities) and decrease costs of around 10% per annum.

As about revenues increase, it is mainly due to the synergies arising from the agreement as well as to the improvement in market penetration resulting from marketing and promotion activities carried out

by the APO. In many situations where forms of aggregation have been developed, such an increase in turnover was largely achieved even in the presence of less effective activities (Contò, 2005).

Description	2014/2015	2015/2016	2016/2017	2017/2018
<u>Value of production</u>	<u>9.718.200,00</u>	<u>10.690.020,00</u>	<u>11.759.022,00</u>	<u>12.934.924,20</u>
- PLV and processed products	9.718.200,00	10.690.020,00	11.759.022,00	12.934.924,20
- Value of inventories	0,00	0,00	0,00	0,00
- Other revenues	0,00	0,00	0,00	0,00
- Interests	0	0,00	0,00	0,00
- Leasing	0	0,00	0,00	0,00
- Contributes in C/Es.	0	0,00	0,00	0,00
<u>Intermediate Costs</u>	<u>8.458.000,00</u>	<u>9.303.800,00</u>	<u>10.234.180,00</u>	<u>11.257.598,00</u>
- Raw Materials	8.318.000,00	9.149.800,00	10.064.780,00	11.071.258,00
- Services	18.000,00	19.800,00	21.780,00	23.958,00
- Rentals	34.000,00	37.400,00	41.140,00	45.254,00
- Insurance	6.000,00	6.600,00	7.260,00	7.986,00
- Administration	82.000,00	90.200,00	99.220,00	109.142,00
- Others	0	0,00	0,00	0,00
<u>Added Value (gross)</u>	<u>1.260.200,00</u>	<u>1.386.220,00</u>	<u>1.524.842,00</u>	<u>1.677.326,20</u>
- Depreciation and amortization	149.718,00	164.689,80	181.158,78	199.274,66
		0,00	0,00	0,00
<u>Net Added Value</u>	<u>1.110.482,00</u>	<u>1.221.530,20</u>	<u>1.343.683,22</u>	<u>1.478.051,54</u>
- Tax (IRAP)	43380,8	47.718,88	52.490,77	57.739,84
- Social Security Contributions	407.440,00	448.184,00	493.002,40	542.302,64
- Wages	265.440,00	291.984,00	321.182,40	353.300,64
- Direction	142.000,00	156.200,00	171.820,00	189.002,00
<u>Global Income</u>	<u>0,00</u>	<u>0,00</u>	<u>0,00</u>	<u>0,00</u>
- Interest Expense	0,00	0,00	0,00	0,00
- Financial Income	0,00	0,00	0,00	0,00
<u>Ordinary Income</u>	<u>0,00</u>	<u>0,00</u>	<u>0,00</u>	<u>0,00</u>
- Extraordinary Expenses	0,00	0,00	0,00	0,00
- Extraordinary Income	0,00	0,00	0,00	0,00
<u>Net Income (before tax)</u>	<u>659.661,20</u>	<u>677.908,44</u>	<u>693.208,52</u>	<u>704.789,52</u>

Table 8: Companies reclassified Income Statement aggregate type

As showed in the following table 9, the financial sustainability of any POs would be guaranteed even if only 50% of the production of signatory companies were commercialized through this tool.

TOTAL REVENUES	9.718.200	10.690.020,00	11.759.022,00	12.934.924,20	14.228.416,62
90% production agreement	8.746.380	9.621.018,00	10.583.119,80	11.641.431,78	12.805.574,96
70% production agreement	6.802.740	7.483.014,00	8.231.315,40	9.054.446,94	9.959.891,63
50% production agreement	4.859.100	5.345.010,00	5.879.511,00	6.467.462,10	7.114.208,31
DIFFERENCE (REVENUE- OUTPUTS)					
90% production agreement	1.059.860,00	1.165.846,00	1.282.430,60	1.410.673,66	1.551.741,03
70% production agreement	659.180,00	725.098,00	797.607,80	877.368,58	965.105,44
50% production agreement	258.500,00	284.350,00	312.785,00	344.063,50	378.469,85

Table 9: Financial sustainability

The APO's structure would therefore be sustainable even without the use of any type of grant, contribution or tax advantage, just depending on the willingness of companies to confer a part of their production to the POs and on the willingness of the POs to confer this share to the APO. Therefore, the prospected Association of POs will be able to remain an autonomous member-based organization and external stakeholders (such as government agencies, donors and NGOs) supporting the Association won't take control. The financial sustainability of the tool is thereby a precondition to assure that the members of the transnational Association of POs will take decisions on strategies and policies, and so to assure the role of the Association in Global Value Chains.

Finally, as a consequence of the members' voluntary participation in the Association, the more POs decide to use the APO to manage their production and sales, the more APO's sustainability increases exponentially.

OTHER CHALLENGES

In the financial sustainability projection, the average farm size in terms of turnover, number of employees and hectares turn out to be greater than the average deductible from the statistics in order to allow taking into account that the businesses interested in this type of agreement are normally bigger than average businesses. This is realistic since big organizations are usually more interested in export and have a greater propensity to innovate than small and micro businesses. From an economic and financial sustainability's point of view, it is also important that the initial nucleus of the Association is compact and moderately stronger than the effective units participating in the territorial activities. This will allow the transnational association to be built on the basis of the common interests of their members. Such shared interests lead to homogeneous membership, which should facilitate joint decision-making.

Large businesses inside the Association create the volume in services that allow the economic viability of the organisation and they should have the capability to play the role of leaders within the Association itself.

In a second stage, it is expected that smaller units will be able to join the original nucleus easily. Even if this will not affect the financial sustainability of the Association, the access of new and smaller members could strain the relationship within the Association, thus potentially affecting its activities. This is a major issue for the operability of POs and APOs as they are owned and controlled by their own members and thus ownership and control are collective in nature (World Bank, 2007). If the interests of small and large units within the Association diverge (perhaps because some business opportunities cannot be available for smaller members), the membership's heterogeneity can lead to inefficient decision-making processes and outcomes. To this extent it is crucial that member ownership is defined not only in economic terms but also in psychological and motivational terms, that it is that members feel the ownership of the organization and the advantages of the membership. Transparency in decision-making and accountability, together with a clear allocation of costs and benefits both among the members, and between the farmers as a group and the organisation, play a major role, too. It is therefore important for the successful of the tool that the relationship between members and the transnational APO are on a contract-basis nature, with rules regarding performance, accountability of the leaders and transparency, and the allocation of costs and benefits. In addition, contractual relationships within the Association will help balancing the conflicts between efficiency and equity that can rise within POs since they are at the same time subjects to the requirements of local-rural solidarity and international competence.

Management and organisational capacity is another important factor to take into account for the successful of the Association. This should have the managerial capacity to work as an intermediary and a broker between producers and customers, but also within the different members of the POs, as well as their different interests and features. The Association should therefore have expertise in different field of business and supply chain management, such as marketing, financial management, food safety and quality standards, technical and applied aspects of production, input procurement and distribution. Considering that, vocational training will be needed to assure the sustainability of larger and inclusive Associations of POs in the long term. To this extent, a clear division of tasks within the leadership is needed in order to assure the effectiveness of the Association's activities. In particular a strict division of staff's responsibilities that distinguishes between the main managerial tasks and the advisory ones is an important organizational factor to be considered for the successful of the proposed tool.

CONCLUSIONS

The global economic and financial crisis started in 2007 has illustrated the complexity of the globalization of production, rising up questions on the multifaceted effects of trade openness and market liberalization. The need to deal with increasingly complex markets and trade dynamics forces the agri-food industry to find new forms of organization, coordination and management to assure their survival and enhance their competitiveness.

This paper proposes a model for aggregating agricultural producers to allow them getting access to the international markets, enhancing the competitiveness of their respective local and national sectors. The paper analyses the sustainability of aggregating agricultural producers and processors at a transnational level, proposing an Association of POs to put together stakeholders from Apulia and the Ionian Islands, two strategic regions in the Mediterranean area. Thanks to new technologies, the synergies between these territories can now be horizontally and vertically integrated, linking separate geographical areas while preserving high quality of information exchange.

The SWOT analysis reveals some crucial challenges to be addressed by the Association members, board and management bodies for the successful of the aggregation. Among these challenges, the ability of the Association's members to maintain the control over the Association's activities results as crucial to assure that decisions on strategies and management will be taken within the Association itself. Besides, the effective autonomy of the Association is an important motivation factor to ensure an active participation of all the diverse members within the Association. To this extent, through a financial sustainability projection, we state that the demonstrated sustainability of the APO structure, irrespective of any grant, contribution or tax advantage, is a crucial precondition for assuring the independence of the Association from the external actors (both public and private) supporting it. Other crucial challenges to be addressed are connected with the transparency in decision-making and accountability. The use of Information Technologies and Systems Management solutions can contribute to both issues, thus simplifying the respective business functions and increasing their performance. To this extent, the paper proposes an ICT platform for the horizontal and vertical integration along the value chain. In addition, such a tool is expected to compensate the lack of infrastructure affecting the primary sector, especially in the analyzed regions. The implementing of integrated management models through the ICT platform will contribute to decrease the competitive disadvantage affecting European less innovative and developed areas.

In addition, the implementation of these technologies accelerates and improves the information flow along the Association, thus improving the information available to entrepreneurs from both a qualitative and a quantitative point of view. As a consequence, entrepreneurs can intervene more efficiently on the quality of products and processes.

The approach for the aggregation and internationalization of agricultural producers proposed in this paper is developed with regard to Apulia and the Ionian Islands productive fabrics, but it comes out with general recommendations and principles, thus allowing the model's scalability. The successful implementation of Transnational Associations of POs seems to depend on the ability to address some specific challenges identified as crucial. To this aim, two main issues appear to make the difference for the performance of transnational APOs in less competitive areas: first of all the reduction of the bottlenecks that small agricultural enterprises face in having access to the credit markets. To this extent, as a consequence of recent guidelines on the European banking system, the ability to create credible and structured supply chains would facilitate the access to new methods of credit. These new types of credit foster and favour the use of special forms of financial factoring dedicated to the supply chain that uses information management through the cloud to speed up the process of investigation about farmers and the provision of credit.

The second issue to take into account is the need for appropriate and valuable training courses for the APO's members and management bodies in order to improve the human capital involved into the Association.

Addressing these major challenges will allow small agri-businesses cooperating through the PO to implement the innovations needed to compete in GVCs. To this extent, the activities carried out by service companies and service desks can facilitate agricultural producers, suppliers and processors to have access to competitive services and training courses at affordable prices, thus enhancing their capabilities to compete in the global arena. This is surely a crucial issue to be investigated and tested for achieving the objectives of the Associations of POs at a transnational level.

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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

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

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

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.

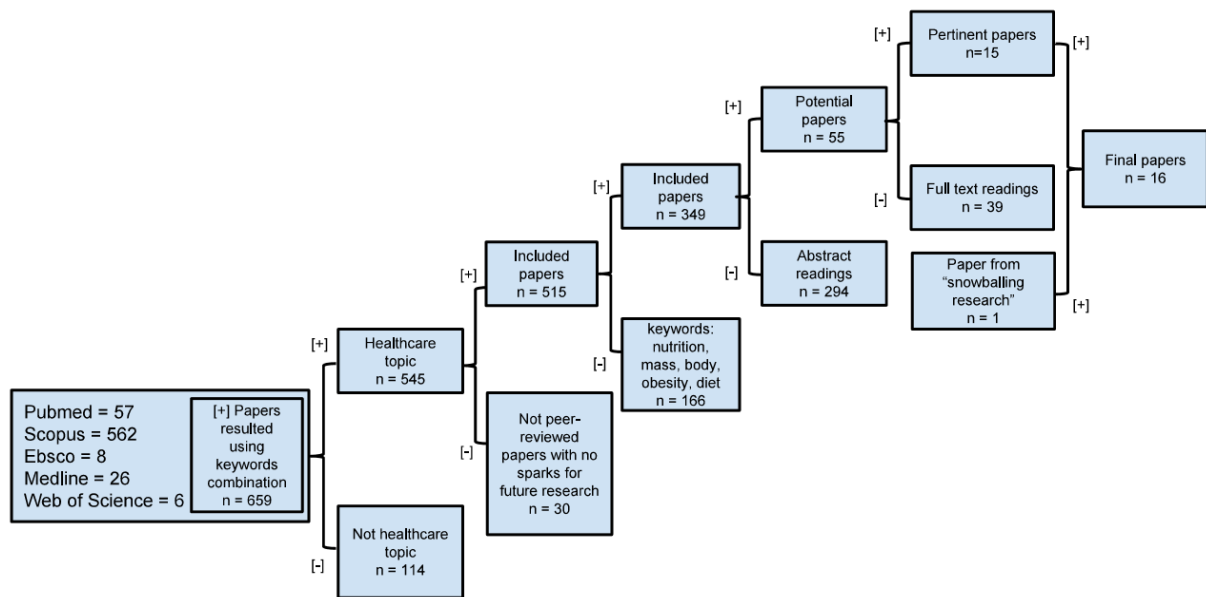


Figure 1. Summary of the selection process

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

the appropriate care to the patient. Coherently, papers have been categorized 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 application	of Country ^a	Research Category	Web of Science/ SCOPUS (2013) ^b
Bentley et al. (2008)	Milbank Quarterly	General ^c	USA	Conceptual	5.391/3.48
Biffi 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

^aCountry of analysis concerns the work country of the first author. ^bImpact factor/ Scimago Journal Rank indicator (SJR)

^cArticles not focused on a specific healthcare specialty have been labelled as "general". ^dIn "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*

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.

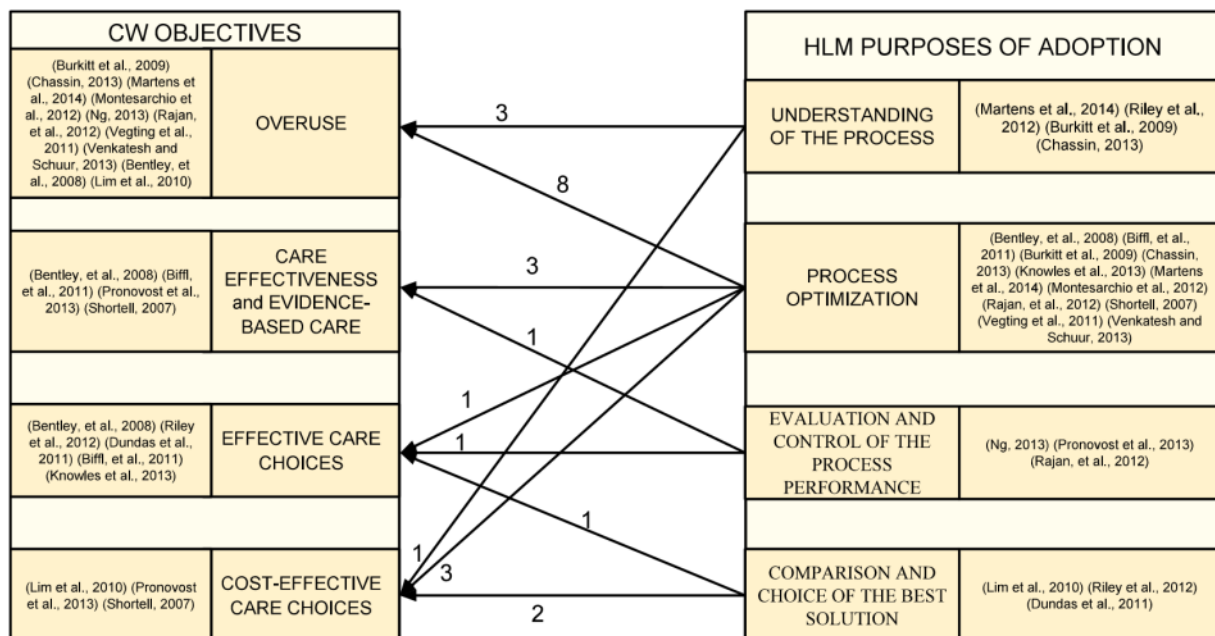
As regards journals, the high differentiation does not allow deeper investigations. Vice-versa, the distinction among the countries of the papers reveals that more than half of the studies were conducted in USA (63%), followed by Netherlands (19%), which together almost compose the entirely database (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; Biffel 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 (Biffel 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.

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

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; Biffel 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 (Biffel 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

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,

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.

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 numerosness 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.

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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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

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.

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
NV2S I	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

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 professionalism 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

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

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)				

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	<ul style="list-style-type: none"> • + 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	<ul style="list-style-type: none"> • 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" 	<ul style="list-style-type: none"> • 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

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.

PLAN FOR THE PATIENT IN INTERNAL MEDICINE				
Motivation and objectives	Trigger	Regional plans: project fund by the regional authority		
	Objectives	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • ↓ 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 organizational system	Proactive spirit matured; > collaboration among people with different roles; > communication; > sharing of the patient process		

	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

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

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.

LADT				
Motivation and objectives	Trigger	<ul style="list-style-type: none"> - 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 		
	Objectives	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		
Organizational aspects	Key figures	leader/ project manager; manager of the operative unit dedicated to HLM	External support	No consultant Support from the regional authority, training provided by other HLM experts, collaboration with a doctorate school
	Top management support	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	Employee involvement	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
	Training	Before the starting of the project, every day on the field	Team	Multidisciplinary: an economist, 2 management engineers, a nurse, a physician from the medical direction, 2 students in internship Team: full time
	Role of CRM	Consulted after first results	Meetings	Briefing for the team in planning and measurement phases
Phases (Tools)				
1. Demand analysis (study of the flows from the emergency department, definition of the takt time)				

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

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

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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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

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 through 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” through specific educational process (Dyer, 1989; Hall and Nordqvist, 2008) and through 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

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 (Moore 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 (Moore 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 (Moore 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.

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?

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” through 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 (Moore 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 (Moore 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 (Moore 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

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 3.900¹ 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 euros². 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

¹Data were provided by Chamber of Commerce of Turin (2014, June).

²CE 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

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

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).

SP and MCSs diffusion		
Answer Options	Response Percent	Response Count
Activity Based Costing Reporting	19,3%	16
Financial Analysis	41,0%	34
Balanced Scorecard	74,7%	62
Balanced Scorecard and Risk Management	10,8%	9
Benchmarking	2,4%	2
Budgeting	10,8%	9
Co-design	69,9%	58
Elementary Cost Accounting	3,6%	3
Responsibility Centers Cost Accounting	22,9%	19
Customer Satisfaction	60,2%	50
Productivity Analysis	28,9%	24
Strategy Map	38,6%	32
Boston Consulting Group Matrix	0,0%	0
Process Costing	1,2%	1
ERP	4,8%	4
Target Costing	36,1%	30
Others	6,0%	5
Answered Question	4,8%	4
Skipped Question	83	
	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).

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*

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

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 (Moore 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” through 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 (Moore 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.

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.

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