



BULGARIAN ASSOCIATION FOR MANAGEMENT
DEVELOPMENT AND ENTREPRENEURSHIP

The International Entrepreneurship: Trends, Challenges, Achievements

Proceedings of the Eighth International Conference
6 - 9 June 2017, Varna, Bulgaria



Edited by

Kiril Todorov
Kostadin Kolarov

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Prof. Kiril Todorov, D.Sc.
Assoc. Prof. Kostadin Kolarov, Ph.D.

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Table of Contents

Preface	9
ENTREPRENEURSHIP AND SMES POLICY	11
<i>International Entrepreneurship Policies: A South African Perspective</i> <i>Willem Odendaal</i>	13
<i>Does the SME Development in the New Member States Needs a Different EU Industrial Policy?</i> <i>Zhelyu Vladimirov</i>	34
ENTREPRENEURSHIP, INTERNATIONALIZATION, COMPETITIVENESS	47
<i>Getting Embedded for and during Internationalization</i> <i>Tanja Leppäaho, Sarah Jack, Pia Arenius,</i> <i>and Eriikka Paavilainen-Mäntymäki</i>	49
<i>Migration and International Entrepreneurship.</i> <i>The Case of Western Europe</i> <i>Jan Degadt</i>	79
<i>Collaboration with Competitors in Business Networks</i> <i>Svetoslav Dimkow</i>	95
<i>The Impact of ICT Uptake on the International Competitiveness of European Enterprises: Case of the SKILLS+ Project</i> <i>Zane Zeibote</i>	111
<i>Role of Managerial Experience of Entrepreneurs in Choosing Approaches to Internationalization of Their Business</i> <i>Kostadin Kolarov, Yordanka Ivanova, and Petar Todorov</i>	135
ENTREPRENEURSHIP, MARKETING, MANAGEMENT	151
<i>Alternative Approaches to Marketing Being a Business Entrepreneur</i> <i>Björn Bjerke</i>	153

Digitalization as Push and Pull Factor Redefining the Entrepreneurship Concept	
María Azucena Pérez Alonso and José Carlos Sánchez García.....	175
Significance, Role and Principles of Website SEO for Digital Entrepreneurship – the Battle for the Top Google Rankings	
Nikolay Vankov.....	192
International Experience of Entrepreneurs as a Factor in Their Managerial Development	
Kostadin Kolarov and Maria Vasilksa.....	210
The Impact Study of Job Insecurity on Employees' Creativity	
Aihua Huang, Li Yang and Zisen Li.....	228
ENTREPRENEURSHIP, NEW IDEAS, MODELS	245
Rethinking Enterprise	
Simon Bridge.....	247
An Empirical Investigation of Platform Firms' Business and Revenue Models	
Zong Dai.....	257
Based on the Equity Structure View of the Relationship between TMT Heterogeneity and Innovation Performance	
Li Weining and Wang Menghan.....	263
List of Authors	273

Preface

The 8th International Conference on *International Entrepreneurship: Trends, Challenges, Achievements* was held from 6 to 9 June 2017 in the St. St. Constantin and Helena Resort, near Varna, Bulgaria. This Proceedings book includes a selection of the papers presented at the conference. Others have been directed to the IRE journal. Like the previous conferences, the 8th continued the tradition of a relatively small ('boutique' as some of the foreign participants say) conference but of high quality and with a warm atmosphere for networking and relaxation.

First of all, it is worth mentioning the contribution of our renowned keynote speakers:

- Prof. Eric Flamholtz (UCLA, Management Systems Consulting Corporation, USA)
- Prof. David Smallbone (Kingston University, UK, Past President of the ECSB and ICSB)
- Prof. Andrew Burke (Trinity College Business School, Dublin, Ireland, Editor-in-Chief of the IRE)
- Prof. Simon Bridge (Ulster University Business School, UK)

During their presentations, the keynote speakers addressed some of the main issues of today in the field of entrepreneurship: its role in large and small businesses: creating a management revolution (E. Flamholtz), support policy for internationalization of European enterprises (D. Smallbone), the role of freelancers in entrepreneurial activity (A. Burke), the need for rethinking enterprise – some of the current concepts and visions need a new interpretation (S. Bridge). Their presentations generated lively responses (including very interesting propositions made by J. Hanns Pichler, Jan Degadt, Ken O'Neill).

As always, a strong focus in the conference was the *Round Table "Science – Practice"*, led by Prof. Ken O'Neill. He laid the ground and the focus of the round table with his exposition "Ten Tips for Effective Interaction with SME Owners". Interesting discussions on different approaches followed.

Another important focus of the conference was the seminar on *Development of Management Systems in Different Countries*, led by Prof. Eric

Flamholtz. It reviewed the development of management systems in different countries, the role of entrepreneurial behaviour of managers and the overcoming of the pains of growth.

The tradition of organizing a workshop for PhD students led by Prof. David Smallbone continued. In addition to valuable discussions and guidance to PhD students, the process of preparing publications in prestigious international journals was also discussed.

Interesting presentations and constructive discussions continued during the parallel sessions. Below are a selection of the papers presented.

We start with the winner of the Best Paper Award at the Conference Tanja Leppäaho (Finland), who presented her paper *"Getting Embedded for and during Internationalization"*. Prior to the conference, she received 2017 Bertarelli Family Best Paper Award from Babson College Entrepreneurship Research Conference (BCERC) together with Professor Sarah Jack from University of Lancaster School of Management as co-author of their research paper.

Other authors continued on this theme offering a comprehensive choice of findings, problems, arguments and recommendations relevant to researchers, policy makers, entrepreneurs and managers. Amongst the contributions were those presented by Zong Dai (USA) *"An Empirical Investigation of Platform Firms' Business and Revenue Models"*, Willem Odendaal (South Africa) – *"International Entrepreneurship Policies – A South African Perspective"*, Jan Degadt (Belgium) – *"Migration and international entrepreneurship"*, Weining Li and Menghan Wang (China) – *"Based on the equity structure view of the relationship between TMT heterogeneity and innovation performance"*, and Lester Lloyd-Reason (United Kingdom) – *"Entrepreneurs and entrepreneurship education: Myths, misconceptions and missed opportunities – an agenda for action"*.

Numerous other contributions are equally worthy of mention even if not mentioned above.

A very important feature of the conference, valid for 2017, was the pleasant atmosphere for networking with the aim of creating future scientific and business partnerships. The fact is that a number of participants took part in several editions of the conference. We hope that all of these achievements will be reflected even more in the upcoming 9th and of course in the anniversary 10th conference.

February 2018

Professor Kiril Todorov, D.Sc.
Assoc. Professor Kostadin Kolarov, Ph.D.
Editors

***Entrepreneurship
and SMEs Policy***

International Entrepreneurship Policies: A South African Perspective

Willem Odendaal

Abstract

Recent government policies towards radical economic change in South Africa are creating serious uncertainties with certain sectors of the economy which are increasingly being excluded from government policies and incentives directed at the support and promotion of small business in the country.

Small businesses are very important in any economy but are also in need of specific assistance directed at improving their chances for success and survival as important contributors to employment creation and opportunities. Specialist support initiatives such as management training, mentorship, financial assistance and providing subsidized premises are thus of high importance in this regard – but need to be funded externally as most small businesses are not able to afford these services in full.

South Africa's population historically consists of a variety of ethnic groups and have been facing serious racial divisions and confrontations in its past. This was seemingly successfully addressed by 1994 under the leadership of the legendary Nelson Mandela – but circumstances have changed drastically during the past 22 years and the country is, once again, faced with the realities of racial divisions of alarming proportions.

In terms of the South African Preferential Procurement Policy Framework Act, a certain minority population group of small businesses owners are, based on racial lines, excluded from the definition of those businesses who qualify for obtaining contracts with government and are increasingly faced by calls from certain major business pressure groups for their total specific exclusion by law.

In addition to this, these small businesses are also increasingly being excluded from doing business with big corporate businesses because of the stringent requirements of the Codes of Good Practice on Broad-Based Black Economic Empowerment (B-BBEE). As such, big corporate businesses that are failing to meet with these requirements are, by definition, also excluded from obtaining government contracts.

Even small business development support organisations are being exposed to being increasingly excluded from providing their much-needed services as a result of the stringent business development policies of government. Consequently, a serious

amount of knowledge and expertise on the subject of small business development are being lost in the process.

This presentation will introduce and explain current initiatives to counter-act this loss in valuable expertise and also to avail this knowledge base to the international small business development community at large. It will also, against this background, explain and review the results of a specific initiative directed at guiding school leavers to start businesses of their own with success. The country has the highest rate of youth unemployment globally.

Key words: entrepreneur, entrepreneurial development, economic policies, small business, small business promotion, small business development policies, South Africa

1. Introduction

Small and medium-sized enterprises (SMEs) are very important in any economy but are also in need of specific assistance directed at improving their chances for success and survival as important contributors to employment creation and opportunities. Specialist support initiatives such as management training, mentorship, financial assistance and providing subsidized premises are thus of high importance in this regard – but need to be funded externally as most small businesses are not able to afford these services in full.

Assisting entrepreneurs to start and operate successful business operations have proved to be a science on its own and certainly quite an expensive exercise as it requires suitably trained, educated and experienced people to effectively contribute to this end. As a result, a magnitude of research and development initiatives and policies have been done on the subject of entrepreneurship development globally, many with reasonable success, but also, sadly, too many with little real results at all. It will certainly be very interesting to observe, if at all possible, the total investment money-wise in entrepreneurship/SME development globally during the past 45 years or so.

The South African scenario in this regard is certainly no different and a healthy SME sector, just as in any other country, seen as prerequisite to a growing economy that will be able to provide for the increased wealth and wellbeing of its citizens. Not only will it provide a means of entry into the world of business, but also an opportunity to foster new innovation and access to international markets.

However, it is also true that without a market for the products and services provided by the SME sector of any economy, no real development will take place as the money will just circulate internally from the one person to the next without real growth in the economy. It is therefore imperative for growth in any economy to produce more than is required by the domestic market and to provide for the international market as well, thus bringing in

additional cash flow from outside its borders which, in the end, will add to increased wealth and living standards of the population of the country.

2. The South African Scenario

2.1 Historical Background

South Africa is well-known for its racial conflicts during recent times and before. The word “apartheid” can be seen to be associated with the political history of the country and had its origins in a political dispensation where the various racial groups were treated as separate units with each population group regarded as having its own unique set of development needs.

The country basically has four main population groups, namely Blacks (people of African descent), Whites (people of European descent), Indians/Asians (people from Indian descent or Asia), and Coloureds (mixed background). As a result, South Africa is also referred to as a “Rainbow Nation” and has quite a long history as to how it came about in having such a variety of population groups in comparison the other countries of the world. To better understand the current socio-political and economic challenges in South Africa, it is deemed necessary to provide a very concise history of the country:

The Black population of the country is said to be originating from upwards in Africa and then slowly moving downwards to the South of the continent in search of food, water and other basic needs for survival.

The White population of the country resulted as a direct consequence of the increased sea travel during the 1600’s of merchant sailing ships around the Southern tip of the African continent on their way from Europe to India and the East and returning again from there. These ships were transporting goods between Europe and India/ East Asia and the route around the “Cape of Storms” was the shortest way at the time.

These ships needed to refuel on their way with fresh water and fruit. The logic will have it that they, at first tried to encourage the very small number of local inhabitants (the Koisan) in the South to provide these supplies, but that wasn’t as simple as that.

One must keep in mind that this transporting of goods around the bottom-end of Africa was actually a vast operation even for its time. Research shows that around 2,950 ships were sailing around the Southern tip of Africa between 1700 and 1795. Not only did they transport goods, but also around 655,000 European employees of the VOC (mainly seamen and soldiers).ⁱ

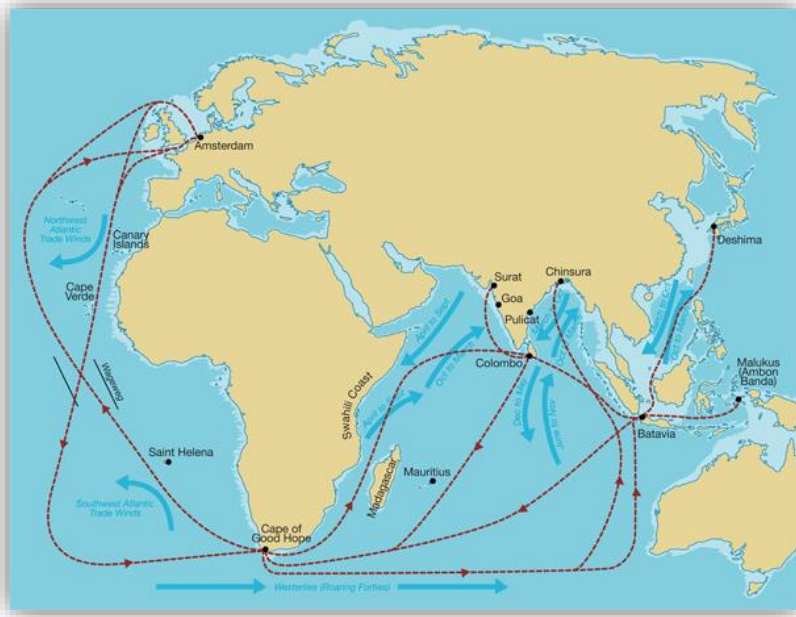


Figure 1: VOC Routes to India and the East 1600 - 1700

The local inhabitants were simply not able to cater for this demand as they were far behind in technological development, could not read or write and able to perform complicated calculations as was required by the ‘market’. Consequently, the Dutch East India Company (“Vereenigde Oost-indische Compagnie” – VOC) decided to establish a halfway-station themselves in order to meet up with this demands from the merchant ships.

This was done in 1652 when the first European settlers arrived at the “Caap de Goede Hoop” (Cape of Good Hope). Since then, the population numbers gradually started increasing as more and more immigrants from Europe started settling in the Cape – at first as employees of the VOC, but later being allowed to buy themselves out of its employment as “vry-burgers” (free citizens) and doing their own production for own profit.

One must keep in mind that these new immigrants did not only come from Holland alone, but people from Germany, France and Portugal were increasingly being employed by the VOC and subsequently travelled to the Cape of Good Hope in search of a better future. The first production of wine in the Cape, for example, was already in 1659 and was produced from vines brought in from France.

From an entrepreneurship development perspective, it is important to note the vast difference in technological development between the Europe-

an settlers at the time and that of the local inhabitants. Whereas the European was able to navigate and sail around the globe, performing intricate calculations and even have mastered the principle of a non-existing "legal persona" such as the Company, the local people did not know of these technologies, could not read or write and, possibly, fail to understand why this was indeed necessary at all in their subsistence economy and way of life.

Although accurate statistics are not available, one can assume that the vast majority of the population at the time (late 1700's) were from European descent, some people from the East (mostly from Malaysia) and a growing number of a mixed population between the groups from the East and the Europeans. The population mainly settle below a rather high mountain range called the "Hottentots-Holland" mountains stretching from the West coast and sweeping upwards to the East coast, thus separating the Cape from the rest of Southern Africa. This mountain range was not easy to cross by ox wagon at all and it separated the fertile soil of the Cape from a rather semi-desert environment beyond the mountains, called the "Karoo".

It was only during the early 1800's that this population met up with the Black population group as they cross the mountain range after deciding not to be ruled and controlled by the British settlers who arrived in the Cape around 1826. The Cape was subsequently taken over by the British and renamed the "Cape Colony". The mainly Dutch/German European farmers did not agree to this colonialization process and decided to rather cross the high mountains in search of 'greener pastures'.

Various clashes occurred between the farmers and the blacks in the process but eventually settled down as the people started working together and building the economy of the region which stretched way-up to the borders of the then Rhodesia (now Zimbabwe) in the North and Botswana to the West.

During the mid- to late 1900's very rich resources of diamonds and gold were discovered which, again lead to extraordinary interest from the British resulting in the Anglo-Boer war and the eventual complete take-over of the whole of South Africa and the formation of the Union of South Africa as part of the British Commonwealth in 1910 and as such regarded as a British Colony. This relationship lasted until 1961 when the Republic of South Africa came into existence after braking with the Commonwealth.

However, the racial conflict and differences between the African Black population and the European White population never really got to conclusion. Although they could work together in relative harmony, there were (and still are) certain fundamental and serious differences between the two different racial groups that simply cannot be resolved in a relatively short period of time and history. These differences are summarized as follows from an entrepreneurship development perspective:

(a) Land ownership

The European is quite used to the principle that an individual can own a piece of land (Earth) and sell it, buy other/more land, or offer it as security against a loan.

According to African tradition an individual can never personally own a piece of land, sell it for money, or buy even more land that belongs to him/her. Consequently, the land cannot be used as security against a loan. An individual can only obtain a "permission to occupy" (PTO) from the Chief (head of family/community) in the area and will, traditionally, pay for this right a small of tax to the chief in charge. This right (PTO) is not transferrable (it cannot be sold to another person) and, therefore, cannot be used as means of security either. Even the chief has no property right on the land and merely administers it to the benefit of the family/community.

(b) Socio-political systems

The Europeans that settled in the North had a church-based political system.

The African Black had a community/family-based political system.

(c) Technological development

The European settlers brought with them a rather magnitude of technological development which, one can imagine, were quite scary to the local population they met up with. From an enterprise development perspective, examples in this regard were:

- (i) The wheel – a means to move things around on something that is turning in a circle but moving forward/backwards and not stay stationary if pushed or pulled
- (ii) The measurement of time – 60 seconds in a minute, 60 minutes in a hour, 24 hours per day, 7 days for each week, and 365 days in each year.
- (iii) A system of measuring weight and distances.
- (iv) Mathematical calculations.
- (v) A written language and words for numbers, names for days and even a symbol for the concept of nothing (0) and an acceptance of the principle that one can have less than nothing.

(d) Economic systems

The European settlers already had a complicated economic system which involved written proof of ownership of assets, and, most important, a money system (currency).

The African Black population, in contrast, were using the age-old system of bartering and no currency.

(e) Education

Having been master the science of writing and printing of books, the European education at the time, were vastly different from that of the African Black.

The African Black education, in the absence of a written language, were mainly based on a traditional teaching of skills required by the scholar in order to make a living within the community-based environment and economic system at the time.

It is against this historical background that one could possibly have a better understanding of the complexity of the South African scenario in present times. What happened through its history was in essence a meeting of two very different worlds with people from the Northern Hemisphere meeting up with people from the Southern Hemisphere due to the natural expansion of the population of the World over time.

This 'clash' of the two different worlds had profound impact on the development of this newly-formed cosmopolitan of people in the southern tip of the African continent. The development in technology since then, as we know, changed dramatically (and relatively fast) as from the 1900's onwards world-wide with inventions such as electricity, the motor car, and eventually very advanced innovations such as in telecommunications, radio, television and more recently the 'digital revolution' in the form of the modern-day computer, Internet, cell phones and cross-border international trade.

It also had a profound influence on the way people do business with each other and the need for increased sophistication to meet with market demand.

2.2 The Modern-day South African Scenario

After a history of real separation and difference between the various population groups in the country, the people of South Africa eventually got together as a nation in 1994 under the leadership of the legendary Nelson Mandela, any subsequently the "New South Africa" was born.

Speaking on behalf of the democratically elected ANC-led government, he promised:

"...to liberate all our people from the continuing bondage of poverty, deprivation, suffering, gender and other discrimination ... [to] build [a] society in which all South Africans, both black and white, will be able to walk tall, without any fear in their hearts, assured of their inalienable right to human dignity – a rainbow nation at peace with itself and the world."ⁱⁱ

For the first time in the history of South Africa all its people, irrespective of their race, ethnic group, religion or gender, had the same rights as all of

the citizens of the country. The differences in citizenship documents were abolished and everyone was henceforth being issued with the same identity documents without any classification whatsoever of which population group the holder of it belongs to.

The South African population at the time of transition (1994) consisted of a total of 38,630,000 people made up as follows:

Blacks	29,827,000	(77,2%)
Coloureds	3,447,000	(8,9%)
Indian/Asian	1,008,000	(2,6%)
Whites	4,349,000	(11,3%)

Total Population: 38,631,000 ⁱⁱⁱ

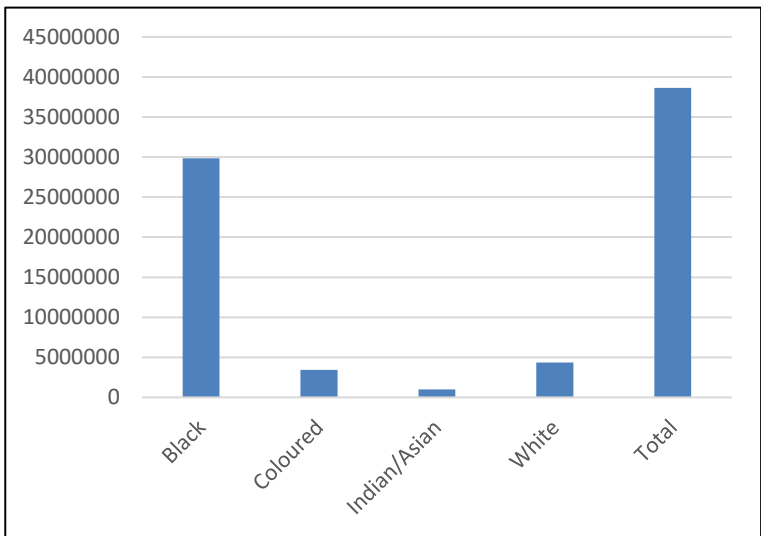


Figure 2: SA Population 1994

3. Inheritance of the New South Africa

The system of 'apartheid' in the past resulted in certain inequalities between the various racial groups of the country. From an entrepreneurship development point of view, these can be summarised as follows:

3.1 Urbanisation & business ownership

Strict apartheid-based regulations resulted in the development of separate townships for each of the different population groups. As such, the whites

will be living on their own, Indians/Asians in a separate town adjacent to that, and blacks in their own township adjacent to the other townships.

Because of the approach of the apartheid government that Blacks be regarded as only temporarily resident in these black townships and to be from their own 'homelands', they were not allowed to start businesses of their own within these townships. As a general rule, only one formal business was allowed within the boundaries of a black township, it was only allowed to sell goods for daily use and the business premises should not be larger than 100m².

In addition to this, ownership of such a business was limited to only one person and without branches of the same business in other black townships.

Although these stringent regulations were started to be relaxed as from 1976, it had a profound influence in the establishment of the so-called informal sector businesses within the black townships. Being illegal at the time, these businesses were small in size so as not to be seen by the authorities and hidden away in back yards or part of normal housing units. As such, they became known as so-called 'spaza shops' – 'spaza' being the African term for 'to hide'.

The licencing regulations were even further relaxed during the late 1980's, but by the time the new government took over in 1994, there were (and still are) a very large number of these informal businesses in operation. These businesses, typically, do not employ a large number of people each and are more directed at providing goods and services for convenience to the direct and immediate community where they are situated.

3.2 Formal business ownership

As a result of the above scenario, most formal business operations were situated within the boundaries of the white townships and white-owned, and the same for the coloured, Indian/Asian townships at the time of transition in government and political dispensation of the country.

This, unfortunately, is still the situation even today.

3.3 Labour force characteristics

The South African labour market dynamics at the time of transition were made up as follows:

Employed	8,896,000	
Unemployed	4,707,000	(Unemployment Rate: 35%)
Total Labour Force:	13,603,000	^{iv}

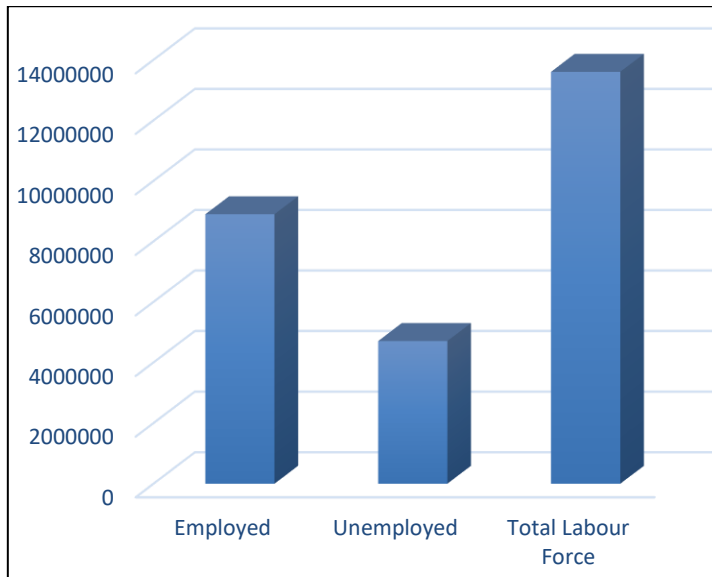


Figure 3: SA Labour Force 1994

4. Entrepreneurship Development Policies Post-1994

In order to address the imbalances of the past, the Government introduced certain direct measures and regulations to advance/foster especially increased participation of the black population in the formal sector of the economy of the country. This was generally referred to as 'Black Economic Empowerment' (BEE).

Subsequently the following actions of importance in this regard were formulated and put into action:

- 4.1 National Small Business Act, 102 of 1996
- 4.2 Employment Equity Act, 55 of 1998
- 4.3 Broad-Based Black Economic Empowerment Act, 53 of 2003 (amended 2013)
- 4.4 Establishment of the Ministry of Small Business Development (2014)
- 4.5 Preferential Procurement Regulations (2011, amended 2017)

As of 20 January 2017, the amended Preferential Procurement Regulations have been gazetted by National Treasury. Effective date of the Regulations is 01 April 2017.

“Key Amendments:

- 80/20 preference point system from R30 000 and up to R50 million
- 90/10 preference point system above R50 million
- Certain concepts and definitions have been aligned to the B-BBEE Act No 46 of 2013
- If an organ of state decides to apply pre-qualifying criteria to advance certain designated groups, that organ of state must advertise the tender with a specific tendering condition that only one or more of the following tenderers may respond-
 - a tenderer having a stipulated minimum B-BBEE status level of contributor;
 - an Exempted Micro Enterprise (EME) or Qualifying Small Enterprise (QSE);
 - a tenderer subcontracting a minimum of 30% to-
 - an EME or QSE which is at least 51% owned by black people;
 - an EME or QSE which is at least 51% owned by black people who are youth;
 - an EME or QSE which is at least 51% owned by black people who are women;
 - an EME or QSE which is at least 51% owned by black people with disabilities;
 - an EME or QSE which is 51% owned by black people living in rural or underdeveloped areas or townships;
 - a cooperative which is at least 51% owned by black people;
 - an EME or QSE which is at least 51% owned by black people who are military veterans;

Although the BEE Act does not place a legal onus on the private sector to comply with its provisions, it does, however, place a legal onus on organs of state to contribute to B-BBEE, including among other aspects, when developing and implementing a Preferential Procurement Policy. In addition to achieving the 20 points allocated to the Preferential Procurement element of the Codes of Good Practice, government entities must procure goods and services from companies with a good B-BBEE status. This has a trickle-down effect which applies pressure on all suppliers and service providers to meet these standards. The impact that this cascading implementation has on procurement in general is the increase in market access for black companies.”

In addition to the above, a host of various entrepreneurship training and interventions in one form or another were established by, mainly, institution of higher education but also through private sector initiatives. At first sight these initiatives seem to be quite impressive. (The question is: Did it help?)

5. South Africa Today

5.1 Population

Blacks	44,892,000	(80,7%)
Coloureds	4,870,000	(8,7%)
Indian/Asian	1,376,000	(2,5%)
Whites	4,517,000	(8,1%)

Total Population: 55,654,000 ^v

In comparison to the 1994 population statistics, the total population increased by 17,023,000. The growth in population per population group were as follows:

Blacks	15,065,000	(52,4%)
Coloureds	1,422,000	(41,3%)
Indian/Asian	368,000	(36,5%)
Whites	168,000	(3,9%)

Total increase in population: 17,023,000

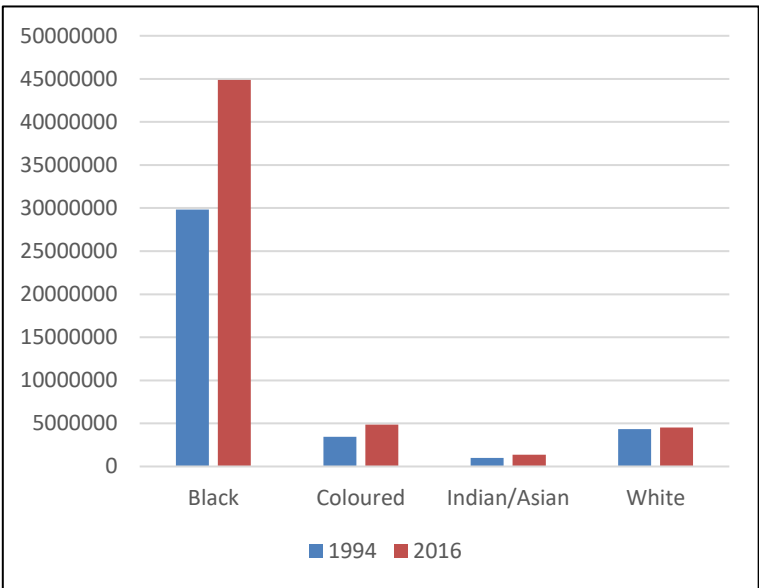


Figure 4: *Growth in Population 1994 – 2016*

A further observation is that the total White population of 1994, only represented 25% of the combined increase in the Black, Coloured and Indian/Asian population groups between 1994 and 2016.

5.2 Labour Force Dynamics

	Total	Employed	Unemployed	
Black	19,477,000	11,506,000	7,971,000	40,9%
Coloured	2,269,000	1,609,000	660,000	29,1%
Indian /Asian	605,000	505,000	100,000	16,5%
White	2,122,000	1,926,000	196,000	9,2%
Total Labour Force:	24,473,000	15,546,000	8,927,000	36,5% ^{vi}

The number of unemployed people increased by 4,220,000 between 1994 and 2016. As such, the unemployment rate increased from 35% in 1994 to 36,5% in 2016. A further analysis of these figures indicates that unemployment within the White population in 2016 are 28,000 people (196,000) more than its total increase in population between 1994 and 2016 (168,000).

5.3 Formal Business Ownership

A study done by the South African Institute of Chartered Accountants (SAICA) in 2015^{vii} on SME's in South Africa operating in the formal sector, revealed the following:

Total number of SME's	660,750	
White-owned SME's	440,500	(66,7%)
'Black'-owned SME's	220,250	(33,3%)

These figures indicate that the White-ownership of formal businesses by far exceed that of the other population groups in South Africa. However, if compared as percentage of the potentially economically active population (PEA) of the country (the total labour force as in 4.2 above), these figures do not look so impressive anymore:

Total Formal Businesses as % of Total Labour Force:	2,7%	(norm:12%)
White Formal Business as % of White Labour Force:	20,8%	
'Black' Formal Business as % of 'Black' Labour Force:	1,0%	

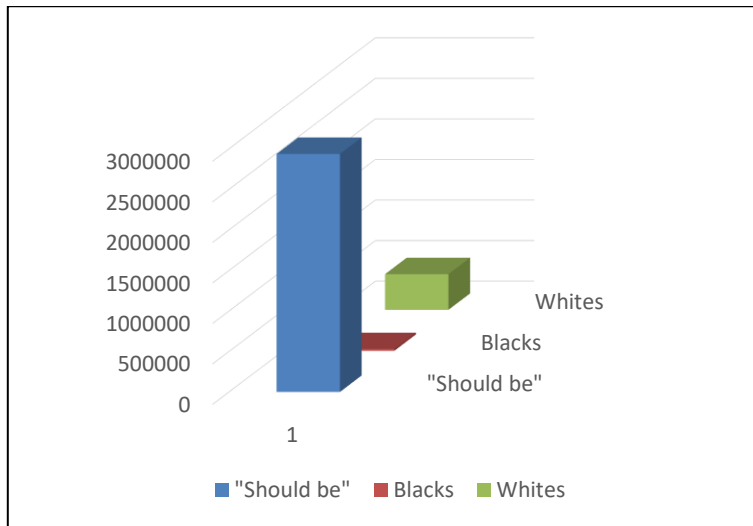


Figure 5: Comparison: Total actual SME ownership to norm

An analysis of the above ratios indicates a shortfall of 2,276,000 formal SME's in total. Even if, in one-way-or-another, all of the existing White-owned SME's are passed on to "Black" owners, the ratio of ownership will only change to 3% of the 'Black' labour force of the country.

6. Recent Important Developments

6.1 Radical Socio-Economic Transformation

During his State of the Nation address early February 2017, the President of South Africa highlighted the government's intended stance to "radically" transform the economy and ensure equitable share of the country's wealth.^{viii}

"The ANC government defines Radical Socio-Economic Transformation to mean the fundamental change in the structure, systems, institutions and patterns of ownership, management and control of the economy in favour of all South Africans, especially the poor, the majority of whom are African and female."

"We want to see more black owned companies benefiting from government's five hundred billion rand procurement budget, so that we can further grow black business and entrepreneurship. We want to see more young people becoming entrepreneurs and obtaining support from government and the private sector."^{ix}(Chris Hani Memorial Address, 10 April 2017)

Small businesses are a focal area in the Nine-Point Plan which targets removing regulatory constraints, assists through 30% of state procurement and the development of a framework to strengthen and regulate the informal business sector.

Some of the progress made over the last 24 months to meet these targets include:^x

- Amended Preferential Procurement Policy Framework Act regulations, which provide for 30% set-asides for Small, Medium and Micro-sized Enterprises (SMMEs) and cooperatives, are in place.
- Black Business Supplier Development Programme, which assists black businesses with their integration into the value chains and supplier databases of large corporations.
- National Gazelle's programme, which targets 40 high-performing SMMEs with financial and non-financial support to accelerate their growth.
- Department of Small Business Development, which has dedicated 50% of its support to township enterprises and 30% to rural enterprises.
- Pilot Informal Trader Upliftment Programme, which has benefited 1 000 informal traders and the number is projected exceed 4 000 at the end of the 2016/17 financial year.
- Small Enterprise Development Agency (SEDA) and the Small Enterprise Finance Agency, which have co-located their services in 35 sites to allow a single-point access to services.
- Partnership between the NSF and SEDA to the value of R84 million, of which R35.3 million has been paid to date to develop the capacity of small businesses nationwide.
- Process of consultation to amend the National Small Business Act, 1996 (Act 102 of 1996), which has commenced.

6.2 Public Procurement Bill

South Africa's newly appointed Minister of Finance, Malusi Gigaba MP, at the Black Business Council engagement dinner on 15 May 2017, announced the intention of modernization of state procurement, and to soon introduce the Public Procurement Bill.^{xi}

Amongst other things, this bill:

- provides for supplier development for procurement;
- provides for targeting designated groups, allowing us to call for tenders only from businesses owned by black people, women, youth, and people living in particular areas;
- considers price as an element, but not the defining element, alongside economic transformation imperatives.

7. Present-day Entrepreneurial Development in perspective

South Africa certainly faces severe disparity in the economic development of its people. It inherited certain serious challenges at the time of transition to a democratic dispensation in 1994. Although a number of fundamental and important measurements and actions were introduced to address these challenges, it seemingly had very little impact on the overall economic status of the country.

As such, the total population increased with 17 million people since 1994, unemployment increased from 35% in 1994 to 36,5% by 2016 and there is a shortfall of around 2 million formal businesses overall. Ownership of formal businesses are still very much in the hands of the White population of the country.

Although these statistics paint a rather bleak picture of the current economic situation of the country, one needs to put these into perspective to be able to fully comprehend the realities of this:

7.1 Unemployment

While Affirmative Action policies are intended to address the imbalances between the various population groups, it also favours employment of 'Black' employees as to White employees. The direct result of this approach is that the White labour force is finding it increasingly difficult to secure employment and are, subsequently forced to either start businesses of their own in order to survive and to support their families or to seek employment outside of South Africa.

This is evident in the overall slower growth pattern of the White population group of around 4% during period 1994 to 2016 as against an average growth rate of 49% for the other population groups. In comparison to the official statistics of 2011, the White population actually *reduced in numbers for the first time in the history of South Africa* during 5-year period ending 2016. Assuming a 100% Affirmative Action, i.e. all of the present employment of Whites are taken over by 'Blacks', the unemployment ratio for 'Blacks' will improve by a mere 8,6 percentage points to 30,4%.

The White unemployment ratio of 9,2% is comparable to the ratios of most other countries of the world, although still very high.

The problem here is not that the White population has the major share of employment in the country, but rather a situation that there are too few employment opportunities as a whole for the country.

7.2 Formal Business Ownership

As indicated in 5.3 above, around 67% of all formal businesses in South Africa are currently White-owned. The increased participation of 'Blacks' in economy is certainly much needed, if not critical at this stage in South Africa.

However, while the Broad-Based Black Economic Empowerment (B-BBEE) policies since 1994 were intended to address the imbalances between the various population groups as far as participation in the economy is concerned, it also favoured the development of 'Black' -owned businesses as against the existing White ownership of formal businesses.

The reality, however, is that 'Black ownership of business only represents 1,0% of its labour force as against a world accepted norm of around 9 – 12%. White-owned businesses, as a percentage of the white labour force, is calculated at 20,8% – higher than the norm, but most likely due to the negative effect on employment for whites due to the stringent Affirmative Action policies as mentioned above.

As mention in 5.3 above, even if all of the white-owned businesses are somehow taken over or passed on to black ownership, their percentage will only rise to about 3% of the black labour force of the country. This, as against the world norm of 9 – 12% is still extensively below average.

The total exclusion of White business from government incentives towards business development as proposed in the Public Procurement Bill will have as result desire consequences on the natural development and future of White business in South Africa.

Be it as it may, these entrepreneurs are also South African citizens and have the right to find the means to support themselves and their families – and, together with their fellow other South Africans, continuously strive (through hard work and dedication) to build a better future for all of its people in this country.

The Preamble to the ***Constitution of the Republic of South Africa*** (Act 108 of 1996) states:

*"We the people of South Africa,
Recognise the injustices of our past;
Honour those who suffered for justice and freedom in our land;
**Respect those who have worked to build and develop our country; and
Believe that South Africa belongs to all who live in it, united in our
diversity."***

The Constitution also determines that:

- (i) "The Republic of South Africa is one, sovereign, democratic state founded on ... Non-racialism" - S1(b)
- (ii) "There is a common South African citizenship. All citizens are equal-ly entitled to the rights, privileges and benefits of citizenship" - S3(2)(a)
- (iii) "The state may not unfairly discriminate directly or indirectly against anyone on one or more grounds, including race, gender, sex, pregnancy, marital status, ethnic or social origin, colour, sexual orientation, age disability, religion, conscience, belief, culture, language and birth. - S9(3)

“No person may unfairly discriminate directly or indirectly against anyone on one or more grounds in terms of subsection (3). – S9(4)

(iv) “Every citizen has the right to choose their trade, occupation or profession freely.” - S22

White small businesses have already been largely excluded as from 2003 from the definition of those businesses being exclusively supported through B-BBEE (Amendment Act of 2013 for example), which defines ‘black people’ as:

“a generic term which means Africans, Coloureds and Indians who are citizens of the Republic of South Africa by birth or descent.”

Many (if not most) white-owned small businesses came into existence as a direct result of their owners not being able to find full-time employment due to being discriminated against as a result of the Affirmative Action policies being forced down to South African businesses, including government departments, in terms of the Employment Equity (Act 55 of 1998). In terms of this act, white people are excluded as far as employment opportunities is concerned regarding organs of State and employers with more than 50 employees.

The SAICA research of 2015 as mentioned in 5.3 above also found the average age of formal SME's to be 11 years. It can thus be assumed as well that most of the white-owned small businesses currently operating in South Africa were established quite recently (i.e. since 2005) and, in addition to the added special restrictions as mentioned above, also exposed to the same constraints and difficulties experienced by all other small businesses in the country.

White small businesses are also increasingly being excluded from doing business with big corporate businesses because of stringent requirements of the Codes of Good Practice on B-BBEE. As such, 35 out of 100 points are allocated for big businesses adhering to Preferential Procurement (20 points) and (black) Enterprise Development (15 points).

As a direct consequence of the above scenarios, and many more, white small businesses find it increasingly difficult (if not impossible) to continue operating successful enterprises in the country. They are not only prohibited from obtaining government tenders, but also prohibited from acting as suppliers to big business.

As a result, increasing numbers of white South Africans are leaving the country in search of better opportunities elsewhere – taking with them expertise and technologies that are dearly needed in this country.

7.3 Current Entrepreneurship Development Initiatives in perspective

The stringent B-BBEE regulations also has a dire effect on the provision of entrepreneurship development support services in the country.

The strict application of the official definition of 'black people' as per the B-BBEE Act of 2013 effectively excludes any service provider who does not fall within this definition from obtaining any contract or funding with government or its parastatals.

In addition, because of stringent requirements of the Codes of Good Practice on B-BBEE, these service providers are effectively also excluded from obtaining financial support from big corporate business. Even individual experts on the subject of enterprise and entrepreneurship development, and with several years practical experience in this field, are now excluded from obtaining contracts and funding.

SA Entrepreneurial Development Hub NPC (SAEDH), for example, has in the past successfully completed two (2) entrepreneurship training programmes, combined with mentorship exercises, whereby 200 specially selected entrepreneurs were fully assisted in this regard and funded by the BankSeta. It did not succeed in obtaining the following tender for this purpose, but it was, instead, awarded to another institution (this institution did not even officially tender for this contract) at four times the quoted costs.

In another instance (for example) all of the individual Directors (with several years of extensive experience in the field) were declined to obtain mentorships contracts with a Private Sector funded Enterprise Development Initiative.

As a direct consequence, a serious amount of knowledge and expertise on the subject of small business development are being lost in the process. The most concerning consequence, however, is that the White small business owner and/or prospective entrepreneur are no longer able to obtain the much-needed subsidized training and support services as are required under normal circumstances by all SME's.

To counter-act this loss in valuable expertise and also to avail this knowledge base to the international small business development community at large, certain initiative are being taken to introduce this knowledge base and source of expertise to the 'outside world' beyond the borders of South Africa. This is an ongoing process and attending (and participating actively on) conferences of this nature, publication in the scientific media on the subject and even the possible publishing of reading matter and technical books are of real importance in this regard.

7.4 Training initiatives for Entrepreneurs excluded from Government Incentives

In recognition to the need for assistance by entrepreneurs (and prospective entrepreneurs) who are unable to obtain this through the available resources and initiatives as promoted by the government of South Africa, the SAEDH recently embarked on a pilot project to address this.

In partnership with a British company (Essential Business Publications Limited), a new set of training material was developed by consolidating the principles of the "Bottom-up Approach to Small Business Management" as developed in South Africa with the technologies and approach followed in the training material of Essential Business Publications.

This newly developed training material, "Starting a business of your own with Success", is currently in the process of being launched as a pilot programme in Tygerberg-area of Cape Town and directed at reaching the recent matriculants and school leavers who are finding it difficult to secure fulltime employment.

This project, known as the "TygerPreneur Training Programme" has obtained the full support of local community support organisations such as the Tygerberg Business Chamber, the Greater Tygerberg Partnership, and the Stellenbosch Good Governance Forum at the School for Public Leadership, University of Stellenbosch.

As it is not exclusively targeted at 'Black' entrepreneurs alone, but to South African citizens in general, it does not qualify for government financial assistance. It has been widely published and promoted in the local media (newspapers and local community radio) but results to date have indicated that interested students cannot afford the full course fees.

Financial support by means of sponsorships or donations from the business sector is currently in process.

Should this pilot programme prove to be successful, the intention is to avail it on a national basis and to introduce the material to the international entrepreneurship market.

8. Conclusion

The South African scenario as far as entrepreneurship development is concerned is certainly very complexed. It faces real challenges to drastically increase formal participation in the economy of the country of extraordinary proportions.

As indicated in this presentation there is a current shortage of around 2 million formal businesses in the economy and any efforts to effectively address this can only be appreciated.

There are, unfortunately, also certain 'downfalls' to be aware of in the formulation and execution of development policies, such as the exclusion of seeming less important sections of the economy. If not taken into account

properly, this could lead to negative effects of disastrous proportions on the overall performance of the economy and to its population at large.

The purpose of this presentation was to bring the whole scenario in South Africa into perspective to enable a better and more lanced understanding of the complexity of the entrepreneurship development needs of the country.

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Does the SME Development in the New Member States Needs a Different EU Industrial Policy?

Zhelyu Vladimirov

Abstract

The industrial and SMEs policies in Easter European (EE) countries have followed the similar pattern of the EU policies – from vertical to horizontal approach. The horizontal approach has replaced the previous reliance on state support to key industries, but it has not led to the significant innovation upgrading in the new member states. At the hearth of this approach of the EU industrial policy are innovations. The accent on innovation driven growth, however, faces significant differences in SME capacities between countries with different institutional, business, and physical environment.

If in the early stages of transition, the economic growth depends on a speed and effectiveness of privatisation, in next phases the FDI play an important role. In general, the FDI can have both positive and negative impact on local SMEs. The negative impact refers to increased product market competition, which treats the survival of local SMEs, while the positive effects are related to the SME inclusion into global value chains (GVCs) and knowledge spill over.

The participation of SME from EE countries in GVCs is concentrated predominantly in labour-intensive, low value-added manufacturing and services activities, where entry costs are lower. This is due to the offshoring from more developed EU countries of lower value-added stages of production (assembly, fabrication stages), while keeping high value-added stages (product specification, design, R&D, sales, marketing and after sales services) at home. Therefore, the inclusion of EE enterprises in GVCs through FDI resulted into a spatial sorting of skill-intensive stages to high-wage nations and labour-intensive stages to low-wage nations. Besides often cited "lack of capacity", it is the asymmetry of power (in captive value chains) that also prevents local suppliers to benefit from global buyers in terms of innovation upgrading.

The question arises to what extent the small enterprises in the EE countries are able to participate in the EU industrial renaissance, based on cutting-edge innovations. Given their deficiencies in the technological level and skills how far they can contribute to the development of space technology, clean motor vehicles, nanotechnologies, and bioengineering innovations?

Obviously, the EU general guidelines not always serve the interests of SMEs from the EE peripheral region. There is a need for specific solutions to move these SMEs

from unfavourable position. A strong argument for the modification of industrial policies in the EE countries is provided by the (neo) Schumpeterian growth theory. According to this theory the same policies may not be effective in countries at very different distances from the world technology frontier. The other limit of the pure “horizontal” approach is its negligence of differences between broader institutional conditions in old and new member states.

The East European SMEs need simultaneously double support – for innovations and for capacity to undertake innovations. Therefore, accelerating the catch-up innovation process in EE countries assumes the implementation of policies, devoted primarily to industrial upgrading, adoption of new technologies, and skills development.

Key words: EU, industrial policy, technological frontier, innovation capacity, SMEs

1. The EU industrial and SME policies

1.1. The changing European industrial policy

After the end of the WW II most governments adopted *active industrial policies* to stimulate post-war economic recovery. These policies included a direct state support to industries, known as “*vertical approach*”, which was combined with a *state protectionism*. The neoliberal revolution of the 1980s put an end to this type of industrial policy. Based on the argument that the market is the only source of productive optimization, it accepted that “the best industrial policy is none at all” (Schränk and Whitford, 2009, 523). Since the beginning of 1990s the *new industrial (horizontal approach) policy* was elaborated in order to respond to the globalisation challenges. This shift of the industrial approach was supported by the “theory of clusters” and Global Value Chain (GVC) approach.

At the beginning of 1990s the industrial policy in the European Communities has shifted from vertical approach to facilitation of *industrial clusters* and *innovation networks*. Instead of direct financial transfers to enterprises, the emphasis turned to R&D, innovation, and (clusters of) small firms (De Bandt, 2006, 106). The new approach was defined in the article 130 of the Maastricht Treaty, the Lisbon strategy, and subsequently developed in a number of the European Commission (EC) Communications. The main goal of the new European industrial policy was to create an environment favourable to industrial development, and to overcome negative effects of “deindustrialization” (Pitelis, 2006, 443-444).

The recent economic *crisis*, however, revealed the importance of the real economy, including industry. The EC recognised the importance of manufacturing sector in the Communications on “*Integrated Industrial Policy for the Globalisation Era Putting Competitiveness and Sustainability at Centre Stage*” (2010) and “*A Stronger European Industry for Growth and Economic*

Recovery” (EC 2012). The EC confirmed its commitment to *reindustrialisation* as a part of its efforts to increase the industry contribution to GDP by 20% by 2020 (EC, 2014a).

1.2. The SME policy as a part of the EU industrial policy

The European SME policy started in 1983 with the first *Community programme for SMEs*. Since there various programmes have been adopted such as: White Paper on “*Growth, Competitiveness and Employment*” (1993), *Integrated Programme in favour of SMEs and the Craft Sector* (1994), and *Integrated Programme for Small and Medium-sized Enterprises (SMEs) and the Craft Sector* (1996). Subsequently the European “enterprise” policy stressed on the necessity to encourage an environment favourable to SME. This policy is *horizontal* in the sense that the other policies should take into account the SME needs (Bianchi et al., 2006, 388).

In 2000 the *European Charter for Small Enterprises* has been adopted with 10 key priorities of SME development: education and training for entrepreneurship; cheaper and faster start-up; better legislation and regulation; availability of skills; improving on-line access; user-friendly for small business internal market; taxation and financial issues; strengthening the technological capacity; successful e-business models; and more effective representation of the interest of SMEs at EU level. In 2002 the project on enterprise clusters and networks (*MAP project*) was launched, followed by the *European cluster initiatives (ECI)* since 2006. There has been a general tendency to the SMEs promotion by favouring their clustering and relationships with local institutions (EC, 2014c, 14-17).

The framework conditions for the SME development have been improved by the „Small Business Act“(SBA) (2008) and the Entrepreneurship 2020 Action Plan *Reigniting the entrepreneurial spirit in Europe* (2013). A stronger focus to SMEs was given under both *Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME)* programme and *Horizon 2020*. The COSME programme (2014-2020) marks a shift from cluster support towards *internationalisation, competitiveness and innovation* performance of SMEs (EC, 2014b, 42).

In general, the EU industrial policy devoted considerable attention to SMEs development. The SMEs are supported financially by the Innovation and Competitiveness Programme, the European Structural Funds, and other initiatives. Therefore, the EU elaborated an integrated approach to SME development, which, however, did not take into account the differences between SMEs in new and old member states.

2. SME development in the new and old EU member states

2.1. Some characteristics of the SME sector

Compared to large enterprises, the SMEs have some *advantages* such as: higher degree of flexibility, simple organizational structure, closer perception of consumers' needs, etc. This allows for managers of small firms to respond quickly to the market signals. Because of their smaller size, however, the SMEs have some *disadvantages* in terms of: less resources; lack of access to information; insufficient management capacity; difficulty in attracting high skill employees (because of lower wages and less career prospects), restricted access to financial capital, etc. (Cowling and Storey, 2002).

The SME are not a homogeneous category, instead it is a convenient notion allowing a simplification of the more complex reality. The great majority of SME operate on the local market, and these are important for providing the majority of jobs. A quite smaller number of SME operate on the international market, but these are important as catalysts for innovations. In practice "the SME are very heterogeneous, ranging from the rural family activity based on survival production to a firm of several hundreds of employees that sells on all world markets and frequently innovates" (Bianchi et al., 2006, 381).

The important demarcation line in the SME sector is between enterprises whose main purpose is to provide income for the owner ("life-style" oriented) and those who aspire to growth. The research of Storey (1994) showed that the majority of small entrepreneurs are not growth oriented, although the fast growing enterprises have higher contribution to the new jobs creation, especially during the recession period (Henrekson and Johansson, 2010). Often the SMEs support policies don't distinguish between the growing or entrepreneurial SME and others.

In 2014 the SME sector accounted for 99.8% of all enterprises in the non-financial business sector in the EU 28. These SME employed almost 90 million people or 67% of total employment, and generated 58% of the non-financial business sector value added (VA). The great majority of SMEs (93%) are micro-enterprises (EC, 2016, 8). About $\frac{3}{4}$ of the European SMEs are active in five key sectors: "wholesale and retail trade", "manufacturing", "construction", "business services" and "accommodation and food services". In the *manufacturing sector* 99.2% of companies in the EU-27 are SMEs, which account for 59% of employees, 45% of VA and 39% of sales. The "manufacturing" sector is the most important for the medium size SME, while the "wholesale and retail trade" sector is the most important for micro and small SMEs in terms of VA, employment and number of enterprises. Large enterprises create a higher share of VA in the "high and medium/low tech manufacturing" sector, while SMEs create a higher share of VA in the services sector (EC, 2016, 5). The differences between the SME shares of

total employment and valued added in the nonfinancial business sector reflects the fact that their activities are typically more *labour intensive*, while the activities of large enterprises are more *capital intensive*.

The European Competitiveness Report showed that the level of internationalisation of SMEs remains low, which holds particularly true for one-person businesses and young SMEs in traditional industries. Exporting is the preferred internationalisation mode for SME as compared to outward FDI activities. Very few European SMEs have foreign affiliates outside the EU/EFTA region – 1.2 % compared to 11.4 % of large firms (EC, 2014c, 81–85).

2.2. Differences between SMEs in new and old EU member states

SMEs are also important in the New Member States (NMS), although they differ significantly from the SME in the old member-states. The majority of SME in the NMS are younger, have less experience, and often work far from the technological frontier. Most of these SMEs emerged from traditional sectors with low entry barriers and have followed survival strategy instead of growth one (Todorov, 2001, 105–107). Not surprisingly, the SME economic contribution varies significantly across Member States. For example, in 2014 the number of SMEs per € million of VA generated in the non-financial business sector ranged from 2 in Luxembourg to 27 in Bulgaria (EC, 2016, 9).

Additionally, Bulgarian SMEs in the high-tech and medium-tech manufacturing industries are only 0.8% (compared to average 2% in the EU) and only 16% in the sector of knowledge intensive services (28% average in the EU). Overall, 95% of Bulgarian SME have also *low level of internationalisation* (OP I&C, 2014–2020). The share of new-to-the-market products in the industrial firms' total turnover is only 2.9%, while the share of new to the firms' products, but not new to the market, is 3.7% (NSI, 2016). There is no one of EE countries among the EU innovation leaders, and only Slovenia is classified as being Strong innovator. The Czech Republic, Hungary, Slovakia and Poland are classified as “Moderate innovators” while Bulgaria and Romania are “Modest innovators” (EIS, 2016).

The data show that of the EU countries, only Finland, Sweden and Denmark exceed the “Europe 2020” target of 3% R&D, while Germany and Austria both fall just short of it. The current average R&D intensity in the EU is around just 2%, while in nine EU countries it is less than 1%. From the EE countries Slovenia has caught up with the EU average GERD ratio of around 2%, while the expenditures on R&D in other EE economies have been systematically below the average in the EU (Eurostat, 2016).

Therefore, the industrial structures of the old and NMSs groups differ in terms of technology advancement and innovation capacity (EC, 2011, 4–5). It means that more industrial enterprises, including SME, from the ad-

vanced groups are better prepared to absorb the EU financial and technical support, compared to the firms from less advanced groups. For that reason, applying equal requirements for achieving industry innovation to enterprises operating in unequal conditions will, at least, reproduce the existing inequality, or will deepen it.

The industrial and SMEs policies in the NMS have followed the similar pattern of the EU policies (from vertical to horizontal approaches), but on *unequal conditions*. The horizontal approach has replaced the previous reliance on state support to key industries, although this approach has not led to the significant industry upgrading. The question arises to what extent the enterprises in the EE countries are able to participate in the new world of super-advanced industrial development. Given their deficiencies in the technological level and skills how far they can contribute to the development of space technology, clean motor vehicles, nanotechnologies, and bio-engineering innovations? (Bartlett, 2014, 36). Obviously, there is a need for specific solutions to move these SMEs from unfavourable position.

3. Effects of the EU industrial policy on East European SME

Evidence shows that SMEs can improve their performance via two strategies: do it alone or insert into local *clusters* and/or a *global value* creation process. The cluster approach assumes that the upgrading is driven by local firms and institutions, while the GVCs approach views this upgrading as a result of participating in the GVCs (Humphrey and Schmitz, 2002, 1020).

3.1. Effects of SME clustering initiatives

The successful clusters emerge from grassroots, while many efforts to create clusters from above fail. The main discriminating factor, which distinguish the successful clusters is the level of *social capital*, which includes the existing norms, networks and social confidence (Putnam, 1993). Precisely the trust is a *deficit* in many of EE countries.

The researchers have shown the significance of clusters for the SME growth, but there are not many empirical proofs for transitioning countries showing the positive effects of clusters on SME development (Karaev et al., 2007). For example, the clusters in the Eastern part of Romania have been identified as local and natural resource-dependent rather than traded industries (e.g. wood, textiles, tourism, etc.), based on horizontal relations (e.g. apparel, wood, metallurgy, etc.) rather than vertical ones and as latent or potential, rather than working clusters (Constantin et al., 2011). Akbar and Ferencikova (2007, 248-249) found that in the Slovak automotive sectors, the clusters among the firms surveyed were not much functional. There is little intentional technology transfer from the MNEs to the suppliers, as well as a little evidence of cooperation in the areas of marketing, export promotion or investment.

To cope with the new challenges clusters, have to move towards higher quality, based on knowledge and innovation. The successful clusters today are those, which base their production on the technological frontiers, and participate actively in GVCs (Humphrey and Schmitz, 2004).

3.2. Effects of SME participation in GVCs

According to Gereffi et al. (2005, 78) there are five types of GVCs governance – hierarchy, captive, relational, modular, and market – which range from high to low levels of coordination and power asymmetry. In all types of GVCs local producers can learn from global lead firms how to improve their processes. There is also a scope for functional upgrading, which may lead the SMEs from low value-added production to high value-added.

In *captive* value chains, however, small suppliers are much more dependent on larger buyers. Having in mind that many manufacturing SME in EE are working as subcontractors to large EU and other world buyers, the factors which hamper their technological upgrading like the *power asymmetries*, are not much discussed. The “captive inter-firm linkages control opportunism through the dominance of lead firms, while at the same time providing enough resources and market access to the subordinate firms to make exit an unattractive option” (Gereffi et al., 2005, 87). Therefore, it is the asymmetry of power that often prevents local suppliers to benefit from global buyers in terms of innovation upgrading.

Bazan and Navas-Aleman (2004, 115) found that “buyers have resisted sharing their knowledge on higher valued added activities such as design, branding, marketing and chain coordination”. Staritz and Plank (2013, 4) have shown that the potential positive effects from TNCs’ investment in Hungary and Romania have remained *low and below* expectation. Besides often cited “lack of capacity” of local firms, the common industry practice to negotiate supply contracts at the global level between headquarters leaves little room for local suppliers (Staritz and Plank, 2013, 15).

Baldwin (2012, 6-7) considers that the current GVCs include “headquarter” economies (whose exports contain relatively little imported intermediates) and “factory economies” (whose exports contain a large share of imported intermediates). There is a hub-and-spoke asymmetry in the dependence of factory economies on headquarter economy’s intermediate exports. If Germany is the hub in Europe, the EE countries belong to the factory economies as a result of the relocation of lower technology intensive stages of production to these countries. The offshoring of lower value-added stages of production (assembly, fabrication stages) led to deepening of the so called smile curve, while preserving high value added stages (product specification, design, R&D, sales, marketing and after sales services) at home. The participation of SME from EE countries in GVCs is concentrated predominantly in low value-added manufacturing and services

activities, where entry costs are lower. Therefore, the inclusion of EE countries in GVCs through FDI resulted into a spatial sorting of skill-intensive stages to high-wage nations and labour-intensive stages to low-wage nations (Baldwin, 2012, 13-14).

Today the EE countries operate mainly as *manufacturers of intermediate goods* within the GVCs, which contributed to the increasing share of manufacturing products in their exports. At the same time, over the 1995-2011 period, in most EE countries the share of domestic VA in gross exports for manufacturing has declined, which means that the EE countries do not occupy a favourable position in GVCs (Bierut and Kuziemska-Pawlak, 2016, 12).

4. EU industrial policy and challenges to East European SME

The innovations, which are at the heart of the new EU industrial policy, are stimulated by different external and internal to firm conditions. The external factors refer to the institutional and business environment, while internal factors reflect firm's capabilities in terms of knowledge, human capital, and absorptive capacity.

4.1. Institutional challenges

The researchers found that the *effectiveness of decentralizing industrial policy* presuppose the existence of *well-functioning markets*, an *entrepreneurial class* and the *institutional framework*, which facilitate their implementation (Pitelis, 2006, 446). Important also is the promotion of *attitudes, values and culture conducive to innovativeness*. This is evidently not the case in some EE countries. Based on the analysis of a number of contextual restrictions Sepulveda and Amin (2006, p. 333) concluded that "building the baseline conditions for a decentralized policy framework is demanding and not open to easy or quick policy fixes". In a context of institutional uncertainty, particularly small firms see innovations as risky activities vis-à-vis cutting the cost of labour and avoiding regulation and tax compliance (Sepulveda and Amin, 2006, 330).

For that reason the accent on innovation driven growth faces significant differences in SME capacities between countries with different institutional, business, and physical environment. The SME performance is affected also by the quality of physical infrastructure, such as roads, ports, and airports, as well as the efficiency of operations of those facilities. Significantly weaker in the NMS is the capacity of *public administration* to deliver high quality public services.

Therefore, one of the limits of the "horizontal" approach is in the *negligence of broader institutional conditions* that are required before a decentralized policy can be implemented. Analysing the EU industrial renaissance strategy, the Confederation of Independent Syndicates (CITUB) in

Bulgaria arrived to the conclusion that the EC *Industrial Renaissance* report did not take into consideration institutional differences between the old and new EU member states (CITUB, 2014). Summarising, the enterprises, and particularly SME form the NMS operate in less friendly environment (business, institutional, and physical) in comparison with SMEs from old member states.

4.2. Capability challenges

There are cases where highly innovative SMEs may internationalize directly ("born global"). The majority of SMEs, however, which rely primarily on cost or specialise in certain types of services are more likely to participate in GVCs as domestic suppliers (OECD and World Bank Group, 2015, 22). The lack of technological and organizational *capacity* of local firms is highlighted as a key obstacle to supplier integration.

A basic requirement for upgrading is "the strategic intent of the firms involved. Without intra-firm investment in equipment, organisational arrangements and people, no substantial upgrading of any kind is possible" (Humphrey and Schmitz, 2002, 1024). Gereffi (1999, 55) demonstrated that East Asian countries, after entering GVCs as first-tier suppliers of large buyers, became full-package suppliers and "thereby forged an innovative entrepreneurial capability that involved the coordination of complex production, trade and financial networks". This success was made possible by the extensive organizational learning at a firm level. Therefore, although external sources of knowledge are essential, the most important is the creation of internal technological capabilities. Lall (2006, 95) also concluded that the success of East Asian countries couldn't occur without developing *local capabilities*. Except East Asian examples, however, there are few other successful stories on how the local companies bound to GVCs succeed to move from captive situation to a higher-value-added form of exporting.

The weak technological capacity and the lack of state support explains why the SME in EE countries are less prepared to follow the EU industrial renaissance based on innovations. The NMS "face significant challenges, as they move towards more knowledge- and skills-oriented industries, even if it is hampered by weaknesses in innovation capacity and knowledge transfer" (Török et al., 2013, 19).

5. Conclusions

There is a growing consensus that state interventions are often necessary when market failures prevail. Government programs should subsidize SME capability development in term of quality, innovation, training, R&D, networking, infrastructure investment, adaptation of foreign technology to local conditions, risk and venture capital, and so on. The advantage of such

cross-cutting programs is that they span several sectors at once and are targeted at market failures directly (Rodrik (2004, 23).

A strong argument for the modification of industrial policies in the EE countries is provided by the (neo) Schumpeterian growth theory (Aghion and Howitt, 1998). According to this concept the successful innovation policies should take into account the *technological level* of individual countries. The EE countries are operating as peripheral economies in terms of technology generation. Consequently, the same policies may not be effective in countries at very different distances from the world technology frontier. In such countries technological transfer and non-R&D innovation activities are more important drivers of innovation. Therefore, increasing level of technological transfer and absorptive capacity through R&D and training should be a priority in these countries (Kaderabkova and Radosevic, 2011, 2-3).

This raises the question whether government resources should not be used for more proactive policies to build up *local industrial structures* (Staritz and Plank, 2013, 19). Improving the EE position in GVCs means the implementation of measures to facilitate the SMEs inclusion in early (research, conception and product design) and finishing (sales, marketing and distribution services) stages of GVCs (Olczyk and Kordalska, 2016, 20).

The *policy implications* of these results refer to the necessity of: (1) increasing the skill levels and R&D, which indirectly increase the export activity of SMEs; (2) helping SMEs to improve the quality of their products and services; (3) stimulating SMEs to collaborate more with large foreign firms (EC, 2014c, 95). Increasing SMEs productivity in the current tasks can be achieved through capacity upgrading, and not necessarily through market innovations. Veugelers (2015, 23) also considered that “more emphasis in innovation policy on supporting the *absorption and adaption* of existing frontier technologies by industry would make more sense for the EU countries in catching-up mode. Particularly for countries in less advanced innovation development phases, more attention to stimulating the quality of *human capital* formation and supporting firms’ incentives to adopt *new technologies* would be more effective rather than supporting creative capacity building to improve the country’s innovation potential.”

The EE customized policies means that the SME should be supported by *policies* oriented to both improvement of institutional setting and innovation capability development. The support for SME innovativeness needs be concentrated more on *innovation capacity development* rather than on immediate innovations. In other words, the SMEs need simultaneously double arrows support – *for innovation itself and for capacity to undertake innovation*. Therefore, accelerating the catch-up process in EE countries assumes the implementation of measures, devoted primarily to *industrial upgrading, adoption of new technologies, and skills development*.

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***Entrepreneurship,
Internationalization,
Competitiveness***

Getting Embedded for and during Internationalization

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Abstract

We report the findings of a study on how small- and medium-sized family enterprises (SMFEs) from rural areas in Finland get embedded for internationalization. Our data consists of 36 interviews with entrepreneurs plus secondary data. The emergent model of international embeddedness revolved around the practices, phases, and outcomes of getting embedded for internationalization. To elucidate the process of getting internationally embedded, we refer to literature on networks, entrepreneurship, internationalization, and family business.

Key words: SMEs, family business, internationalization

Introduction

Networks are essential for the internationalization of any kind of firm (Johanson & Mattsson, 1988; Johanson & Vahlne, 2009). The network model of internationalization proposes that a firm can compensate for its limited resources, either by developing its position in an existing network, or by establishing new ties (Johanson & Mattsson, 1988). In networks, common interests motivate firms to develop and maintain network ties with each other, because such ties are of mutual benefit (Johanson & Mattsson, 1988; Johanson & Vahlne, 2003). There is limited evidence on how international networks evolve after the initial entry (Welch & Paavilainen-Mäntymäki, 2014) and how network ties *de facto* influence the shape and development of internationalization over time (Bruton, Ahlstrom, & Obloj, 2008; Chetty & Agndal, 2007; Coviello, 2006; Gedajlovic et al, 2013; McMullen & Dimov, 2013). Coviello (2006) recognized that for international new ventures (INVs) network ties established much earlier in the life cycle were the essence of initial foreign market entry. However, no pattern explained the further development of INV networks, they being social and economic, strong and weak, but the network, however, was seen to expand and become more complex with time.

Previous studies have looked at the networking activities of multinationals, SMEs and small firms, sometimes referring also to the ownership characteristics of the firms in question. They have highlighted various factors that influence such activities (Coviello & McAuley, 1999), yet *have not specifically reflected on the family dimension, i.e. the aspect, which distinguishes family businesses (FBs) from other kinds of firms* (Swinth & Vinton, 1993). Non-family managers tend to be more rational decision-makers, in the sense that they are not burdened by emotional connections to the firm, family values, or altruistic behaviour (Gomez-Mejia *et al.*, 2011; Banalieva & Eddleston, 2011), whereas these attributes could impose specific constraints on the ability of a SMFE to engage in certain strategic moves (Delgado-Garcia & de la Fuente-Sabate, 2010; Morgan & Gomez-Mejia, 2014), including their relationship-building activities (Hewapathirana, 2014).

The relationships between FBs and their network ties may well be more lasting and extend over a wider compass (Arregle *et al.*, 2007), in so far as they are less motivated by purely economic motives (Miller *et al.*, 2009). According to Child and Hsieh (2014), SMFEs might have a reactive decision mode in networking activities. The studies by Kontinen and Ojala (2011, 2012) suggest that intermediary network ties are a more important source of initial internationalization for SMFEs than they are in other types of firms and that SMFEs invest time and spent a lot of resources on finding and maintaining relationships with suitable and trustworthy network ties, and on developing a high level of trust and commitment with the selected

network ties. Altogether, network ties have proved to be a specific and central element in the success of their internationalisation, but we know very little about them in the context of FB internationalisation (Arregle et al., 2016; Graves & Thomas, 2006; Kontinen & Ojala, 2010a; Pukall & Calabro, 2014), although long-lasting family enterprises indeed give a unique context to study networking over time.

We sought to provide insights into embeddedness and the process of international embedding through a qualitative study (see Corley & Gioia, 2004; Gioia, Corley & Hamilton, 2012; Maxwell & Miller, 2008), answering our research questions: 1. *How do entrepreneurs in SMFEs describe and interpret the process of getting internationally embedded over time?* 2. *How might the international networking among SMFEs be related to their SEW endowments?*

We contribute to the network model of internationalization (Johanson & Mattsson, 1988; Johanson & Vahlne, 2009) by showing how family ownership and socio-emotional wealth of family firms influences on networking activities. Secondly, we extend the lines of Coviello (2006), who concentrated on international networking process of INVs. We were able to discover two specific patterns of getting embedded internationally over time: Most SMFEs wanted to create an extended family with international partners, leading in turn to exhaustive embeddedness, since such a trust could not be achieved with the foreign parties and the entrepreneurs tolerated the relationships no matter what. Some SMFEs, on the contrary, were able to be satisfied with less close partners / take the cultural difference more clearly into consideration, leading to the ability to have a wider range of international network ties and a beneficial state of embeddedness.

Entrepreneurial Networks under Uncertainty, Embedding, and Internationalization

According to the network model of internationalization (Johanson & Mattsson, 1988), internationalization is related to the development of network ties with other firms belonging to a network in a foreign market. These ties between firms in different markets act as *bridges* facilitating FME (Johanson & Vahlne, 1990). The model proposes that a firm can compensate for its limited resources, either by developing its position in an existing network, or by establishing new ties (Johanson & Mattsson, 1988). In networks, mutual benefits motivate firms to develop and maintain network ties with each other (Johanson & Mattsson, 1988; Johanson & Vahlne, 2003).

Described as “a set of actors and some set of relationships that link them” (Hoang & Antoncic, 2003, p. 167), a network develops when interaction takes place between the enterprise and others to whom the enterprise is connected. Studies on *entrepreneurial networks* emphasize the im-

portance of social networks (Jack & Anderson, 2002; Keupp & Gassmann, 2009; Slotte-Kock, 2010; Ellis, 2011) in addition to business networks. Several studies have shown that both prior business networks (e.g. customers, suppliers, and supporting institutions) and social networks (e.g. friends, family, and former customers) influence the internationalization process in enterprises because they assist entrepreneurs to find foreign market opportunities (Evers & Gorman, 2011; Keupp & Gassmann, 2009; Ellis, 2011).

Entrepreneurship is situated within a social context (McKeever, Anderson, & Jack, 2014; Ozgen & Baron, 2007), and so does internationalization (Coviello, 2006, Ellis, 2011), which makes the inclusion of social networks when investigating networks of enterprises important. Larson and Starr (1993) examined the evolution of network ties in emerging firms and suggested that even newly established, work-related ties may become evolve to become more relationally-embedded over time as social exchanges are layered over the business relationship. How embedded an entrepreneur is to its network ties is related to the nature, depth, and extent of his/her ties into the environment (Dacin et al., 1999; Jack & Anderson, 2002). *Embedding* is the process of networking over time: it can be defined as the process in which an entrepreneur becomes part of a local structure (Jack & Anderson, 2002). Hite (2005) highlights the additive nature of ties whereby social relationships can develop towards business ties over time. Also, Jack et al. (2008) demonstrate that networks are subject to change, growth and development over time.

Arregle et al. (2016, p. 23) recently concluded that internationalization of family businesses (FBs) is “so diverse and context dependent that it is crucial to examine it in a much more fine-grained manner”. The internationalization of family enterprises indeed has been shown to be different from that of firms with other ownership structures (Fernandez & Nieto, 2005; Graves & Thomas, 2006, 2008; Kontinen & Ojala, 2010; Pukall & Calabro, 2014; Sciascia et al., 2012). This has been thought to be due to their limited growth objectives (Donckels & Fröhlich, 1991), to avoidance of risk (Claver et al., 2008), and to restricted financial capital (Gallo & Pont, 1996). In addition, there could be a connection to limited managerial capabilities (Graves & Thomas, 2006). Family enterprises seem to be unable to build resources and capabilities that produce competitive advantages for internationalization (Fernandez & Nieto, 2005, 2006). Furthermore, family enterprises are less likely than non-family enterprises to form networks with other enterprises (Graves & Thomas, 2004; Kontinen & Ojala, 2012b; Roessl, 2005).

Family enterprises have an unusual devotion to continuity, tendency to nurture the community of employees very carefully and search for closer connections with customers and partners in order to sustain the business (Miller et al., 2008). They usually have an extremely high level of trust

within the organization, also called strong internal social capital (Salvato & Melin, 2008), which can reduce transaction costs, facilitate information flows, knowledge creation and accumulation, and creativity (Arregle et al., 2007; Burt, 2000). However, internal social capital does not necessarily result in faster internationalization; in fact it may become a liability by hindering the flow of information and blocking links to new contacts (Musteen et al., 2010). Hence, the specific features of SMFEs can be assumed to have an effect on the manner in which family firms build and develop external social networks. Cesinger et al. (2016, p. 587) concluded that “the primacy of SEW disrupts the ability of current internationalization models to appropriately explain the behavior of family firms and may understate the difficulties relevant to family firms while internationalizing and the peculiarities of their solutions.” Socio-emotional wealth (SEW) can be divided into five different aspects: (i) family control and influence; (ii) identification with the firm; (iii) bonding social ties; (iv) emotional attachment; and (v) renewal of family bonds via dynastic succession (Berrone et al., 2012).

We offer new insights into our understanding on SMFE internationalization by introducing the concept of embedding derived from social network theory is suitable for these firms because of the distinct nature of these firms.

Research Context

The family is the original economic unit, and from it are derived all other economic organisations (Schulze & Gedajlovic, 2010). As recently as the start of the 20th century, all businesses were family-owned: the presence of the family in the business was taken for granted, and there was thus no need to label a business as a family business. The world has changed dramatically since those times, not least because of globalization, but family enterprises are still of great importance to any economy. They account for an important proportion (on average 40–50% of all jobs) in European private employment, and they reinvest profits responsibly, preferring equity as opposed to debt financing.

Although often neglected both in societal and academic discussions and in measures taken, family enterprises actually form the majority of all firms around the world: 60–85% of all the firms in the EU and the USA (EFB, 2012) and an even a greater proportion in the developing countries, are family-owned. Furthermore, they account for an enormous percentage of the employment, the revenues, and the GDP of most capitalist countries (EFB, 2012; Shepherd & Zacharacis, 2000). FBs tend to act as responsible owners because of their long-term strategy towards stakeholder interests, including employees, customers, shareholders, and local communities. Furthermore, family values are strongly passed on in FBs, exhibiting a high sense of social responsibility. It can also be claimed that FBs act as natural

incubators of an entrepreneurial culture, fostering the next generation of European entrepreneurs.

Studies on *family enterprises* have highlighted the distinct features of family enterprises through findings on the intertwining of ownership, management, and the family. A recent theoretical notion has incorporated the notion of *socio-emotional wealth* (SEW) endowment (Gomez-Mejia et al., 2011). SEW is related to the non-economic rewards that family owners may obtain from their businesses: it emphasises how a FB's actions may be affected by the socio-emotional concerns of each family member. Socio-emotional concerns are related to the affective value gained from a firm by family (Berrone et al., 200; Gomez-Mejia et al., 2010). It is composed of the effect of belonging, affect and intimacy (Kasper, 1983), i.e. emotional connections to the firm and identification with the firm and bonding social ties. Secondly, family values (Handler, 1990) are closely related to SEW as well as the fulfillment of family obligations and altruistic behaviour (Schulze et al., 2001). The renewal of family ties through dynastic succession (Gomez-Mejia et al., 2007, 2011) is certainly also related to SEW, but in addition, the satisfaction of external stakeholders, such as local society, suppliers and customer and employees makes part of SEW (Carney, 2000; Dyer & Whetten, 2000; Sharma & Sharma, 2011; Uhlaner et al., 2012). On the basis of this, also some features in the internationalization of family enterprises can be understood and explained through the SEW perspective, according to which the will to guarantee the SEW of the family enterprises always comes first in their strategic decision-making.

Finland is a small and open economy indicating that internationalization is an essential phase for enterprises to grow and even to survive. About 85% of Finnish enterprises are family-owned enterprises. Finland has a history with more than ten wars. The war debt put by the Soviet Union after the second world war had both positive and negative consequences: on one hand, the Finnish economy grew significantly, but, on the other hand, a big share of Finnish enterprises was able to export almost everything they produced to the Soviet Union, without considerable effort. This, on its turn, caused the fact that the collapse of Soviet Union and the deep recession in the beginning of 1990s had severe effects on the Finnish economy and enterprises. They needed to start looking to a new geographical direction now at the latest. Joining the European Union in 1995 significantly facilitated internationalization for companies operating in Europe in special.

The 15 firms under investigation fulfilled the following criteria: (i) *Nationality/size/industry*: the firms were Finnish (Finland is a small and open economy in which internationalization is almost a necessity, and about 85% of Finnish firms are family-owned) with fewer than 250 employees at the time of the interviews (OECD, 2003), belonged to the manufacturing industry (typical for a family-owned industry, and minimizing the effect of industry in a cross-case comparison); (ii) *Ownership, management, and lon-*

gevity as per the definition of a FB: the firms were be family-owned, with the family controlling the largest block of shares or votes; also to have one or more of its members in key management positions, and to have members of more than one generation actively involved with the business (see Graves & Thomas, 2008; Zahra, 2003). All the case firms in this study were more than 90% family-owned, with at least two generations involved in running the enterprise (see Table 1); (iii) *Degree of internationalization*: the firm had at least 30% of its sales from abroad, either directly or indirectly, and to operate regularly in at least three foreign markets (FMs); (iv) *Intermediaries or subsidiaries as operation mode*: the firm had to have either its own foreign intermediaries and/or partners via whom products were delivered, or to own foreign subsidiaries, or to engage in a combination of these two (we excluded firms with only indirect exporting). The enterprises under study were operating in at least three foreign markets around the world (see Table 1), mainly in Europe and Asia.

Research Approach and Methods

We sought to provide insights into the process of international embedding through a qualitative, interpretive study (see Corley & Gioia, 2004; Gioia, Corley & Hamilton, 2012) and similarity-contiguity-analysis (Maxwell & Miller, 2008) on the international embedding of the experiences of 36 entrepreneurs in SMFEs.

Data Sources

Interviews. We conducted 36 in-depth-interviews in 15 small- and medium-sized family enterprises (SMFEs) with CEOs, international sales/ marketing managers, ex-CEOs, owners, and other managers involved in international activities, most of them entrepreneurs. These were the people who had the most in-depth knowledge on internationalization, such as current and previous CEOs, (international) sales managers, managers of governance, main owners, etc. The informants were asked to describe how the internationalization of the firm started and proceeded, especially from the perspective of networking. They were telling their stories freely, and we as interviewers mainly asked questions such as “Could you elaborate more on this/the importance/development of this network tie. How? Why? When?”. To begin, neutral questions in relation to their personal background and history in the enterprise were asked. The case firms are from the manufacturing industry, have more than 90% of family-ownership and at least two generations involved in the management of the enterprise. Their products range from profiles structures for windows and measuring equipment to clothing items and design lamps. The companies mainly operate abroad via exports via agents or distributors and sometimes own sales subsidiaries and even production sites.

Table 1.

Case Firm	% family ownership	Year of establishment	Generation(s)	Product	Start of internationalization	Three most important foreign markets (on the basis of sales %)	Operation modes abroad
A	90	1975	1 st & 2 nd	Linkage parts and rear hitches	1990s	China, India, Italy	Export via agents and subsidiary
B	100	1928	3 rd & 4 th	Profile structures and frames for windows	1920s	Norway, Sweden, Poland	Own exports and export via agents
C	100	1945	2 nd & 3 rd	Measuring equipment	1970s	North America (Canada & the USA), Sweden, Germany	Export via distributors and subsidiaries
D	100	1983	1 st & 2 nd	Sliding and folding door systems	1984	Sweden, Norway, UK	Export via agents
E	100	1995	1 st & 2 nd	Wooden design lamps	2000	Germany, UK, Sweden	Export via agents and distributors
F	100	1986	1 st & 2 nd	Hydraulic generators, power washers, and compressors	1989	Sweden, North America, UK	Export via distributors
G	100	1990	1 st & 2 nd	Machines and equipment for paper industry	2009	Sweden, Germany	Export via agents
H	100	1967	1 st & 2 nd	Machines for forestry and agriculture	1970s	Austria, Belgium, Norway	Export via agents
I	100	1952	3 rd & 4 th	Custom sawn timber products	1960s	Switzerland, Germany, France	Export via agents
J	100	1956	1 st & 2 nd	Protective gloves for firefighters	1994	Norway, Switzerland, Germany	Export via distributors
K	100	1976	2 nd & 3 rd	Clothing items	1993	China, South Korea	Export via subsidiaries
L	100	1965	2 nd & 3 rd	Electronic detection and control devices	1970s	Sweden, USA, UK	Export via agents
M	98	1953	2 nd & 3 rd	Boilers	1982	Sweden, Estonia, Norway	Export via agents
N	98	1966	2 nd & 3 rd	Filling stations, tanks and related systems	1980s	Norway, Poland, Sweden	Own exports or export via subsidiaries
O	100	1972	1 st & 2 nd	Transport packaging material	1980s	France, Germany, China	Production sites abroad and export via agents

Archival sources. The open-ended interviews were the heart of this study, but we also used webpages, annual reports, brochures, email correspondence and magazine articles. The archival data was used to complement the interview data to have a good overview picture of the evolvement of internationalization and international networks of the firm.

Analytical Approach

We combined Gioia approach with the content analysis combining similarity and contiguity introduced by Maxwell and Miller (2008). The similarity / contiguity approach was originally initiated by Hume (1978) defining that ideas might be associated in three ways: by *resemblance (similarity)*, *contiguity* in time and place, and *cause and effect*.

Our analysis started with going very close to the interviews and strongly adopting the informants' views to create *first-order categories* (see Gioia, Corley & Hamilton, 2012; Langley, 1999; Lincoln & Guba, 1985; Locke & Golden-Biddle, 1997). In this stage, we faithfully adhered to informant terms and made little attempt to distill categories. The number of categories was 230, but according to Gioia (2004), it is important to get lost in this stage and have an overwhelming number of categories.

In the lines of Maxwell and Miller (2008), we then started looking for similarities and differences among the many categories, reduced their number to 22 and gave these categories labels or phrasal descriptors, becoming our 1st order concepts. This phase was related to similarity / difference approach by Maxwell and Miller (2008), but not on the basis of cases, but the over all experiences of the managers interviewed. Finally, we created altogether 6 2nd order themes but this was a process of altering in between similarity and contiguity analyses looking for actual connections between things, like suggested by Maxwell and Miller (2008). In this stage, where we as researchers thought at multiple levels simultaneously. Along the lines of Gioia et al. (2012), we then still further distilled the emergent 2nd-order themes into three *aggregate dimensions*, together forming our data structure presented in Figure 1. In the end, we formed a model for the process of embedding in an international context and noticed that also some cause and effect relationships emerged (see Hume, 1978) in relation to SMFEs continuing after the initiation and selection and adding social layers and trust development phases to two different directions, one leading to beneficial and the other one to harmful international embeddedness. Like recommended by Maxwell and Miller (2008) looking for similarities and differences, and contiguity analysis were indeed not used sequentially, but we alternated in between them (Maxwell & Miller, 2008) and we unintentionally also ended up with some insights about potential cause-and effect relationships (see Hume, 1978), although we had not an intention to

compare the 15 cases in between each other, but to concentrate on emerging findings in a holistic view.

Figure 1 below describes the findings emerging from the dataset, including the 2nd order themes and aggregate dimensions. In the following, we will go through the findings more in detail, following the order of Figure 1.

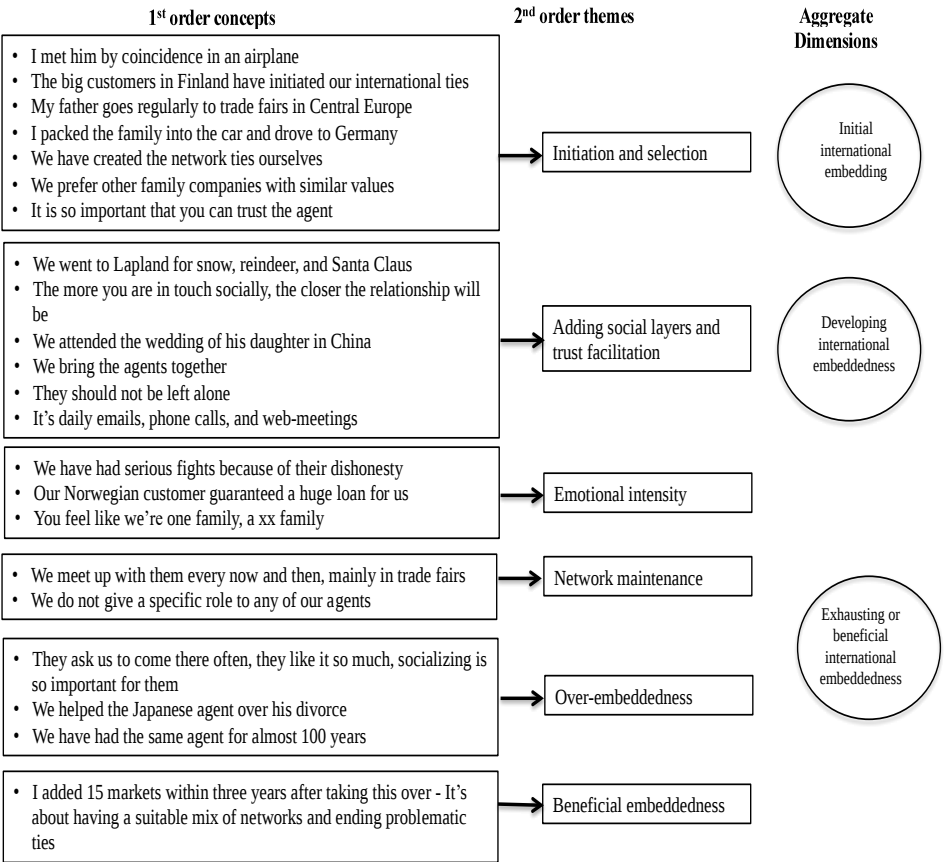


Figure 1. *Second order themes, first order concepts and aggregate dimensions*

Emerging Findings

Table 2 below illustrates the emerging empirical categories formed on the basis of the themes with illustrative quotes related emerging from the data, organized around concepts from the literature.

Table 2. Emerging findings and themes with quotes

Initiation and selection	Adding social layers and trust facilitation
<u>I met him by coincidence in an air-plane (Unintentional initiation)</u> "We have found the best agents so that they have contacted us. I believe that that's the way to get the most motivated people." "I must say that the best international network ties we have contacted us, the initiative has come from them." "The best agents have approached us. If they have a genuine interest in the product, then they really are stronger." "Our internationalization started when an Austrian entrepreneur who was visiting another company in Finland saw our logo and asked who we are and then contacted us. We then said that why not, you can start acting as our agent."	<u>We went to Lapland for snow, reindeer, and Santa Claus</u> "We take him to the archipelago. We have summer villa there and a boat and such." "Last Winter we went downhill skiing in Chamonix. And we also had customers with us." "We go hunting in the Austrian woods each time I visit them." "We took a helicopter flight and also drove their jet. They want to offer special experiences while we visit them." "Practically we drink wine around the clock. That's how it is there (in Austria)."
<u>The big customers in Finland have initiated our international ties (Unintentional initiation)</u> "The big customers in Finland have initiated our internationalization. They were using our measuring equipment in their products and sold them extensively abroad. It had created us a good reputational base to start our own exports." "Our big Finnish customers gave us really good references. We were able to create the first direct international sales via them." "We had really good references from our Finnish customer and they helped us in forming the network of agents. It is very expensive to travel abroad and create network ties on your own and I see the building of a network of agents is the only possible way to act." "We ask our existing agents whom they would recommend in the new market areas. It usually works really well."	<u>The more you are in touch socially, the closer the relationship will be</u> "When we meet, it's social. We actually take care of all the business negotiations on the phone and via email." "Social, personal relationships are so important. It influences hugely if you know the person and are in contact with him/her also in relation to other than just business matters. That's the way to get things going." "Although the agents are there to take care of networking, they want to see the source too. I believe it is important for them (foreign customers) to have the faces and interact with us also in the free time." "We discuss everything in relation to the enterprise, family, interests and such. Then it becomes a close relationship." "You really need to create the relationship on many levels. It is not only about sitting in the negotiation room and discussing business. It is about learning to know all sides of that person and then it is easier to do business, too." "They (in China) are so grateful for visits. It is so important for their and our business to meet them in person."
<u>My father goes regularly to trade fairs in Central Europe (Semi-intentional initiation)</u> "I had my own tiny stand there (in Stockholm) and got few small deals there and found this Swedish agent who then	<u>We attended the wedding of his daughter in China</u> "We attended the wedding of the daughter of our agent. For them it is very fancy to have foreigners in the wedding. It was a question of status for them."

created sales for us there.” “We attend the agent days in Finland. That’s where we have found most of our agents. The last one we found for Saudi Arabia.” “The international sales started only in the 1990s after I found good people in European seminars of the industry to start sales subsidiaries in Sweden and Denmark for us.” “Sometimes we start by putting an announcement in the newspaper.”	“We for example attended a 50-year birthday party.” “In France it is important to have long lunches with wine. For them, a Finnish efficient engineer working from eight o’clock in the morning until six o’clock in the evening is not the thing. They want to see you sober, drunk, tired, in the morning, in the evening and only after that they could start discussing business.” “We have evening celebrations with the whole staff about twice a year.”
<u>I packed the family into the car and drove to Germany (Intentional initiation)</u> “I went and lived two years in Central Europe to develop new and old network ties.” “I take my mum with me since she is good at speaking English and Swedish. Well, mum was then there in the meetings and sometimes if she did not make it, we hired an interpreter.”	<u>We bring the agents together</u> “We bring the agents together. The agent days, they were not based on bribing or anything like that, but on having fun together and trusting each other. Seven days and eight saunas. But now these guys do not have time to come to Finland anymore and it has been reasonable to start organizing the agent days in warmer environment closer by. Last time we were in Madrid.”
<u>We have created the network ties ourselves</u> <u>(Intentional initiation)</u> “We just collect addresses, insert them to the navigator and just drive into their front yards, go and demonstrate our products and leave samples out there.” “We bought an old library car and drove around Europe and USA in it. We drove directly to factories where we were able to show our equipment directly to end-users. They were quite surprised seeing a car with Finnish register plates. It was cheap, and we were able to drive it. Oh, we could write a book about the experiences during those two years in the USA.”	<u>They should not be left alone</u> “We call each other almost every day.” “We try to anticipate on the basis of the past what can be annoying to them so that we can totally avoid those mistakes.” “You need to treat them quite differently. For example, you cannot be working efficiently from 8 o’clock in the morning until 6 o’clock in the evening. You need to have long lunches with them. You need to understand their different thoughts about schedules. An that they for example shout on the phone is not so dangerous, they just have such a different temperament.”
<u>We prefer other family companies with similar values (Selection)</u> “I do not see I could negotiate with any other businesses than family businesses. Listed companies, we do not want to have anything to do with them, since they do not serve the thing why companies exist in the first place.” “When looking for an agent, we do not look for a big company, because we cannot be significant for a big company and that means they will not out emphasis on marketing us. The company needs to be of a pretty similar size and type.”	<u>It’s daily emails, phone calls, and web-meetings</u> “It’s constant emailing.” “It needs to be nice and funny, each time when we change emails. A similar type sense of humor even in daily communication.” “For price and quality negotiations one might use Skype, Lynx and such.” “We direct all the requests to them, they can trust we do so and do not pass behind their back.” “I go through their quality documents whenever I visit them.” “We try to avoid problems. We aim to have

"At the best, you can choose from a couple of alternatives. We always select the one who has values similar to us."	an appropriate level of quality. Too high-quality causes too many costs and makes us loose competitiveness, it needs to be just above what they want."
<u>It is so important that you can trust the agent (Selection)</u>	"It is very important to invite them over to Finland to tell about our operations to avoid misunderstanding. We tell what we have done and why we have certain prices, when you can get it cheaper from elsewhere. If you do not explain these to the new persons, they might easily misinterpret when looking at the figures in a wrong way. You need to be really active for a while in sharing the silent knowledge to the new customer."
"It is about chemistries in between people. My stepmother and the British agent, they just thought so similarly about things. Although my stepmother has passed away and the British agent is retired since many years, the strength of their relationship has been shifted to the following generation, us. The personal relationship with them, well I have known them for more than 20 years, too, is based on very good personal chemistry and we are both family enterprises and have similar values and a high level of trust. Trust has been deep and it still is and you know they think in the same way."	"I ask them what they want and change the product accordingly. I always go to the production site and ask, observe and discuss how many mistakes they have and look at the statistics, too."
"We trust the gut feeling. We had three alternatives: one who presented almost all Scandinavian trademarks and who was funny and praised a lot by other people, but we thought he had already too much to do. The second one with a decent background, but we just did not find any connection to him. Then there was a Finnish woman with no experience from the industry or acting as an agent, but we just had a gut feeling she was right kind of person for us and we selected her."	"We conduct the regular work with them."
"We have a similar sense of humor."	"We are flexible with price negotiations."
"The best relationships are best of friendship and warmth and they also observe our rights in the market by reporting to us if they recognize any copies of our products and they do for us as much as they ever can."	"We are ready to discuss any offers with them (agents) whenever they need help and support."
"The best agents have good network ties. Our best agent has got us inside a big operator in Germany and via that link we have been able to sell components to other market of that company, too."	"It does not take time from us to do the changes. They just need to call us and we change it. That's an important strategy we have been able to keep important customers."
	"We helped the new agent by giving full support for let's say 1,5 years. We transported them the equipment free of charge once a week. If the agent did not do well after it, the contract was ended."

Emotional intensity	Network maintenance	Over-embeddedness	Beneficial embeddedness
<u>We have had serious fights because of their dishonesty</u> "We have had serious fights because of their dishonesty. They said they had paid, but there had not been even an intention to pay. He is an alcoholic and his father has not even given the permission to use the bank accounts, although the succession took place for many years ago. The previous generation was much better but now this is quite awkward."	<u>We meet up with them every now and then, mainly in trade fairs</u> "We meet up with them every now and then, mainly in trade fairs. They are doing their share and know what to do. They get decent profits and do not need so much motivation from us and we would not have time for it, either."	<u>They ask us to come there often, they like it so much, socializing is so important for them</u> "Yes, we go there often. They ask us to come often, they like it so much, socializing is so important for them. They want us to see their grandmother and attend the birthday parties and be part of their family."	<u>I added 15 markets within three years after taking this over - It's about having a suitable mix of networks and ending problematic ties</u> "I added 15 markets within three years after taking this over from my father. Since I took over, we have had a very strategic approach in relation to networking, considering where we have sales subsidiaries, agents, production, etc. and we also attend trade fairs apart from our own search for partners. When my father was the CEO, I went and lived in Central Europe for a couple of years to strengthen the network ties. And to end the ones which were not beneficial for us."
<u>Our Norwegian customer guaranteed a huge loan for us</u> "Our Norwegian customer guaranteed our loan when the Finnish banks would not do it. It was quite unique. Otherwise, we would not have been able to invest. This is the best customer we have. And they also agreed to buy from us for four years minimum when signing the loan guarantee. My father created this customer already in the 1920s."	<u>We do not give a specific role to any of our agents</u> "We do not give a specific role to any of our agents. We have selected the opposite export strategy than recommended by the consultant and practiced by other companies. It is based on a multi-channel approach."	<u>We helped the Japanese agent over his divorce</u> "We helped him a lot during his divorce, both mentally and financially. And can day he would never even consider working for someone else than us." "You need to serve them (Chinese cooperators) in any need. He might call that he needs a container of French wine from this and this year."	
<u>You feel like we're one family</u> "You feel like we are one family. We have fun together, we share both personal and business matter, we have a strong feeling of belonging		<u>We have had the same agent for almost 100 years</u> "We have had the same agent for almost hundred years. My grandfather initiated it and my father con-	

together, just like in a big family. This has required time and we have needed to be trustworthy and fair and find trustworthy partners with similar kinds of values." "You feel like we are one family. We share everything and it's very open in all the ways." "We have had really difficult times. Both with our foreign partners and the market. But we just try to cope with it."		tinued with them. Although our product changed when I came, we still continued cooperation." "Most relationships are very longitudinal. We have had the same customers from the beginning, for more than twenty years. Some of them might leave us for a while, but then they actually come back.."	
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Initiation and Selection

Our findings indicate that the process of international embedding among SMFES started in the form of initiating and selecting suitable partners to start it with. This was due to the fact that none of the entrepreneurs among 15 SMFEs had ready-made *very own* international network ties applicable for the execution of foreign sales. The data showed the managers had *different levels of intention into international networking* and it seemed to be meaningful. Accordingly, we formed three different groups in relation to initiation of the foreign network ties. If the entrepreneurs merely reacted to an initiative from outside, the activity was regarded as *unintentional* if (s)he did something in order to internationalize (for instance attended international trade exhibitions or used the network ties of their existing customers, but rather as ready-made contacts with a neutral than proactive approach), the activity was regarded as *semi-intentional*; if the SMFE proactively looked for networks in order to internationalize, with plenty of own activeness, the activity is regarded as *intentional*.

Unintentional initiation: I met him by coincidence in an airplane - The big customers in Finland have initiated our international ties. 4 out of 15 SMFEs were unintentional in their approach to networking. The entrepreneurs regarded to be unintentional in their approach to international networking either reacted to unsolicited requests and then moved on to irregularly attending trade fairs, piggybacked on bigger domestic *companies* or were drawn to international markets via a development project in their neighbouring country, e.g. Sweden. The entrepreneurs mainly reacted when they were contacted instead of they contacting potential partners

themselves. Sometimes a true coincidence launched the embedding process and proved to be of extreme importance also in future international networking elsewhere, through his networks. Some entrepreneurs were able to gain their first international network ties by piggybacking their big domestic, globally operating customers.

“The big customers in Finland have initiated our internationalization. They were using our measuring equipment in their products and sold them extensively abroad. It had created us a good reputational base to start our own exports.”

Alternatively, and when entering new foreign markets, they have asked from their exiting agents and customers whom they would recommended as agents and / or customers in new foreign markets.

“Our reputation with some key customers has created new customers. They have spread the word of our quality and way of working.”

Semi-intentional initiation: My father goes regularly to trade fairs in Central Europe. The cohort we classified as semi-intentional was the largest in size (seven SMFEs), being that the main focus to international networking among these entrepreneurs has been in attending trade fairs or taking advantage of the indirect networks offered by their domestic customers. Several entrepreneurs among SMFEs mentioned the trade fairs as a very important context to find international network ties.

“My father goes regularly to trade fair in Central Europe. He did not have a department of his own, but was there together with an agent.”

Also seminars, newspaper announcements or the usage of recruitment companies were used as an approach to find suitable network ties abroad, although they were not always regarded as very useful:

“We have used the help of some recruitment companies abroad, but it did not prove out to be very useful. You need different types of profiles abroad from what you need in Finland.”

Intentional initiation: I packed the family into the car and drove to Germany - We have created network ties ourselves. The four SMFEs with an intentional networking approach built international networks themselves by contacting suitable customers and agents abroad from their domestic headquarters after carrying out searches via Google and various registers; attending the international seminars of the industry; strengthening the network ties gained at international trade fairs by living in the area and regularly meeting cooperators and customers. In the case of some companies, network selection was not the matter of a entrepreneur but of

the whole family or of a longer intentional stay abroad. One entrepreneur travelled to Central Europe with the whole family to develop new international network ties during the collapse of their whole international demand during the recession in the 1990s, whereas another company used the logic of sending the representative of the next generation to live abroad.

"I packed my family in the car and we drove to Germany to establish new agents, since we had lost the whole market due to recession."

The most active entrepreneurs indeed did not only network by coincidence or events and contexts organized by outsiders, but actually went physically to desired foreign markets and visited potential customers and agents via their own car or they even bought a library car for that reason:

*"We have created network ties ourselves. **We hire a car and drive around, meeting people** and showing our products and raising their awareness. When we have done 15 customers a day, then I think it's been a good day."*

Selection: We prefer other family companies with similar values - It is so important that you can trust the agent. It was emphasized by several entrepreneurs among the SMFEs that cooperation with other family-owned firms was most convenient for them and that is why they looked for other family companies with similar values for their new agents, too:

*"We prefer other family companies with similar values. **I could actually not imagine cooperating with other than family-owned companies.** Other companies just exist for totally different reasons. Family firms have very different values. **Owner values.** They have their **own money invested** and do not just play with someone else's money, losing totally the innovativeness at the same time."*

When selecting the network ties, the ability trust and an instinct or a "gut feeling" was important for the entrepreneurs interviewed. Also the networks of the network ties sometimes mattered:

*"It is so important you can trust the agent. You can trust what this other person is doing and that they support our view and have the same motive. **Even though some one looks good on a paper, if it does not feel good then just do not start anything, because that choice will have bad consequences in the long run.**"*

Adding social layers and Trust facilitation

After initiating the business network ties, the entrepreneurs among SMFEs seemed to intensely develop them into social network ties. We named this as a phase of adding social layers and trust facilitation (see also Hite, 2005) and this was common for all the SMFEs.

We went to Lapland for snow, reindeer, and Santa Claus. The entrepreneurs emphasized that they went on to doing many interesting, culture-specific things both in Finland and their target markets to develop the social side of the relationship, by e.g. visiting Lapland or the archipelago, downhill skiing in the Alps or hunting in Austrian woods:

"We went to Lapland for snow, reindeer and Santa Claus. And then in the summer we show our night less nights, lakes and summer villas."

The more you are in touch socially, the closer the relationship will be. The entrepreneurs among SMFEs strongly emphasized the meaning of the social side of the network ties, stating that face-to-face meetings were mainly for the social side of the business:

"The more you are in touch socially, the closer the relationships will be. We actually do not go abroad for business, but to learn to know these people."

The entrepreneurs explained that the social side indicated they wanted to learn about all the sides of the persons and that the social side was especially important in Asia:

"In Asia, the importance of social side of relationships is still higher. In Europe it is a bit more related to showing of the product."

We attended the wedding of his daughter in China. In addition to spending free time in a rather neutral environment, the entrepreneurs in the SMFEs also attended family events abroad, such as a Chinese wedding of the daughter of their agent or birthday parties.

"We attended the wedding of the daughter of our agent. For them it is very fancy to have foreigners in the wedding. It was a question of status for them."

In addition to entrepreneurs and their families, sometimes the whole staff was included in the social leverage, such as dinners and long lunches.

We bring the agents together. A further approach to adding social layers was bringing the agents from different markets together to make them interact in between themselves in addition to the entrepreneurs of the SMFEs.

"We bring the agents together. The agent days, they were not based on bribing or anything like that, but on having fun together and trusting each other."

They should not be left alone. Some entrepreneurs brought up that the Finnish way of speaking only when there are facts to be spoken about was not suitable and they emphasized the need to be in contact every day to ask how they (the agents) were doing:

"They should not be left alone or they feel we do not care. They need to be contacted every day."

Although most entrepreneurs felt that there is just one culture, especially in Europe, they still think thought they need to be treated differently and they also consider whom in the company would be the most suitable person to be in contact. One way of building trust was helping with the quality control also on the side of the customers, that way also learning to avoid problems they might have with them and which could decrease trust in between them.

It's daily emails, phone calls, and web-meetings. In addition to addition to face-to-face meetings, most entrepreneurs emphasized the importance of regular phone calls, emails, and web-meetings in between, but admitted that personal meetings still played the major role in their network maintenance.

"It's daily emails, phones calls, and web meetings. If you discuss technical details, it is okay to have a web-meeting, but if you discuss the deal, then you need to be sitting face-to-face."

Some of the entrepreneurs among SMFEs mentioned that they wanted to work together with the customers and agents in addition to being very open about all the processes in the company. We regard this as an important aspect in trust building:

*"The best situation is when **the customer asks us** about some opportunity and **we then see together how to implement their idea**. We then have a premium position. We take their hopes into consideration but can plan the product so that it is suitable for our production. It is an ideal situation."*

The entrepreneurs among the SMFEs indicated that they were ready to support their international cooperators whenever help was needed and to have good relationships, they were ready to be flexible with the price negotiations, product finalization and development and they wanted to support the agents for a significant amount of time:

"We are ready to discuss their questions whenever they need help. We are there to support their sales."

Emotional intensity

The data showed that most entrepreneurs among SMFEs showed features of emotional intensity, most probably related to their emotionally strong culture mixing family, ownership and business inside their own company. It showed both highly positive and somewhat negative features.

We have had serious fights because of their dishonesty. Based on a very long-term relationship, the case firm continued to cooperate with this agency despite all the untrustworthiness.

"We have had serious fights because of their dishonesty. They said they had paid, but there had not been even an intention to pay."

The emotional intensity emerged via feeling like one family with their network of distributors, great help from customers, fights with cooperators, which did not lead to ending the relationship and visiting the cooperators often since they liked it so much.

Our Norwegian customer guaranteed a huge loan for us. The emotional intensity was also emerging due to a great helping hand from a foreign customer, which enabled one of the SMFEs to exist and grow. This seems to be a very unique feature among SMFEs with long-enduring relationships:

"Our Norwegian customer guaranteed our loan when the Finnish banks would not do it. It was quite unique. Otherwise, we would not have been able to invest. This is the best customer we have. And they also agreed to buy from us for four years minimum when signing the loan guarantee. My father created this customer already in the 1920s."

You feel like we are one family. In some of the case companies with good agent ties, the entrepreneurs said they felt so close to their agents that they felt they are a big family, who has a very good time when spending time together.

"You feel like we are one family. We have fun together, we share both personal and business matter, we have a strong feeling of belonging together, just like in a big family."

The emotional intensity was perceivable also on the intense feelings of an entrepreneur who was afraid their company might end in a bankruptcy and felt that he would need to move to a totally new country because he would then betray not only the Finnish but also their foreign cooperators.

"We have had really difficult times with the agents and the market overall. I would need to move abroad if this went bankrupt and we betrayed them. Everybody in Finland but also abroad."

Network maintenance

Among four informants (from two firms), emotional intensity in relation to collaboration with the foreign network ties was not perceivable, but they rather concentrated on maintaining the network ties and being equal to each of them.

We meet up with them every now and then, mainly in trade fairs. In these two SMFEs, the network ties were not so intense and emotional, but the entrepreneurs rather met with the agents and customers mainly in the context of other events or via visiting them sometimes, but on a more neutral level.

"We meet up with them every now and then, mainly in trade fairs. They are doing their share and know what to do. They get decent profits and do not need so much motivation from us and we would not have time for it, either."

We do not give a specific role to any of our agents. One SMFEs had a quite different strategy from all the other SMFEs, executing a strategy they called a multi-channel approach, in which no agent is given a special role, new ones are constantly given a chance, and the network ties remain on a rather neutral level without a clear social element.

"We do not give a specific role to any of our agents. We have selected the opposite export strategy than recommended by the consultant and practiced by other companies. It is based on a multi-channel approach. We never think that if there is a good agent in some area that we would not recruit another one there. We constantly create new agents and customers. We have done it by travelling abroad, from door to door and by attending many other networking events and also by reacting to requests from interested agents and customers."

Over-embeddedness

Our emerging findings demonstrate that most SMFEs might have become too embedded into their international network ties. The entrepreneurs told how they have helped their agent over divorce, shipped European wine to China and carried on with cooperation in spite of huge difficulties.

They ask us to come there often, they like it so much, socializing is so important for them. The entrepreneurs have given a lot of effort to the social side of their international network ties, devoting much more time for

visiting their Chinese cooperators than they would like to, since it seemed to be so important for their cooperators and they wanted to please them.

"Yes, we go there often. They ask us to come often, they like it so much, socializing is so important for them. They want us to see their grandmother and attend the birthday parties and be part of their family."

We helped the Japanese agent over his divorce. The over-embeddedness was manifested in feeling such a big commitment and care for their Japanese cooperator they intensely helped them in his divorce, devoting a lot of physical and emotional energy to it, but on the other hand, it increased his commitment to the SMFE. Over-embeddedness to certain agents and customers was visible also for instance by servicing their agents in totally other needs than business issues, such as providing them with high-quality European wine. One of the entrepreneurs described that they just could not end cooperation with their Austrian agency, although everything was upside down there.

"It has been really demanding. Our previously excellent agency had turned into chaos. But what can you do, they have been our partners for such a long time and we do not have anyone else there. And what would the father say if we just ended the cooperation."

We have had the same agent for almost 100 years. The over-embeddedness showed also in the form of keeping the same international collaborators year after year and generation after generation, although there were disagreements and decreasing or non-growing sales levels on the background. Most entrepreneurs had changed their agents if a successor was not found and there was nobody to cooperate with anymore. The entrepreneurs among SMFEs revealed that it was very rare that their customers or agents would leave them or if they did, they would come back. The SMFEs tended to change agent only if the agency stopped to exist, i.e. when the initiative came from outside.

We only change agent if the agent does not find a successor. A couple of times there have not been a successor and we have needed to find a new one. And then a couple of times the agent left us in a very early phase already when the product was not suitable for their product range."

Beneficial embeddedness

I added 15 markets within three years after taking this over - It's about having a suitable mix of networks and ending problematic ties. The two SMFEs which had not experienced any bigger emotional intensity, but had concentrated on a rather neutral network maintenance ended up in a situation where their network was constantly growing, with new subsidiaries or

agent relationships being formed, and all of them remaining on an appropriate level, but not aiming at a maximum trust and commitment. Hence, they were also ending some not so fruitful relationships. This enabled an intense formation of new network partners, like expressed below:

"I added 15 markets within three years after taking this over from my father. Since I took over, we have had a very strategic approach in relation to networking, considering where we have sales subsidiaries, agents, production, etc. and we also attend trade fairs apart from our own search for partners. When my father was the CEO, I went and lived in Central Europe for a couple of years to strengthen the network ties. And to end the ones which were not beneficial for us."

A Grounded Model of International Network Ties Getting Embedded to the Family Structure

The emergent model of international embedding (see Figure 2) revolves around the practices, phases, and outcomes of getting embedded for internationalization.

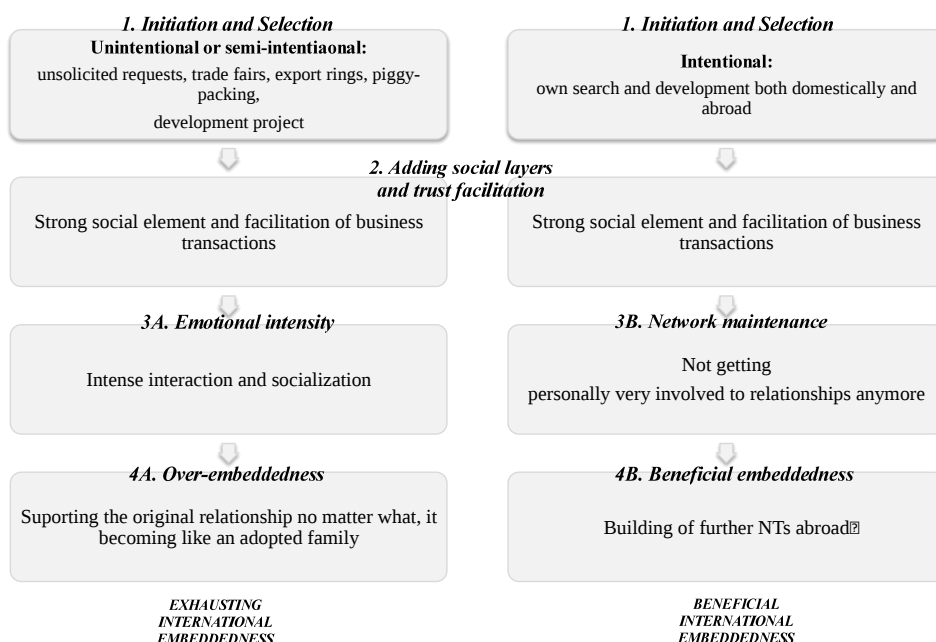


Figure 2. Model for embedding process among internationalizing SMFEs the vertical line referring to strength of ties and the horizontal on time

Viewed over time, the networking among SMFEs seemed to have the following characteristics, with certain phases tending follow each other:

- (i) We were able to depict unintentional (unsolicited requests, irregularly attending trade fairs, piggy-packing, development project), semi-intentional (trade fairs, piggy-packing, export ring, own search) and intentional approaches (own search and development both domestically and abroad) to international networking among SMFEs. The various ways of initiating and selecting network ties can be called the phase of **1. Initiation and Selection**.
- (ii) The SMFE network rapidly became more strongly embedded, also in relation to newly established network ties, with efforts to develop trust with the foreign network ties as quickly as possible and strong social interaction; this can be called the phase of **2. Adding social layers and trust facilitation**.
- (iii) We discovered that 13 of the 15 SMFEs continued social interaction with the network ties, with the aim of making them feel like extended family, this often leading to frustration when trustworthiness or sales were not on a desired level. This could be called the phase of **3A. Emotional Intensity**. However, two out of the 15 SMFEs did not get personally more deeply involved, but took care of their network ties when needed, called as an alternative phase to 3a, namely the phase of **3B. Network maintenance**.
- (iv) In 13 out of 15 SMFEs the support and loyalty to original collaborators, further continued, indicating personal involvement in the personal lives, such as divorces or desires of their international collaborators, with the habit of having all the collaborators as a extended family, exhausting the SMFEs in their embeddedness and willingness/desire to add any new network ties or markets, called the phase of **4A. Over-embeddedness**. In 2 of the 15 case firms, the relationship with the international collaborators remained on a more distant level and the range of network ties was expanded to bring new agents into both existing and new foreign markets. Also, problematic ties were terminated. This could be called the phase of **4B. Beneficial Embeddedness**.

In this study, we extend the model by Coviello (2006) by investigating the international networking of SMFEs over time. The SMFEs using big domestic customers to initiate internationalization had a somewhat similar starting point as the INVs studied by Coviello (2006). However, the INV network is typically highly international, and the SMFEs had only some indirect ties abroad. Most SMFEs had no existing network ties at all to rely on to internationalize but needed to trust intermediary organizations (see

Kontinen & Ojala, 2011), export rings, unsolicited orders. Our findings are in line with Child and Hsieh (2014) about SMFEs having a reactive decision mode in networking activities, although we had two counter-examples. Hence, SMFEs overall had a rather different pattern from INVs in launching internationalization.

The further development of international relationships differed even more from the INVs studied by Coviello (2006), since in all the SMFEs, network ties became social ties right after they were initiated and the strong social aspect remained there in the case of the majority of the SMFEs. The desire to have strong ties prevailed in the international networking behavior of most SMFEs – only two SMFEs were not trying to push their medium ties into strong ties. In contrast to INVs studied by Coviello (2006), among SMFEs the network rarely expanded or became much more complex with time, but the SMFEs relied on the same relationships throughout the years and only looked for new partners when the previous one died or when they needed to enter a new foreign market to increase sales.

In relation to our contribution to family networking literature, we depicted that family managers were not very rational decision-makers, in the sense that they were burdened by emotional connections to the firm, and family values (Banalieva & Eddleston, 2011; Hewapathirana, 2014). The study is in line with Arregle et al. (2007) on that the relationships between SMFEs and their network ties were more lasting and were less motivated by purely economic motives (Arregle *et al.*, 2007; Miller *et al.*, 2009). However, we were able to see two counter-examples who were able to keep emotional connections to the firm away from their networking outside of the firm.

The willingness of SMFEs to possess (solely) strong foreign network ties and tolerate the relationships no matter what seemed to lead to exhausting embeddedness, where the SMFEs had no ability to strengthen the existing ties further, end them or build new ties in the foreign markets. Most SMFEs treated their collaborators as family members, the international relationships becoming their adopted, extended family. Trust was an essential lubricant here. This might be related to the strength of SEW inside the SMFEs: the more the entrepreneurs identified themselves with the firm and wanted it to proceed to the future generations, the stronger international network ties were desired. The SMFEs with less intention to keep the firm within the family were able to keep weaker ties. SEW, hence, became a mechanism explaining the essence of networking among SMFEs. This adds to the findings by Salvato and Melin (2008) and Jack (2005) referring to strong internal social ties among SMFEs, and Musteen et al. (2010) pointing out how strong internal social capital could block links to new contacts, by demonstrating that the willingness of SMFEs to have strong ties resembling their family ties becomes a push factors in relation to foreign markets over time: it actually exhausts the ability of FB entrepreneurs to do any further

networking, being that the situation where the network ties are not quite on a desired level, kind of paralyses the SMFEs. A more beneficial level of embeddedness was related to not too intense personal interaction with the international network ties after the initial stages, enabling the SMFEs also to build new network ties in the existing and new markets and end problematic ones.

Altogether, we claim that the willingness to be deeply embedded abroad was harmful for SMFEs, leading them to become exhausted and stuck to the same networks and foreign markets without any development, whereas a medium level of embeddedness created in the initial phases of the process of embedding and just maintained was related to beneficial embeddedness, enabling changes (development, ending, forming of new network ties) in the SMFE network. Our data demonstrates that the SEW considerations expand to the international network ties they have, their international networks becoming their extended family. FB's actions may be affected by the family members' socio-emotional concerns, significantly influencing their internationalization and networking activities. The family entrepreneurs feel the international network ties belong to their family and they are affected to them and have very intimate, actually too close and over-embedded, relationships with them. They even practice altruistic behavior towards their international network ties, supporting them in many personal and business matters and continuing their cooperation with them despite not so successful business. Also the renewal of family ties through dynastic succession reflects in their international embeddedness, being that they have continued cooperating with their original network ties over successions, although they were not always so successful. Furthermore, the satisfaction of end customers (Carney, 2000) and employees as well as the family members in their agency firms were important for the 13 SMFEs. The unusual devotion to continuity, tendency to nurture the community of employees very carefully and search for closer connections with customers and partners in order to sustain the business, and the extremely high level of trust within the organization (Miller et al., 2008; Salvato & Melin, 2008) were related to specifically deep embedding, leading to emotional intensity, over-embeddedness and imprinting, which also have some negative influences on the management and maintenance of networks in SMFEs.

Our data demonstrates that the starting point of intentional internationalization with own search for networks was related to more beneficial embeddedness in later stages of internationalization, whereas an un/semi-intentional approach to networking seemed to lead to exhausting embeddedness in the later stages of internationalization. Altogether, the embedding actions were related to the SEW of the companies, indicating their will to have long-term, personal close, trustworthy, informal relationships with a strong human approach with other family firms and with as little risk as

possible. This led to a exhausting embeddedness, i.e. the willingness to have high-level trust and commitment from both sides seemed to e.g. prevent the entrepreneurs from creating new ties and ending problematic ties, since they were solely able to concentrate on building trust and commitment without getting it. A more neutral and widespread networking approach (suitable levels of bridging of structural holes and building network closure) seemed to lead to more beneficial embeddedness, enabling ending and creation of network ties, new operation modes and increasing foreign presence.

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Migration and International Entrepreneurship.

The Case of Western Europe

Jan Degadt

Abstract

There is no standard pattern for the internationalization of entrepreneurship. Internationalization can be pushed through international trade, international investment, international networks and so on. One way of internationalization is through migration. Like any entrepreneur, an immigrant entrepreneur can be triggered by necessity or by opportunity.

It is safe to assume that migration can be a trigger to entrepreneurship but there is no guarantee at all. Certain conditions have to be met. Only if this is the case there is a possibility that migrant entrepreneurship will result in a win-win for the migrants themselves and for their new host country.

The countries of Western Europe used to be at the origin of large migrations. Only recently these countries have become host countries for mass immigration. This can be explained by many factors, one of them being the European Union.

In this paper, literature as well as statistics are analyzed. As highly skilled immigrants have a higher probability to become entrepreneurs of opportunity and start a business, a country can augment entrepreneurship by 'importing' entrepreneurial talent. Visa policy can be an instrument of competition between countries in search of foreign entrepreneurial talent. Nevertheless immigrant entrepreneurs have specific needs. They need access to capital and they need to acquire skills such as the language and knowledge about local regulations.

The focus in this paper is on the impact of immigrant entrepreneurship on their host country. One suggestion for further research is about the effects of emigrant entrepreneurship on their country of origin.

Keywords: international migration, immigrant entrepreneurship, Western Europe

Introduction

As a start, we consider three 'Belgian' stories.

1. One of the most attractive products to be found when you go on shopping in Brussels (Belgium) are pralines. As every connoisseur should know one of the most famous brands is 'Leonidas'. Mr. *Leonidas Georges Kestekides* was born in 1882 in a Greek family in Anatolia. As a youngster, he left the Ottoman Empire and migrated successively to several countries, including the United States. He developed his skills as a chocolatier. He successfully participates to the World Exhibition in Brussels in 1910. He also finds his love in Belgium, marries in 1923 and stays in the country. Together with his nephew Basilio, who came over to Belgium in 1922, he creates and develops his brand and his enterprise. His main innovation was to re-create the praline from an exclusive product into a product of mass consumption, without lowering the quality. Mr. Leonidas Kestekides died in 1954 but his enterprise and brand name have expanded to 50 countries with 1250 shops. Following the website of the firm, consulted in 2017, 350 shops are located in Belgium and 340 shops in France.
2. In 1835 Belgium constructed the first railway on the European continent. The trains and the rails were produced and developed by the steel factories of *John Cockerill*. Mr. Cockerill was born in 1790 in Haslington (UK). At the end of the 18th century his father owned a factory in present-day Belgium. At the beginning of the 19th century the country was ruled by the French Emperor Napoleon Bonaparte. In 1813 John and his brother James took over the factory. In 1814 Belgium and the Netherlands united to become the United Kingdom of the Netherlands under King William I. This king and later the Belgian King Leopold I gave their support to the emerging steel industry in the Liège area. The main innovation of John Cockerill and his colleagues was the introduction of cokes – abundant in the Liège area at the time – for the production of high quality steel. This was essential for the expansion of the railroad network. Mr. Cockerill died in 1840 but in 1850 his steel factory in Seraing was the largest in the world.
3. Now we go back into time a little further. In the sixteenth century book-printing was a very innovative business. *Christopher Plantin* was born about in 1520 in France. In 1549 he emigrated to Antwerp, developed his skills and started his own printing business. His innovation is to further develop and refine the technology of book-printing without lowering the quality standards of the product. After a few years his enterprise had 22 printing presses and 80 employ-

ees. Because of political instability at the time he emigrated temporarily to Leiden in the Netherlands. He returned to Antwerp in 1585. He accepted orders from Protestant as well as Catholic rulers. After his death in 1589 his business was continued by his son-in-law Moretus. Today the Plantin-Moretus Museum is one of the most attractive places for a visit to Antwerp.

The three stories show three beautiful examples of entrepreneurs who realized their 'entrepreneurial act' by migrating from one country to another. In the three examples they were confronted with political turmoil and new technologies but as entrepreneurs they successfully transformed the political and technological challenges into opportunities.

There is no standard pattern for the internationalization of entrepreneurship. Internationalization can be pushed through international trade, international investment, the creation and development of international networks and so on. One way of internationalization is through migration. An entrepreneur can choose to migrate because a new host country offers more opportunities to implement the entrepreneurial idea than the country of origin. Or things can also happen the other way: an immigrant, arriving and looking around in the host country, may discover a new opportunity and implement the new entrepreneurial idea. Or it is possible that the immigrant has a problem to find a decent job and is forced to develop and implement an entrepreneurial idea.

It is safe to assume that immigration can be a lever for entrepreneurship. However, there is no deterministic chain of causality. Certain conditions have to be met. Some migrants will start a business out of necessity, just to avoid unemployment or because they cannot find a job which matches the qualifications they acquired earlier. Others will start a business because they see opportunities – or create opportunities – in their new environment. Some immigrants may have acquired relevant qualifications, many of them will have large networks as well. When immigration gives an impulse to entrepreneurship, it can be beneficial for the migrants themselves as well as for their new host country.

Our three examples show that migration and its effects are 'timeless' but in recent decades the patterns of migration have changed, especially in Europe. In the 19th and 20th centuries migration movements have grown more intensive all over the world and have become also more diverse. For a long time, Europe used to be at the origin of large emigrations. Migrants from Europe emigrated to places like North America, South America, Australia or New Zealand, where they were joined by migrants from other parts of the world.

Only recently, since a few decades, the countries of Western Europe have become a destination of a large immigration movement. This can be explained by several factors, for example the reconstruction after the Sec-

ond World War, the decolonization and the effect of the creation of the European Union in the fifties and its enlargement after the Cold War.

These migrations have been large but also very diverse. In most Western European countries – especially the Member States of the European Union – we find immigrant populations from the neighboring countries, other Member States of the European Union, other places in the world. The motives of the immigrants used to be very diverse. Some came out of economic or financial necessity. Others looked for freedom or looked for opportunities to realize their ‘European Dream’.

As we stated earlier, migration can be a successful way of international entrepreneurship, but certain conditions have to be met. To start and grow a business is not always an easy job. This is true for migrants, as well as for natives.

The main objective of this paper is to identify the conditions. We start with insights from the literature on immigrant entrepreneurship. Then we review some basic statistics with regard to Europe. Finally, we will discuss some recommendations.

Literature

Migrant entrepreneurship has been discussed extensively in the literature. In this paper, we discuss a small selection. More complete surveys have been published, for instance by Fairlie and Lofstrom (2013).

Most research on entrepreneurship – on which for instance the Global Entrepreneurship Monitor (GEM) is based - makes a distinction (although not a separation) between entrepreneurship of necessity and entrepreneurship of opportunity. Entrepreneurs start their business out of necessity when they see no alternative on the labor market. They start their business out of opportunity when they want to realize and implement a ‘business idea’. This holds for all types of entrepreneurs, including migrant entrepreneurs.

When migrants settle in a new country, they may be confronted with specific thresholds when they look for a job in the host country. They have a higher probability to get trapped in unemployment or to find a job below their qualification. If this holds true – or if it is perceived this way – migrants will be more inclined to choose for self-employment or to start a business of their own. This is a typical precondition for entrepreneurship of necessity.

Migration and self-employment

In a paper for OECD, Allison Schrager and Mariarosa Lunati (2010) take a look at the relationship between entrepreneurship and migration. They find out that indeed ‘*immigrants in many OECD countries exhibit higher rates of self-employment than natives*’ (p. 4). For instance, the percentage of

workers in self-employment for Belgium is 15.5 % for foreign-born workers against 12.1 % for native-born workers. In France the percentages are 10.8 % (foreign-born) and 8.1 % (natives). This is a general observation which holds for many countries, but it is not universally true. Local circumstances can differ. Moreover, statistics on self-employment have to be handled carefully. Entrepreneurs usually work as independent or self-employed workers but not all independent workers are entrepreneurs. The statistic of self-employment can also contain other types of employment such as seasonal or occasional workers.

Motivation of immigrant entrepreneurs

Migrants who start a business out of opportunity are typically highly skilled migrants. Following Schrager and Lunati, more than half of the founders of technology and engineering firms in Silicon Valley (U.S.) are immigrants. The question arises whether the immigrants compete the locals out of the market. In their study, the authors find no proof that the businesses of immigrants are crowding out native entrepreneurs, at least in the branch of technology and engineering firms.

The reasons and motivations why a migrant might attempt to start a business are not fundamentally different from other startups. The OECD paper quotes: cultural and personal predispositions, a regulatory environment supportive of entrepreneurship, access to capital and alternative employment options. These reasons hold for everybody but following the OECD paper immigrant entrepreneurs may be more sensitive to some of them. Nevertheless, *'It seems that in many OECD countries foreign migrants often pursue entrepreneurial activities'* (p. 24)

This may have implications for policy. A country can 'import' entrepreneurial talent through immigration. Migration policy can be used as an instrument for developing entrepreneurship. However, encouraging migration alone will not guarantee positive results. *'The evidence so far suggests that if policy makers desire high rates of successful and sustainable entrepreneurship, it is not sufficient to simply encourage more international migration'* (p. 24)

The authors of the OECD paper refer to Canada, which has *'an immigration policy that attempts to attract entrepreneurial migrants by allowing migration of foreigners with a history of successful business'*. But following some researchers this is not sufficient. Immigrant entrepreneurs are more vulnerable in the competitive environment of the host country due to poor language skills, misunderstanding of labor codes, regulations and high taxes. Migrants with more skills and more education tend to be more successful. *'The Canadian experience suggests that promoting successful entrepreneurship among migrants will require targeting more skilled migrants and*

providing support to migrants (of all skill levels) to help them understand local regulations, products and financial markets' (p. 25).

The Swedish Agency for Economic and Regional Growth is quoted as a good example for its action to develop a three-year program to promote foreign-born entrepreneurship. Specific items include training foreign business owners in how to develop a good relation with the banks and how to become part of supporting networks. *'Facilitating access to capital, promoting social networks and education on local laws and regulation enhance the probability of success'* (p. 25). Evidently migration policy can provide additional help. For instance, a country may want to encourage foreign students to stay after graduation. This holds especially for students in fields like engineering and science. A good immigration policy can provide additional support by assisting immigrants to get essential skills such as the necessary knowledge of the local language.

Contribution of immigrant entrepreneurs to the local economy

Robert Fairlie and Magnus Lofstrom (2013), in their discussion paper for IZA, present a literature survey on some important immigrant entrepreneurship issues. Most literature in the field is mainly supported by empirical research in the United States but some conclusions can be relevant for Europe as well. In general, immigration can be positive for the host country. *'Overall, much of the existing research points towards positive net contributions by immigrant entrepreneurs'* (p. 38). However, the story is not exclusively positive. It is rather mixed. *'Immigration may negatively affect native self-employment probabilities'* (p. 33) but immigration may also increase native self-employment earnings. Recent research on innovation points to positive spillover effects of immigrant entrepreneurs on the local economy. Immigrant-owned businesses also tend to have higher export quotes. To explain this, Fairlie and Lofstrom refer to the *'business networks with their home countries, similar languages and cultural ties'* (p. 37). In contrast to the contribution to export, the contribution of immigrant-owned businesses to job growth is not as clearly addressed by the literature.

In general, the assessment of immigration as an instrument for supporting entrepreneurship is positive. *'Immigrants are widely perceived as being highly entrepreneurial and important for economic growth and innovation'* (p. 37). Evidently this has policy implications and effectively it is reflected in immigration policies and visa policies by many countries. Nevertheless the authors warn that 'importing' entrepreneurship through immigration is not as easy as it seems at first sight. It is not easy at all to design a 'standard policy' on immigrant entrepreneurship. One of the reasons is that *'Immigrant entrepreneurs are not a homogenous group (...)'* (p. 37).

STEM entrepreneurs

Even when it is not easy, a country can augment the availability of scarce competences by encouraging immigration. This holds not only for entrepreneurship but also for other scarce talents in very diverse fields such as arts, sports and academia. Margaret E. Blume-Kohout (2016) made a survey of immigrant STEM field entrepreneurs in the U.S. Her research was commissioned by the U.S. Small Business Administration, Office of Advocacy. The STEM fields stand for science, technology, engineering and mathematics. These fields are considered as sources of *'tangible innovations in products and processes that help to spur economic growth'*. Immigrants with these competences are supposed to be more inclined to start successful businesses.

Mrs. Blume-Kohout refers to earlier findings that *'high-growth, high-tech STEM-based businesses in the United States are disproportionately founded by foreign-born scientists and engineers.'* Evidently there is need for a definition of so-called STEM-entrepreneurs. The definition used in her research includes business owners as well as *'joiners'* or *'employees in new startup ventures who share in some risk-taking'*.

The survey confirms the earlier finding that the rate of STEM entrepreneurship is higher among foreign-born college graduates than among U.S.-born graduates.

Part of this difference can be attributed to elements which are not related to migration such as other choices of undergraduate majors or elements such as age, gender, experience or marital status. Nevertheless, all these elements do not explain an observed difference of almost 4 percentage points in STEM entrepreneurship between immigrants who earned their highest degree in the United States and their native-born counterparts. Following the author, this can have a policy implication. *'Retaining more of these students in the United States post-graduation would tend to boost STEM entrepreneurship rates'*. However, this holds only for immigrants who earned their degree in the United States. STEM entrepreneurship is significantly lower among graduates who earned their highest degree abroad. Foreign graduated workers also are more likely to work for startups than for established organizations.

Not only the STEM background but also the cultural background and the administrative status of immigrants are relevant. This implies that the U.S. visa policy towards the country of origin of immigrants has a strong effect on the probability that these immigrants will become owners. There can be large differences following the immigration status (immigrated as a child, immigrated as a student for higher education, immigrated as an adult, being a foreign temporary resident worker ...). Nevertheless also the country of origin is relevant. For example, STEM entrepreneurs with their roots in India are very strongly represented. *'Although the 2010 SESTAT data indi-*

cate only 6.1 % of STEM business owners are from India, over 10 % of founders (and 28 % of foreign-born owners) of high-growth STEM startups started between 2005 and 2010 were from India'. When taking account of business owners as well as new venture joiners, Margaret Blume-Kohout estimates '22.6 % of STEM entrepreneurs are from India, followed by China (8.1 %), Taiwan (5.2 %), Canada (4.6 %), South Korea (4.4 %), Vietnam (4.2 %), Mexico (4.1 %), the Philippines (4.0 %), the United Kingdom (2.9 %) and Germany (2.0 %).'

When taking account of the rates of U.S. STEM business ownership, the top-five becomes: Vietnam (13.0 %), Taiwan (11.9 %), South Korea (10.5 %), Russia (10.3 %), Mexico (10.2 %), Germany (9.7 %) and India (8.5 %).

Access to financial capital

Evidently immigrant entrepreneurship also depends on the competitive environment and the general economic conditions. In this context the access to financial capital is very important. In a separate paper for the U.S. Small Business Administration, Robert Fairlie (2012) presented research on immigrant entrepreneurs and their access to financial capital. In his analysis he used information of the U.S. Census Bureau, more specifically the 2007 Survey of Business Owners and the 2010 Current Population Survey. Following these data, the business ownership rate as well as the business formation rate are higher for immigrants than for non-immigrants. Immigrant-owned firms tend to be smaller.

Following his analysis, immigrant owned businesses tend to start with higher levels of startup capital than non-immigrant owned businesses. These differences in levels of startup capital cannot be explained by differences in industry concentrations because there is no indication of substantial differences regarding the industry concentrations.

The startup capital itself is mainly raised from personal or family savings. There is no substantial difference between immigrant firms and non-immigrant firms regarding the origin of the startup capital. The same holds for the main source of finance used for expansions. Home ownership is an important determinant of business formation because *'home equity can be invested directly in the business or used as collateral to obtain business loans'*. Also, on this subject, there is a policy recommendation. *'Insuring sufficient access to financial capital is important for the continued contribution of immigrant-owned businesses to economic growth, job creation, innovation and exports'*.

Statistics

In the previous section we discussed some highlights in the literature. Now our focus will be on Europe. For centuries, Europe used to be at the origin of large flows of emigration. A large part of the population in places like

North and South America or Australia has its origin in Europe. At present, however, Europe has become a territory of immigration. This holds especially for the Western part of the continent and for the urban environments. In most countries the impact on the demographic balance has been tremendous. The main determinants of the demographic balance are the 'natural' balance (balance of natality and mortality) and the migration balance (balance of immigration and emigration). In most countries of Europe, the 'natural' balance has been declining for several decades, mainly because of declining birth rates. The effects of a declining birth rate are an increase in the share of the older age groups, a decline in the share of younger age groups and, finally, a decline in the population. In the western countries and in urban areas this 'natural' effect has been more than compensated by the impact of net immigration. The net result has been a positive population growth. In the Eastern part of the continent and also in rural areas, where immigration has been much lower, the results are a negative net migration and a decline of the population.

Although there are many differences between the countries and regions within Europe, we can observe two main forces behind the migration movements.

A first group of effects is related to the European Union (EU). There have always been large migrations of people between countries inside Europe, but intra-European migration has been stimulated by the European Union. The EU guarantees free movement for the citizens of its Member States within the Union. Moving within the Union has become (almost) as easy as moving within a country. So, the logic is that people will tend to move from countries or regions with a lower economic performance or opportunities to countries or regions with a higher economic performance or opportunities. The same type of movements has been observed within larger countries. There are examples outside the Union such as the United States as well as within the Union such as Germany.

The second group of effects is related to net immigration from the outside world into the Union. The motives behind this migration are very diverse. For instance, former 'guest workers' invited their family to come over and stayed in their 'host' country, citizens from former colonies relocated in the former 'mother country', economic and political refugees tried to get in and start a new life and so on. Evidently the vast majority of these 'newcomers' in the EU want to settle in urban areas and in countries or regions with high economic performance or opportunities and with a higher probability to find employment. Also, cultural affinities can play a role. For example, descendants of former emigrants may want to return to the country of origin of their ancestors. An example is provided by Austria. After the break-up of the Austro-Hungarian Empire, people of Austrian origin – many of them with entrepreneurial competences – returned to the country of their ancestors.

Impact of migration on the demographic balance

Eurostat, the statistical agency of the EU, provides some statistics which seem to confirm our observations. The demographic balance for 2015 showed an increase in the total population of EU-28 (the Member States of the EU at present) from 508 294.4 thousand persons on 1 January 2015 to 510 056.0 thousand persons on 1 January 2016. This represents an increase of 1 762.7 thousand. Behind this increase is a natural change of minus 135.2 thousand (excess of deaths over live births) and a positive net migration of plus 1 897.8 (excess of immigration and statistical adjustment over emigration). In nine countries, mainly in the South and East of the EU, the population actually decreased because the natural change as well as the net migration were negative: Bulgaria, Greece, Spain, Croatia, Latvia, Lithuania, Poland, Portugal and Romania. In the Czech Republic, Estonia and especially Germany the natural change was negative, but this was more than compensated by a positive net migration, resulting in an increase in the population. In Cyprus and Ireland, the natural change in the population was positive. The net migration was negative but smaller, resulting in an increase in the population. In Italy and Hungary, the natural change was negative. The net migration was positive but not enough to compensate, so the population decreased. In the other countries the natural change and the net migration were positive, and the population increased in 2015.

Other statistics of Eurostat show that about 10 % of the population living in the EU-28, or 52.8 million people (this is more than the population of Spain or Poland) is born in a foreign country. A majority of these foreign-born people comes from a country outside the EU. Net migration is not only changing the numbers but also the demographic structure of the population. Following Eurostat, the crude rate of natural population change was 0.6 per 1000 inhabitants for the period 2009-2014 while the crude rate of net migration for the same period was 2.6 per 1000 inhabitants.

Already in the short run, immigration brings a change in the demographic balance because it can induce an increase of the population. In the long run there are additional effects. Through migration the share of younger age groups can increase, with a positive impact on the birth rate and a positive impact on the natural demographic balance. In countries like Belgium and France the birth rate has increased due to second-generation children of immigrants.

Impact of migrations on the cities and regions

Migrants do not spread equally over the whole territory of a country. As stated earlier, they mostly prefer to settle in urban and metropolitan regions with high economic performance. The statistical impact is mostly felt in small countries and in countries which have been urbanized strongly. Luxembourg reports 45.3 % of its population as foreign-born (2014). The

lowest rates of foreign-born persons (less than 1 %) can be found in Bulgaria, Croatia, Lithuania, Romania and Poland.

The choice of a territorial circumscription (country, region, city) as statistical unit is relevant. As migrants tend to move to urban or metropolitan areas, the share of foreign-born inhabitants will be much larger if the statistical unit is a city or urbanized region rather than a country. In the Swiss region of Genève (Switzerland and Norway, although not Member States of the European Union, participated in the statistical research project of Eurostat), 51.3 % of the inhabitants are foreign-born (2014). Equally high percentages are to be found for the cities of Torre Vieja in Spain (48.7 %), Brussels in Belgium (44.4 %), Narva in Estonia (43.8 %) and the metropolitan areas of Lausanne (46.8 %) and Lugano (46.2 %), both in Switzerland.

The impact of intra-EU migration (from one Member State to another) is mostly felt in border regions. Luxembourg not only reports the largest share of foreign-born population, it has also the largest share of population born in another EU Member state (31.4 %). Luxembourg is followed by the Belgian area of Mouscron (23.3 %) which is very close to the French border and by the Belgian capital of Brussels (16.8 %). The proximity of a border to a Non-Member state is also relevant. For example, the largest shares of foreign-born population from European Non-member States are to be found in the regions of the capital cities Riga, Latvia (18.1 %) and Põhja-Eesti, Estonia (15.7 %). Both are very close to the border with Russia.

Geography evidently also is very relevant to explain the large share of African-born immigrants in the Spanish city of Melilla (18.1 % of the population). Melilla is Spanish territory but geographically located on the African continent. However other elements are also important. The largest share of African-born immigrants is to be found in the middle of France, in the Seine-Saint-Denis area (18.3 %). Melilla holds a second place and is followed by the Belgian capital region of Brussels (14.8 %). This suggests that immigrants prefer to resettle in areas where they can rely on networks of people of the same origin. Immigrants from the Caribbean, South and Central America look for cultural affinities. Their share in the total population is the highest in the Spanish regions of Mallorca, Tenerife, Madrid and Barcelona. Also, immigrants from Asia and North America are guided by cultural affinities: their share is the largest in regions of the UK.

As suggested earlier, migration has an influence on the distribution of the population following age groups. In general, the share of the age group 30-49 years is larger in the immigrant population than in the population in general. This tends to have a positive effect on the fertility rate but also on the labor force. The report of Eurostat confirms the effect of immigration on the age distribution in urban and metropolitan environments. This holds not only for the European Union but also for Non-Member states such as Switzerland and Norway who participated in the research. In the Swiss regions of Zug and Zürich and in the Norwegian capital city region of Oslo,

the share of 30-49-year olds in the foreign-born immigrant population is more than 45.0 %.

In another survey, Eurostat makes an analysis of the regional patterns of migration. The region with the highest net influx of migrants was Ilfov, the region surrounding Bucharest in Romania. The crude rate of net migration was 29.8 per 1 000 inhabitants in 2014 but in general the main destinations of migrants (in relation to the existing population) were to be found in the North or the West of Europe, mainly in Germany, the United Kingdom, Luxembourg, France, Austria and Sweden.

An increase in the share of younger age groups in a population not only enables to augment the participation to the labor market. As already mentioned it also tends to increase the fertility rate on a regional level. Eurostat made a survey of the birth and fertility rates. Three capital city regions in Western Europe, Brussels, Paris and London, have a crude birth rate which is higher than the national average of any member State of EU-28. The lowest crude birth rates were registered in regions in Southern Europe in Italy, Portugal and Spain. However, the interregional differences within Spain are very large.

Impact of migration on the labor force and entrepreneurship

Migration can have a large impact on the demographic structure. In general, the group in working age (16-64 years), especially the group of 30-49 years, will have a larger share. Evidently this will have a positive effect on the labor force of the country or the region. This can be a blessing if these additional people can be integrated in the regular economy and labor market. It can be a nightmare if this is not the case, resulting in more unemployment.

Now the question is whether this increase in the labor force, induced by immigration, will have positive impact on entrepreneurship. As explained in the previous section migration can have, but not automatically will have, a positive effect on entrepreneurship. The British weekly *'The Economist'* (February 4th, 2017) illustrates the question with examples from Germany. Following data of the Global Entrepreneurship Monitor (GEM), Germans are less likely to start a business than Americans, Britons or French. But in 2015, *'44 % of newly registered businesses in Germany were founded by people with foreign passports, up from just 13 % in 2003'*. One of the explanations is the large influx of refugees from the Middle East, many of whom have the necessary qualifications. *'The number of self-employed people with a Middle Eastern background rose by almost two-thirds between 2005 and 2014'*. Some refugees were already entrepreneurs in their country of origin and started a new business in their new host country.

The enterprise birth rate

Eurostat made a survey of the enterprise birth rate. Eurostat defines the enterprise birth rate as the share of new enterprises in relation to the total population of active enterprises. We expect that the enterprise birth rate will be the highest in urban areas of high-income countries with a large service sector and a diverse population. Statistics on a country level do not confirm this expectation. In general (but not exclusively) this enterprise birth rate was the highest in the Eastern part of Europe (in 2013): the Baltic Member States, Poland, Romania, Bulgaria as well as Slovenia, Portugal and the United Kingdom. Among the Non-Member States which were surveyed the score also is high for Turkey. Explanations need to be analyzed more accurately but one possibility is the higher frequency of entrepreneurship of necessity in these countries.

Eurostat also made a statistical survey of the enterprise birth rate on a regional level. Here the statistics seem to confirm better our expectations that the enterprise birth rate is higher in urban areas. Following the survey of Eurostat, *'enterprise birth rates tended to be higher than average in capital city regions'* in 2013. This can be explained by the presence of a large potential market in an urban environment, although in this type of regions the economy usually also is more competitive. Another element is the presence of more highly-educated workers and freshly graduated students. Graduates also are more inclined to start a business. Businesses in an urban environment also tend to be services-oriented, with lower barriers to entry. This holds not only in Western Europe. It is especially true in Bulgaria, the Czech Republic, Denmark, Croatia and Slovakia.

Migration and self-employment

In the previous section we already mentioned that statistics on self-employment can provide useful insights, but they need to be handled carefully. For instance, Belgium produced statistics on independent workers following their nationality. In 2015 a total of 109.770 independent workers with a non-Belgian nationality were registered. This represents an increase of 16.102 (17.19 %) compared to 2011. Of these independent workers with a non-Belgian nationality, 91.050 (82.94 %) were nationals of another EU Member State. High frequencies were observed for neighboring states such as France (12.440) and the Netherlands (16.255) and also for other Western European countries with a tradition of migration to Belgium such as Italy (10.765). The highest frequency, however was observed for Romania: 20.761 Romanian nationals were working as independent workers in Belgium (an increase of 71.64 % in relation to 2011). Part of the explanation is that Romania is a Member State since 2007 but some restrictions did remain on the movement of persons and the labor market. Romanians who

want to work in Belgium evaded restrictions on salary jobs by working as an independent worker.

Following the statistic on Belgium, most independent workers of Bulgarian, Romanian and Polish nationality work in trade or industry, less in services. The statistic also confirms that most independent workers of non-Belgian nationality work in urban environments and in cities such as Brussels, Antwerp, Liège and Charleroi.

Discussion

1. Like most people who have been considering to start a business, migrants can be pushed to entrepreneurship by necessity as well as by opportunity. There is no standard pattern. Immigrant entrepreneurs can turn the challenges into opportunities, but this will not happen automatically. Certain conditions have to be met.
2. On the macro level, migration can have an impact on the entrepreneurship rate in the host country. From the point of view of this host country, a combination of positive net migration, a selection of the right immigrants and a right policy mix can result in a higher degree of entrepreneurship.

Countries like the United States, Canada and Australia have a long experience with migration. They conduct an active policy to select the right immigrants, for instance by granting specific visa. In Europe, the countries of Western Europe have only recently experienced the effects of large-scale immigration. The migrations and the motives behind them are diverse. Immigrants in the EU from countries outside the EU are motivated by very diverse reasons such as former guest workers who stay in the host country, the effects of decolonization, the presence of political and economic refugees etc. One effect of the creation of an integrated market inside the EU (freedom of movement of products, capital and labor) is that migration between Member States within the EU has become almost as easy as migration within a single country.

3. On the micro level, it is evident that not every immigrant is a potential entrepreneur. Research shows that highly skilled migrants have a higher probability to become entrepreneurs of opportunity and to start a business. This implies that a country can upgrade the quality of its entrepreneurship by 'importing' entrepreneurial talent. There is a relationship between entrepreneurship policy and immigration policy which goes beyond more formal policies like visa policy.

The link between entrepreneurship policy and immigration policy is not confined to 'importing' entrepreneurial talent. Immigrants who are already in the country and who consider to start a business must be prepared to operate in the competitive environment in the host country.

They need access to capital. They also need to acquire skills such as the local language and knowledge about local regulations.

4. Geography is important. Within the European Union, immigration is mainly concentrated in the Western part of the Union and in the urban areas. In some countries immigration has changed the demographic balance, especially in the cities: the share of younger age groups has increased, inducing an increase of the birth rate within a generation and an increase of the supply of labor on the labor market.

The presence of a large immigrant population, especially in urban areas, increases the reservoir from which entrepreneurial talent can be tapped. There are indications that the share of independent workers is larger among immigrants, but this cannot be considered as proof that there is a causal relationship between immigration and entrepreneurship. Media reports indicate that the influx of refugees from the Middle East in Germany had an effect on entrepreneurship, but the focus of these media reports is mainly on highly skilled immigrants.

5. One suggestion for further research is about the feedback effects of migration on the country of origin. History is full of examples of emigrations – sometimes forced – of entrepreneurial people, causing a ‘brain drain’ for their country of origin. However, when these emigrants succeed to start a successful business in their new host country, there can be positive feedback effects for the country of origin when these entrepreneurs, now in diaspora, establish (or re-establish) networks. A recent and well-known example is about successful entrepreneurs of Indian origin in Silicon Valley who re-invested in Bangalore.
6. As the movement of people within the EU is free, it does not make sense for the Member States to design a specific migration policy with focus on citizens of fellow Member States. However, it does make sense to design an inclusive entrepreneurship policy which takes account of immigrant entrepreneurs. In the case of Europe, it also would make sense to intensify research on the feedback effects on the countries of origin of the networks created by entrepreneurs of Middle and Eastern European origin who operate in the Western part of the Union. Policy research can help to design a policy mix and determine the conditions to make it a win-win for everybody.

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Collaboration with Competitors in Business Networks

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Abstract

Many industries rely on their relationships with stakeholders. The key ingredient for partners' relationship success is collaboration and communication via electronic integration. In this context this paper aims at determining how a relation between two partners can be characterized and how the contribution of the relation to the performance can be evaluated.

The subject of the study is the collaboration between furniture companies, which jointly create furnishing under a contract for the furnishing of public buildings (hotels and business offices). The aim of the present work is to develop a simple and practical model for assessing the satisfaction with collaboration of business network participants.

The main factors have been identified, which strongly influence on satisfaction with collaboration in business networks. It has been found that these factors can be classified into two main groups: Climate of the relation; Structure of the relation. Relation climate is assessed using six primary measures, namely: Engagement; Confidence; Power exerted; Compatibility and Solidarity; Intensity of conflicts; Solve the conflicts. Relation structure is assessed using ten primary measures, namely: Flexibility; Formalization; Reconfiguration efforts; Control activities; Participation; Exchange information; Interdependence; Centralization of decisions; Duration; Relation Lifecycle.

Approbation of the model was carried out in two furniture companies, members of the Bulgarian furniture cluster. The author has conducted a series of interviews with nine managers from the enterprises, which have a bearing on the currently implemented cooperation.

From the data obtained, two conclusions were made:

- In this case there is a positive attitude of collaboration, but there is still no talk of satisfaction with collaboration.*
- The metrics from the group "Structure of the relation" have a stronger impact on satisfaction than the metrics from the group "Climate of the relation".*

Key words: collaboration, coopetition, business networks, furniture industry, satisfaction with collaboration

1. Introduction

Many industries rely on their relationships with stakeholders – customers, employees, as well as those with suppliers and partners, investors and market analysts, and even government regulators, trade associations and other entities that influence the general business climate. Ford et al. (2003) highlight that management of relationships among all business stakeholders have become the critical task on which a company's very existence stands or falls. An increasing number of businesses have recognized the benefits of establishing and nurturing ongoing relationships with their stakeholders. Many have begun to shift their emphasis from discrete transactions toward shaping longer-term, mutually beneficial exchange relationships (Claycomb and Martin, 2001).

According to Galbreath (2002), the key ingredient for partners' relationship success is collaboration and communication via electronic integration. Cohen (2006) shows that in organizations cooperative behaviour is based upon the operation of a system of inter-organizational norms, which are common understandings about the ways of conducting business through the facilitation of interaction within a social system.

The academic review and the empirical studies related to internal and external collaborations, led us to note that the different researches analyzed do not agree on a same set of attributes to characterize the various relations. Even more, the attributes used to characterize the same relation, are often not the same ones. In these works, it is obvious that the majority of researches on the collaborative relations do not agree on a unique set of criteria (attributes) to typify relations between partners of the same supply chain. The attributes used in each research are different and the contents of each type of relation remain sometimes very general.

The subject of the study is the cooperation between furniture companies, which jointly create furnishing under a contract for the furnishing of public buildings (hotels and business offices)

The aim of the present work is to develop a simple and practical model for assessing the satisfaction of cooperation of business network participants

The following main tasks are addressed to achieve the stated goal:

- To reveal the reasons for entering business to business relationships;
- To determine and analyse the prerequisites for Success of business-to business relationships;
- To determine the role of satisfaction in business networks;
- To study existing good practices for Measuring of satisfaction level in business networks;
- To study the role of a performance measurement in achieving satisfaction with collaboration in business networks;

- To Identify, analyse, and structure the factors that have a significant impact on satisfaction with collaboration in business networks.

The aforementioned tasks are resolved based on a spatial and detailed overview and analyse of scientific publications. Finally, the main factors have been identified, which strongly influence on satisfaction with collaboration in business networks. It has been found that these factors can be classified into two main groups: Climate of the relation; Structure of the relation.

On the basis of this, it is concluded that it is expedient to assess the satisfaction with a complex indicator that takes into account the importance of Climate of the relation and Structure of the relation. It is expedient to assess the impact of these two sets of factors by means of specialized indicators.

The above considerations have matched as a basis for building the structure of the model developed by the author.

2. Type and formats of business to business relationships

Business to business relationships are a process where two or many firms form strong and extensive social, economic, service, and technical ties over time. There are various reasons to establish business to business relationships. According to Castro et al. (2005), business to business relationships appear a valuable resource essential for the economic performance.

Buttle (2008) points out five reasons for creating and maintaining the relationships: (1) product complexity, (2) product strategic significance, (3) service requirements, (4) financial risk and (5) reciprocity.

A variety of reasons for entering business to business relationships influence different types of these relationships: partnerships, joint ventures or strategic alliances (Donaldson and O'Toole, 2007), trade associations, interlocking directorates and networks (Barringer and Harrison, 2000). Today traditional markets are being replaced by networks (Moller and Halinen, 1999).

Organizations oriented to networks should have skills to manage relationships. According to Ritter and Gemunden (2003), these skills might be considered network competence that is determined by such factors as access to resources, network orientation of human resource management, integration of intra-organizational communication and openness of corporate culture. Networks of value-creating relationships minimize transaction costs and provide access to valuable group resources and capabilities. In addition, internal markets may permit firms to transfer financial resources so as to reduce risk, and ensure network survival.

Lay and Moore (2009) distinguish two types of business networks: (1) collaborative network and (2) coordinated network. Collaborative network might be characterized by high complexity, outgrowth of project teams and

focus on expertise, innovation and market development; is organized around orchestrator and is relationship oriented. On the other hand, coordinated network is transaction oriented, has high volume, is organized around a concentrator and its outgrowth is value chains. Relationship management in business networks is complex because the cooperation and joint involvement are advocated the multiplicity and different format of relationships.

3. Success of business-to business relationships

According to Medina-Munaoz and Garciaa-Falcoan (2000), there are two distinct approaches to the success of business to business relationships. One approach associates the success of business to business relationships with partners' overall satisfaction with the relationship. Satisfaction refers to organization's positive experience as regards its partners' ability to obey rules and fulfil performance expectations. The second approach defines a quantitative measure of the mutual benefit that participants reap from the relationships. In general, the business-to business relationships might be considered as successful according to how fully its goals have been satisfied.

4. The role of satisfaction and continuity

There are two important dimensions to evaluating alliance relationships:

- how well satisfied are the parties in their relationship (i.e. satisfaction);
- are they likely to continue the relationship (i.e. continuity).

Continuity decisions are related closely to the overall level of satisfaction or dissatisfaction with the alliance. While satisfaction reflects existing feelings about the alliance based on evaluation of outcomes and experiences received in the past, continuity decisions reflect expectations of future co-operation. In this respect, Thompson (Thompson, 1967) notes that "prior satisfactory performance tends to suggest satisfactory performance in the future, and we might expect the organization to prefer to maintain an ongoing relationship rather than establish a new one for the same purpose".

Overall satisfaction with an alliance relationship is defined as "the degree of a partner's overall affective evaluation of the alliance relationship". This definition is consistent with previous treatments of the construct in the literature on interorganizational exchange relationships (Frazier, 1983; Anderson and Narus, 1984). The importance of studying satisfaction is underscored by Hunt and Nevin (Hunt and Nevin, 1974) who note that satisfaction among channel members leads to higher morale and cooperation, and reduces the tendency to withdraw from the system, or initiate suits, or seek protective legislation.

The three relational determinants of alliance satisfaction and continuity -commitment, competence and compatibility - were selected on the basis of their theoretical importance and practical significance in the current applied context (i.e. strategic marketing alliances in the personal computer industry) as determined from interviews with industry managers in the pretest phases of the research. The importance of these three relational predictors and their hypothesized relationships with satisfaction and continuity are now discussed.

Commitment of alliance partner. Commitment can be described as a pledge by alliance members to undertake certain actions that will facilitate the attainment of the alliance's strategic goals (Kiesler, 1971). In the context of forming co-operative ventures, Murray and Siehl (Murray and Siehl, 1989) note that a partner's commitment is manifested by the extent to which a partner is willing and able to commit resources to overcome barriers to entry. In this research, commitment of an alliance partner is defined operationally in terms of "the extent to which the partner is willing to provide quality and timely technical support to customers".

Competence of alliance partner. In this research, competence is viewed conceptually as one dimension of trust in an alliance relationship. Trust has been defined as one party's confidence in an exchange partner's reliability and integrity, and an important quality which influences this confidence is the competence of the exchange partner (Morgan and Hunt, 1994).

Compatibility of alliance partner. Compatibility is a crucial element which affects the extent to which orientations, abilities and activities of organizations can be integrated ' successfully (Whetton, 1977). Additionally, the complementarity of resource needs is a powerful force for coordinating efforts among alliance members (Cummings, 1984). In an inter-organizational context, the degree of compatibility among parent or partner firms has been found to be an important predictor of the success or failure of joint ventures (Murray and Siehl, 1989). Harrigan (Harrigan, 1985) distinguishes three kinds of compatibility in the context of joint venture relationships: strategic, cultural and functional. This research focuses on only strategic compatibility which we define operationally as "the extent to which an alliance partner has complementary goals and shares similar orientations that facilitate coordination of alliance activities and execution of alliance strategies".

5. Measuring of satisfaction level

In general, the measurement of satisfaction has five determinants, namely expectancy, disconfirmation, performance, attribution and equity (Oliver & DeSarbo, 1988). Another important determinant of satisfaction measurement is performance. Rossome (2003) emphasised that performance is the

degree to which the fundamentals of a business transaction meet the business performance expectations.

Satisfaction is used as an indicator for Key Performance Indicators (KPIs), for instance in identifying client satisfaction, customer satisfaction, contractor satisfaction and home buyer satisfaction. Typically, these are regarded as a comparative function between perceptions and expectations (Cheng et al., 2006).

Churchill et al., (1982) conclude that most of the previous research focuses on the link between expectation and perceived performance. In addition, expectations, experiences and knowledge have been shown to be basic judgments in evaluating satisfaction. In business, customer evaluation is important in order to meet the customer's expectations, create loyalty and meet challenges.

In marketing disciplines, satisfaction is examined by comparing pre-purchase expectations with post-purchase perceptions (Forsythe, 2007). To further understand the process of satisfaction, Oliver (1996) demonstrates a complete process as shown in Figure 1.

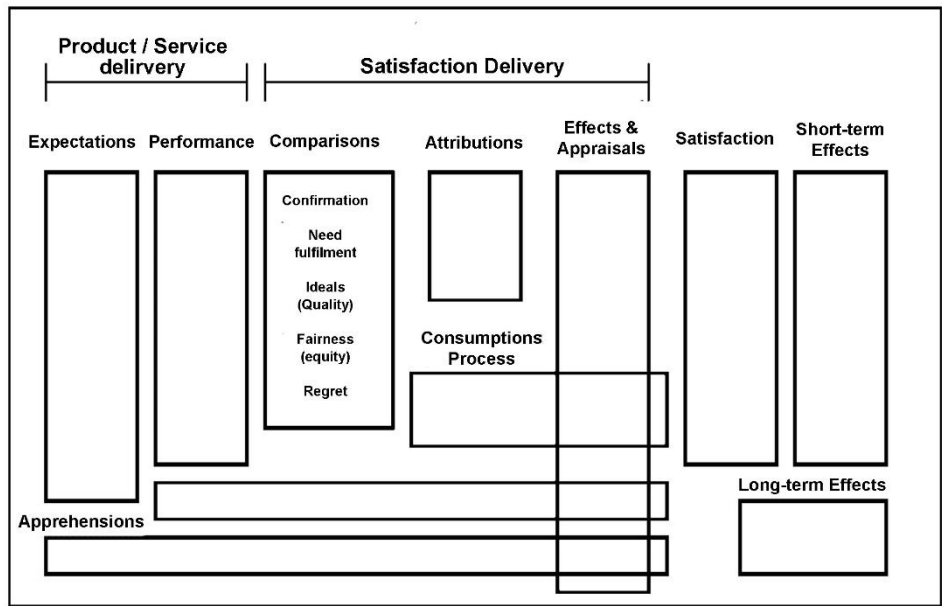


Figure 1. *The complete satisfaction process*

Source: (Oliver, 1996)

Satisfaction has been considered in various perspectives. In marketing management, consumer expectations are determined by the implicit com-

parison of expected and actual. Czepiel & Rosenberg, (1977) suggest that three formulas are appropriate in gauging expectations as part of satisfaction measurement. However, consumer satisfaction and decision processes may be influenced by several variables such as attitudes, perceptions, psychographic segments and behaviour. In summary, therefore, satisfaction is a judgment or response made by the participants concerning a product or service and which also provides a pleasurable level of consumption fulfilment.

The performance of contractors is known to be a key determinant of client satisfaction. Here, clients' satisfaction is defined in several dimensions identified using factor analysis techniques. Based on clients' assessment of contractor performance, a number of satisfaction models are presented,

In a broader sense, contractors should also perform to the satisfaction of other PC participants (e.g. architects) in order to sustain harmonious working relationships, since these are essential if projects are to be successful (Baker et al., 1988; Egan, 1998). There is a need therefore, to investigate contractor performance from the viewpoint of other PC participants (especially clients), from which models for predicting levels of client satisfaction can be developed. This will help to improve performance and enhance satisfaction for the betterment of overall project performance.

Satisfaction is regarded as an internal frame of mind, tied only to mental

6. Evolution of performance measurement

The evolution of performance measurement has seen a shift in focus from objective means of measurement to subjective means (Chan & Chan, 2004a).

Therefore, to improve existing methods, construction project measurement has come to include measurements that consider participant satisfaction (Forsythe, 2007; Karna, Sorvala & Junnonen, 2009; Yang & Peng, 2008). This change in approach is significant because it brings the following benefits:

- boosting repeat business and increasing long-term profitability (Wirtz, 2001),
- measuring customer perceived value and identifying any customer complaints to improve product and service quality (Kondo, 2001),
- measuring the health of marketer relationships with customers (Rossumme, 2003),
- benchmarking an organization and its performance (Gupta & Zeithaml, 2006), developing closer relationships between customer and service provider by sharing information and creating customer retention (Ennew, Reed & Binks, 1993), and predicting the quality of service delivery and perceived value (Gil, Berenguer & Cervera, 2008).

Satisfaction can also be formed by the performance of one party at a certain standard. Levels of satisfaction with a product refers to an individual's subjective evaluation of the various outcomes (Babin & Griffin, 1998). The generic concept of satisfaction is usually concerned with human behaviour, such as being goal-oriented. The ultimate outcome of satisfaction is complex to study as it is subject to the fulfilment of goals, desires, and motivations (Czepiel & Rosenberg, 1977).

Geysken et al. (1999) emphasized that if satisfaction focuses on the economic aspects of a 'relationship', it is known as economic satisfaction. On the other hand, satisfaction that is more concerned with non-economic aspects of the relationship is called non-economic satisfaction. Economic satisfaction channels a member's positive affective response to the economic rewards that flow from the relationship, such as sales volume and margins. Economic satisfaction is satisfied with the general effectiveness and productivity of the relationship between partners, as well as the resulting financial outcomes. By contrast, non-economic satisfaction is defined as the psychosocial aspects of a relationship and interactions between partners. A member satisfied with the non-economic aspects of a relationship appreciates the contact with a partner on a personal level and enjoys working with them because they believe the partner is concerned, respectful and willing to exchange ideas.

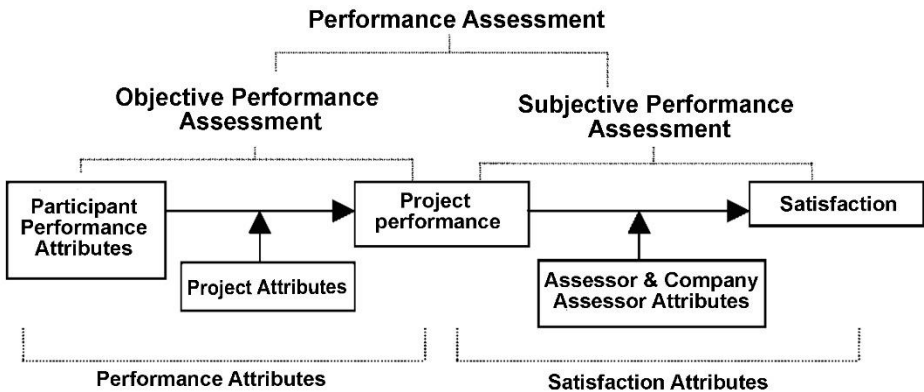


Figure 2. *Conceptual model of performance assessment.*

Source: (Babin & Griffin, 1998)

Conceptually, performance assessment (in terms of levels of satisfaction) can be influenced by two major attributes, those of the performer (i.e. performance attributes) and those of the assessor (i.e. satisfaction attributes). Satisfaction attributes are differentiable from performance attributes mainly due to their unique nature; they being inherent within an individual

(i.e. assessor). That is, performance attributes may reflect on both participants and projects, and will influence both participant and project performance. In contrast, satisfaction attributes reflect solely on the assessor and influence their performance assessment and as such are beyond the control of the performer.

7. Measuring satisfaction in buyer-supplier relationship from suppliers perspective

In today's business environment, buying organizations are increasingly facing the competitive need to work much more closely with their suppliers in order to optimize the performance of their supply chain (Lawrence, 2004). The relationship with supplier directly influences the product development costs, inventory levels, manufacturing schedules and timely delivery of goods and services. Moreover, supplier also directly influences the financial performance and profitability of a buying firm. Therefore, suppliers have become the true partner of value creation for buying organization from just delivering the parts (Ulaga and Eggert, 2006; Byrne, 2006).

According to Poirier and Houser (1993), a true partnership requires an understanding of the need of each party. Therefore to establish a successful relationship or partnership, buying organisation also need to satisfy the requirements of supplier, otherwise supplier will not contribute to their best to help the buying organisation and ultimately an unsatisfied supplier may produce less quality product and may behave opportunistically (Wong, 2000).

8. A framework for measuring impact of collaboration on b2b interaction

8.1 Framework concept

The framework proposed in this section highlights different dimensions which can characterize each type of relation; it is based on the above mentioned two levels: the context of the relation and its performance. The first level is composed of the following two dimensions:

- Climate of the relation
- Structure of the relation

The second level is based on one attribute: "the perceived satisfaction of the relation".

Relation climate is assessed using six primary measures, namely: Engagement; Confidence; Power exerted; Compatibility and Solidarity; Intensity of conflicts; Solve the conflicts.

Relation structure is assessed using ten primary measures, namely: Flexibility; Formalization; Reconfiguration efforts; Control activities; Par-

ticipation; Exchange information; Interdependence; Centralization of decisions; Duration; Relation Lifecycle.

Primary measure values are determined by ballistic scores on a 10-point scale from zero to ten. Low values are characteristic of a state of confrontation and high for cooperative status.

Primary measure values data are obtained through questionnaires that are distributed to managers from business collaborating organizations.

Based on primary data from the questionnaires, averaged data for primary measures is formed according to the following formulas

$$\overline{M}_i^{cl} = \frac{\sum_{j=1}^l M_{i,j}^{cl}}{l}$$

$$\overline{M}_i^{str} = \frac{\sum_{j=1}^l M_{i,j}^{str}}{l}$$

where:

$\overline{M}_i^{cl}$, $\overline{M}_i^{str}$ - averaged values of the i -th primary indicator in the group "Relation climate" and in the group "Relation structure";

$M_{i,j}^{cl}$, $M_{i,j}^{str}$ - primary values from questionnaires for i -th measure in the group "Relation climate" and in the group "Relation structure", given by j -th expert (manager)

l - number of experts.

Based on primary measures in the group "Relation climate" $\overline{M}_i^{cl}$ and in the group "Relation structure" $\overline{M}_i^{str}$, specialized indicators I_{cl} and I_{str} is formed according to the following formulas

$$I_{cl} = \frac{\sum_{i=1}^{n_{cl}} \overline{M}_i^{cl}}{n_{cl}}$$

$$I_{str} = \frac{\sum_{i=1}^{n_{str}} \overline{M}_i^{str}}{n_{str}}$$

where:

$\overline{M}_i^{cl}$, $\overline{M}_i^{str}$ - averaged values of the i -th primary indicator in the group "Relation climate" and in the group "Relation structure";

n_{cl} , n_{str} - number of primary measures in the group "Relation climate" and in the group "Relation structure"

8.2. Weights of specialized indicators

The method of pairwise comparison can be applied among the degrees of importance of every specialized indicator. Suppose we have n specialized indicators and let r_{ij} be the relative importance between the i -th and the j -th specialized indicators (for $1 \leq i \leq n$, $1 \leq j \leq n$), which means that r_{ij} managers consider the i -th specialized indicator is more important than the j -th one. The relative importance between two indicators can thus be reflected by the weight of performance indicator, w_k (for $1 \leq k \leq n$), by the following equations:

$$t_k = \sqrt[n]{r_{k1} \times r_{k2} \times \dots \times r_{kn}}$$

$$w_k = \frac{t_k}{t_1 + t_2 + \dots + t_n}$$

8.3. Calculation of the complex indicator for assessment of satisfaction with collaboration

The values of the complex indicator for assessment of satisfaction with collaboration are calculated according to the following formula

$$I_{compl} = w_{cl} \cdot I_{cl} + w_{str} \cdot I_{str}$$

where

I_{compl} - complex indicator for assessment of satisfaction with collaboration.

I_{cl} , I_{str} - specialized indicators for the group "Relation climate" and for the group "Relation structure";

w_{cl} , w_{str} - weights of specialized indicators for the group "Relation climate" and for the group "Relation structure"

For values 1 and 2 it is considered that there is dissatisfaction with collaboration. For values 3 to 6, there is a positive attitude towards collaboration, and for values of 7 to 10 it is considered that here is satisfaction with collaboration.

$$I_{compl} = w_{cl} \cdot I_{cl} + w_{str} \cdot I_{str}$$

where

I_{compl} - complex indicator for assessment of satisfaction with collaboration.

I_{cl}, I_{str} - specialized indicators for the group "Relation climate" and for the group "Relation structure";

w_{cl}, w_{str} - weights of specialized indicators for the group "Relation climate" and for the group "Relation structure"

9. Approbation of the model

Approbation of the model was carried out in two furniture companies, members of the Bulgarian furniture cluster. The author has conducted a series of interviews with nine managers from the enterprises, which have a bearing on the currently implemented cooperation. Each of the managers was given a questionnaire (Table 1).

The author has personally explained to respondents the conditions for giving a ball of 1 to 10. From the respondents was also consulted estimates about the significance of each of the two sets of measures in order to determine later the weighting factors of the specialized indicators.

Table 1. Assessment questionnaire

Factors	Measures	Confrontation												Cooperation
Relation climate														
Engagement	M ₁₁	Opportunist	1	2	3	4	5	6	7	8	9	10	Engaged	
Confidence	M ₁₂	Being wary	1	2	3	4	5	6	7	8	9	10	Entrusting	
Power exerted	M ₁₃	Submission	1	2	3	4	5	6	7	8	9	10	Equitable	
Compatibility and Solidarity	M ₁₄	Non-compatible	1	2	3	4	5	6	7	8	9	10	Compatible	
Intensity of conflicts	M ₁₅	Intense	1	2	3	4	5	6	7	8	9	10	Rare	
Solve the conflicts	M ₁₆	Negligence	1	2	3	4	5	6	7	8	9	10	Cooperative	
Relation structure														
Flexibility	M ₂₁	Rigid	1	2	3	4	5	6	7	8	9	10	Flexible	
Formalization	M ₂₂	Explicit	1	2	3	4	5	6	7	8	9	10	Non-native	
Reconfiguration efforts	M ₂₃	Minim	1	2	3	4	5	6	7	8	9	10	High	
Control activities	M ₂₄	Controlled	1	2	3	4	5	6	7	8	9	10	Liberate	
Participation	M ₂₅	Individualist	1	2	3	4	5	6	7	8	9	10	Participative	
Exchange information	M ₂₆	Occasional	1	2	3	4	5	6	7	8	9	10	Frequent	
Interdependence	M ₂₇	Weak	1	2	3	4	5	6	7	8	9	10	Intensive	
Centralization of decisions	M ₂₈	Centralized	1	2	3	4	5	6	7	8	9	10	Shared	
Duration	M ₂₉	Short	1	2	3	4	5	6	7	8	9	10	Long	
Relation Lifecycle	M ₂₁₀	Deterioration	1	2	3	4	5	6	7	8	9	10	Maturity	

After collecting all completed questionnaires by the respondents, the author has calculated the average values of the primary measures, the values of the specialized indicators, the weight factors and finally the complex indicator for the satisfaction of collaboration. The data is presented in the table below.

Table 2. *Primary data and calculated average values of the primary measures, values of the specialized indicators, weight factors and complex indicator for the satisfaction of collaboration*

Factors	Measure	Respondent									Average value
		1	2	3	4	5	6	7	8	9	
Relation climate	I _{cl}										5.421
	W _{cl}										0.414
Engagement	M ₁₁	6	5	5	6	7	6	7	4	5	5.66
Confidence	M ₁₂	3	3	4	4	3	3	2	3	5	3.33
Power exerted	M ₁₃	7	6	6	6	5	5	7	7	8	6.44
Compatibility and Solidarity	M ₁₄	4	5	3	4	4	3	5	5	4	4.11
Intensity of conflicts	M ₁₅	9	8	9	9	8	7	9	7	9	8.33
Solve the conflicts	M ₁₆	5	5	3	3	4	5	6	6	5	4.66
Relation structure	I _{str}										4.620
	W _{str}										0.586
Flexibility	M ₂₁	3	3	3	2	4	4	2	2	4	3.00
Formalization	M ₂₂	7	6	5	6	8	8	7	6	7	6.66
Reconfiguration efforts	M ₂₃	4	3	3	4	4	6	5	5	3	4.11
Control activities	M ₂₄	5	4	6	5	5	6	4	4	6	5.00
Participation	M ₂₅	3	3	3	3	4	3	4	4	3	3.33
Exchange information	M ₂₆	3	3	3	2	3	4	4	4	3	3.22
Interdependence	M ₂₇	6	5	7	6	6	4	8	6	7	6.11
Centralization of decisions	M ₂₈	4	5	2	3	5	5	4	4	4	4.00
Duration	M ₂₉	4	4	5	6	6	4	4	5	4	4.66
Relation Lifecycle	M ₂₁₀	6	6	6	6	5	7	7	5	7	6.11
Satisfaction with collaboration											4.951

From the data in the above table can be made the following more significant conclusions:

The value obtained for the complex indicator indicates that in this case there is a positive attitude of collaboration, but there is still no talk of satisfaction with collaboration.

The metrics from the group “Structure of the relation” have a stronger impact on satisfaction than the metrics from the group “Climate of the relation” because that is the opinion of a larger group of experts (six versus three).

10. Conclusion and future work

This paper has described a framework that was developed to understand B2B relationships. The objective was to identify different parameters and attributes that characterize an interaction between two companies and the impact of each of these attributes on the performance of the relationship. Of course, the problem of the performance is very difficult to fix in such a case, because in most of the cases, it is not possible to get a quantitative measure of the performance of one interaction. This point could be improved by proposing Key Performance Indicators, not for a process or an activity, but for an interaction. As this point is a very complex problem, we chose to develop a survey that asks manager their feeling about the performance of different interactions of their company with other companies.

This survey was based on a framework we have developed to characterize a dyadic relationship and the analysis of the survey is a first step to understand the impact of the "quality" of the relationship on the performance of a company.

Even if this first step is a qualitative and very subjective approach of the performance, it gives some indication on how managers consider the role of each attribute and its impact on the performance.

This framework will be useful:

- To observe: to characterize the relations through a questionnaire;
- To classify: to analyze and classify the possible types of partnership;
- To interpret: to give the main features of each type in terms of intensity of collaboration
- To locate: to characterize the impact of each type on the perceived performance of the relation
- To propose: to define a way of migration for the partners according to a starting situation towards a situation concerned (Best practices or collaborative strategies as: Vendor Managed Inventory (VMI), Collaborative Planning, Forecasting, and Replenishment (CPFR) etc.

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The Impact of ICT Uptake on the International Competitiveness of European Enterprises: Case of the SKILLS+ Project

Zane Zeibote

Abstract

This research paper contributes to discussion on the development of digital economy and focuses on the promotion of competitiveness of European Union (EU) regions and SMEs in the Digital Single Market (DSM) environment through uptake and integration of modern ICT tools. The research work presents a comparative analysis of the digital economy development in eleven selected EU regions according to the framework of SKILLS+ project¹. Despite diverse economic conditions and existing digital gap between regions, they also face common challenges and can apply similar tools for promoting SMEs competitiveness, and extended their knowledge to other regions.

Key words: digital economy, ICT, Digital Single Market, competitiveness, SME

¹ <https://www.interregeurope.eu/skillsplus/>

Introduction

The digital economy is a vital sector, driving very substantial growth, and it enables and executes the trade of goods and services through electronic commerce on the Internet. Furthermore, the impact of the digital economy extends beyond information goods and services to other areas of the economy as well as lifestyles more generally. The development of mobile devices, in particular, has greatly expanded the reach of the internet in society. (OECD 2012).

The European Commission (EC) aims at creating a Digital Single Market (DSM), which could generate economic and social benefits for Europe, notably by creating growth and jobs, improving productivity, reducing public spending and improving development of less developed regions in the EU and its Member States. (EC 2015b).

The Digital Single Market (DSM) strategy was adopted on the 6 May 2015. It includes 16 specific initiatives which were delivered by the European Commission until January 2017. The purpose of DSM is to create opportunities for new start-ups and allow existing companies in a market of over 500 million people. Completing a Digital Single Market could contribute € 415 billion per year to Europe's economy, create jobs and transform our public services. Completion of the DSM is one of the European Commission's political priorities. (EC 2015b)

The implementation of a DSM demands commonly agreed and implemented regulatory conditions for business environments and digital networks in the EU Member States. The EU explicitly recognizes the importance of these issues in "Europe in a changing world – Inclusive, innovative and reflective societies" (EC C(2016) 4614 of 25 July 2016). The digital economy is also an essential part for implementation of Smart Specialization Strategies of European Regions (*S3 Platform* Research and Innovation Strategies for Smart Specialisation (RIS3) aiming at increasing the level of regional cohesion and understanding the reasons for limited growth in these EU regions, especially in support to lagging regions. As research shows then most of the EU regions consider the ICT and digitalization as a cross-sectoral priority with an equal importance for the development of all economic sectors.

In 2017, compared with 2016 on overall the EU has progressed and improved its digital performance by 3 percentage points compared to last year, but progress could be faster, and the picture varies across Member States (the digital gap – between the most and least digital countries – is 37 percentage points, compared to 36 percentage points in 2014). The EU countries – Denmark, Finland, Sweden and the Netherlands, and Norway outside of the EU – lead the DESI² in 2017, while several Member States

² The Digital Economy and Society Index (DESI) is a composite index that summarises relevant indicators (~30) on Europe's digital performance and tracks the evolution of EU mem-

including Poland, Croatia, Italy, Greece, Bulgaria and Romania, are still lagging behind in their digital development compared to the EU average. The top-three EU digital players are also the global leaders, ahead of South Korea, Japan and the United States. (EC 2017)

The objective of this paper is to contribute to the discussion on digital market development by providing a comparative analysis of the SKILLS+ partner regions, as well as to identify main problems and opportunities for promoting development of SMEs through the ICT approach. Therefore, this paper makes an attempt to better understand numerous challenges affecting implementation of the DSM in the context of 11 European regions, which participate in the SKILLS+ project funded by the Interreg Europe programme. The project partners' regions include around 13 million inhabitants and a total size of all concerned territories is around 317 square kilometres. The overall objective of the SKILLS+ project is to enhance the competitiveness of rural areas' SMEs through the promotion of the uptake and integration of modern ICT tools in daily business routines.

This study analysis situation in 11 SKILLS+ partner regions/countries:

1. Sofia, Yugozapaden Region, Bulgaria
2. Ostrava, Moravskoslezsko Region, Czech Republic
3. Sachsen-Anhalt Region, Germany
4. Western Macedonia (Dytiki Makedonía) Region, Voreia Ellada, Greece
5. Castilla y León Region, Spain
6. Zadar, Jadranska Hrvatska Region, Croatia
7. Republic of Latvia
8. Pannon Novum, Western Transdanubia, Nyugat-Dunántúl Region, Hungary
9. Małopolskie, Poludnieowy Region, Poland
10. Kainuu, Pohjois-ja Itä Suomi Region, Finland
11. Sør-Trøndelag, Trøndelag Region, Norway

Taking into account data shortages on NUTS3 level in the Eurostat data bases in most of the cases NUTS2 level data has been used throughout this study.

This study is based on the own research³ and results of the SKILLS+ partners' Baseline Studies, which provide a comparative analysis, general overview of SKILLS+ partner regions, as well as define main drawbacks and opportunities for digitalisation of economy. The research work involves analysing quantitative and qualitative data, analysis of literature and policy

ber states in digital competitiveness, across five main dimensions: Connectivity, Human Capital, Use of Internet, Integration of Digital Technology, Digital Public Services.

³ The author works for the SKILLS+ Advisory partner – University of Latvia and has conducted a comparative study on SKILLS+ partner regions' digital readiness and ability for the ICT uptake.

documents, as well as SWOT analysis. Qualitative data have been gathered through more than 70 expert interviews in SKILLS+ partner regions.

Digital economy for improving growth and employment

The concept of digital economy has started to develop only during the past decade. However, it is already possible to find definitions of the digital economy, such as the following by France Stratégie: 'The digital economy has four specific features: the irrelevance of geographical location, the key role played by platforms, the importance of network effects and the use of big data. These features distinguish it from the traditional economy, particularly as a result of the associated value chain transformations' (Charrier and Janin 2015).

The digital economy is gradually increasing its importance and governments around the world are investing in scientific and technological infrastructure in order to augment value creation and prosperity in their countries via the digital economy. Over the past 10 years, the accelerated development of six new areas of technological endeavour has marked a genuine turning point. They include the use of the cloud as a storage location for immense quantities of data and a tool which facilitates the parallel use of hardware in different geographical areas, as well as the boom in big data and multi-platform mobile apps and geolocation. More recent developments include the Internet of Things, learning machines and mobile robotics, which have also passed critical performance thresholds and made inroads into a number of different areas. (Valenduc, G., Vendramin, P., 2016) However, the existence of technology is an essential and necessary condition for the future well-being of an economy, it is not sufficient to maximize competitiveness. Digital technology needs not only to be implemented, but also to be explored in order to achieve two important goals: first, to improve efficiency, and second, to enhance both the range as well as the quality of services provided to citizens and businesses alike. In turn, readiness toward digital transformation is emphasized by an organizational tendency to adopt new technologies and related processes. (IMD 2017) According to Haeckel (2013) such inclination requires shifts in behaviors and responsibilities. The transformations experienced as a result of the swift technological changes and the subsequent digitalization of the economies call for a more concentrated analysis of the strengths and weaknesses of a country.

Current trends of digitalisation are transforming both manufacturing and service industries placing tremendous opportunities, as well as challenges for regions and people. According to the Eurostat, broadband technologies are considered to be important when measuring access to and use of the internet, as they offer users the possibility to rapidly transfer large volumes of data and keep access lines open. Indeed, the take-up of high-speed and superfast broadband are considered as key indicators within the

domain of ICT policymaking. While digital subscriber lines (DSL) remain the main form of delivery for broadband technology in the EU, alternatives such as cable, satellite, fiber optics and wireless local loops are becoming more widespread, especially to access hard to reach areas. Europe's high-tech industry and knowledge intensive services are increasing with record levels of investment in 2016, which is also reflecting a high speed of ICT sector development and modernization bringing new more advanced opportunities for EU regions. (Eurostat 2017a)

The relationship between information technologies (IT) and economic development of hard to reach areas and industrial territories has been of interest for scholars. In this respect, more attention should be given to a digital regional divide existing in many economies. The term "digital divide" refers to the gap between individuals, households, businesses and geographic areas at different socio-economic levels with regard to both their opportunities to access information and communication technologies and to their use of the Internet for a wide variety of activities (OECD, 2001). The digital assessment of regional development has been subject of scholarly articles (Baskaran and Muchie 2006, Hogan,A. and Young, M.,2015) with the main conclusion that the lack of digitalisation is not necessarily the cause of social and economic under-development phenomena of regions, but is a consequence of low social and economic status in terms of regional geography and wellbeing. The lack of information technologies and digital infrastructure as well as digital knowledge, skills and practices are likely to reinforce initial social inequalities. (Stacenko S., Muravska T, Zeibote Z. 2017)

The European Commission (EC) envisages the creation of a connected DSM that could boost the EU's economy by generating up to EUR 250 billion of additional growth in Europe. To achieve this target the rules, which apply to transactions between the EU member states and can be complex and may differ, need to be harmonized to encourage consumers and smaller companies to engage more in cross-border e-commerce. Having 28 different national consumer protection and contract laws discourages companies from cross-border trading and prevents consumers from benefitting from the most competitive offers and from the full range of online offers. (EC 2015a)

- EU consumers could save EUR 11.7 billion each year if they could choose from a full range of EU goods and services when shopping online.
- 61% of EU consumers feel confident about purchasing via the Internet from a retailer located in their own Member State while only 38% feel confident about purchasing from another EU Member State.
- Only 7% of SMEs in the EU sell cross-border.

According to the EU Digital Single Market Strategy simplified and modern rules for online and digital cross-border purchases will encourage more businesses to sell online across borders and increase consumer confidence in cross-border e-commerce. If the same rules for e-commerce were applied in all EU Member States, 57% of companies say they would either start or increase their online sales to other EU Member States. (EC 2015a)

The digital economy development and main challenges for the SKILLS+ partner countries

According to the Digital Economy and Society Index (DESI), in 2017, compared with 2016 the EU has progressed and improved its digital performance by 3 percentage points compared to the previous year (2015), however, the progress could be faster and the picture varies across Member States (the digital gap – between the most and least digital countries – is 37 percentage points, compared to 36 percentage points in 2014). The EU countries – Denmark, **Finland**, Sweden and the Netherlands, and **Norway** outside of the EU – lead the DESI in 2017 followed by Luxembourg, Belgium, the UK, Ireland, Estonia, and Austria. The top-three EU digital players (Denmark, Finland, Sweden) are also the global leaders, ahead of South Korea, Japan and the United States. Slovakia and Slovenia are the EU countries which have progressed the most. Despite some improvements, several Member States including **Poland**, **Croatia**, Italy, Greece, **Bulgaria** and Romania, are still lagging behind in their digital development compared to the EU average. (EC 2015c)

The Digital Economy and Society Index (DESI; EC 2015c) reveals that:

1. Connectivity improved but is still insufficient to address future needs.
2. The EU has more digital specialists than before, but skills gaps remain.
3. Europeans are getting more digital.
4. Businesses are more digital while e-commerce is growing but slowly.
5. Europeans use more public services online.

From the SKILL+ project perspective four of partners' countries – Norway, Finland, Germany and Spain are above the EU average with Norway and Finland being absolute digital champions, while other seven countries represented by the SKILLS+ partnership still need to improve their digital performance. There are a lot of challenges ahead before the digital gap will be reduced. (See Figure 1).

Analysis of the DESI also includes digital strengths and weaknesses of countries, which differ a lot among the EU members states. For example, Latvia is strong in increasing shares of fast broadband subscriptions as well as by the improved delivery of public services and increased use of e-Government services, while around half of its population has low or no digital skills; increasingly shopping online but businesses are exploiting tech-

nologies in a limited way. There aren't any weaknesses mentioned only for the frontrunners in terms of DESI index, such as Norway, which is one of the most digital World countries with high broadband connectivity, internet use, business digitisation and digital public services, as well as above average digital skills. Also, Finland is one of the most digital countries worldwide with particular strength in digital skills where it is ahead of all other Member States and very strong in digital public services. (EC 2013) However, even countries like Norway and Finland have particular digitalization challenges in remote areas. In addition, the IMD World Digital Competitiveness Ranking reveals additional issues important for achieving digital excellence.

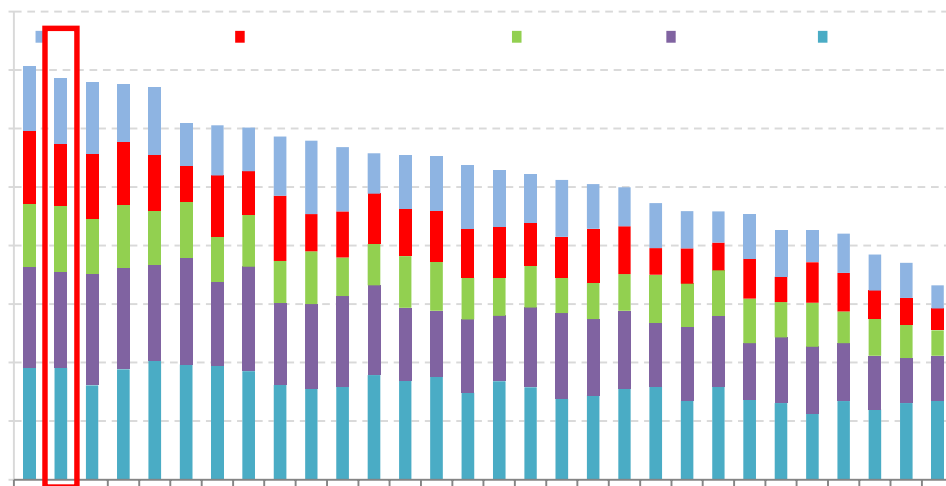


Figure 1. *Digital Economy and Society Index 2017*

Source: European Commission, Digital Scoreboard

For the first time in 2017, the IMD World Competitiveness Centre has published a separate report ranking countries' digital competitiveness. The new Digital Competitiveness Ranking introduces several new criteria to measure countries' ability to adopt and explore digital technologies leading to transformation in government practices, business models and society in general.

The IMD World Digital Competitiveness Ranking (WDCR) 2017 presents overall rankings for the 63 economies covered by the World Competitiveness Yearbook (WCY). The rankings are calculated on the basis of the 50 ranked criteria: 30 Hard and 20 Survey data. The countries are ranked from the most to the least digital competitive and the results from the previous year's scoreboard (2016) are shown in brackets. (IMD 2017) Please, see the results of the WDCR for SKILLS+ partner countries in the Table 2.

The evaluation of Digital Competitiveness is based on three main factors: knowledge; technology; future readiness further divided into more detailed elements under the following categories: talent; training&education; scientific concentration; regulatory framework; capital; technological; adaptive attitudes; business agility; and IT integration. For more detailed information, please, see Table 1.

Table 1. *Overall structure of Digital Competitiveness*

Knowledge		
<i>Talent</i>	<i>Training and education</i>	<i>Scientific concentration</i>
Educational assessment PISA – Math International experience Foreign highly – skilled personnel Digital/Technological skills Net flow of international students	Employee training Total public expenditure on education Higher education achievement Pupil-teacher ratio [tertiary education] Graduates in Sciences Women with degrees	Total expenditure on R&D [%] Total R&D personnel per capita Female researchers R&D productivity by publication Scientific and technical employment High-tech patent grants
Technology		
<i>Regulatory framework</i>	<i>Capital</i>	<i>Technological</i>
Starting a business Enforcing contracts Immigration laws Technological regulation Scientific research legislation Intellectual property rights	IT & media stock market capitalization Funding for technology development Banking and financial services Investment risk Venture capital Investment in telecommunications	Communications technology Mobile broadband subscribers Wireless broadband Internet users Internet bandwidth speed High-tech exports [%]
Future readiness		
<i>Adaptive attitudes</i>	<i>Business agility</i>	<i>IT integration</i>
E-participation Internet retailing Tablet possession Attitudes toward globalization	Opportunities and threats Innovative firms Agility of companies Use of big data and analytics Knowledge transfer	E-government Public-private partnerships Cyber security Software piracy

Source: IMD World Digital Competitiveness Yearbook 2017

According to the WDCR Finland is the most Digitally Competitive country among the SKILLS+ partner countries and it performs the best in areas of talent; training & education; scientific concentration; regulatory frame-

work; adaptive attitudes; business agility; and IT integration. At the same time, Norway is the leading country in the areas of capital and technological. (Table 2)

Table 2. *SKILLS+ countries world digital competitiveness ranking 2017*

Country/ Ranking	WDCR 2017 ⁴	Talent	Training education	Scientific con- centration	Regulatory framework	Capital	Technological	Adaptive atti- tudes	Business agili- ty	IT integration
Bulgaria	45 (47)	51	39	30	50	46	34	47	61	55
Croatia	48 (44)	59	41	35	52	52	40	43	62	46
Czech Republic	32 (32)	26	49	34	43	15	15	42	33	33
Finland	4 (6)	10	8	12	2	10	8	3	17	2
Germany	17 (15)	16	15	15	20	19	26	22	18	16
Greece	50 (45)	47	55	33	49	58	49	41	53	48
Hungary	44 (42)	46	43	46	29	44	45	57	58	38
Latvia	35 (33)	29	20	47	34	31	24	46	41	36
Norway	10 (9)	20	12	22	3	7	3	8	20	14
Poland	37 (38)	28	23	40	47	32	39	38	45	41
Spain	30 (30)	32	42	29	35	34	23	24	47	26

Source: IMD World Digital Competitiveness Yearbook 2017

General overview and main challenges of the SKILLS+ partner regions

In terms of economic development and welfare situation in SKILLS+ project regions is quite different. While GDP per capita in Sør Trøndelag is almost 2.5 times above the EU28 average, then for the rest of partners, except Kainuu, this indicator in 2014 was still below the EU28 average. (See Figure 2)

⁴ WDCR for 2016 in brackets

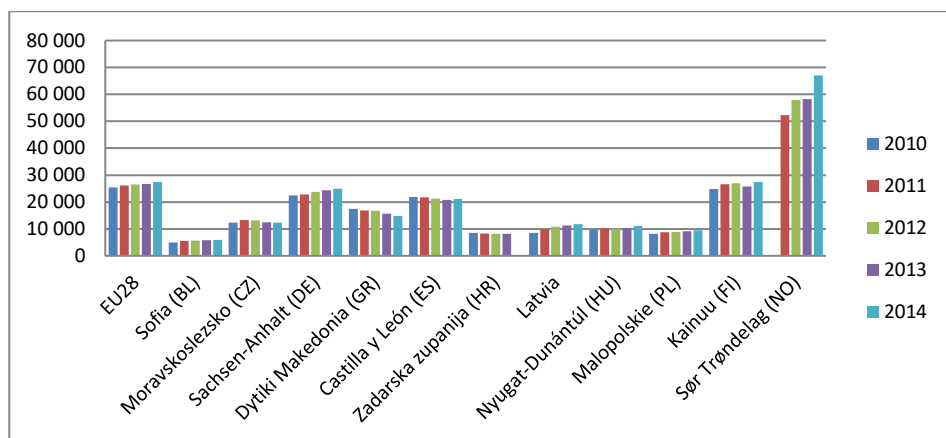


Figure 2. Gross Domestic Product (GDP) at current market prices

Source: Eurostat 2017

Regional GDP growth rates (2010-2015) have been improving since 2010, when in the case of several partners they were slightly negative – even -9.0% (2011) for Greece. However, despite strong growth shown by some of regions (Latvia, Malopolskie, Sachsen-Anhalt), it is still moderate in the case of most SKILLS+ partners. In 2014, the GDP growth rate exceeding the EU28 level (1.3%) was achieved by Bulgaria (1.8%), Moravskoslezsko, Poland (1.8), Latvia (2.1), Hungary (3.8) and Norway (2.8). (See Figure 3)

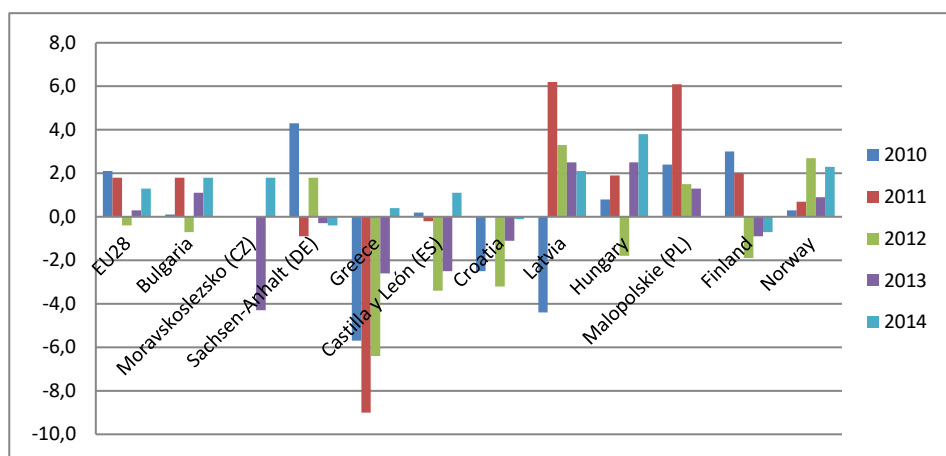


Figure 3. Real growth rate of regional gross value added (GVA) at basic prices - percentage change of previous year⁵

Source: Eurostat 2017

⁵ Data is reflected according to the availability of data on the Eurostat data bases. In most of the cases the data for this indicator is available on the country level only.

While the unemployment rate in SKILLS+ partner regions has been gradually declining, for most of partners it was still above the EU 28 average in 2015: Dytiki Makedonia, Greece (30.7%), Castilla y León (18.3%), Jadranska Hrvatska, Croatia (17.0), Latvia (9.9%) and Pohjois-ja Itä-Suomi, Finland (10.4%). The lowest unemployment rate in 2015 was in Trøndelag, Norway (3.7%) and Nyugat-Dunántúl, Hungary (3.8%).

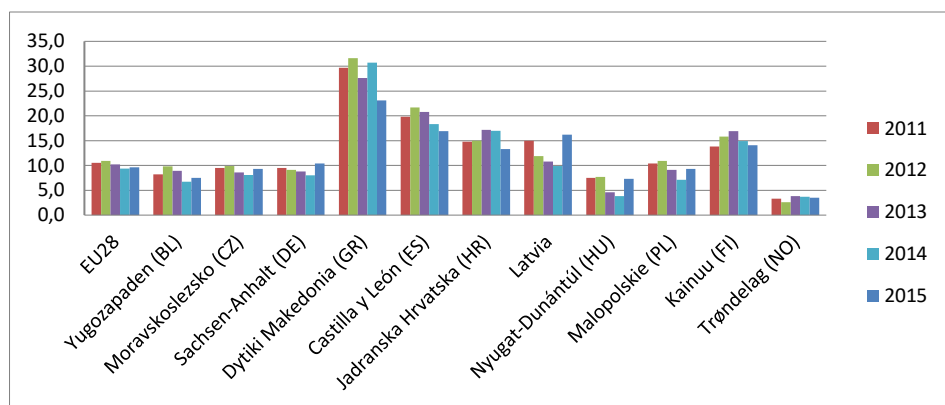


Figure 4. Unemployment (%)

Sources: Eurostat 2017, Prime Minister's Office of Finland December 2015

Similarly, as in terms of macroeconomic development and DSM indicators, also in terms of ICT development the situation in SKILLS+ partner countries is quite diverse.

During the last 4 years (2012-2016) the **household access to broadband** has gradually increased reaching almost 100% in a case of Trøndelag, Norway (99%) in 2016. The lowest indicators in terms of broadband access in 2016 were in the cases of Yugožapaden, Bulgaria (64%) and Voreia Ellada (66%). (see Figure 5)

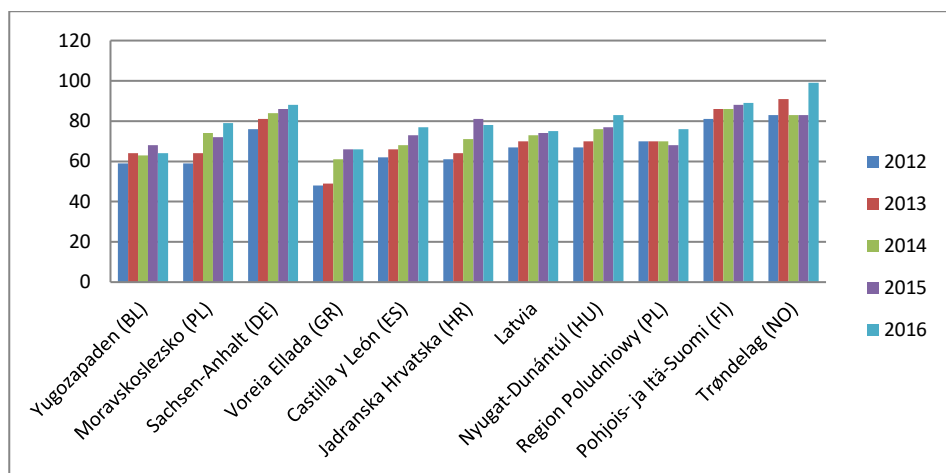


Figure 5. *Households with broadband access, percentage of households*

Source: Eurostat 2017

Almost full **households' access to internet at home** has been achieved by 2016 reaching 100% in the case of Trøndelag, Norway, 90% in case of Pohjois- ja Itä-Suomi, Finland and 89% in case of Sachsen-Anhalt. In cases of other partners it varies from 65% - 85%. (See Figure 6)

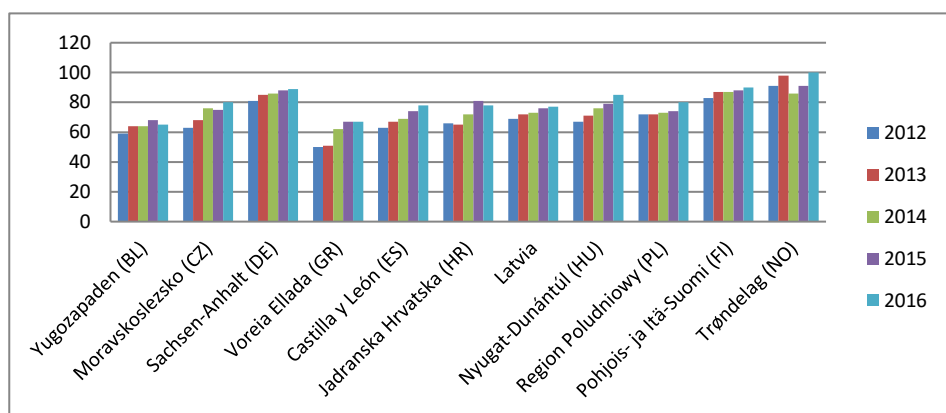


Figure 6. *Households with access to the internet at home, percentage of households*

Source: Eurostat 2017

Both tables, measuring household access to broadband and household access to internet at home are showing very close trends, which indicates

that access to broadband is been very important for increasing percentage of households with access to internet at home.

At the same time, share of **individuals who accessed the internet away from home or work** in 2016 was above 50% only in cases of six SKILLS+ partner regions: Sachsen-Anhalt, Germany (65%); Castilla y León (65%); Yugozapaden, Bulgaria (53%); Nyugat-Dunántúl, Hungary (59%); Pohjois- ja Itä-Suomi, Finland (72%); and Trøndelag, Norway (84%). (See Figure 7)

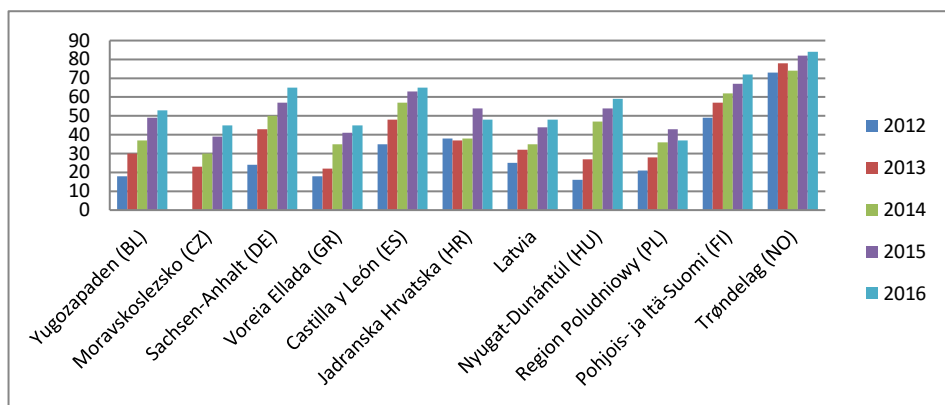


Figure 7. *Individuals who accessed the internet away from home or work, percentage of individuals 16-74.*

Source: Eurostat 2017

With greater accessibility, also the **frequency of internet access** has been gradually increasing. Not surprisingly, leaders in this category in 2016 were Trøndelag, Norway and Pohjois- ja Itä-Suomi, Finland with 99% and 89%, respectively, were accessing internet at least once a week, including those who are accessing internet on a daily bases. At the same time, only 63% in both cases of Yugozapaden, Bulgaria and Voreia Ellada, Greece were accessing the internet at least once a week in 2016. (see Figure 8)

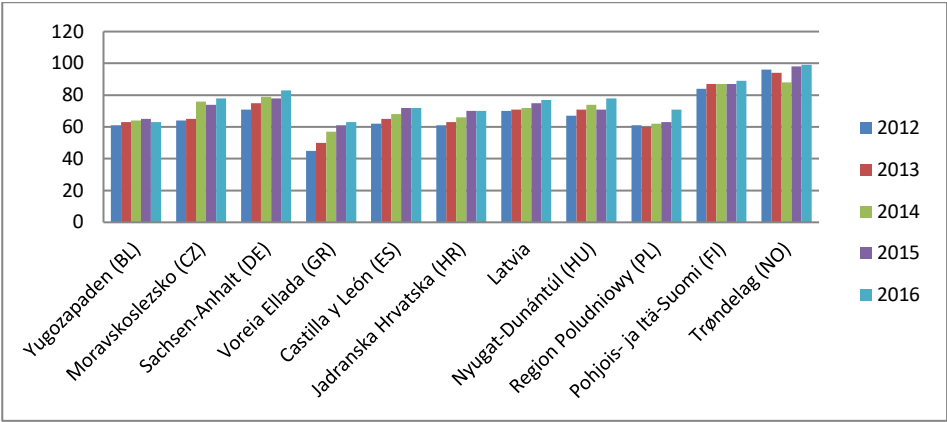


Figure 8. *Frequency of internet access: once a week (including every day), percentage of individuals 16-74(2012-2016)*

Source: Eurostat 2017

In 2015, there were still quite many **individuals who have never used a computer**. In the case of Trøndelag, Norway the computer was used by 100% of population (16 to 74 years) in 2015. In Pohjois- ja Itä-Suomi, Finland only 7% and 9% in Sachsen – Anhalt were not using computer in 2015. At the same time in Voreia Ellada, Greece – 32% of population have never used computer according to the Eurostat data of the year 2015. (See Figure 9)

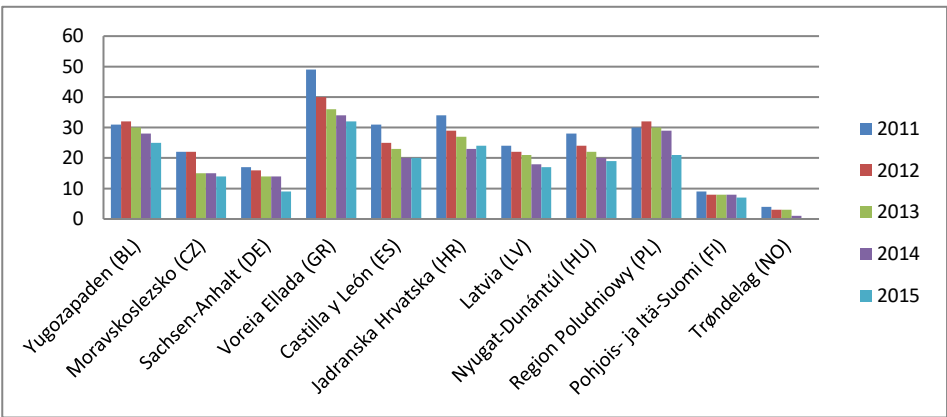


Figure 9. *Individuals who have never used a computer, percentage of individuals*

Source: Eurostat 2017

The share of people using **internet banking** is also gradually increasing, reaching 91% and 83% by 2016 in cases of Trøndelag, Norway and Pohjois- ja Itä-Suomi, Finland, respectively. At the same time in some of regions the use of internet banking is critical – only 8% of individuals use internet banking in Yugozapaden, Bulgaria and only 18% in Voreia Ellada, Greece. (See Figure 10)

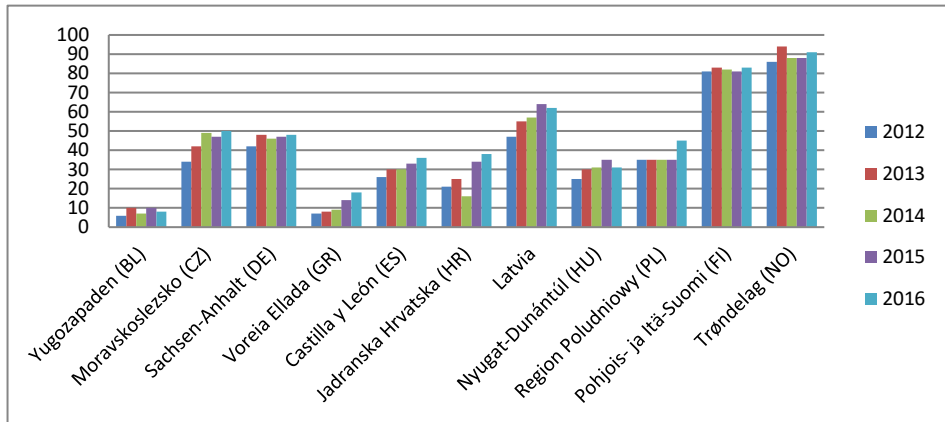


Figure 10. *Internet use: Internet banking, Percentage of individuals*

Source: Eurostat 2017

Using internet for selling goods or services was still comparatively low by 2016 in all SKILLS+ partners regions. The greatest share of users belongs to Trøndelag, Norway (33%). For several countries this indicator is very low: Yugozapaden, Bulgaria (9%); Latvia (5%) and Voreia Ellada, Greece (2%). This indicator could be partly related to low use of internet banking in cases of Bulgaria and Greece, but isn't true for Latvia, where internet banking is being quite widely used (62%, 2016). It should be noted that the increase of this indicator over the four years period (2012-2016) has been very slow and volatile. (See Figure 11).

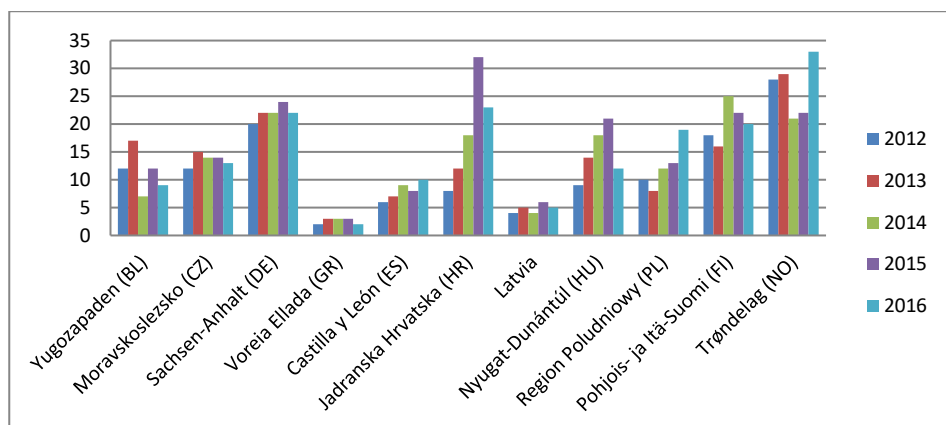


Figure 11. *Internet use: selling goods or services, percentage of individuals*

Source: Eurostat 2017

Good results for **using internet for interaction with public authorities** by 2016 were achieved by Trøndelag, Norway (88%), Pohjois- ja Itä-Suomi, Finland (77%) and Latvia (69%). In all other partner regions in 2016 shares were below 50% falling down to only 24% in a case of Yugozapaden, Bulgaria. In cases of Yugozapaden, Bulgaria and Moravskoslezsko, the Czech Republic this indicator has been decreasing over the time period from 2012 to 2016. (see Figure 12)

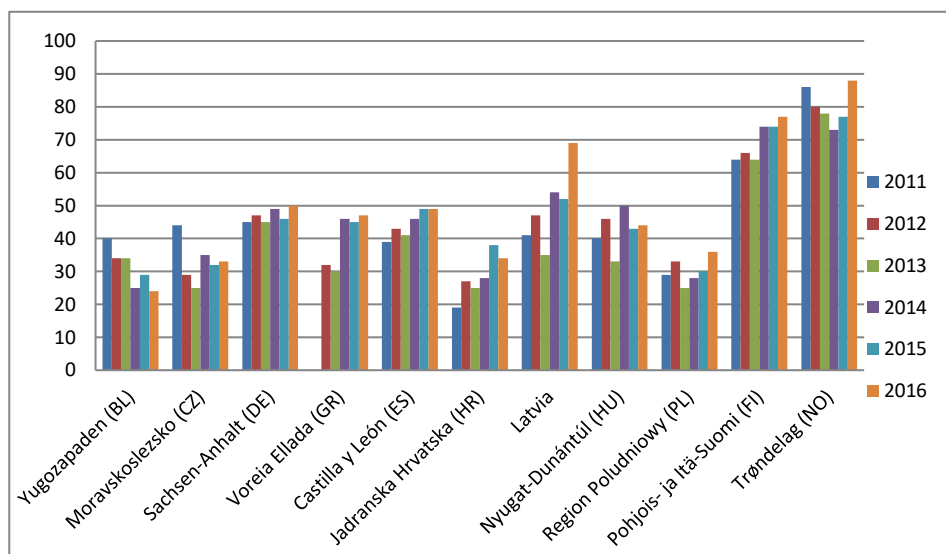


Figure 12. *Individuals who used the internet for interaction with public authorities, percentage of individuals*

Source: Eurostat 2017

There are more **individuals, who ordered goods or services over the internet for private use** than those who are selling goods and services on the internet. Most people using the internet for purchases in 2016 were in Trøndelag, Norway (81%), Pohjois-ja Itä-Suomi, Finland (60%) and Sachsen-Anhalt, Germany (71%). In all other cases shares of users were below 50% falling down to 21% in the case of Yugo Zapaden, Bulgaria (2016). (See Figure 13)

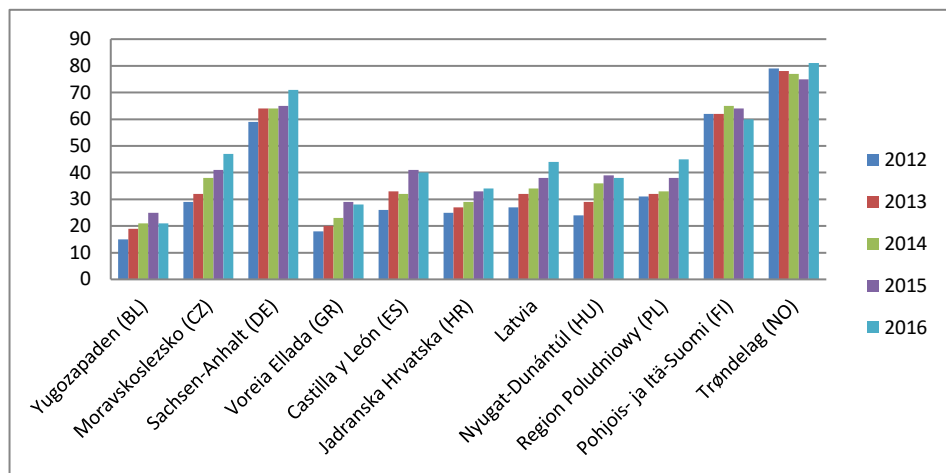


Figure 13. *Individuals who ordered goods or services over the internet for private use, Last online purchase: in the 12 months, percentage of individuals*

Source: Eurostat 2017

Participation in social networks is gradually increasing in all partner regions. The most active users of social networks in 2016 were in Trøndelag, Norway (85%), Nyugat-Dunántúl, Hungary (63%) Pohjois-ja Itä-Suomi, Finland (57%) and Latvia (57%). In all other partners' regions shares of users were below 50%. In the case of Sachsen-Anhalt, Germany this indicator has fallen from 51% in 2015 to 44% in 2016. (Please, see Figure 14)

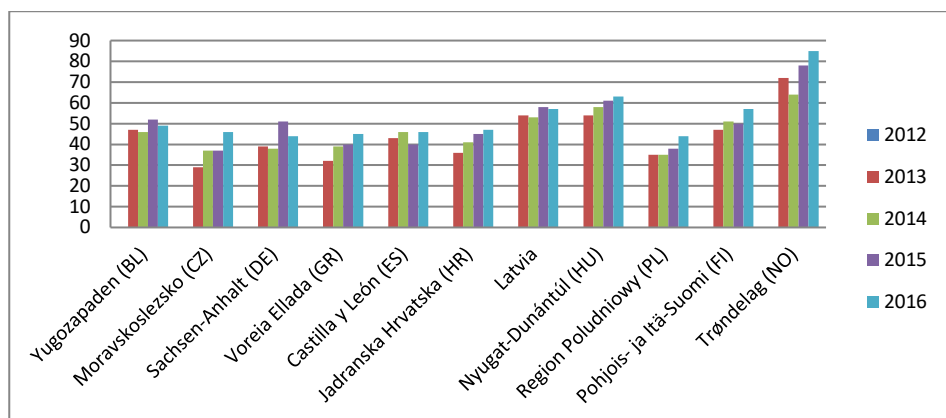


Figure 14. *Internet use: participating in social networks (creating user profile, posting messages or other contributions to Facebook, twitter, etc.), percentage of individuals*

Source: Eurostat 2017

Digitalisation policies and their assessment by SKILLS+ stakeholders

Despite differences in macroeconomic and ICT development across the SKILLS+ partner regions there are also common features for all partners, which are reflected by the SWOT analysis conducted by the SKILLS+ partners. The SWOT analysis also confirms the findings of statistical analysis presented above.⁶

Identified **STRENGTHS**, which are common for all SKILLS+ partners are the following:

- Good access to broadband internet and developed infrastructure, except rural and areas difficult to access
- Gradually increasing share of population using computers, other devices and internet
- Gradually increasing computer literacy, e-skills development and use of internet by SMEs
- Low costs for internet services
- Strong development of digital competences across the entire framework of education
- Accessibility to EU, public or regional (Norway) funds for the ICT development

⁶ SWOT analysis is conducted by the author based on the SWOT analyses prepared by the SKILLS+ partners in their regions during 2017 (Project SKILLS+ partners' Baseline studies (unpublished material))

WEAKNESSES

- Uneven broadband coverage (regional imbalances) with low penetration of broadband access in remote, sparsely populated, difficult to access (mountains) and rural areas
- Too slowly increasing and volatile development of on-line sales and purchases
- Lack of digital skills, high level specialists and competences even in the most digitally advanced regions
- Businesses aren't taking full advantages of opportunities provided by the ICT and internet, lack of relation between production and digitalisation
- Aging societies with low or no digital knowledge, competences and ICT skills
- Absence of a strong government level leadership supporting ICT development and digitalization on all levels.

There are numerous common **OPPORTUNITIES** for the SKILLS+ partners. Among those the most important are:

- Using broadband connections and access to internet in the most of public areas, getting easier and cheaper access to new technologies, tools and competences
- Using EU and other public and regional funds to continue to develop infrastructure, technologies, e-government and services
- Facilitating businesses development and improving living conditions also outside of cities
- Developing new innovative digital products and ideas, using new technologies for exploiting new chances
- Using the digital change in market as a chance: work more flexibly and efficiently, develop lively corporate culture and flexible working teams, increase customer satisfaction, develop digital communication and interaction with customers, evaluate customer behaviour through digital market and shops, increase individual offers and use more friendly way of communication etc.
- Producing more ICT experts and skilled workers, facilitating foreign investment and development of new ICT related research centres.

There are also particular common **THREATS** identified by SKILL+ partners:

- Digital "exclusion" of remote, sparsely populated and rural areas, and socially disadvantaged people
- Lost markets and advantages if SMEs will not be able to compete on local and international levels due to the lack of ICT skills, digital

knowledge and ability to adapt to rapidly changing technologies and business environment

- IT security and digital economy related threats, i.e. cyber security
- Demographic changes, i.e. aging society, shortage of skills, competences and high-level ICT specialists ('brain drain' in some cases)
- Too complex ICT-related regulatory framework, difficult to use e-government services with complicated digital certification systems in the presence of a rapid technological change.

All SKILLS+ partners, except Norway, have Smart Specialization Strategies on a national level and in a case of six out of eleven partners (Saxony-Anhalt, Western Macedonia, Castilla y Leon, Pannon Novum, Malopolska, and Kainuu) also on the regional level. In all cases, the ICT is one of the focus areas of Smart Specialization Strategies included as a separate priority or as a cross-sectoral priority. In case of Norway, which isn't the EU member state there isn't Smart Specialization Strategy.

All SKILLS+ partner countries and regions have various national and/or regional level documents related to the ICT uptake and digitalization. The fact that many of documents are available on local languages only doesn't allow to conduct any comparison between partner countries and/or regions. Policy planning documents of all SKILLS+ partner countries are in line with the EU Digital Agenda. However, not all of partner countries and regions have their own national or regional level strategic digitalization plans. National digitalization plans exist in cases of Bulgaria, the Czech Republic, Germany, Saxony-Anhalt, Spain, Castilla y Leon, Croatia, Finland and Norway.

In all SKILLS+ partner countries/regions, which are EU member states, the ICT is a priority of the Operational Programmes 2014-2020, which tackle the ICT development for promoting the ICT uptake, information society and ICT infrastructure development under its 2nd Thematic Objective with the support of EU Cohesion funds (ERDF). Therefore, in the SKILLS+ project framework the Operational Programmes are the main policy instruments tackled by partners.

During the research work SKILLS+ partners have identified regional stakeholder groups. According to the definition „A stakeholder is anybody who can affect or is affected by an organisation, strategy or project. They can be internal or external and they can be at senior or junior levels.”⁷

More than 70 of regional stakeholders were interviewed by project partners during SKILLS+ expert interviews.

Questions used in expert interviews:

1. How do you evaluate current use of digital technologies by SME in rural areas?

⁷ <http://www.stakeholdermap.com/stakeholder-definition.html>

2. What are the main reasons for not using digital technologies by SME in rural areas?
3. Which digital technologies should be used more to boost the competitiveness of SME and why?
4. How do you evaluate the support structures and programmes in place to support SME wishing to “go digital”?
5. In your opinion, what kind of non-monetary support is necessary to achieve a higher share of SME using digital technologies in their business activities?

Summary of the expert interview results⁸:

- Problems with broadband coverage, connectivity and insufficient infrastructure are among the main obstacles for digitalization and competitiveness of SMEs in rural areas. This is often followed by the lack of qualified employees, digital competences and skills.
- Digitalization is considered as very important for competitiveness of SMEs. At the same time, SMEs are often complaining about shortage of funds and lack of investment for ICT technologies and digitalization. Also, SMEs are often unwilling to invest in digitalization as they don't acknowledge opportunities and benefits from using new technologies and applications. Companies mostly don't consider digitalisation as part of their strategy and business model. In many cases infrastructure of SMEs and technologies are outdated, only basic features are being used in daily business routines.
- Usage of the Internet, ICT applications and solutions is slowly increasing. Especially, young entrepreneurs and newly established enterprises are keen to explore and apply digital solutions for their companies.
- First of all, this is important to ensure that SMEs use so called daily technologies – computer, mobile devices, the Internet to provide the opportunity for SMEs with the use of "basic" applications, such as e-mail, online banking, online payments, tax returns and annual reporting, etc. In addition, there are a lot of solutions and digital tools available for SMEs, such as e-government services, specific business applications, applications for management and production processes, cloud computing solutions, platforms for data exchange and others. Application of these solutions could free-up resources and reduce costs providing additional resources for companies to invest in modernization.
- Awareness rising and information campaigns, as well as dissemination of information are essential for encouraging SMEs for ICT and

⁸ The summary of expert interview results is conducted by the author based on the interviews done by the SKILLS+ partners in their regions during 2017 (Project SKILLS+ partners' Baseline studies (unpublished material))

digital uptake. Seminars, training, consultations and help-desk are among the most required non-monetary support measures. Simplification of digital application and affordable, suitable and in some cases, tailor made digital solutions and products for SMEs in rural areas would also be required. Cyber security is an issue of concern requiring constant attention.

Conclusions

The macroeconomic and DSM data analysis indicates that the situation in SKILLS+ partner countries and regions is quite diverse. On the positive side, most of observed indicators, except using internet for selling goods and services, and using internet for interacting with public authorities, have been improving in all SKILLS+ partner regions. The indicators reflect improvements in infrastructure and increasing access to the broadband, which have helped to increase a number of households having internet access at home and increased the use of computers and other devices, as well as the internet.

On the other hand, use of the internet in 2016 was above 50% only in cases of six of eleven SKILLS+ partner regions. Also, by 2015 there were still quite many individuals who have never used a computer. Except Trøndelag, Norway (1%), Pohjois- ja Itä-Suomi, Finland (6%) and Sachsen – Anhalt (9%) in cases of all other partners this indicator of non-users reaches from 14% to 32%. This can be explained by the lack of access to computers or low computer literacy, however, further investigation would be needed to identify reasons for not using the internet.

By 2016, the use of the internet banking was still critically low in cases of several partner regions. And the use of the internet for selling goods or services was too low and volatile in most of the SKILLS+ partners regions. Low use of on-line sales, as well as on-line shopping, could be partly related to a low use of internet banking in cases of Bulgaria and Greece, but isn't true for Latvia, where the internet banking is being used quite actively. Factors related to the low use of internet banking and also low internet sales are very important for improving business activity and competitiveness of SMEs.

The statistics (2012-2016) show that there were more individuals ordering goods or services on the internet than those, who were selling. Increase in internet sales has been too slow and volatile over the period. This also means that there are great opportunities for those SMEs, which will consider starting on-line selling.

A number of those, who were using internet for the interaction with public authorities, has been slowly increasing, except for Yugoapadenand Region of Bulgaria, where the interactions with public authorities has been

decreasing over the time period from 2012 to 2016, which is quite alarming also for the business development.

The SWOT analysis conducted by the SKILLS+ partners confirms and extends the results of statistical analysis and DSM indicators. There are common challenges for all SKILLS+ partners mainly related to the development of broadband and internet access, especially in remote areas; readiness of enterprises and governmental organizations to adapt to rapidly changing digital environment, technologies and global trends; demographic challenges related to aging population and migration; availability of skills, competences and knowledge using ICT and digital tools; accessibility of financing for continuing development of infrastructure and technological upgrade, as well as cyber security.

There are still a lot of challenges ahead before the digital gap between SKILLS+ partner regions will be closed. Using the opportunities provided by the SKILLS+ project this could be very useful for the partner regions lacking, for example digital skills (Bulgaria, Greece, Latvia) to learn from their most advanced partners according to DESI index (Norway, Finland, Germany). In addition, the learning process should take a place by taking over relevant good practices and experiences of other project partners.

Taking into account that not all of the SKILLS+ partner countries and regions have adopted their digitalization strategies this would be recommendable to work them out on the national and also on regional levels. Also, the lack of individual digitalization strategies for individual enterprises is an obstacle for digitalization.

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Role of Managerial Experience of Entrepreneurs in Choosing Approaches to Internationalization of Their Business

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Abstract

Knowledge, skills, and experience of entrepreneurs are crucial to better meet challenges of the external environment that enterprises face nowadays. This is especially valid for enterprises operating internationally and facing intense competition and various obstacles and uncertainties. This study is targeted at exploring the role of individual characteristics, such as training and experience of entrepreneurs in the internationalization process. Experience and training can be regarded as basic prerequisites for management and development of businesses able to break through and compete internationally. More specifically, the paper aims to justify the link between management training and experience as essential elements of entrepreneur's personality and the choice of internationalization approach with a focus on import and export as preferred internationalization modes by SMEs. To achieve this objective, the authors draw from a broad overview of available research in different contexts, and from data of their own empirical studies on the issues of internationalization and management training of entrepreneurs from an emerging market. This study contributes to the extant literature by relating the concept of the entrepreneur-manager in SMEs and his/her respective skill set with the choice of internationalization approach. Findings show that the availability of managerial experience and training is a prerequisite for choosing more active, direct and riskier, but at the same time more effective approaches to internationalization. Entrepreneurs who have no previous experience or have been employed operate with a significantly smaller number of countries. The choice of first foreign country is determined by the existence of previous management experience – those who have it are directed to traditional foreign trade partners of Bulgaria, regardless of geographic and cultural differences, while those who do not have such experience are more oriented towards geographically and culturally proximate countries.

Keywords: entrepreneurs, managerial experience, internationalization approach, SMEs

Introduction

The internationalization of business is a topic of continuous research interest because of the growing opportunities for international business, and at the same time, the more distinct challenges that arise with these opportunities for a very wide range of enterprises. The review of research in this field reveals shaping of a relatively new phenomenon in internationalization – the so-called international entrepreneurship, the core of which is the search for entrepreneurial opportunities in foreign markets. In this context, it is not so much that the historical development of an enterprise predetermines the choice of the internationalization approach, but the development of the entrepreneur himself. The entrepreneur is capable to understand, adapt to and work in a new, complex international environment in which not only to discover new opportunities and to expand the business but also to create new businesses.

In the field of international entrepreneurship, there are discussions of how and to what extent the entrepreneur is capable of meeting the challenges to compete in an international environment, and ultimately succeed with the international activities. To reduce the risks of business internationalization, it is often recommended to follow the well-known Uppsala model. Though empirically proven, the model defends the logic of a step-by-step entry into the international market. Today, however, barriers to internationalization change their nature – from the dominance of hard barriers (associated with certain regimes and regulations of international trade) to the predominance of soft barriers (expressed by the socio-cultural peculiarities of foreign markets). Hence, it is fully justified for the entrepreneur to choose other internationalization approaches besides those prescribed by this model, especially in case of needed confidence in success.

Internationalization is, more often than not, a complex and resource-demanding process. Even when choosing simpler approaches, this process requires at the very least knowledge of the specifics of any given approach, certain preparation, experience, and skills set.

Literature review

The role of entrepreneur's training and experience for business internationalization

The concept of the entrepreneurial manager is not a new one. There are two distinctive views about the profile and competencies – the first view considers the entrepreneurial manager as an entrepreneur who manages his own business, and the second as a manager who plays the role of the intrapreneur in large established enterprises (Kolarov, 2014). In this study, we rely on the first view as the empirical sample mainly consists of SMEs.

A varied multitude of studies is devoted to exploring the role of individual-level characteristics, such as training and experience of entrepreneurs in the internationalization process. These characteristics can be also related to the concepts of learning and knowledge and their central role in the internationalization theory and practice.

Research shows that the role of individual characteristics differs at various stages of internationalization – at the start and further development of international business activities. Thus, individual characteristics relate differently to internationalization propensity and intensity. In the beginning, the commercial and managerial experience is the one that helps firms to become exporters, while education (both general and specific) has a positive effect afterward (Ganotakis & Love, 2012).

In addition to entrepreneur's experience, another key characteristic is training. Both experience and training could be portrayed as individual characteristic (related to the type and duration of individual training and experience) and organizational characteristic (provision of training and company's experience). In the case of smaller firms, entrepreneur's experience and background are paramount for the firm to develop internationally. Based on data from 1147 companies in eight countries (Bulgaria, the Czech Republic, Estonia, Hungary, Lithuania, Slovakia, Slovenia and Serbia) a study found that the market focus of the organization, i.e., a domestic or an international is related to training - firms operating internationally have a record of more extensive training practices (Morley, Slavic, Poor, & Berber, 2016). International experience acquired by firms is a key multidimensional concept (with dimensions length, scope, and diversity) in the scientific explanation of firm internationalization (Clarke, Tamaschke, & Liesch, 2013). At the organizational level, training is linked to so-called learning orientation. The learning orientation has an inclination to change according to the type of ownership and management of the firm. For example, non-family enterprises have a greater learning orientation meaning that they are more likely to provide a systematic analysis of training needs and training to employees (Yordanova, 2016, 2017). Learning and knowledge can be portrayed as central issues closely related to the causes, processes, and outcomes of early internationalization (De Clercq, Sapienza, Yavuz & Zhou, 2012). International learning orientation is one of the six dimensions of international entrepreneurial culture (together with international entrepreneurial and market orientation, international motivation and international networking with competitors and non-competitors) (Dimitratos, Voudouris, Plakoyiannaki & Nakos, 2012). While research in developed economies focuses on firm-level characteristics, such as strategy, resources, and capabilities, in CEE countries in the early stages of transition individual characteristics are in the spotlight. Individual characteristics, such as entrepreneur's experience (and also self-commitment, self-efficacy, dynamism, and leadership desire) are frequently explored in extant re-

search on international entrepreneurship in emerging economies as tools to cope with resource and market limitations when founding, managing, and internationalizing firms (Kiss, Danis, & Cavusgil, 2012).

Training and experience are among the main variables in SME internationalization research and can be regarded as antecedents of internationalization, along with the skills, competencies and entrepreneurial know-how (Ratten, Dana, Han, & Welppe, 2007; Ruzzier, Hisrich, & Antoncic, 2006). Specifically, international experience, the previous business experience of entrepreneur and foreign language skills are positively related to an earlier start of internationalization (Zucchella, Palamara, & Denicolai, 2007). Professional training, for example in the field of management and education abroad, leads to a greater readiness for internationalization (Child, Hong, & Wong, 2002). A study of SMEs in a Central and Eastern European (CEE) emerging market indicates that the presence of management studies and an entrepreneurial team has a positive impact on export entry while decision-makers' prior labour experience has a strong and positive influence on upholding positions in the international market (Lafuente, Stoian, & Rialp, 2015). In an attempt to study the impact of entrepreneur's demography, background, and experience on their strategic choices, i.e., innovation, internationalization, or both, a cluster analysis on a sample of SMEs reveals three groups of enterprises: family led, team-founded and solitary founder firms (Denicolai, Hagen, & Pisoni, 2015). While family led firms are mainly domestic, team-founded firms have intensive internationalization and innovative management practices. The solitary founder type of firm is characterized by a serial business experience and moderate levels and scope of internationalization.

Duration of international experience is positively related to degree, scope, and speed of internationalization (Ivanova, 2016). Insufficient or lacking experience in an international environment can be indicative for preference of less sophisticated and low-risk modes of internationalization, closer countries both geographically and culturally, later start of internationalization and/ or slower internationalization (Ivanova & Kolarov, 2015). Another prior study of authors differentiates between so-called default characteristics – age, education, acquired experience, and complementary characteristics – international experience and education and training abroad of key actors in Bulgarian enterprises (Ivanova & Kolarov, 2017). According to the study's findings, key actor's characteristics, such as education abroad of entrepreneurs and key employees, lasting experience in an international environment, experience in other businesses and top management positions are positively associated with sales from international markets. Furthermore, enterprises that are totally dependent on international markets (i.e., with sales entirely made on international markets) are characterized by the highest share of entrepreneurs with education abroad,

the longest experience in an international environment, experience in another business, and in the senior management.

Training and experience of entrepreneurs in the internationalization process are closely related to the concepts of learning and knowledge that are core conceptual elements underpinning various theoretical models and approaches to internationalization.

Theoretical models and approaches to Internationalization

In accordance with the traditional ideas and concepts of internationalization presented by Johansson & Vahlne's original Uppsala model (1977), internationalization is seen as a process of gradual increase of companies' participation in international markets – from operation on the national market, through export, own sales branch on the international market to own overseas production. The model implies that the accumulated knowledge and experience can be used by the company to penetrate other markets with a greater psychological distance (Child et al., 2002). But it does not explain why some companies operate internationally in the early years of their creation, or why others have ceased or reduced their international activities (Lin & Liu, 2012).

Although the model is not new and over the years was subject to a number of criticisms from scientists, it continues to be used in research because of its pioneering character and role in the scientific explanation of company internationalization. Taking into account developments that took place on a global scale from the period the model was created to date, a contemporary study should also take into account other concepts, models, and forms in order to provide a more complete and up-to-date picture of the internationalization of SMEs.

In the context of globalization and technological change, new theories and forms of internationalization emerge: the concept of international entrepreneurship as a counterpoint to the established theories of internationalization (Wright, Westhead, & Ucbasaran, 2007); “born global” companies (Damyanov, 2009; Onkelinx & Sleuwaegen, 2008; Oviatt & McDougall, 2005), and others. Another point of view of the process of internationalization is the so-called network perspective considered as a process of building existing relationships or creating new ones on international markets (Lloyd-Reason, Damyanov, Nicolescu, & Wall, 2005).

Some firms may only be oriented to the local market for a certain period of time, then quickly become internationalized – “born-again-global firms”. Basically, these are not new companies; the new is the development of international activity at a certain stage of their life cycle.

There are different understandings of the possible strategies (or approaches) that SMEs can apply in the process of internationalization of their business. An interesting distinction of these strategies is proposed by

Onkelinx & Sleuwaegen (Onkelinx & Sleuwaegen, 2010), which suggests a choice between the "sprinkler" strategy, aimed at simultaneous entry into several countries, and the "waterfall" strategy, the slow jumping from one country to the next. At the same time, they specify that given the high risk, very few firms could be internationalized simultaneously in all directions (regions), especially start-ups. Reasonably, SMEs are gradually moving from a successful launch onto the local market to penetration into more advanced countries and later into less developed markets. On the other hand, the "sprinkler" strategy allows maximizing profits by achieving economies of scale in R&D and production. Moreover, such a strategy can prevent competition in some countries and thus maximize sales and market shares – entering a market ahead of competitors leads to the advantage of the first. As for the implementation of a waterfall strategy, following the statics and dynamics of a similar model Kalish and colleagues (Kalish, Mahajan, & Muller, 1995) found the following market conditions that favored this strategy:

- Very long product lifecycle
- Small foreign markets
- Slow growth in foreign markets
- Low innovation in foreign markets
- High fixed costs of entering the foreign market
- Weak or absent competition in foreign markets
- Cooperative behavior among competitors.

The coexistence of all these conditions is hardly possible, and even the combination of more than three of these conditions is rare. However, adopting the "waterfall" strategy is a more widespread practice, mainly explained by the limited resources of SMEs in terms of the requirements of the alternative strategy.

In a country like Bulgaria where the majority of SMEs do not have distinctive competitive advantages on international markets (the main advantage is low cost) and significant own experience in these (as long as it is not much more than 25 years), a wide range of internationalization approaches could not be expected. Yet, among the available alternatives, one can distinguish those that are more efficient than internationalization, such as direct exports, the active search for entrepreneurial opportunities across borders, and the focusing of efforts on more distant and unknown countries but providing higher opportunities for development in comparison with geographically and culturally closer countries but with lower market potential.

Challenges to SMEs in the selection of internationalization approach

Studies on the barriers to the internationalization of European SMEs have shown the most significant internal barriers to SMEs are the costs of the

internationalization process and the characteristics of the products and services offered by SMEs. The most important external barriers are the barriers of legal and regulatory character, as well as the lack of funding.

According to an OECD report (OECD, 2006), the main barriers to greater internationalization, as assessed by SMEs themselves, are:

- Lack of working capital to finance export;
- Difficulties in identifying business opportunities in foreign countries;
- Inability to communicate with potential overseas consumers;
- Providing reliable foreign representation;
- Inadequate quantity of and/or untrained staff needed for internationalization.

In a more recent report (OECD, 2009), OECD experts emphasized that limited company resources and international contacts, as well as the lack of required management knowledge on internationalization, remain critical constraints to the internationalization of SMEs.

The specific challenges to the internationalization of Bulgarian SMEs are largely in line with the challenges presented by Kiril Todorov (Todorov, 2006), dedicated to the problems of Bulgaria's accession to the EU. These specific challenges can be summarized in two broad groups:

- The collision of distinctive organizational cultures leading to communication problems, negotiation, and implementation of joint projects;
- Challenges related to the introduction of regulations, standards, and practices.

While meeting the second set of challenges is a matter of learning new knowledge, solving the problems of the first group requires a relatively long period of change in organizational cultures.

The problem of successful internationalization is also predicted by the analysis by V. Marinov (Marinov, 2004), devoted to the prospects of the national economy after Bulgaria's accession to the EU. Although this analysis is macroeconomic, it can also outline the problems at the company level, expressed in the low international competitiveness of our national production, technological, financial, market, management, and etc. weaknesses of a large part of the Bulgarian companies.

A more recent study (part of dissertation work) by P. Zhelev (Zhelev, 2009), who analyzes Bulgaria's export specialization in the EU relations, comes to the following conclusions:

- Relatively unfavourable, low quality and non-prospective international specialization of Bulgaria in its relations with the EU has been formed;
- The products with the highest competitiveness in the Bulgarian export are the products of the non-ferrous and ferrous metallurgy and metalworking, apparel and textile, footwear – increasingly standard-

- ized goods with low technological complexity, low processing rate and respectively low added value;
- Bulgaria's export specialization and participation in the European division of labor is conditioned by comparative advantages of low rank, based above all on the country's provision with primary production factors.

Without underestimating the range of factors that are external to SMEs and entrepreneurs, it can be concluded that the personal qualities of entrepreneurs can be a significant internal factor in choosing an appropriate approach to the internationalization of business.

Method and Sample

To confirm the assumption about the significance of entrepreneur's characteristics in the choice of appropriate internationalization approach, the results of an empirical study will be analyzed. The empirical study is carried out within the project "Internationalization of Bulgarian Family Small and Medium Sized Enterprises in the Globalizing Economy", 2014-2015. The sample includes 357 enterprises, out of which 337 are SMEs.

The majority of surveyed companies are registered after the year of 2000. This is in line with the trends of increasing participation of SMEs on the global market happening worldwide. Regarding sectoral affiliation, the most common sector is trade chosen by more than half of the companies. This is related to the choice of imports and exports as the most common international activities of SMEs. Secondly, according to the number of respondents, is production chosen by nearly a third of enterprises. Some of the respondents chose more than one answer, and production is combined with, for example, trade. According to the geographic distribution of surveyed companies, the majority are from urban settlements (about 96%). The headquarters of a significant part of the respondents are located in the Southwest Planning Region with a clear concentration in the capital – Sofia. This is expected, having in mind the object of study and distribution of the enterprises in Bulgaria by individual regions as well as more intensive business activity in the region of the capital. A total of 337 of the surveyed enterprises have a staff fewer than 250 people.

Data processing methods, given the relatively moderate sample size and obtained data, include descriptive statistics (Schreiber, 2008), including one-dimensional and two-dimensional frequency distributions and cross-tabulation analysis made using the SPSS Statistical Data Processing Program. Primary data from the statistical processing of received questionnaires were used as reference points in the process of subsequent analysis of results.

Internationalization approaches are explored in several ways:

1. The period during which an enterprise has commenced its international activity (from the business start to the beginning of the first international activity);
2. The stages international activities have gone through (according to the Uppsala model);
3. The number of countries with which the enterprise operates;
4. The first countries in which international activity has been initiated;
5. The ways international activity takes place (with or without intermediaries);
6. Entrepreneurial approach to the international activity.

A total of 304 of all surveyed enterprises are internationalized. One-third of these are non-family businesses, and two-thirds are family businesses. Out of all respondents, 53 enterprises are fully oriented to the local market but have intentions to internationalize.

Findings

The relationship between management training and experience of entrepreneur and the choice of internationalization approach – empirical evidence

The review of past studies on the role of management training and experience of entrepreneurs in the internationalization process leads to the assumption that entrepreneurs who have undergone management training and have management experience prior to starting a business would engage in more complex, riskier but also more effective forms of internationalization.

Data on the educational profile of entrepreneurs indicate that most of them have a technical education (48,7%), which implies a lesser degree of managerial knowledge and skills, and only 31,7% – economic education, which supposedly provides better management training.

As regards the professional experience prior to the entrepreneurial activity, expressed by the type of employer and occupation, the analysis of data reveals a largest share of entrepreneurs who were employees in another private enterprise (15,4%), followed by those who either participated in the management of another private enterprise (12,3%) or managed their own business (12,3%). By adding the other opportunities for previous employment, we see that only 36,7% are entrepreneurs with previous management experience.

Their management training has been studied mainly in terms of their training needs on particular management-related topics. The summary of data is presented in table 1.

Table 1. *Management training needs*

Training need by topics	Responses
None	7,4%
Accounting	7,6%
Marketing	17,3%
Financing	8,5%
Law	4,0%
Management	17,0%
Import/ Export	9,3%
Technologies	13,9%
Language course	25,2%
Other (please specify)	0,3%
I cannot decide	16,0%

* The sum of the percentages is higher than 100 because some respondents have indicated several training needs.

These data, of course, could be interpreted in two ways. On the one hand, a possible interpretation is that an entrepreneur would not indicate an area in which he already feels well prepared. On the other hand, when an area is not selected, it could be a situation where hired managers and specialists are solving problems in this area. Separately, the option in which an entrepreneur would like to improve already acquired managerial skills should not be excluded. In any case, apart from the language skills that are rather related to internationalization than to management, it is clear that the knowledge in marketing and management is the most deficient, which is a sufficient indicator of the relatively low level of management training of entrepreneurs – a fact that corresponds to their previous experience.

Below are listed the more significant links between the existence of management experience and preparation of entrepreneurs and the studied aspects describing the internationalization approaches.

The comparison of previous management experience with the period in which international activity is launched highlights the significance of this experience – the owners who have it, have started this activity after the launch of the business at the earliest (Figure 1).

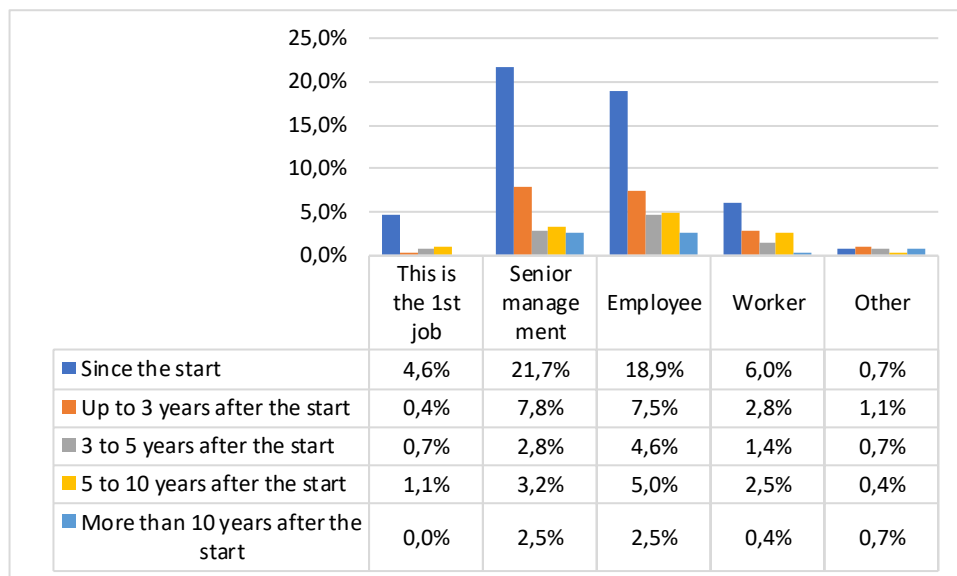


Figure 1. *Beginning of internationalization of the new business according to the entrepreneur's previous experience*

The dependence between the type of education suggesting different levels of management training and the start of international activity also indicates the existence of a positive relationship – entrepreneurs with economic education are quicker in starting international activities.

The relationship between the available managerial experience and the stages of internationalization is also studied. The overall picture of the internationalization approach is as follows: Frequency distribution shows that *import* is the most frequently used mode at the first-step (45,7%), followed by export (10,9% for non-regular and 17,1% for regular export). The remaining options (including licensing, franchising, subcontracting, outsourcing, joint venture) are relatively less common among respondents as an initial entry mode. At the final step of the internationalization process, the trend is reversed. The most commonly used method is export (10,9% for irregular and 30,6% for regular export), followed by import (31,6%). That is, in the case of respondents, internationalization is generally implemented in inward-outward direction.

With the isolation of the influence of previous experience, we get the picture shown in Fig. 2.

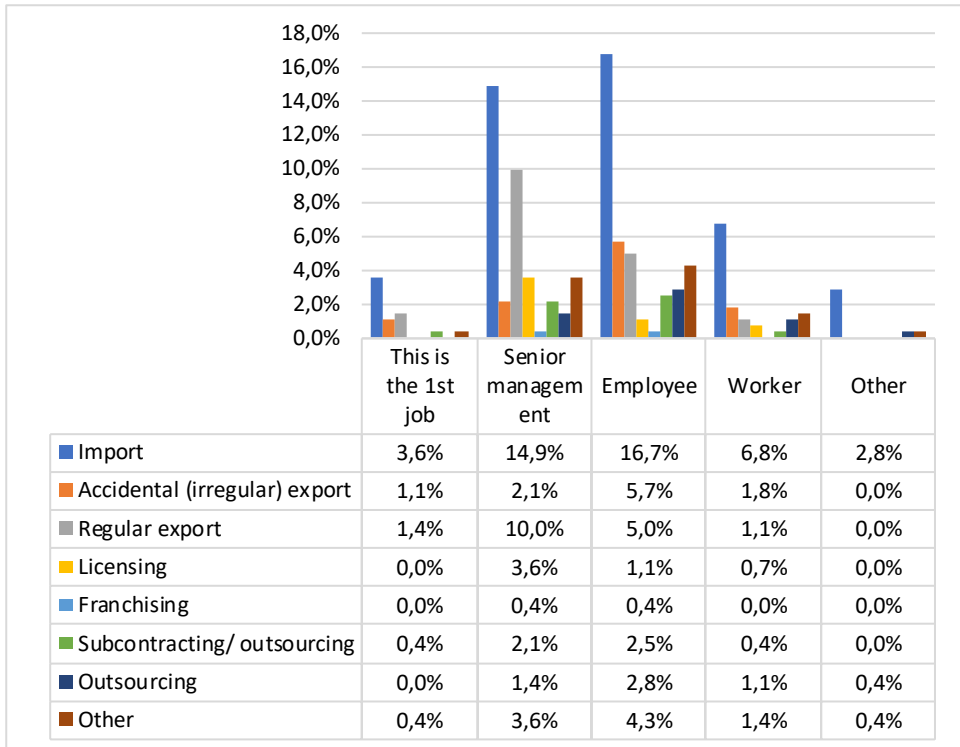


Figure 2. *First international activity according to the entrepreneur's previous experience*

The analysis of data shows that those with previous management experience significantly more often opted for more active forms of internationalization than those who do not have such experience.

When calculating the average number of countries in which international activity is developing, it appears that the existence of past management experience is not a more important factor than work as an employee. *However, the entrepreneurs who have no previous experience, or have been workers, operate with a significantly smaller number of countries.*

Turkey is the first chosen country (with the highest frequency), followed by Germany and Greece. The next most frequently cited countries are Italy, Romania, Russia, and Serbia. *The choice of the first country is also determined by the existence of previous management experience – those who have it are directed at traditional foreign trade partners of Bulgaria, regardless of geographic and cultural differences, while those who do not have such experience are geared more towards geographically and culturally proximate countries.*

The choice of specific export modes is also influenced by the existence of management experience. Significantly higher is the share of entrepreneurs engaged in direct export who have had previous management experience (Figure 3).

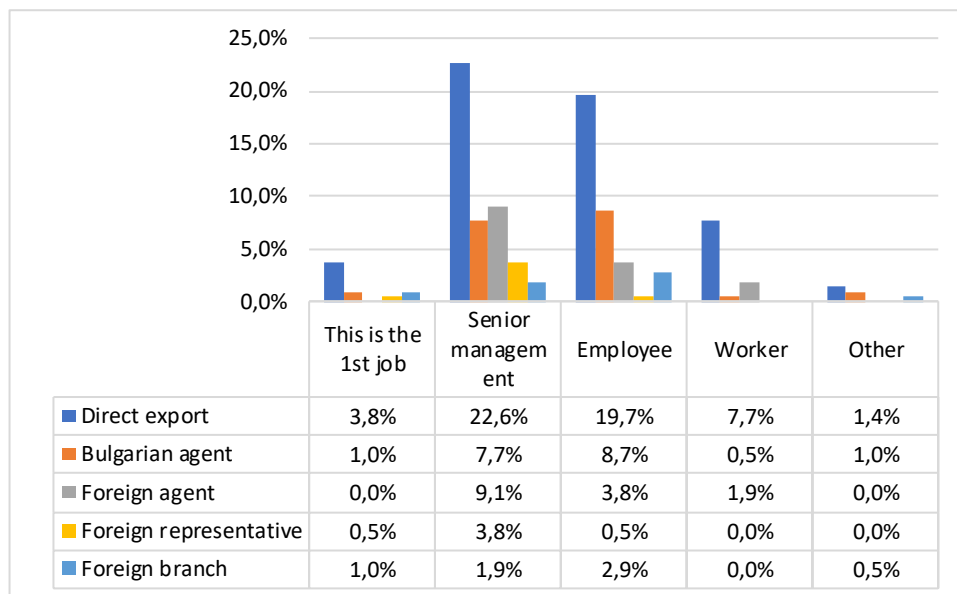


Figure 3. Relationships between the entrepreneur's previous experience and the choice of export mode

Finally, managerial experience also influences the approach used to search for entrepreneurial opportunities in foreign markets. Entrepreneurs with such experience are more active and less reliant on chance (accidental events), although there are not particularly large disparities between their activity and that of entrepreneurs who have been employed.

One could make additional subgroups according to the profile of entrepreneurs and perform corresponding analyses, such as the linkages between the specific needs of management training courses, but the way in which they have been studied hides some risks of misleading interpretations.

Despite the limitations of available empirical data, it would not be too much of an exaggeration to confirm the initial assumption that *the availability of management experience and training is a prerequisite for choosing more active, more direct and riskier approaches to the internationalization, contributing for a greater efficiency for the business.*

Conclusion

The analysis of empirical data confirms the ideas expressed in earlier studies, regarding the role of managerial experience and training in the internationalization process. The study contributes to the literature by relating the skill set of entrepreneur-manager in SMEs from an emerging market with the choice of internationalization approach. Despite the one-sided study of the problem, relying primarily on experience and training preceding and complementing entrepreneurial activity, the results obtained could also be projected onto the role of managerial experience gained in the process of developing one's own business. Other directions in which researchers' efforts could be deepened into are the scope and content of management training in its formal and informal dimensions. Achieving results in these directions would help to find effective solutions in supporting those entrepreneurs who need to build their management skills in the process of internationalization of their business.

In comparison to domestic operations, internationalization is a complex and resource-demanding process, requiring preparation, knowledge of the approaches for its implementation, experience and certain skills needed in an international business environment. Effective management of the process involves not only timely identification and choice of approach for internationalization but also the use of new flexible forms of entrepreneurial behavior. Although the data obtained is not sufficient to confirm some of the latest theories of non-traditional approaches to internationalization, such as strategic entrepreneurship and improvisation (Todorov, 2014, 2015), they are sufficient grounds for emphasizing managerial experience and training as factors contributing to the success of internationalization. Future researchers can direct their efforts to explore the role of improvisation for achieving a superior international performance of entrepreneur-led firms, or the link between improvisation and innovation in an international context.

Unlike larger companies, the position of smaller internationalized enterprises is less favorable because they do not have such capacity to negotiate, to lobby and to comply with the various international requirements. Available capacity, accumulated experience, and lessons learned from bigger (private or public) companies do not have much in common with these of smaller private enterprises. SMEs need to find their own unique approaches to break into the international market that suits their resource limitation (Ivanova, Dentchev, & Todorov, 2015). Therefore, a possible avenue of future research is to determine, which internationalization strategies contribute to the superior performance of SMEs.

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***Entrepreneurship,
Marketing,
Management***

Alternative Approaches to Marketing Being a Business Entrepreneur

Björn Bjerke

Abstract

I think it is fruitful in our modern society to look at marketing being a business entrepreneur as different enough compared with other types of marketing to be treated separately. Furthermore, there is a new approach to marketing coming up next to the dominant rational managerial one. I would like to refer to this new approach as co-creation marketing and I find it useful to discuss this new alternative in terms of the social phenomenological philosophy. This paper discusses rational managerial marketing and social phenomenological marketing as two alternatives being a business entrepreneur.

Key words: marketing, rationality, social phenomenology, value star, value constellation

Our modern society

There are many names for our modern society. Sometimes it is referred to as a *postmodern society*. There are different ways to understand post-modernity, but one generally accepted way is that there are no longer any definite solutions to any problems in the society. One must accept, for instance, that *there is more than one way to look at business entrepreneurship and more than one way to look at marketing*.

Changes have always been part of our society. These days, however, these changes seem to be *of a different kind*. They contain *genuine uncertainty*, in other words, aspects which cannot be eliminated, sometimes not even reduced, by more careful planning. *Our changes have changed*. One natural consequence of these new conditions is that we must change our way of thinking as well and come up with *new solutions to different problems today*. One way to look at this is to say that we live in an *entrepreneurial society now*.

One aspect of modernity is also *the revival of place* (the economy can be seen in space-terms, the social is better seen in place-terms). A more specific aspect of this is that it is clear that *interpretative thinking* has come up alongside rational thinking as an interesting alternative, for instance, when doing research in social sciences. Rational ways of thinking (which have traditionally been dominating the economy) sometimes do not seem to fit the modern society very well.

We also live in a *knowledge society* today. This has many implications. One is that *relationships and networks are becoming more important*. Contemporary society is underpinned by all-encompassing networks; network is the primary symbol of our modern society (Castells, 1998). Understanding how these networks are working is the key to understand how our society is working.

My ambition with this paper

I believe that marketing being a business entrepreneur differs enough from other kinds of marketing to be treated separately. Furthermore, I can see an interesting alternative marketing approach coming up next to the dominating one (in practice as well as in theory). Such a second alternative marketing approach became clear to me after having looked through knowledge development of the *subject of business entrepreneurship and the subject of marketing*. In both these cases, focus is clearly shifting towards paying more attention to the *the customers* (which, for the sake of simplicity, I will use as a summary term for those people who benefit from what the business entrepreneurs achieve, even if they are not the final consumers). I also made a study of the knowledge development of a *subject of leadership*, which is close to entrepreneurship as well as to marketing, and I was even stronger convinced how seriously these types of subjects today take their

'customers' in the leadership case, the followers (for the knowledge development of leadership, look at, for instance, Bjugstad et al., 2006; Baker, 2007; Carsten et al., 2010, 2013; Uhl-Bien et al., 2014).

I restrict myself in terms of my conceptualization of business entrepreneurship to refer only to such venture startups, the results of which, at least for the customers, *in some noticeable way differ from what exists already and offer something new, in other words, being innovative*. Also, I am of the opinion (like Schumpeter, 1934), that the person, who starts a business entrepreneurial venture, is an entrepreneur *only in the beginning of the existence of this venture*. After that, this person becomes more of a manager.

To summarize: This paper is about *two alternative kinds of marketing in the beginning of business entrepreneurial ventures before these ventures have reached a clear and accepted form for their customers*. The paper is based on Bjerke (2018).

Two views of entrepreneurship today

It is, by and large, possible today to see two different views of entrepreneurship today (compare Bridge et al., 2009):

- A. *The limited view*: Entrepreneurship is basically an economic phenomenon and is a matter of exploiting opportunities to become an entrepreneur and thereby satisfying *demand in different markets*. Entrepreneurs in all parts of the society should try to emulate successful entrepreneurs in business. Some representatives of this view are Dees et al. (2001), Amin et al. (2002) and Dart (2004).
- B. *The more extended view*: Entrepreneurship belongs to the whole society, not only to its economy and is a question of satisfying *demand and needs in markets and other sectors of the society*. To be a social entrepreneur, for instance, is something different than being a business entrepreneur. Some representatives of this view are Hardt (2002), Hjorth & Steyaert (2003), Johannisson (2005) and myself (Bjerke, 2013).

The limited view of entrepreneurship is focused on explaining consequences of *a rational way to behave*; the more extended view of entrepreneurship is focused on understanding consequences of *a social constructional way to act*.

The background to my two marketing alternatives

What is dominated most marketing thinking is the expression 4 P:s, which was coined by McCarthy (1960) and later developed by Kotler (1967). The original 4 P:s stood for Product, Price, Place and Promotion; as time went by supplemented by P:s like Policy and Personnel.

During the last decades, this management-oriented marketing perspective was developed and has become its dominant approach. Early contributors were, for example, Howard (1957) and Buzzell (1964). The giant in marketing management (as well as in marketing in general so far) has become Philip Kotler, who published his *Marketing Management* first time in 1967 and it is probably the most read textbook in marketing so far. Due to its dominance, it is sometimes referred to as *the marketing Bible*.

With its origin in well-established theory of microeconomics, based on the assumption of an open market with pure transactions and influenced by recent findings in behavioural sciences, the managerial view of marketing was soon accepted and became *the paradigm of marketing*. One of its benefits, in the view of many commentators, is that it offers a distinct guide to marketers in their actions and a framework which is rational and easy to understand and follow.

However, the managerial marketing approach is not unopposed. It is, for instance, a clear trend today to consider even more seriously the role played by customers in the marketing process. This development in this matter has gone via relationship marketing to co-creation marketing (Figure 1).

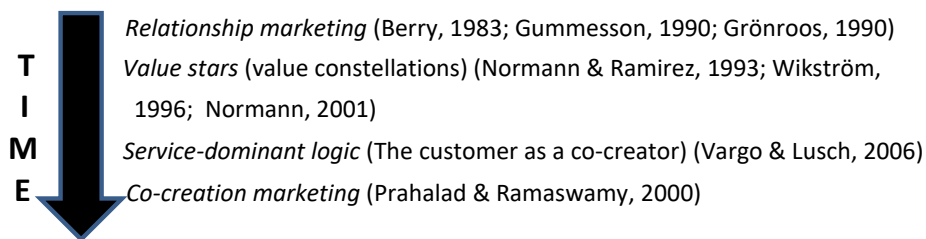


Figure 1: *From relationship marketing to co-creation marketing*

To conclude, I found it interesting to getting to know two alternative ways to use marketing being a business entrepreneur:

- (1) The rational managerial marketing approach
- (2) The social phenomenological co-creation marketing approach

Paradigmatic matters

Törnebohm's (1974) position in terms of what a paradigm means in social sciences is a suitable background to my ambitions in this paper. As stated by him, a paradigm consists of:

1. Conception of reality (a world view)
2. Conception of science

3. Scientific ideal

4. Ethical and aesthetical issues

The rational philosophy and the social phenomenological philosophy (which is the constructionistic alternative used by me) are summarized in Törnebohm's terminology in Table 1.

Table 1: *The rational and the social phenomenological paradigms*

	<i>The rational philosophy</i>	<i>The social phenomenological philosophy</i>
Conception of reality	Reality consists of objective as well as subjective facts. It is basically a stable construction.	Reality is a social construction, which interactively relates all actors to each other. The researcher is one of the actors.
Conception of science	The scientific task is to provide us with true and valid pictures of the factual reality.	The scientific task can always be an object for reflection, and taken-for-granted concepts may become obstacles to real understanding and renewal.
Scientific ideal	Science is to provide us with an increasing number of logical and rational explanations, a clear set of concepts and representative, generalizable cases, which can facilitate better and better forecasts of the future.	Science is to lead to languages, which can provide us with better and better understanding, and is advocating a consciously active interaction with the environment.
Ethical and aesthetical aspects	These are relatively uninteresting issues in this case.	Ethically, the researcher can never disclaim the responsibility for his or her part of the construction of reality. Aesthetically, descriptions and interpretations which create new thinking are recommended.

Explaining and understanding

To claim a clear difference between 'explaining' and 'understanding' may seem of little interest to some. However, it has become customary, though by no means universal, to distinguish between trying to get a picture of

events and trying to get a picture of *acts*. It is suggested that the term 'understanding', in contrast to 'explaining', ought to be reserved for the latter.

A crucial difference between explaining and understanding, as far as the role played by the involved language is concerned, is that explanation sees language as *depicting* reality and understanding sees language as *constituting* reality. Researchers interested in explaining want to construct models. *Models* are deliberately simplified pictures of factual reality and *interpretations* are deliberately problematized pictures of socially constructed reality.

In short, *understanding* means an insight into the *meaning with* (the purpose of) *an act* (meaning can never be quantified, nor reduced to any form of nature). The social phenomenological alternative (unlike the rational alternative) of marketing being a business entrepreneur looks at it such that the entrepreneur will do better, if he or she is better in *understanding* the customer. One necessity in that case, the way I look at it, is to use dialogues rather than interviews.

Interviews and dialogues

The ambition of an interview is, as I see it, to get a true picture of the factual (objective and/or subjective) reality. One important task for the interviewer is to avoid what is referred to as *the interviewer effect*, that is, to influence the answer in any distorting direction. A possible metaphor is to *draw a map* when looking for objective data and to *fish* or to *mine* when looking for subjective data.

The alternative to interviews is dialogues. The main purpose of a dialogue (which, in my opinion, is radically different from an interview) is to try to understand the meaning in other people's language and cultural worlds. This understanding is *not based on objective and/or subjective facts but on objectified and/or subjectified ideas* (typified language categories which are treated as true and independent of us as human beings, but which are not). Nor can they be seen as factual, but as socially constructed (partly dependent upon and possibly created in the very dialogues themselves). Compared with referring to interviews as *drawing maps*, it is possible, using a metaphor again, to refer to a dialogue as to *function as an author* (Bjerke, 2007).

Some general aspects behind my two marketing alternatives

I do not believe that it is possible to reach innovative results in a non-innovative way. For startups to reach innovative results, they must, therefore, be innovative one way or another. Startups can, however, be innovative in two different ways. *One way* is that they take place by following a specified sequence or structure, which is built up in a logical way and, consequently, *in terms of its layout* being independent of the context, *but where*

the content of one or several of the components, by which the sequence or the structure is built up, could be new and innovative. This layout could be called rational (and is, consequently, based on a rational philosophy). The other way is configured such that the very layout itself (as well) is innovative. This layout could be called social constructionistic (in my case based on the philosophy of social phenomenology).

To talk about marketing, in the traditional notion of the value-creating process, customers were 'situated outside the company'. Value-creation was going on by the company through its activities. The concept 'value chain' is summarizing the unilateral role that companies traditionally play in creating value (Porter, 1980). The company and the customers have distinct roles. In this perspective, the market was seen either as space of exchange or as customers, separated from the value-creating process (Kotler, 2002). It had no role to play in creating value. Its role was one part in exchanging value. 'The market, defined as several customers, was a "target" for the company's supply' (Prahalad & Ramaswamy, 2004c:6).

It is obvious that the traditional market concept is company-centered. So is the value-creating process. Consequently, companies are then conceptualizing management of customer relationships as directing themselves to and managing the 'right' customers, focusing on the situation where the interaction between company and customers is happening as the space where economic value is exchanged. This interaction is not seen as a source of value creation in such a case (Normann & Ramirez, 1994; Wikström, 1996). The exchange of value is the primary function of the market, which is separated from the *value creating process* (Figure 2).

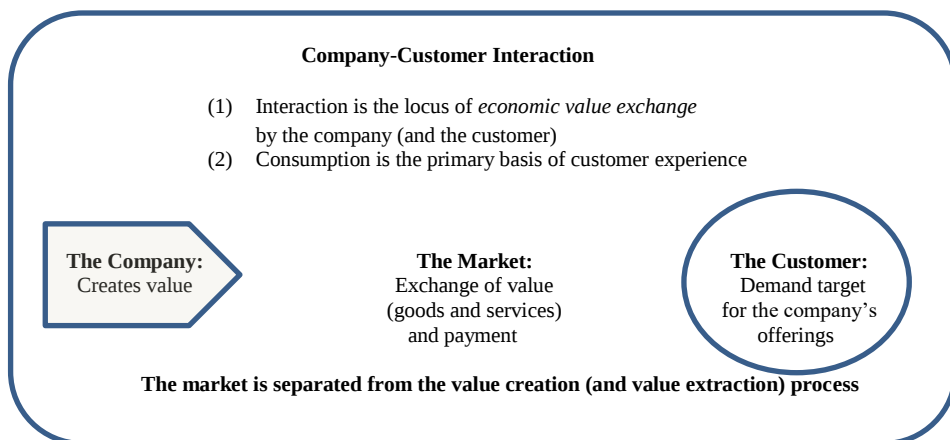


Figure 2: *The traditional concept of a market*
(Prahalad & Ramaswamy, 2004b:42)

It is then not surprising that the flow of communication goes from the company to the customer, as the market is looked at as a situation, where value and payment are exchanged, and the consumers must be persuaded in such a way that the company can extract highest possible value from transacting with them.

In the view of the market which now seems to emerge very strongly, focus is focused more strongly on the interaction between customer and company – *the role of the company and the customer converges*. The company and the customer are both co-operating and competing – co-operating in co-creating value and competing in extracting value. The market becomes inseparable from the value-creating process. (Figure 3).

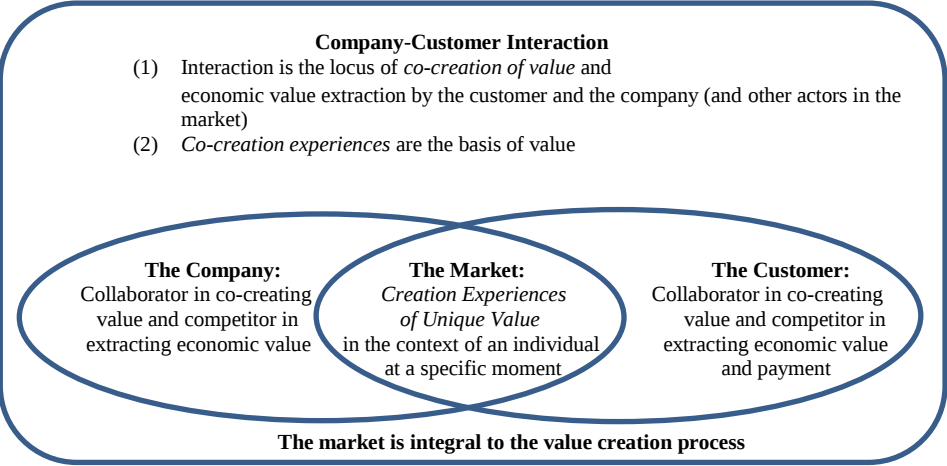


Figure 3: *The emerging concept of the market*
(Prahalad & Ramaswamy, 2004c:10)

This development of the role of customers is presented in Table 2.

Table 2: *The evolution and transformation of customers*
(Prahalad & Ramaswamy, 2004a:76)

	<i>Customers as a passive audience</i>			<i>Customers as active players</i>
	Persuading predetermined groups of buyers	Transacting with individual buyers	Lifetime bonds with individual customers	Customers as co-creators of value
<i>Time frame</i>	1970s, early 1980s	Late 1980s and early 1990s	1990s	Beyond 2000
<i>Nature of business exchange and role of customer</i>	Customers are seen as passive buyers with a predetermined role of consumption.			Customers are part of the enhanced network; they co-create and extract business value. They are collaborators, co-developers, and competitors.
<i>Managerial mindset</i>	The customer is an average statistic; groups of buyers are predetermined by the company.	The customer is individual statistic in a transaction.	The customer is a person; cultivate trust and relationships.	The customer is not only an individual but also part of an emergent social and cultural fabric.
<i>Company's interaction with customers, and development of products and services</i>	Traditional market research and inquiries; products and services are created without much feedback.	Shift from selling to helping customers via help desks, call centers, and customer service programs; identify problems from customers, then redesign products and services based on that feedback.	Providing the customers through observation of users; identify solutions from lead users, and reconfigure products and services based on deep understanding of customers.	Customers are co-developers of personalized experiences. Companies and lead customers have joint roles in education, shaping expectations, co-creating market acceptance for products and services
<i>Purpose and flow of communication</i>	Gain access to and target predetermined groups of buyers. One-way communication.	Database marketing; two-way communication.	Relationship marketing; two-way communication and access.	Active dialogue with customers to shape expectations and create buzz. Multilevel access and communication.

Traditionally, value calculation is based on a company's activities vis-a-vis the environment in what is referred to as the *value chain* (Figure 4). The

value of the company equals the ‘marginal’ in the value chain, which is extracted by the company in the market and paid for as part of value exchange with the customer. This is the managerial marketing view, *looking at the market as a target*.

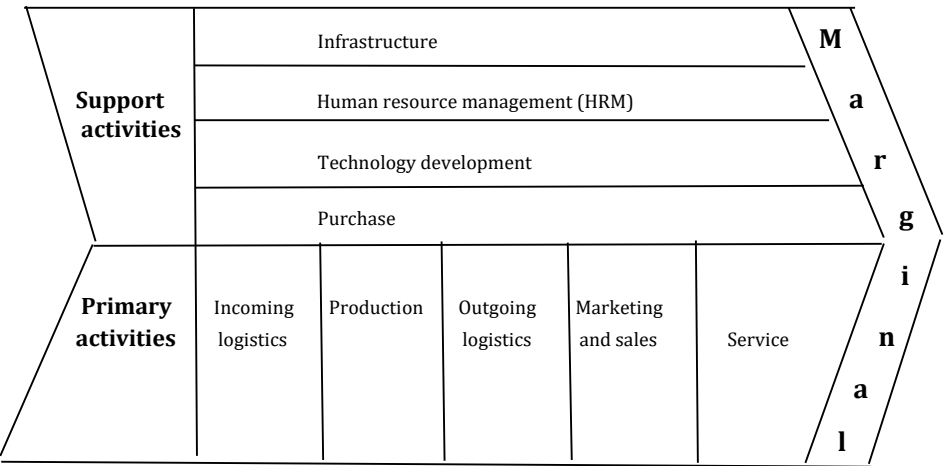


Figure 4: *Porter's value chain* (Porter, 1985:46)

The value chain, which Porter launched in the middle of 1980s, was meant as a tool assisting company's strategic planning. The purpose with the model is to maximize the marginal, that is, the difference between a company's revenues and its costs. Porter published his theories about the value chain in the beginning of 1980s, but already at that time, deregulations, globalization and technology development had started to change the rules of the game – and those changes have continued. Instead of being one link of a linear chain where value was added step by step, Normann (2001) pointed out that many new companies are organizing other actors and stakeholders in *value-creating networks*. They put themselves as the hub in a business flow where all actors benefit from each other and where new ways of creating value are used (Figure 5). This picture can be characterized as a *value star*.

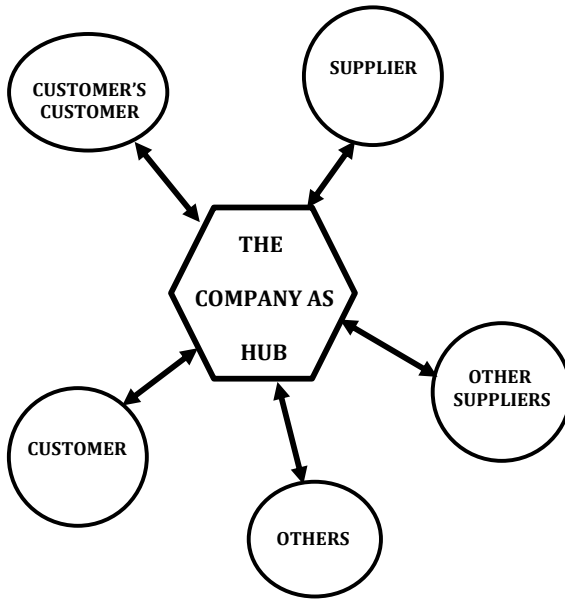


Figure 5: *The value-creating star*

The value of the company is the result of an interaction between all the actors in the value star and this value is extracted and shared by them all *in a kind of competition*. This is the social phenomenological view, *looking at the market as a forum*.

Principles for rational and social phenomenological marketing being a business entrepreneur

One may possibly believe that one could be a better marketer by combining the advantages of my two marketing alternatives to some kind of super-best way. But it is not that simple. This is because the two, just like paradigms, are based on *incompatible presumptions*. If you, for instance, try to transfer aspects of one of the two varieties (say from rationalism to social phenomenology or the other way), *the content and the signification change with the context*. The two varieties *cannot be compared in the same 'language'*, so to say.

There are, in a way, however, also similarities between my two alternative ways to market oneself being a business entrepreneur. I call attention to the fact that when I talk about entrepreneurs here, I refer to individuals who behave and/or act in the beginning of new business venture, a venture which is then later run by a different behaviour and/or action and to the fact that, for such a venture, to be called entrepreneurial, must come up

with innovative results. Both alternatives must therefore be innovative to some extent to be of interest to me. What unites the two alternatives, furthermore, is that both aim at customers and that both usually have the ambition to establish themselves and to continue also after the entrepreneurial start, so to say.

As far as their design as well as their content, it is consequently necessary to use *different theoretical spectacles* to successfully grasp what they are all about. It is generally possible to say that what I refer to as rational managerial marketing is based on what was earlier referred to as the limited view of entrepreneurship and constructionistic social phenomenological marketing is based on what I referred to as the more extended view of entrepreneurship. *One important difference* between the two marketing varieties, and of great importance to the business entrepreneurs' way to market themselves, is that managerial marketing adopts management as a consequential part of being an entrepreneur, while social phenomenological marketing makes a distinction between management and entrepreneurship and asserts that the former is not seen as important to marketers.

Rational managerial marketing has not changed in any basic respects after 50 years of its existence or so, and it can now be characterized as mainly completed. Constructionistic social phenomenological marketing is, however, not much more than 10-15 years old, still at a developing stage and cannot be so strictly associated with one person, but rather with a stream of ideas (as we saw in Figure 1), and it is, according to its own assumptions, still at a developing stage. This means, which I said before, that rational marketing (which looks at relationships to partners and customers mainly as *transactional, not as relational*) is renewing itself within its frame, while social phenomenological marketing also may renew its frame.

But to repeat, both varieties lead to new solutions which are necessary according to my view of entrepreneurship. To summarize, one can say that business entrepreneurs using rational marketing aim at reducing the number of degrees of freedom that exist in the entrepreneurial situation by acquiring information to fill 'the empty spots' in their knowledge, while social phenomenological marketing, looking at their reality as socially constructed, wants to use the existing number of degrees of freedom and to generate new understanding of possibilities in the market by participating in different dialogues with customers and partners.

As mentioned, rational making is depictive and general (sometimes systems oriented), as social phenomenological marketing is more formative and contextual (that is, actors oriented). Rational marketing wants to be as explanatory and to achieve as much control as possible; social phenomenological marketing on the other hand is looking for understanding and possibilities to develop based on this understanding. Rational marketing is looking for *the right answers* – this is a useless criterion according to social phenomenological marketing. Rational marketing amounts to try to

teach more precisely what is required as a marketer – social phenomenological marketing can only teach some basic meta-aspects and ideas about how a design *might look*, based on these aspects.

A rational view claims that it is possible to provide a complete picture of what is needed; a social phenomenological view claims that this is not possible. One way to express this is to say that rational marketing can point a finger, while social phenomenological marketing wants to reach out a hand.

For both varieties, words, language and terminology are important, in the rational case as depicting and modelling tools, and in the social phenomenological one as formative and interpretive tools. It is therefore rather natural for pictures, symbols and even myths to be more important in the social phenomenological case than in the rational case.

One could say that *the two varieties live in different worlds of meaning and significances*. The rational variety lives in a *circumstantial* world, which is seen as factual and in which attempts are made to build consciously simplified pictures of what is considered to be the most decisive circumstances. As we know, these pictures are called *models*. With the social phenomenological view, where reality is seen as socially constructed, the opinion is instead that one lives in a *meaningful* world, where, in interaction with other human beings, the ambition is to come up with more constructive *interpretations* to be able to move on in a more positive direction. The two varieties have consequently *very different views of the meaning of and the possibilities to plan* in a changing world. The advocates of the rational variety attempt to forecast the future (and claim that this is possible) as far as the customers' demand is concerned; an advocate of the social phenomenological variety finds difficulties in making meaningful forecasts and therefore wants to create situations where learning can take place and where he or she can build common platforms together with customers and partners for a constructive dialogical co-creation of common meaning and significations. One interesting aspect of this is that rational marketers assert that *advertising may be of great importance*, while social phenomenological marketers rather think that it is valuable to *spread their messages through various public relational actions and carry out discussions about their messages on Internet and in the multitude of social media existing today*.

One possibility to express the differences between rational and social phenomenological marketing to characterize what are going on in the two cases is to say that *rational marketers behave, while social phenomenological marketers act*.

Traditionally, 'financial capital' was considered one of the most crucial production factors in an economy; Today, it is rather seen as necessary for business entrepreneurs to build and spread the knowledge of their existence and what is possible for them to achieve in their environment (this process is referred to as *governance* today), that is, to establish their significant presence and to be part of building social capital, also referred to as

the network capital in the modern society. The importance of networking is not denied by any of my two varieties of marketing. However, they do not look at the use of networking exactly the same way. One difference is that rational marketers assert that they function better (more rational?) by networking, while social phenomenological marketers look at networking as an existential aspect of their view of the world. To repeat, the difference here is that rational marketers claim that it is favourable to use networks to exchange information with customers and partners, that is, to adapt activities to other participants in the economic *value chain*, while social phenomenological marketers look at it as constructive to co-create and co-extract experiences with customers and partners in so-called *value stars*.

Managerial marketing aims at finding a model for marketing, which is valid, independent of time, place or culture. This is, by the way, the same for all research and knowledge based on the rational philosophy. For social phenomenological marketing, it is quite the reverse. It is happy to be very contextual, because it is based on a constructionistic philosophy, which requires existing and real individuals interacting with each other, for instance, a company with its customers in a market. In the latter variety of business entrepreneurship marketing, furthermore, the market is often not so much seen as a target but as a forum. In the former business entrepreneurship marketing variety, it is also an advantage to see the market as a space rather than as a place. A space can, for instance, be counted in terms of number of heads but a place can, for instance, be measured in terms of square miles.

Managerial marketing being a business entrepreneur

Managerial marketing being a business entrepreneur starts from models for market planning of a management type, which at an early stage make it clear which prerequisites that are at hand. This directing set of prerequisites can either consist of the business entrepreneur's ambitions concerning time, objective and the hope for his or her future company (a thinking, which is referred to as goals-rationality or *causation*) or of the business entrepreneur's possibilities concerning his or her existing or accessible knowledges and skills through his or her contacts etc. (a thinking, which is referred to as means-rationality or *effectuation*; Sarasvathy, 2001).

A review of those parts, which should be needed according to the managerial marketing approach to get a complete conceptualization to manage (either the goals-rational or the means-rational way) to become a business entrepreneur, can be described *as a sequence* of decisions to get there, or as an overview of relevant aspects *as a structure*, which together would make you succeed.

The sequential managerial marketing model

The *sequential managerial marketing model* could, by and large, be presented the following way (Figure 6):

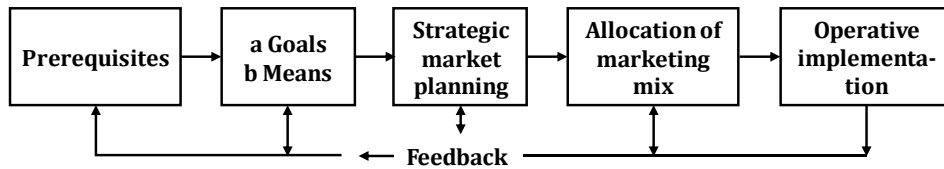


Figure 6: *The sequential managerial marketing model*

The structural managerial marketing model

Among *structural managerial marketing model*, there are, as well as in the case of sequential managerial marketing model, many varieties. By and large, it intends to illustrate the different components needed to be successful as a business entrepreneur, sometimes with a clarification of how these components are related. One relatively accepted variety these days was launched by Osterwalder & Pigneur (2010) and is called *the canvas model*, which consequently looks like a canvas, on which one could 'paint' how the business entrepreneur is to create, deliver and extract market value. The model can be outlined like in Figure 7.

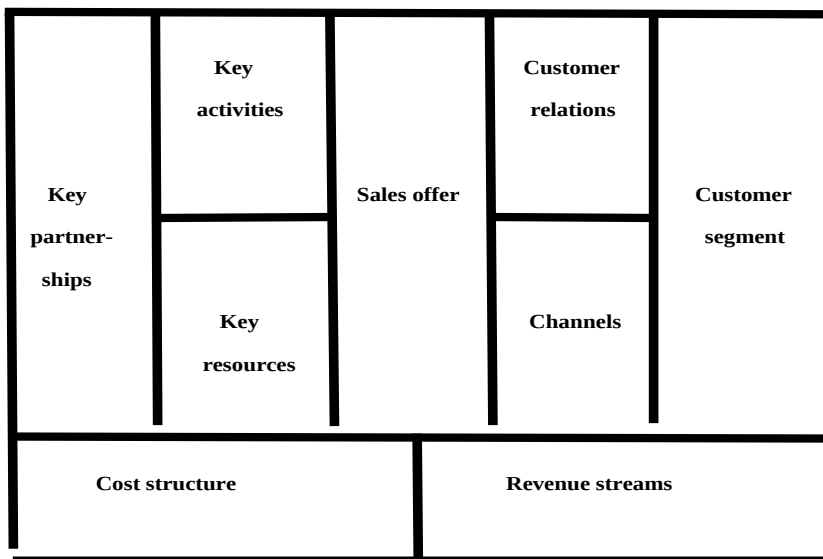


Figure 7: *The canvas model* [Based on Osterwalder & Pigneur (2010)].

The canvas model is set up by a company, which attempts to trim their flows of costs and revenues and improve its profitability, that is, the market value for the company's entrepreneur. It could be described as 'a conceptual tool pointing at the logic behind how the company can or should make money on its sales offer, and it also works as a check list on what is important to keep in mind in such an effort' (Frankelius et al., 2015:577-8; my translation).

How rational marketing can be innovative more generally within its given framework is illustrated in Table 3.

Table 3: *Comparison between traditional managerial management and its more innovative possibilities* (Morris et al., 2002:6)

	Traditional managerial marketing	More innovative managerial marketing
<i>Basic premises</i>	Facilitating transactions and market control	Sustainable competitive advantage through value-creating innovation
<i>Orientation</i>	Marketing as an objective, impassionate science	Central control for passion, enthusiasm, persistency and creativity in marketing
<i>Context</i>	Established, relatively stable markets	Imaginative, emerging and fragmented markets with a high degree of turbulence
<i>The marketer's role</i>	Co-ordinator of marketing mix; brand-builder	Internal and external change agent; category-shaper
<i>Market view</i>	Reactive and adaptive view of current market situation with gradual innovations	Proactive view, leading the customer with dynamic innovations
<i>Customer need</i>	Articulated, assumed, expressed in questionnaires	Unarticulated, discovered, identified through lead-users
<i>Risk perspective</i>	Risk minimization in market actions	Marketing as a tool for calculated risk taking; stress on finding ways to minimize risks, managing them stepwise or sharing them
<i>Resource management</i>	Efficient use of existing resources, scarcity mentality	Reach leverage effects, creative use of others' resources; do more with less; actions not limited by resources accessible now
<i>Development of goods/services</i>	Marketing supporting development of new goods/services within R&D and other technical departments	Marketing is the home of innovation; customers are co-active producers
<i>The role of customers</i>	External source for information and feedback	Active participants in the company's marketing/decision making process and in their view of what product, price, place and promotion are and contain

Social phenomenological marketing being a business entrepreneur

Due to the conditions, on which social phenomenological marketing rests, it cannot be presented as simple models or algorithms neither in any sequential nor structural format, but as meta-principles and as process-oriented interpretations of starting points and fixed stars. Social phenomenological marketing cannot, unlike managerial marketing, be described as average or typical, generally valid, explanations in a world of theories, meant to be logical and optimal ways to behave as a business entrepreneur in a factually built-up reality, but as understanding a set of ideas about potentially progressive actions in a contextual everyday socially constructed reality (life world). This means, for instance:

- In social phenomenological marketing, it can be destructive, and even dangerous, to directly copy earlier or contemporary ways to succeed.
- It can be difficult in any quantitative way to decide whether one has been successful through social phenomenological marketing because under such circumstances it is assumed that you act in a meaningful world instead of in a world full of circumstances. Meaning cannot be measured from outside in any traditional sense, but must be felt and experienced individually in interaction with other people in contextual cases.
- The concrete place (unlike the abstract space) has a decisive importance here. A place is specific. It contains living individuals, who in interactive processes continuously create their existence. With this point of departure, the business entrepreneurs cannot, in any contemplative solitude, figure out some abstract best plan to succeed in advance, but must instead put themselves in concrete situations of learning face-to-face with business partners and customers to generate an understanding of what is required to proceed in a more favourable direction (often even being a part of building such situations themselves). To express it in the words of a game, the business entrepreneurs must gradually learn the principles how to put themselves in a more winning position.
- Social phenomenological marketing is related to what I have referred to as the more extended view of entrepreneurship, which means, for instance, to stress one's own contextual learning process more than ready-made non-contextual knowledge of, for instance, decision making, picked up from other people, who claim that they have been around before and/or researchers, who think they know and are willing to tell how to act without getting hung-up on what is specific in a specific case.

Language is extremely important in social phenomenological marketing and it is, implicitly, part of all marketing according to this constructionistic philosophy. The reason is, of course, that reality is here seen as a social

construction, that is, *built up by language typifications*, and not like in managerial marketing, where language is 'only' seen as *a tool to depict reality*. You may even express it such that in rational philosophy, which managerial marketing is based on, language (in the wide sense of it, that is, not only written or spoken words, but also gestures and other body language) can be used to *better explain reality*. In social phenomenological marketing it is so, however, that (social) *reality is nothing but language* (in the same wide sense). There is, of course, a physical natural reality for social phenomenologists as well, but they are only interested in *what can be understood* (that is, what can interactively take place between people). Explanations are not of interest here. For social phenomenologists, you cannot 'understand' a metal, a tree or a planet. On the other hand, you may be able to understand other people, because *they have something in common with them*. Knowledge of reality is created according to social phenomenological marketing in interaction with customers and/or partners by *dialogues* ('through words') and not by *interviews* ('collecting the knowledge of respondents' – of factual reality).

As mentioned, the primary proponent of managerial marketing, according to most commentators, is P. Kotler (1967, 2001, 2002, 2015). Those who now most actively plead for a social phenomenological type of marketing, are C.K. Prahalad & V. Ramaswamy (2000, 2004a, 2004b, 2004c). We can call their view *interactive co-creation marketing*. It is based on a belief in the necessity today to seriously consider the active participation of customers in business.

One important difference between managerial marketing and social phenomenological marketing, as has already been pointed out (apart from their basic philosophical base and those views and approaches that emanate from this), is *where value-creation of a product takes place and who can profit from this*. According to managerial marketing, value-creation takes place in and by the company alone, considering the position which it has in the value chain – and this creation *is separated from the market*. Customers may *experience* the value of a product when consuming it, but its value is *extracted* here mainly by the company (at least as costs and benefits), because it is the value-adding agent in the value chain. According to social phenomenological marketing, on the other hand, value-creation (as well as value-extraction) takes place as a co-action between company and customers (as well as between company and its suppliers and other business partners) *in the market*. Co-creation and co-extraction are then therefore better be seen as value-stars than value-chains.

Co-creation of value is challenging in a fundamental way the traditional distinction between supply and demand. When experience, together with that value which is in there, is co-created, focus is then shifted to the total experience environment, and new demand becomes contextual. The new approach to co-creation also generates a new competitive position for the

company. To compete effectively, the company must then invest in building skills which are centered on co-creation through high-quality interactions between customers and company and personalized co-creation experiences (Prahalad & Ramaswamy, 2004b). However, while building new skills is critical, it is less difficult than changing one's dominating logic. If one does not make a shift from a company-centered to a co-creation perspective on value-creation and co-extraction of economic value with informed, concatenated, empowered and active customers and customers' local communities on one side and cost pressure which is forced by increased competition, company closedowns and product commodization on the other side, it will simply be more difficult for companies to develop a sustainable competitive advantage. The future belongs to those who are successfully able to co-create unique experiences together with customers.

In Prahalad & Ramaswamy (2000), they provide several advice for companies of today to follow when they market themselves:

- Encourage an active dialogue
- Mobilize customer communities
- Mobilize customer differences
- Handle person-based experiences
- Handle multiple experience channels
- Handle variation and evolution
- Create customer experiences
- Look at customers as competitors in value-extraction
- Prepare the organization for customer competences in the new economy

One may ask, how do you build systems for co-creation (and co-extraction) of value between company and customers (and business partners). Prahalad & Ramaswamy base their thoughts about this on an interpretative design base which they call DART (Dialogue, Access, Risks-benefits and Transparency) (Figure 8).

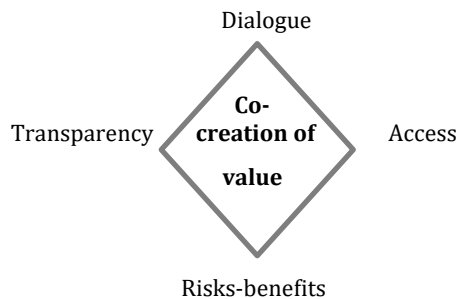


Figure 8: *Building blocks for interaction between company and customers (and business partners) to co-create (and co-extract) value* (Prahalad & Ramaswamy, 2004c:9)

Dialogues are important elements of the co-creation approach. Markets can be viewed as a set of conversations between customers and company (Levine et al., 2001). Dialogue means interactivity, deep involvement and the ability and willingness to act on both sides. It is difficult to think of a dialogue between two sides with completely different interests. Therefore, for an active dialogue and the possibilities for common solutions to take place, the company and the customers must approach each other, and both be interested in problem-solving. A dialogue must center around subjects of interest to both – the customer and the company must have clearly defined ideas about how to involve themselves.

But a genuine dialogue is difficult if customers do not have the same access and transparency to information as companies. Companies have traditionally benefited from the asymmetrical information between themselves and the individual customer. However, with those possibilities to get information which exist today, it is necessary for companies to assist their potential and existing customers to gain access to that information they are looking for. Access, as well as transparency, is critical to a meaningful dialogue in the markets.

More important than so is that dialogue, access and transparency can lead to a clear evaluation by the customer from his or her point of view concerning risks-benefits with a specific route of actions and decisions. The share of the value extraction which the company can get is a result of how good they are at building and exploiting DART in a co-creative interaction with other parties in the market, of course. To summarize (Table 4):

Table 4: *The building blocks of DART*

TERMS	Definition	Company consequences
<i>Dialogue</i>	Interactive discussions between customers and company	Two-way communication instead of one-way sales tactics
<i>Access</i>	Allow customers to have data supply	Create value with the customers beyond the traditional value chain process
<i>Risks and benefits</i>	To handle risks and benefits between customers and company	Share the risk of product development with the benefits through communication
<i>Transparency</i>	Company information is available	Information barriers should be eliminated to gain confidence

How innovative social phenomenological marketing can be is the results of the skills in designing and exploiting the company's DART.

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Digitalization as Push and Pull Factor Redefining the Entrepreneurship Concept

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Abstract

The business models in the future are very challenging. The digitalization and the Web 2.0, as catalyzers for new business paths, are changing the prerequisites and rules for succeeding in the labor market. The digital economy is transforming the nature of competition, of consumption and the market rules as well.

On one hand, the average lifespan of companies has drastically lowed in the last thirty years, on the other hand and in the same period of time, the number of self-employed has rapidly increased. A relatively new phenomenon, the digital entrepreneurship, is crystallizing as a valid response to the new technology possibilities and as a constructive answer to amend the scarcity of jobs originated by the robotization and digitalization. The on-demand, shared, economy is becoming a powerful social trend and as such needs to be managed and regulated. Digital entrepreneurs may be considered a new kind of entrepreneurs; their motivations, needs, modus operandi and understanding of self - employment have been influenced by some megatrends. In this paper we will proceed to clarify the link between megatrends, specially digitalization and industries convergence, and the arise of new self -employment models; furthermore, we will expose in detail the idiosyncrasy of some of these new venture creation models i.e. the gig economy, solopreneurship, peer-to-peer economy or troubleshooters.

Ultimately, the purpose of this article is to point out how different socioeconomic megatrends are pushing and pulling the economy and consequently shaping the concept of entrepreneurship and additionally to analyze the effects of the digitalization in the way of understanding entrepreneurship and new venture creation.

Concerning the methodology, the authors have conducted an exhaustive research of the evolution of self-employment in the western economies based on reliable studies done by the European Union, the United Nations and the OECD; parallel it has been carried out a longitudinal study to detect the entrepreneurship topic trends among higher education students over the last twenty years. This last study is based upon an international conference for students (Euroweek) addressing the topic of entrepreneurship; this conference, with competition character, is held every year and illustrates in a very realistic manner the development of the concept and the attitude

toward venture creation among master students along this period. These two analysis should offer us an illustration of the changing nature of entrepreneurial practices.

We are deeply convinced that the digitalization, by creating platform-centric innovation ecosystems and by reducing the cost of entrepreneurial experimentation, is transforming the approach toward starting up, however there are other crucial aspects like social trends and attitudes to work of coming generations which surely play a significant role in entrepreneurial predisposition and thus deserve to be explored.

Key words: self-employment, digitalization, on demand economy, megatrends, new business models, connectivity & convergence

Introduction

Digital business in general and digital entrepreneurship more concretely are disrupting business practices worldwide. As an illustration of the occurring rapid changes we may draw upon the data and estimations provided by The Economist Intelligence Unit (1): almost 80% of companies affirm their customers are modifying their access to goods and services, more than 51% of these companies are changing their pricing and delivery models; Siwicki (2) estimates that consumer spending via mobile will increase from US\$ 204b in 2014 to US\$ 626b in 2018 and almost half of all e-commerce sales will be from m-commerce.

Following the Statista portal (3), in 2015 e-retail sales accounted for 7.4 % of total retail sales worldwide, this figure is expected to reach 13 % in 2019. The case of Europe shows the rapid implementation of e-commerce in developed countries, while in 2008 e-sales represented the 13% of total sales the amount has increased to 20% in 2015 (4).

The global force of digitization is imposing new business models beyond the classical patterns of e-commerce (enterprises selling traditional products via web 1.0); as Iyer and Daveport note (5) entrepreneurs historically had two approaches toward IT; many have considered IT as the “necessary evil” and a second, smaller and technical oriented, group have targeted IT as their core business and trading product. In the last fifteen years most entrepreneurs have approached IT differently from these two ways, namely, as a main instrument to interact with all the starting up shareholders, IT being an enabler and opportunities magnifier. This third group does not need to develop their own IT solutions to support its business processes, but rather they may become customers of the group defining itself by selling IT products. The majority of entrepreneurs “consume” IT solutions available on the market and combine them to suit their own needs. Using the well-chosen metaphor of the above-mentioned authors, startupers create for their organizations their own interfaces following the principles of bricolage, combining existing solutions, either platforms or application

program interfaces (APS), to build up the most suitable digital infrastructure for their business purposes. Among other considerations, the availability of such digital infrastructures has boosted very significantly business speed and digital innovation pace. Consequently, technology is not anymore, an instrument to capitalize ideas or a final business output, but a business core aspect inherent in every step of the business value chain. In this regard, the enabling technologies, indispensable to exploit new business opportunities, together with the markets demands are generating a breeding entrepreneurial ground (6).

This wide range of business opportunities provided by the digital tools interlinked with the rapid entrenchment of the digitization phenomenon, very often labeled as the fourth industrial revolution, are acting as push and pull factors by redefining business venturing in almost each and every economic field.

Digitalization and consequently robotization are transforming the workforce market around the globe. Taking into account the prognosis presented by Osborne and Frey (7), 47% of the current jobs are at risk to be automatized in the near future. However, other authors have not such a bearish view but nevertheless work experts coincide in underscoring the transformation of the workforce market and the increasing imbalance between job offer and demand in the years to come which may occasionally act as a push motivational factor toward entrepreneurship. Self –employment is worldwide becoming a highly attractive job source. Interestingly, the drivers of starting up activity in rapid growth markets are shifting from necessity to opportunity. Ernst & Young point out (8) that the increase of entrepreneurial activity is calling for more supportive ecosystems stimulating venturing and economic regional development. Apart from the rise of entrepreneurial initiatives, it is worth emphasizing the changing entrepreneurship profile, following the Global Entrepreneurship Monitor (9): the entrepreneurial face is becoming younger and female; it reports that in 2013 nearly 50% of the world's entrepreneurs already were between the ages of 25 and 44 and in 2012 126 million women were launching or operating brand-new businesses in 67 economies around the world. These two trends, an increasingly young and female entrepreneurship population, may, from a sociological perspective, in part explain the vigorous growth of digital entrepreneurship and if not being the primary cause being at least a social significant factor. These developments should be considered to capture the digital economy in all its complexity. It is surely no coincidence that as we move toward a more digital entrepreneurship, the entrepreneur population is getting younger and female.

Opportunities opened by digitalization and the subsequent emerging working models are motivating an increasing number of persons taking their chance in the digital market. The peculiarity of such a market is, following Ziyae *et al.* (10) given by the myriad of business opportunities of-

ferred by its inherent international character as well as the low initial inversion required by a high degree digitalized enterprise. Needless to say that few ventures are radically digital or not in their nature, the digitalization spectrum being wide. Independently of the last remark, these two characteristics are acting as pull factors encouraging business venturing initiatives.

One of the issues more frequently addressed in the incipient literature on e-entrepreneurship is the lack of clear boundaries of the concept. Depending on the approach strictness startups and well-established companies can be classified as digital enterprises or not.

However, and in order not to be constrained by a dichotomous and simplistic terminology of digital entrepreneurship, in the next section the efforts of well recognized researchers to enlighten the complex nature of this business reality and their attempts to theoretically structure digital business activities will be illustrated.

Entrepreneurship has transformed the labor market by fostering new working and business models and blurring the classic frontiers of entrepreneurship. In the constellation of B2C we can think of practices like co-creation or value for money, in the field of B2B platforms integration models and APSs linking digital entrepreneurs with private persons and/or with established traditional companies exploring Web 2.0 opportunities, furthermore in the field of P2P or C2C models like online retail or sharing are gathering momentum (11). Under these circumstances new business frameworks such as the “peer to peer economy”, “sharing economy” “we economy” “economy on demand” and new working concepts like “giggers” “digital solopreneurs” or troubleshooters, just to mention a few, arise. Although it is by no means a new phenomenon the multiplying effect on entrepreneurship generated by an innovative startup, the impact achieved by digital companies on transforming the entrepreneurial landscape worldwide is indeed a novelty.

Hand in hand with technological advances goes the megatrend of individualism, very often associated with the millennials generation. An individualism which is materialized, firstly in the consumer’s desire to be recognized as having ‘individual needs’ rather than being part of the ‘mass market’ (12), promoting therefore the adoption of prosumers behaviors, and secondly in the aspiration of young educated people to work autonomous and flexible (13). By 2020, 20% of the workforce will be generation Y and Z members and they have grown up connected, collaborative and mobile (14).

As Nambisan (15) emphasizes, it is of capital importance to research the intermingling of social/human and material agencies (in this case digital technologies) to disclose how venturing opportunities are identified and enacted in a digital context. Therefore, studies of megatrends are of crucial importance to comprehend the arising entrepreneurial practices.

The aspects exposed above are evidently fostering the rapid increase of digital entrepreneurship. Interlinked with this development a demand for supportive entrepreneurship ecosystems has emerged which should bolster venturing initiatives. As Al Omoush *et al.* (16) note, such ecosystems play a decisive role in defining the economic dynamism of a business area and therefore deserve a more detailed analysis.

Toward a taxonomy of e-entrepreneurship

Companies doing business virtually tend to follow very different business models from those operating in a traditional way (17) and therefore the classical entrepreneurial typologies offered by scholars are getting outdated when being applied to virtual companies.

Digital entrepreneurship is given by the crossroads of two disciplines, namely entrepreneurship (which already is very interdisciplinary) and information systems. As Utterback (18) and Bhupatiraju *et al.* (19) remark, it was only in the second part of the twentieth century when scholars started to consider the role played by technology in entrepreneurship. As Kanji and Chopra observe (20) ICTs were studied as a facilitator tool to gain new markets, rather than as an environment within which new markets can be created. In the last years of the 1990s and beginning of the 2000s scholars debated about ICT as a moderator business variable or as a value creation actor (21, 22 and 23). As the internet technology advanced, the role of ICT in business have gained strength achieving a great development under the label of the dot.com era

(24). Digital ventures, due to the fact of being in the early stages, are micro or small companies (25); these young companies are startups in different ways, but what they share is that they ignite rapidly (26 and 27).

Following Hull *et al.* (28) the degree of digitalization of a company is giving through:

- the degree of digital marketing
- the digital selling degree of a company
- the digital nature of the product or service sold by the company
- the digital distribution potential
- the potential digital interaction with external key stakeholders within the value chain - the degree of digital internal operations

Hull *et al.* propose a clear and intuitive classification of digital companies based on the degree of digitalization; mild, moderate and extreme digital entrepreneurship. For the first group, mild digital entrepreneurship, web 2.0 is just a support or complement to traditional venturing practices; moderate digital entrepreneurship, by contrast, requires a digital infrastructure and the product, delivery or processes are digital. Extremely digital entrepreneurship involves a complete digitalization of the venturing activity.

It should be underlined that the reality may look more diffuse when classifying companies as presented in the taxonomy. The term of “e-entrepreneurship”, following Quinones *et al.* (25), has been used to describe the creation of e-business as well by startups as by well established companies. Existing traditional organizations which wish or need to explore the possibilities given by the virtual economy may progressively adopt digital aspects until transforming themselves in a clear digital company, but, nevertheless being born and grown as traditional companies emigrating gradually to the digital reality or fully operating in both modes (29). Tapscott (30), Barr (31) and Fillis *et al.* (32), in line with Hull *et al.*, consider digital enterprises as well those moving from a traditional to a digital environment.

However, other authors like Barnes *et al.* (33) and Wall *et al.* (34) apply more restricted criteria to define a new category of digital enterprise which encompasses companies exclusively digital since their founding. In the same line of reasoning, Quinones *et al.* (25) define a digital venture applying the term strictly to enterprises which are born, trade and operate exclusively online.

Scholars before Hull *et al.* have aimed to throw some light on the incipient discipline of entrepreneurship by proposing taxonomies based on different criteria. Maybe the most remarkable is the classification proposed by Matlay (35) and based on internet trading: Business-to-Business (B2B), Business-to-consumer (B2C), Business-to-government (B2G), Business-to-portal (B2P) and Business-to-affiliate (B2A).

In addition to the above, and due to the relevance it may have in the future, we think it makes sense to slightly introduce the classification proposed by Ernst & Young for the European Commission in the framework of a cooperation with the Digital Entrepreneurship Monitor Scoreboard (36); they propose to assess the degree of digitalization of a company based on the use of four digital technologies: cloud services, mobile solutions, social media and big data and identify four different groups of digital enterprises:

- Digital Beginners: Company that adopts only one of the technologies
- Digital Followers: Companies that already adopt at least two out of the four technologies
- Digital Mature: Companies that already adopt at least three out of the four technologies
- Fully Digital: Companies that already have adopted all four technologies (social media, cloud, mobile and big data technologies).

Characteristics of digital entrepreneurial activity

Technology is more than merely a framework for entrepreneurship, it generates opportunities, decisions, operations and outcomes.

In the intersection of digital technologies and entrepreneurial activity Namsian (15) identifies two major implications of digital technology on business venturing; firstly, entrepreneurial processes and outcomes are becoming less delimited; the digitalization of products and services facilitates wider flexibility by differentiating function from form and content from media (37),

(38) and therefore, the entrepreneurial outcome results “intentionally” incomplete (39). This incompleteness is reflected in the digital artifacts, which are reprogrammable, re-combinable and open, in the digital platforms characterized by its generativity and finally in the digital infrastructures which intrinsically are enablers of scalability (40).

This undone character of digital entrepreneurship entails endless business opportunities by allowing and enacting innovation (41) and it is manifested in the possibilities to enhance product innovation by adding functionalities, by recombining and arranging digital platforms and by allowing rapid and affordable improvements in the digital infrastructure performance.

A second characteristic of digital entrepreneurship is the shift in the locus of entrepreneurial agency; the set of actors engaged in the venturing act is more diverse and evolving and therefore the entrepreneurial agency is becoming less predetermined, more diffused and gaining a more collective character (42). Further, on involving the customer as an “actor” (43) the commitment of other agents is more difficult to foresee and actors are not even stable, but following just their own interests and motivations. Already in 2001 Kanter (44) described strategy in digital companies as “improvisational theater”, the strategy pattern by these companies is sense-and respond, contrasting with the make –and sell model in traditional business.

These facts reveal the dynamic nature of the entrepreneurial concept and lead us to reconsider if some classical theories of business venture are still valid since the focus of study was the entrepreneur (or group of) identifying and acting on opportunities and being involved from the nascent until the product on market phase .

The web 2.0 business is a highly uncertain environment. Giving the rapid pace of technological changes, entrepreneurs must be prepared to face continuously technological advances and adapt the original business model, as Morino notes (45) digital companies are both defining and learning new ways of doing business. Furthermore, flexible e-entrepreneurs strive for “relentless innovation” (46). According to Huang *et al.* (47) the reprogrammable, re-combinable and generative character of digital entrepreneurship is generating a versatile, nonlinear and dynamic entrepreneurial environment which undoubtedly is shaping the speed of innovation, the degree of experimentation and the level of venturing initiatives.

A considerable number of new digital companies are matchmakers (48), (49), which help two or more different customers (sometimes at least one of them can be considered an entrepreneurs/ solopreneur/ gigger) to find each other and start an economic transaction. Finally, we want to think, according to Aldrich (42), that digitalization has democratized the entrepreneurial act.

Digital Entrepreneurial Ecosystem

Digital startups are acting as catalysts of a new entrepreneurial ecosystem. Due to the novelty of digital entrepreneurship a consensual model of e-entrepreneurship system is still lacking. Sussan and Ács (50), recently, have proposed an interdisciplinary conceptual framework to study digital entrepreneurial ecosystems by integrating variables of the digital and entrepreneurial ecosystem. They elucidate the impact of the digital infrastructure on entrepreneurship, the role of users in digital ecosystems and finally the interaction of agents and users.

According to the definition developed at the World Economic Forum in 2007 (51), the digital ecosystem is "... the space formed by the convergence of the media, telecoms and IT industries. It consists of users, companies, governments and civil society, as well as the infrastructure that enables digital interactions."

A second definition comes given by Mason and Brown for the OECD (52): "a set of interconnected entrepreneurial actors (both potential and existing), entrepreneurial organisations (e.g. firms, venture capitalists, business angels, banks), institutions (universities, public sector agencies, financial bodies) and entrepreneurial processes (e.g. the business birth rate, numbers of high growth firms, levels of 'blockbuster entrepreneurship', number of serial entrepreneurs, degree of sellout mentality within firms and levels of entrepreneurial ambition) which formally and informally coalesce to connect, mediate and govern the performance within the local entrepreneurial environment".

Combining elements of the entrepreneurial ecosystem:

- **Institutions** - institutions in society

- **Agents** - entrepreneurs

and of the digital one:

- **Users** - anyone accessing to digital technologies

- **Digital infrastructure** - "Digital infrastructures are a new species of IT artifact. They render industries and products increasingly information based and reshape industrial organization and services as industries undergo comprehensive digitalization" (53).

This digital convergence has led to a new reality in information systems, namely the digitalization (54). Sussan and Ács (50) propose a research agenda for the four concepts resultants of an interplay of these four ele-

ments: digital infrastructure governance, digital user citizenship, digital entrepreneurship and digital marketplace. Each of these aspects has not yet been thoroughly researched and deserves analysis and study in order to unravel the heterogeneous, novel and extremely dynamic digital entrepreneurship ecosystem.

However, the imperative of economic growth in an environment marked by digitalization is pushing some regions around the world to undertake measures to foster a conducive environment for digital entrepreneurship. In a recent manifesto, "Scale Up Europe", the European Commission recognizes the urgent need to encourage entrepreneurs grow their ideas (55). "We must create a better, more fertile environment where our undoubtedly brilliant, creative entrepreneurs can build the global champions, create the jobs, develop the "next big thing" and deliver the prosperity our society will demand in years to come". This manifesto stresses the need for an entrepreneurial ecosystem concept in Europe. The business models of digital startups depend in a more significant way upon networks dynamics. A further characteristic of digital entrepreneurship which underpins the crucial significance of a rich ecosystem is the importance of geographical proximity for gaining capital from angel investors. The business environment plays as well a decisive role to enhance entrepreneurial activity such a tax incentives or labor regulations; there is undisputable evidence that lower taxes, less restrictive labor regulations and an agile process of registration entails more startups being created (56, 57 and 58). A crucial issue when defining a virtual startup ecosystem is the digital urban infrastructure; broadband connection is demonstrated to bring economic benefits (59).

As the manifesto points out, reality shows that most startups will fail; however, the attitudes to failure and risk are cultural as well as the social status of entrepreneurs. This may be, together with the lifestyle, culture and creativity of a city, the most difficult aspects to steer when implementing a friendly entrepreneurial ecosystem. Skills, infrastructure and disposable capital may be managed and improved in its conditions, however, attitudes are more difficult to be modified. A further aspect mentioned as significant in the European Commission manifesto is the existence of knowledge spillovers like universities or large technology firms in the area. These anchor institutions tend to serve as spinouts but may also function as providers of knowhow (60). Whilst many digital startups have international ambitions, they need to expand strategically and therefore the characteristics of the market where they are settled are of critical importance. The non-digital infrastructure, the availability of a European e-mentor's system and the development of a broad skillset in addition to the technical ones complete the analysis conducted by the European Commission to define a fertile ground for digital starting.

The aspects analyzed under the screen of the manifesto perfectly fit in the digital entrepreneurial ecosystem proposed by Sussan and Ács (50)

since they address (a) the digital infrastructure governance (policies process and implementations, digital infrastructure access to capital, non-digital infrastructure), (b) the digital user citizenship (entrepreneurial culture, mentoring networks), (c) the digital entrepreneurship (skills, entrepreneurial culture, life style, culture and creativity) and (d) the digital marketplace (market, knowledge spillovers).

The entrepreneurial landscape

Regardless of considering the digital transformation of many companies as a mild form of digital venture or not, reality shows that digitalization has triggered a disruptive change in the way of starting and doing business worldwide.

The plummeting costs and increased availability of digital tools in combination with the great access to early-stage funding has caused what Siegele (61) in the Economist has named a “Cambrian moment”, seeing digital startups bubbling up, particularly in developed countries (62).

According to the Kaufman Index of Entrepreneurship Activity, KIEA, (63) the entrepreneurial rate in the USA is well above the dot.com bubble of 18 years ago. The share of new entrepreneurs who started businesses to pursue opportunity rather than from necessity reached 86.3 %, more than 12 percentage points higher than in 2009 at the height of the recession. Following the European Startup Monitor (64), business venturing and particularly digital business venturing is slowly, but gradually taking off in the European Union. Fully digital companies represent a minority of total EU companies, accounting just for a 1,7% representation (65) and mostly operating in the sectors of finance service and insurance, automotive and equipment & machinery; being 40% non-digital firms at all. Europe is a service-driven economy with 98,9 of all the enterprise being SME's (66). 77,6 % of the European startups are no older than 4 years and experiencing the first revenue generation. Unluckily, there is not a systematic register of exclusively digital startups and therefore in order to find out a tendency it is advisable to just consider the industry category where the startups are operating; the results are promising; most startups proclaim to belong to the IT/software development sector (15%), followed by SaaS -software as a service- (12,2%), then it comes the industry technology/ production/ hardware (8,3%) and as fourth sector counting for more startups is the consumer mobile and web applications (6,3%). 37,8% of the startups in 2017 are operating in the B2B sector. The digital character of business venturing facilitates higher levels of internationalization, with 77,7 of startups planning (further) internationalization within the next year.

There is a strong relationship between entrepreneurship and the digital revolution. Entrepreneurship and digitalization correlate 0,79 and the sign is positive, moving both in the same direction, what it is not a surprise due

to the fact that entrepreneurs create new companies carrying the digital transformation in every industry (67). In this line, the European Digital Progress Report (68) provides an overview of the progress made by Member States in digitization and by doing so evidences an entrepreneurship trend, namely, the digitalization. It is enough to examine few indicators of the digitalization of EU Members States to understand the entrepreneurial opportunities which entails.

The Digital Economy and Society Index (DESI) overall index 2017, as represented in Fig.1, shows the level of digitalization of the member countries and allows to compare countries overall digitalization. It is calculated as the weighted average of the five main DESI dimensions: 1. Connectivity, 2. Human Capital, 3. Use of Internet, 4. Integration of Digital Technology and 5. Digital Public Services.

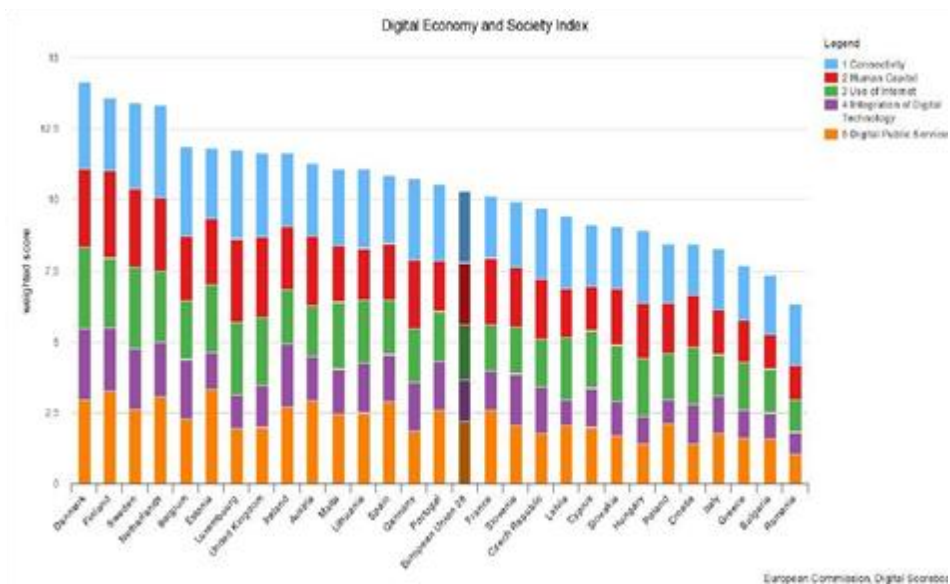


Figure 1. *European Digital Economy and Society Index 2017 (68).*

As usual, it is of bigger significance to observe the digitalization progress progression over the time and here the encouraging results are showing a timid, but positive evolution in economy digitalization level (see Fig. 2).

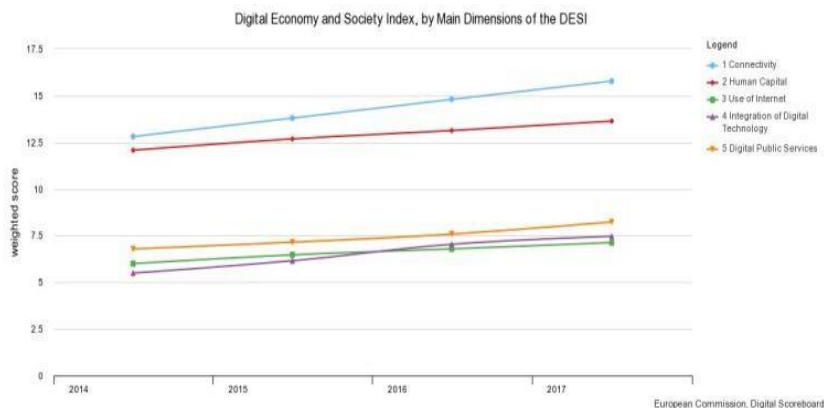


Figure 2. *European Digital Economy and Society Index 2014-2017.*

The 2016 Digital life report of Telefónica (69) confirms this tendency. Europe is in some areas a global leader in Digital Life, however, the positive outlook should not divert from challenges ahead in order to maintain its position. While it excels in innovation and startup activities and the output of scaleups has a valuation over € 1 billion, the European Union is positioned behind the USA, China and India. Another factor hampering the digital development is the still existing domestic policies within the European Union acting as silos and constraining the digital commerce among country members.

Conclusions

Following the estimations done by the IDC (70), worldwide revenues for big data and business analytics will grow from \$130,1 billion in 2016 to more than 203 billion in 2020, at an annual growth rate of 11,7%. Frost and Sullivan (71) foresee the global online retail to generate by 2025 the \$4,3 trillion sales. These two remarks are just a call to realize the disruptive acceleration and transformation which society and economy are undergoing due to digitalization. Economies are being digitalized at a growing pace, urged by three technological trends; the web 2.0, the Internet of Things and the tendency towards a wireless internet connection (69). The time to reach a valuation of \$1 billion or more is in digital economy remarkably shorter than in traditional economy; while the average time to achieve such an evaluation in a typical Fortune 500 company is 20 years, successful companies in the digital environment take less than ten years (72). At this juncture, policy makers are realizing the capital importance of fostering a fruitful ecosystem for digital entrepreneurship in order to respond to the market's needs, to invigorate and to innovate the economy. However, a prosperous digital economy requires the conjugation of much more ele-

ments than just an appropriated digital infrastructure; the dimensions implied in such a change spread the aim of this work, but we would still like to stress a relevant issue, and this is the role played by educational institutions to enhance the entrepreneurial spirit of future professionals. To offer a friendly entrepreneurial ecosystem to graduates when not having cultivated entrepreneurial attitudes and aptitudes during their whole education period seems to us quite incongruent. In an analysis conducted for the PRIME Networking Association (73) - a network of nineteen universities from nineteen different countries- which organizes annually a project students conference (Euroweek) under the overall topic of entrepreneurship and creativity, we have observed in the twenty-four years the conference is taking place a very slow increase of focusing on digital entrepreneurial topics. From 2014 to 2017, a time when digitalization was gaining momentum, the increase of projects dealing with digital entrepreneurial issues is just of 4%. The academic community needs to realize the necessity to stress attitudinal entrepreneurial issues so early as possible in the education in order to increase entrepreneurial activity at a later stage.

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Significance, Role and Principles of Website SEO for Digital Entrepreneurship – the Battle for the Top Google Rankings

Nikolay Vankov

Abstract

Website Search Engine Optimization (SEO) is turning into the greatest weapon and online tool for startups and small enterprises to attract consumers and customers online. In the context of the theoretical framework, a research was conducted with the aim to establish the significance and the role of the website optimization process for startups and small enterprises, the factors influencing this process and the way in which the organizations optimize their websites for Google.

The research marks the start of studying SEO and assessing the main SEO factors (which change depending on changes in algorithms and search engines) and the trends for their future development.

The method selected to study the SEO process could be defined as complex, including Google Analytics content analysis and qualitative research using standardized semi-structured interviews with selected SEO specialists in Internet-based organizations.

From this research, we can draw the following conclusions:

1. SEO is an exceptionally convenient and free method to boost a website's popularity. Search engine optimization is a consistent process which requires targeted effort. This process starts with the very creation of the website graphic concept and its development. It is integrated in its programming code and developed further using online marketing tools so that it could improve the website's ranking depending on the specific search keywords.

2. SEO enables companies' websites to occupy the first positions in search results. The research has identified the key factors influencing the better listing of a website. The most important of these are: high-quality and easily accessible website content (original texts), keywords and keyword phrases, building organic hyperlinks and social media and networks (pages, like and share buttons, page optimization, links from social media directing to the organization's website). As a result of SEO, traffic to the website improves and sales of the organization rise.

3. The SEO website edit consists of 13 steps – establishing the position of the website pages, keyword research, analysis with the Google Analytics platform, registration in Google Search Console, inbound link check, check for broken links, research and analysis of competitors and the keywords they use, inbound links to competitors,

using an SEO-friendly content management system (CMS), Google PageRank, check for duplicate content and mirrors, incorrect optimization in the past and determining the website reputation.

Key words: Search Engine Optimization (SEO), digital entrepreneurship, website, SEO audit

1. Introduction

The rapid development of the Internet observed over the last decade has significantly changed the ideas people have about instant communication, convenient shopping and endless flow of information. The power invested in consumers' hands is in reality the varied and detailed information which is being constantly updated and expanded. This information concerns products and services people purchase. Consumers are also curious to learn the opinion and ratings of those who have already purchased and used a specific product or a service. This is why, when a website makes it to Google's top search results, the organization could attract more customers, regardless of the fact whether it is a bank or the neighbourhood's locksmith, a restaurant or a government institution, an event organizer or a political party, an attorney or a furniture shop, a travel or a marketing agency, a charity or an online shop, a handyworker or a manufacturer of fast moving consumer goods.

A global survey conducted in 2015 by Synchrony Financial suggests that 81% of all buyers use search engines to research and purchase products and services.⁹ The latest NetMarketShare figures indicate that searches made with the most popular search engines in the world are distributed as follows: Google – 68.69%, Yahoo! – 6.74%, Bing – 6.22%. It is obvious why companies should focus their effort mostly on the first search engine.¹⁰

Every second over 40,000 searches are made in Google, which makes 3,500,000,000 searches per day. The company is the absolute global leader among search engines, so it is essential that every organization optimize its website for Google.

Websites which make it to the top on Google's SERP (Search Engine Results Page) are not only the most visited ones. As we can see in Figure 1, a website on the top position in Google garns 36% of search traffic, while

⁹ Synchrony Financial's Fourth Annual Major Purchase Consumer Study, November 2015, Available at:
https://www.synchronyfinancial.com/2015%20Major%20Purchase%20Study%20White%20Paper%20Final%2011_20_15.pdf

¹⁰ See: <https://www.netmarketshare.com/>

the first three websites account for nearly 60% of all clicks and Page 2 results get under 1%.

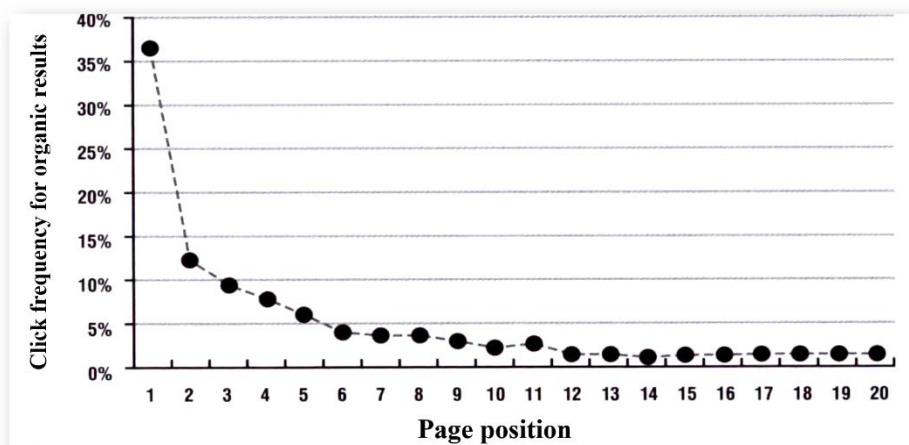


Figure 1. *Click frequency for organic results depending on page position*

2. Research methodology

In the context of the theoretical framework, a research was conducted with the aim to establish the significance and the role of the website optimization process for startups and small enterprises, the factors influencing this process and the way in which the organizations optimize their websites for Google. The research consisted of two parts: 1) A quantitative research via content analysis made using digital tools for analysis and research such as Google Analytics, Google Keyword Planner, Google Search Console, etc., conducted in the period November, 2016 - April, 2017; and 2) Interviews with SEO specialists made in the period January - April, 2017.

The research marks the start of studying SEO and assessing the main SEO factors (which change depending on changes in algorithms and search engines) and the trends for their future development.

The method selected to study the SEO process could be defined as complex, including Google Analytics content analysis and qualitative research using standardized semi-structured interviews with selected SEO specialists in Internet-based organizations.

When selecting the research methodology, the nature of the research goal was taken into account, and we adhered to the principles of precision, high ethical standards, respect towards discreteness and a successful combination of quantitative and qualitative indices and criteria.

2.1. Quantitative and qualitative approach

An important argument in favour of applying a quantitative approach was, to quote Blaxter, the fact that 'quantitative research will be checked and will continue into the future' (Blaxter *et al*, 2001). That is to say, this research could be conducted again in a year to follow the development of SEO and analyze the development of the specified factors into the future.

The qualitative approach described by Blaxter is also known as the qualitative naturalistic phenomenological mode (Blaxter *et al*, 2001). It provides insight into individual cases and meets the requirements of the present research provided that the methodology and case studies are carefully selected. The method selected for conducting the qualitative research involved semi-structured interviews with leading SEO specialists, which resulted in a detailed representation of the SEO process.

This has undoubtedly provided us with the opportunity, after analysing qualitative and quantitative interviews, to draw conclusions which are expected to be valid for Internet organizations.

2.2. Research objectives

The research objectives are as follows:

- To establish the significance and the role of the SEO process for startups and small enterprises;
- To outline the main factors and future trends in the SEO process development on the basis of the research conducted and the development of the global practice and technologies;
- To draw conclusions and recommendations based on the research conducted for startups and small enterprises which should lead to a successful website Google SEO.

2.3. The following tasks were outlined to achieve the research objectives:

- Researching the SEO practice of small and starting websites and the opportunities for growth search engines hold for entrepreneurs.
- Identifying the key factors for organic (unpaid) Google SERP (Search Engine Results Page) performance and the successful better rating of the websites in searches.
- Developing an SEO audit algorithm of the website.

3. Significance and role of the SEO process

Digital marketing is one of the most rapidly developing economic sectors. A research conducted in 2016 by the Boston Consulting Group – BCG shows that small and medium enterprises which manage to actively engage the attention of their customers online have seen a 22% sales uptake for three consecutive years (2014, 2015 and 2016). The BCG report clearly suggests

that “small and medium enterprises around the world which manage to take advantage of the Internet are growing significantly faster than the ones which do not use the Internet. By encouraging companies to go online, countries may improve their competitiveness and growth prospects.” (BCG, 2016). People are used to the web to such an extent that they would sacrifice basic everyday items to have Internet access. As part of the same research, respondents were asked: “What would you give up to keep your Internet access?” 77% said they would give up chocolate, 73% said alcohol, 69% said coffee, and 21% would give up sex for one year (BCG, 2016). The Internet has turned into an inseparable part of people’s lives. This is why businesses can reach the greatest number of customers if they use the Internet. Thus, the number of companies present online and using the Internet is skyrocketing. This, however, is a prerequisite for more competition between the companies.

In this situation, website SEO is turning into the greatest weapon and online tool for startups and small enterprises to attract consumers and customers online.

According to the electronic business dictionary, “Search Engine Optimization involves activities aimed at improving the position of an organization’s website in the organic (unpaid) listings.”

Website optimization is a consistent process which requires targeted effort. This process starts with the very creation of the website graphic concept and its development. It is integrated in its programming code and developed further, using online marketing tools so that it could improve the website’s ranking depending on the specific search keywords.

High quality content available for search engines, which is at the same time valuable, interesting, fun and useful for website visitors is the most important factor in SEO. This way the organization can keep website visitors for a longer time and turn them into its customers. Google search results are restricted to 1,000. The reasons for this are many, but what matters is that if a user does not find what they are looking for among these 1,000 results, they are unlikely to find it afterwards.

Most users do not pay attention to results after the top ten, which is indicative of the importance of website search engine optimization. To attract attention, an organization should make a lot of effort and get to Page 1.

Organizations can list on Page 1 not only their website, but also videos, photos, maps and even posts from Facebook, Twitter, Google+ and other social networks which then redirect to the main website.

Therefore, the website of an organization could be likened to a house where visitors could enter not only using the door, but also the windows, the chimney and even the walls. So, every entrepreneur should keep this in mind when developing his website. Success will be greater if, together with optimization, all other channels which customers use to reach the organization online are utilized: social networks, forums, banners, business cata-

logues, online media, etc. New links and more clicks are both important factors in the better website listing on Google.

Some keywords and phrases attract fewer visitors, but these could be people who tend to buy more frequently. It is one thing that the website has made it to the top Google search results; it is another that when people see it, they click on the link and visit the website; and it is a completely different matter that after the visit people take the action desired by the organization (purchase, enquiry, subscription, etc.). Before the start of the SEO process, the organization should select keywords and phrases to use when optimizing the website and its separate pages. For this purpose, Google Analytics (Figure 2) is used together with Google Keyword Planner (<http://adwords.google.com/keywordplanner>) to check what key words and phrases people use to find the website. Google Search Console (<https://www.google.com/webmasters/tools/>) can show how many times the organization's website has been listed in the search results with various keywords (search queries) and what percentage of these listings are followed by a visit to the website.

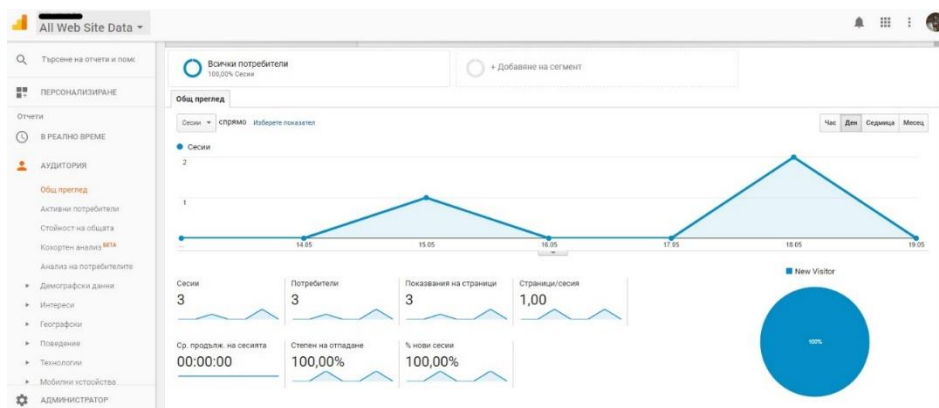


Figure 2. Google Analytics

4. Key factors for improving organic (unpaid) Google SERP (Search Engine Results Page) performance

Web developers and Google specialists say that there are over 200 factors influencing the SERP performance of a website. In general, search engines do not disclose all factors they include in their algorithms in an attempt to prevent manipulation of the search results. Below are listed the key factors for improving organic (unpaid) SERP performance identified by the conducted research.

Figure 3 represents a pyramid of the key factors for better organic (unpaid) SERP performance and the successful listing of the websites on the first pages in case of a customer query.

The basis of the pyramid represents the stable foundations including a flexible website architecture, original texts and high-quality content aiming to induce a sense of value in consumers, good link structure within the website, a website map and a URL structure of the website which is friendly to search robots (search engine bots). Having laid the foundations, what follows is the next level – researching and selecting keywords from the most precise words and phrases related to the website’s topic. The third level of the pyramid is Link Building with all other pages in the global web. The top level of the pyramid is occupied by social media marketing aiming to keep users’ attention to the website by active usage of social networks, high-quality content, etc.

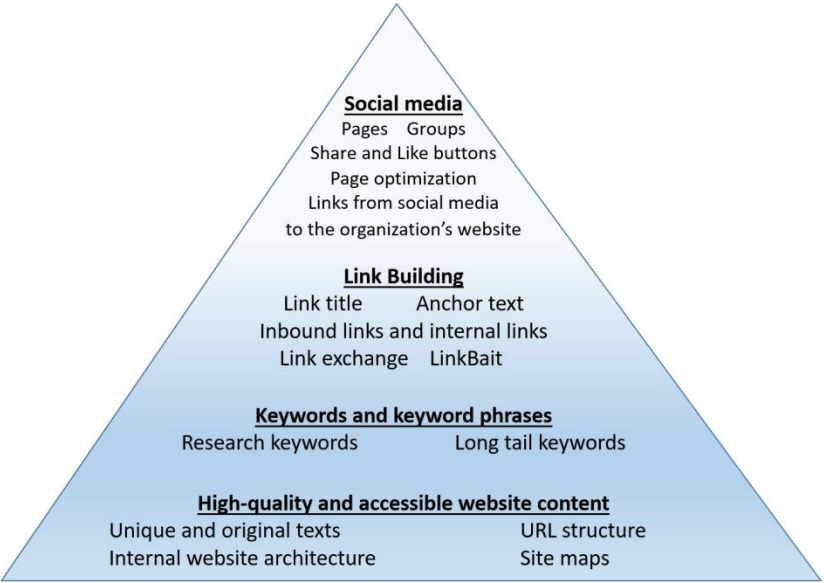


Figure 3. Key factors for improving organic (unpaid) SERP performance

4.1. High-quality and accessible website content

The website should not contain repeating content or content copied from other websites but should feature **original texts** instead. Google penalizes websites publishing repeat or copied content with worse listing and sometimes does not even include them in its results. New texts should be uploaded on the website at least twice a week. The changes make the website seem more topical for the search engine, and **the frequent additions of**

new content leads to more frequent visits by bots. New content makes users visit the website more frequently, which is essential for its optimization.

For search engines, the Above the Fold text is of greatest importance. This is the page which users see without having to scroll down or to the right. The most important internal and external links, as well as the key text content should be situated in this part.

A **SEO text** in a lighter and smaller font could be situated in the lower part of the first page of the website to present the website, describe the products or services offered by the organization and include the keywords. The font of this text should not be too small or merge into the background, as this might lead to search engine penalties. The text should describe the company's activity and be styled as an advertising leaflet. In this case the text is informative.

For Google what matters is also **the context** in which the keyword is found, which means that specialized terms should be used. For example, if a website is optimized based on a mobile phone related keyword, its relevancy increases if the text features other terms from this field such as 'charger', 'iPhone', '7Plus', etc.

Long texts should be separated into a few related parts (separate pages) with different headings, meta description, URL address, etc. When a text is split into separated pages, the attributes rel="next" and rel="prev" should be used, as they clearly show the search engine what the structure of the text is and how the separate parts are situated.

File names are also important for Google. Attached MS Word (.docx), MS Excel (.xls), MS Power Point (.pptx), Acrobat Reader (.pdf) and other files need to be descriptive and contain the keywords in the file name, in the heading, in the text, as well as have a link to the first page of the website, its Home Page. Documents are shown among SERP results in the same way as the website pages are shown, so in case the search terms match, the file might make it to the top search results.

The organization could send Google its new pages to help the search engine bot index the website faster. For the purpose Google Search Console (and more specifically its Fetch as Googlebot) is used. This could be beneficial if the organization:

- *launches a new website;*
- *adds new key pages to its website which Google can find faster;*
- *renews the content of a page which Google should index once again;*
- *does not want the old cached version of the page to be shown on Google if wrong content has been published or for various other reasons.*

4.2. Keywords and keyword phrases

Very often keywords and keyword phrases are underestimated in the SEO process, but they are extremely important for the higher search engine rankings of the websites.

If users search for the products of the organization based on specific words, these words should be present on the page which will be optimized. Google recognizes mostly text, so in order for a website to be indexed as successfully as possible based on a word, this word should be present in the texts uploaded on the website.

The keyword(s) should:

- be present in all paragraphs of the text on the page;
- be present as frequently as possible on the page, but no more than 4-5%, as this would lead to keyword stuffing;
- feature synonyms and word variations based on gender, number, etc. (keyword steaming);
- not contain the so-called stop words, e.g. from, on, to, in, for, etc.
- have precise word order (keyword proximity), as Google differentiates between ‘an online ad’ and ‘an ad online’, for example;
- be enhanced, as the keywords are more effective in search engines if they are written in bold, italic, strong, with a larger font and have bullets.

4.2.1. Long Tail Keywords

Long Tail Keywords are various phrases which contain three or more words used for more specialized searches, such as ‘Internet providers in Sofia’. Most website visits result from such Long Tail Keywords.

The advantage of this search is that it provides much better targeted results, as in most such searches users would like to find something specific, for example, ‘second-hand hp printer.’ The improvement of a website’s Google ranking is easier if based on Long Tail Keywords than a single keyword. In case of a Long Tail Keyword SEO, website visitors take the action desired by the organization (conversion rate) – they purchase the product or service, make an inquiry, register, etc.

4.3. Link Building

Morgan (2016) defines link building as ‘the process of acquiring hyperlinks from other websites to your own. A hyperlink (usually just called a link) is a way for users to navigate between pages on the internet. Search engines use links to crawl the web; they will crawl the links between the individual pages on your website, and they will crawl the links between entire websites.’

There are two types of links to an organization’s website – ‘DoFollow’ and ‘NoFollow’. ‘DoFollow’ inbound links are used for successful SEO, as

they transfer their PageRank (PR) from the website on which they are placed to the website they point to. This is why inbound links from respected sources – websites with high PageRank and similar topics, should direct users to the organization's website. For SEO it is important that fewer links from different websites and not a lot of links from the same website direct to the organization's website. Links in articles, interviews, analyses and other original materials are said to be of higher quality than links found in business directories. Links from .edu and .gov websites are more valuable but harder to get. In order to get such links, the organization might offer scholarships or undertake socially significant initiatives.

The link building process for a new, starting website begins with placing links in partner websites (websites of customers, intermediaries, suppliers) directing to the new website of the organization.

The presence of a NoFollow link reduces the website's ranking. If two outbound links are placed on a specific page of the website, they share the ranking they pass to other pages. However, when one of the links is NoFollow, the other DoFollow link will again pass only 50% of the page ranking. Therefore, too many NoFollow links are not good for a successful optimization.

The link title is the text which appears when the user points at the link. If no such text appears, then the link has no title. The title aims at showing the content of the page the link leads to. So, for a successful SEO, the link title should contain text which is not an exact copy of the anchor text.

Anchor text is more valuable for the website and its SEO. These anchor texts should be placed on pages or websites with the same topic, which have also been optimized for it. In link building, links are created not only by keywords, but also by phrases and neutral words. In addition to keywords and keyword phrases, a URL address, the brand or the name of the organization, keyword synonyms, variations of the words in gender, number, person, tense, voice and mood could be used as inbound links.

Inbound links and internal links between the pages of the website should consist of different words and phrases (at least 5 or 6). If the website is optimized based on the word 'business', then the links present should consist of various phrases such as 'business ideas', 'new undertakings', 'professional opportunities', and 'small business', and not just of the word 'business'.

The process of placing inbound links directing not only to the website's Home page, but also to the internal pages of the website is called Deep linking. For example, if an article is published on the website, some parts of it could be presented on social bookmark websites such as Digg.com or svejo.net for Bulgaria. It is recommended that at least 50% of the external links to the website should direct to internal pages, as this would indicate that the links are placed by real users and are not just posted to trick search engines and contribute to the website's higher ranking.

Link exchange could be made with a related and popular website, as it leads to a significant number of targeted thematic visits.

LinkBait is curious, interesting or useful content which prompts visitors, other websites or blogs to post a link directing to it. By placing such content on its website, the organization increases multiple times the probability of users sharing it on blogs, forums, social networks or websites, which will result in a lot of inbound links to the organization's website.

The website's search engine rankings could be raised by providing users with a giveaway (prize) via links such as:

- an online book;
- valuable industry tips;
- a program or application;
- organizing contests and competitions;
- attractive online game;
- user manual;
- video or photo materials for self-learning;
- presenting results from surveys or charts;
- interesting infographics;
- posting fun and relevant images.

4.4. Social media and networks – pages, groups, share and like buttons, page optimization, links from social media to the organization's website

For the successful SEO it is essential that the organization create and maintain a Facebook page. Although Facebook links are NoFollow, they are useful as Google bot determines how interesting the company website is for users based on the likes, sharing and comments on social networks. The profiles used to post on the organization's Facebook page must be public, otherwise Google bots cannot crawl it.

The Facebook page results in more visits to the organization's website. It also helps to keep in touch with people who have liked it and are obviously interested in the field. To keep its Facebook page 'alive', the organization should try to:

- post once or twice a day, as the posts should not only be just offers, but information which will be interesting, useful or important for the fans
- organize giveaways and other incentives to encourage fans' involvement, for example by sharing and sending photos, etc.

Generating traffic from social networks to the organization's website happens via the so-called 'social plugins' – **like and share buttons** on social networks (Facebook, Twitter, Google+, LinkedIn, etc.). Although links from social networks are NoFollow, the number of sharings, likes, and comments on social networks is regarded by Google search engine as social signals and has great significance for the website's ratings.

If the website features original photographs (for example, in the case of travel websites, fashion or cooking blog or interesting infographics), it could also be promoted on Instagram and/or Pinterest. It is a better idea to include a **link to the company's website in any possible post**. An interesting part of a whole text or an interesting photo or video could be posted, as users can have more information when they go to the website. This way the organization will have more inbound links to its website and, consequently, more user visits.

It is essential that the organization **optimize its Facebook page** so as to have higher listing on search engines. The name of the Facebook page should contain the name of the brand or the company, as well as the keywords for a better Google listing. When completing the profile, the keywords in the text are entered in the 'About' section. A username for the Facebook page must be selected, as it will become part of its URL address, e.g. **<http://facebook.com/username>**. Google also indexes posts and shared links, so the keywords and phrases related to the company's activity should be placed in the link titles.

5. SEO website audit

Figure 4 presents an SEO website audit algorithm used by leading SEO specialists. It includes 13 steps:

1. *Determining the position of the website pages;*
2. *Keyword research;*
3. *Analysis with the Google Analytics platform;*
4. *Registration in Google Search Console;*
5. *Inbound link check;*
6. *Check for broken links;*
7. *Research and analysis of competitors and the keywords they use;*
8. *Inbound links to competitors;*
9. *Using an SEO-friendly content management system (CMS);*
10. *Google PageRank;*
11. *Check for duplicate content and mirrors;*
12. *Incorrect optimization in the past;*
13. *Website reputation.*



Figure 4. *SEO audit algorithm*

Step 1. Establishing the position of the website pages

Before commencing the website optimization, first we should establish its position in Google. If we search with the site address, e.g. 'your-website.com' and the website is not on Page 1, this suggests a possible problem or a penalty by Google. If the website is new and has not been indexed for a few months despite the presence of at least one inbound link directing to it, this suggests the website has been penalized for spam or another reason. In this case the domain history and older versions of the site stored in web archives are checked. Google Search Console can determine if the site is infected with a virus or other malware, as well as if the website has been warned by Google, for example because of suspicious links directing to it. Unfair competition could be the reason, as competitors might have ordered the creation of a large number of links for a short period of time directing to the website from low-quality sites.

To check the website ranking based on various keywords, the respective keyword is entered in the search engine. In case of an exact match, the search word is marked in bold in the search results.

To check the website ranking without having to go through page results one by one, a special software is used, for example SEO Powersuite (<https://www.seopowersuite.com>). The software has the option to specify whether the check should be done in the first 50 or 100 results, for instance.

Step 2. Keyword research

In order to select the correct keywords and build a semantic core to optimize the organization's website, first we should find the answer to the question *'How will potential customers search for the company's products or services?'*

The keyword research could be conducted with Google AdWords, which is available at <http://adwords.google.com/keywordplanner>. After entering the website name or specifying the main keywords, the tool will provide some ideas for additional keywords used often for searches. For example, if the word 'television' is entered, the results will include dozens of phrases containing this word, as well as the average number of monthly searches for each of these phrases. When reviewing in details Google Analytics statistics, the keywords customers use to find and go to the company's website can be determined.

Particular attention should be paid to the fact that it is easier to improve the website listing based on longer keyword phrases results (e.g. 'seaside holiday in Greece travel agency'), than on single words (e.g. 'holiday'). Besides, over 70% of all searches are made with phrases and not with separate words. Searches with phrases containing two to four words generate much more targeted traffic and bring many more real customers to the organization's website. All this comes to show that websites should be optimized based on phrases related to their field of activity.

Step 3. Analysis with the Google Analytics platform

Of all the information available from Google Analytics, the most important data for SEO is:

- bounce rate - the percentage of visitors to a particular website who navigate away from the site after staying there for only 10 seconds and not viewing an additional page;
- time users spend on the website;
- which websites users came from;
- the words and phrases used to find the website.

However, Google Analytics results do not show the keywords used to search for the organization.

With Google Analytics it can be checked what the most visited pages of the site are. If a particular reason is found for their popularity, the organization might change the other pages and boost their popularity, as well.

Step 4. Registration in Google Search Console

The Google Search Console is a useful tool for SEO auditing, which provides information on the type of searches the website was displayed on the result pages. After registering with this tool, the organization may obtain information about the average indexing of its website in searches based on vari-

ous keywords, as well as data about the number of impressions (how many times the site was displayed in search results), the number of clicks and the CTR - Click Through Rate.

Step 5. Inbound link check

Google Search Console is used to check the websites which contain inbound links directing to the organization's website. After the links are checked, various actions could be taken. For example, if links from low-quality or spam websites direct to the site, they should be removed. The same action should be taken in case of too many links to the site from the same external website.

Step 6. Check for broken links

Check for broken links on the website (links directing to non-existing pages on the company's site or to another site). The presence of such links results in worse Google listings so they should be removed. The check for damaged links can be made at: <http://www.brokenlinkcheck.com/>, as it is free for up to 3,000 pages from the site.

Step 7. Research and analysis of competitors and the keywords they use

One of the most important step in SEO auditing, before the website search engine optimization has commenced, is to make a list of all competitors of the organization and analyze them based on keywords. For this purpose, a detailed analysis of competition websites with higher rankings is made. The research includes both On-page and Off-page optimization –the technical state of the competitor's website, any additional elements used for optimization, the main traffic sources of the competitors, any Anchor texts directing to the website of the competitors¹¹, the keywords present on the competitor's website – both in its Title and Meta description, as well as in the texts and image titles. After studying the competition and its keywords, the organization will be aware of the strategy it needs to employ to improve its search engine rankings and compensate for the weaknesses of its website optimization.

Step 8. Inbound links to competitors

The check for inbound links directing to other websites or to the organization's own website is made using a service provided by global SEO and marketing leader MOZ at <https://moz.com/researchtools>. The company also offers a browser toolbar which shows the number of links, titles, key-

¹¹ Anchor text is a word, phrase or a URL address on which a link is placed.

words, hosting and a lot of other SEO information when browsing through a particular website.

Step 9. Using an SEO-friendly content management system (CMS)

The system used for website administration – adding and editing content (Content Management System), should enable to specify for each post:

- page title;
- meta description;
- H1, URL, image titles and text links;
- site map, etc.

WordPress is a good platform for starting websites, as it is free and has a lot of additional plugins enhancing the SEO optimization.

Step 10. Google PageRank

PageRank (PR) is a Google algorithm which shows the listing of every page in the site. The listing is calculated mainly on the basis of the quantity and quality of the inbound links to a specific site or page. Despite not determining in itself the site ranking in searches, the higher PageRank (PR) is indicative of the prestige of a website.

Step 11. Check for duplicate content and mirrors

Very often in the SEO practice a website has a mirror. This may result from issues within the CMS or the hosting and domain settings. If the SEO specialists have not entered the correct settings, for example related to loading the website with or without www in the address, then search engines consider the two versions - **www.your-site.com** and **your-site.com** separate websites with the same content. The reason for the mirroring might also stem from using parked domains or any other subdomains on which a new version or design of the website is being tested.

Online stores often suffer from duplicate content, mostly due to applying various filters – ordering by price, choosing certain manufacturers, selecting specific parameters, etc. Usually, when using these filters, new URL addresses are generated, while the main content of the page remains virtually unchanged.

Duplicating website content is one of the most frequent SEO issues, and such content should be removed.

Step 12. Incorrect optimization in the past

If there is no information about the past of a website undergoing optimization, the website history should be checked as SEO-hindering actions might have been taken in the past. For example, there might have been aggressive or low-quality link building. For this purpose, we should check for oversaturation with keywords or outbound links directing to internal pages and

external sites. Google Search Console checks for the presence of messages or error notifications. For example, if too many '404 Not Found' pages are found, this might mean that they have disappeared when the platform was changed or when some other significant change was made in the past.

Step 13. Website reputation

Users trust much more the opinion of other users posted online than paid ads. Sometimes, when a user searches for information about the organization in Google, negative comments by dissatisfied customers appear even before the organization's website. This can be disastrous for business, as negative comments result in fewer visits to the website, fewer customers and fewer sales. If this is the case, the organization must come up with a strategy to manage its online reputation and use this strategy.

6. Conclusions

The Internet has resulted in a new understanding about the world. Borders are erased, lines between time and space are blurred, opportunities for the endless conquering of business horizons are on the rise. The Internet would surely be much more complex and impossible to navigate if it weren't for intelligent tools such as search engines. They act as a huge digital library storing all the global information. Search engines give us access to this invaluable treasure – the treasure of information, and SEO makes sure companies have high rankings in search results.

From this research, we can draw the following conclusions:

1. SEO is an exceptionally convenient and free method to boost a website's popularity. Search engine optimization is a consistent process which requires targeted effort. This process starts with the very creation of the website graphic concept and its development. It is integrated in its programming code and developed further using online marketing tools so that it could improve the website's ranking depending on the specific search keywords.
2. SEO enables companies' websites to occupy the first positions in search results. The research has identified the key factors influencing the better listing of a website. The most important of these are: high-quality and easily accessible website content (original texts), keywords and keyword phrases, building organic hyperlinks and social media and networks (pages, like and share buttons, page optimization, links from social media directing to the organization's website). As a result of SEO, traffic to the website improves and sales of the organization rise.
3. The SEO website edit consists of 13 steps - establishing the position of the website pages, keyword research, analysis with the Google

Analytics platform, registration in Google Search Console, inbound link check, check for broken links, research and analysis of competitors and the keywords they use, inbound links to competitors, using an SEO-friendly content management system (CMS), Google PageRank, check for duplicate content and mirrors, incorrect optimization in the past and determining the website reputation.

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International Experience of Entrepreneurs as a Factor in Their Managerial Development

Kostadin Kolarov and Maria Vasilska

Abstract

The management development in the entrepreneurial firms is a subject of numerous surveys with a relatively long tradition. In most cases it is associated with the need the entrepreneur to develop him/herself as a manager in the process of growth of the business. This development is most often understood as the acquisition of certain managerial knowledge and its practical application in the form of approaches, methods and techniques for making and implementing management decisions in one complicated (both in external and in internal aspects) environment. A significant part of the previous studies emphasizes not only on the scope and the essence of this knowledge, but also on the mechanisms of its acquisition and improvement. For understandable reasons, these mechanisms cannot be investigated detached from the context in which they occur. As the subjects of research in the present paper are the entrepreneurs in Bulgaria, an essential feature of the context is the registered backwardness, not only at macro level, but also at enterprise level. The latter is most visible when comparing the levels of productivity and value added, revenue growth rates and profit levels. At the same time, the openness of the economy which creates opportunities for significant international exchange and gaining experience in doing business in an international environment, provides the Bulgarian entrepreneurs with the advantage of absorbing and transferring managerial knowledge from more advanced in their economic development countries, and, in particular, from significantly more successful enterprises in these countries.

The aim of the paper is to present an overview of the previous theoretical understandings of the role of the entrepreneurs' international experience in their development as managers, and to check the existence of empirical evidence to confirm these understandings based on two studies: a study of internationalisation of Bulgarian family SMEs and a pilot study of the professionalization of management in Bulgarian SMEs.

The international experience in this research covers not only the work in an international environment, but also the entrepreneur's experience that precedes the start of an own business in the form of education and work abroad.

Key words: managerial development, entrepreneur, international experience

Introduction

After decades of missing private business in Bulgaria, in the early 1990s we witnessed the rapid establishment of private enterprises in almost all sectors of the economy. As earlier studies of this process have proven, a significant part of the first entrepreneurs did not have the necessary managerial preparation for successful business development. Often the survival and the development of their enterprises was more a matter of the so-called “hits” than of systematic and methodical efforts to achieve competitive levels of productivity and market presence. It is not an exaggeration to assert that the turbulence of the environment, in which the first private enterprises were established, besides the considerable risks involved, created also significant opportunities for the rapid growth of some businesses without the presence of a prominent managerial professionalism. This was especially valid in the cases of competitive advantages based on cost leadership – access to cheap raw materials and, above all, extremely low labour costs. Therefore, in the 1990s and the first decade of the 21st century, the country’s economy was classified as factor-driven one.

Today, when Bulgaria is part of an economic community in which the competition is exclusive, and the entrepreneurs could not rely on advantages based on cost leadership anymore, the entrepreneurs’ managerial capacity as a factor determining competitiveness comes to the fore.

The managerial development of the Bulgarian entrepreneurs is a relatively poorly researched issue. There are a number of investigations (cited in the text below), shedding light on the management training, but they are mainly confined to formal educational criteria; data on the process of managerial development is almost lacking. To some extent, partial research about certain managerial skills and, in general, qualities, may be found, but without a deep study of the process of their acquisition and development.

The essence of the managerial development is still a subject of discussions. Some authors claim that it is a process of developing managerial resources in an organization, and this process covers both formal and non-formal training, aimed at improving managerial efficiency as a final effect. According to other authors, it is a broader concept, connected to the increased efficiency and effectiveness of the entire organization. In this paper, one narrower understanding referring to the individual level, namely to persons who have created and run their own businesses, will be perceived. In this context, the managerial development will focus not so much on the management education and training, but more on the management learning, which in its turn reflects the overall experience of a person resulting into the accumulation of managerial knowledge and skills.

The very theoretical basis of managerial development is broad and encompasses various scientific disciplines. For example, managerial development is based on ideas from the areas of cognitive psychology, social

psychology, humanistic psychology, theory of learning, sociology, anthropology, and economic theory. As far as the context of managerial development of entrepreneurs is national, this paper will be central to the ideas coming from anthropology, namely: comparative management cultures and practices, the relationship between culture and behaviour, cross-cultural aspects of management. The choice of such a focus is dictated by the aforementioned process of transition from a factor-driven to an efficiency-driven national economy and the low degree of efficiency of the entrepreneurial activity in the country. Similarly, the building of modern Bulgarian entrepreneurs as personalities has taken place in some very specific social conditions, characterized by significant disparities in the conditions in which these entrepreneurs now manage the businesses they have created. Among the most significant differences can be mentioned: the absence of private business and the related business management models to be followed, a small (practically non-existent) touch with the management practices of today's competitors, the insufficient as a spectrum and quality of knowledge system of educational and training institutions. These differences undoubtedly have had their impact on the thinking and behaviour of the majority of the active Bulgarian entrepreneurs today, facing significant challenges in their efforts to be adequate to the competitive environment in which they operate today.

In specialised publications in the field of management and entrepreneurship, the experience in international environments is most often associated with the international business of an enterprise. Significantly less is taken into account as a factor for managerial development of entrepreneurs.

If we refer to one of the well-known models of management development, that of Ashridge (Barham et al, 1988), then in the case of entrepreneurs, we can talk only about the so-called a fragmented approach where management development is aloof and unplanned, and it is not yet related to the specific goals of the enterprise. In this sense, an adequate understanding of the essence of management development will be sought not so much in the characteristics of the managed organization but in the environment in which the entrepreneur learns and works. The perception of management development as an open system (following Doyle, 1995), whose input has a set of resources, goals, strategies, management systems, skills and knowledge, and standards, through managerial development itself, results such as increased organizational and individual effectiveness, new relationships, values, motivation. The transformation of the input elements into the above results, of course, is under the influence of other sub-systems of the organizational environment.

In the present study, the attention will be focused on the entrepreneur's international experience as a reflection of the influence of the environment and who have a projection on the individual managerial development.

Importance of the managerial competences for the success of the business

In the recent years there has been an increase in literature on the impact of the entrepreneurial qualities and skills of SMEs' owners/managers on the competitiveness of their companies. However, the contribution of the managerial competencies of these owners and managers to their businesses' success has been relatively limitedly researched. At the same time, the entrepreneurial literature attributes the failure of a significant part of the newly started enterprises (during the first three years of their existence) namely to the scarce managerial competencies of their executives. Undoubtedly, the managerial competencies are a key factor for the survival and the development of almost every small business (but they can hardly be developed without proper education and training). For example, for competences related to knowledge (information that is obtained or created through experience or research), skills (result of multiple application of knowledge or abilities) and abilities (i.e. with the inherent potential mental and physical actions or tasks to be fulfilled) are considered to contribute directly to the performance of the individual or the organization. Despite the rising publications on the managerial competencies (but mostly related to developed economies), they are mainly explored in isolation and with insufficient effort to establish their connection with concrete business results such as productivity, profitability, growth and efficiency (Rambe & Makhalemele, 2015). Even when the positive link between the managerial competencies and the company's results is proven in given literary sources, it remains unclear whether the size of the business, its peculiarities and the specificity of the industry contribute to the existence of this relationship.

The main division of competences is this of "soft" (resulting from the personality and dictating the behaviour) and of "hard" (acquired through training and necessary for a specific type of work). The managerial competencies in their turn can be divided into technical and generic ones. The technical managerial competencies have an expression in possession of knowledge and skills that enable the entrepreneur/manager to be an effective leader in specific management areas, while generic ones refer to his/her ability to self-organize and self-control at work. It is considered that the second type of competencies is extremely important and their possession is a prerequisite for achieving high performance.

When analysing the relationship "competencies – success in business", Li Xiang (Xiang, 2009) notes that researchers assume the entrepreneurial competencies differentiate entrepreneurs from managers. In fact, entrepreneurs and managers have very similar roles and tasks such as social engagement, organization, human resources management, etc. that affect the survival and the development of the business. Entrepreneurs, however, possess a wider range of competencies without which the launch of the

business would not be feasible. These include search, discovery and realization of opportunities; having a vision for the strategic development of the business; networking; initiative and proactivity, and others.

Managerial learning as a core of managerial development

As far as entrepreneur-managers are subject of a study, the theoretical understandings of individual learning are a useful starting point for understanding the managerial development at individual level. First of all, among these theories, the Watson's Behaviourism (1930) should be noted, which treats individuals as products of their social environment. One of the ideas following behaviourism is about the so-called social learning, according to which behavioural modelling and related learning are done by observing and imitating good examples. In the context of Bulgaria, it can be asserted that good examples for a number of reasons, but mostly historical, were mostly sought out of the country, which only emphasized the importance of the international experience factor. Another important idea for individual learning is the so-called cognitive learning, which criticizes the famous simplicity in the understanding of the behaviourists, tries to look into the "black box" of the human consciousness and seeks the mechanisms through which the known world is processed, and new knowledge is being developed. Part of these trials is the popular personal construct theory (PCT) proposed by Kelly (1991, 1955). Without going into the details of this theory, we should emphasize the central idea of the construct – the similarity and the contrast that serve to frame objects from the surrounding world, placing them in distinctive positions of practical significance. Applied to learning, incl. managerial, this idea reduces it to refining and developing constructs to the extent of a sophisticated anticipatory scheme that guides people into their practical tasks, supporting effective management behaviour. Relatively new ideas explaining learning are: social constructivism (Berger and Luckmann, 1966), according to which constructs are created by one person in his interaction with others, and the reflection of the actions of others, and the situated learning (Lave and Wenger, 1991). According to the advocates of these ideas, learning is happening in the so-called communities of practice in which managers sharing similar values and concerns create a shared way of learning through jointly developed constructs. Following such assumptions, it may be assumed that the involvement of managers in communities of managers from countries with proven higher management efficiency would contribute to the management development of the former – another argument for the importance of international experience.

Finally, one cannot overlook the group of theoretical approaches that draw attention to experimental learning. Among these approaches stand out andragogy focusing on the specifics of learning by adults as active sub-

jects of learning and experimental learning, which confirms the role of doing things for their learning (Knowles *et al*, 2005).

A team of Asian researchers (Ng *et al*, 2009) associate experimental learning in an international environment with the cultural intelligence (CQ) – defined by them and their co-authors, which is expressed in the ability of the individual to work and manage effectively in culturally diverse settings. The conclusions that come to them that the capabilities of an individual are more important for learning in an international environment than the frequency and duration of his international experience.

By linking ideas about learning, we can assume that people who have emerged as entrepreneurs will be able to learn faster and more effectively in an international environment, to acquire the necessary managerial competencies.

Role of international experience in managerial development

As noted in the introduction, the study of managers' international experience is primarily associated with their effectiveness in managing the international activity of the organization. In this context, there is hardly any direct and unambiguous answer to the question of the role of international experience in managing efficiency at all. In this context, an interesting literature review is that of Đerđa (2017), which links international experience with Hambrick and Mason's Higher Echelon Theory (1984), according to which the organizational results are partially predictable through the characteristics of the management experience of senior management of an organization. This review shows that for the first time international experience has been associated by Sambharya (1996) with Higher Echelon Theory, which proves that the recruitment of internationally experienced managers gives a triple advantage in international activity – reduces the ambiguity associated with international activity, serves as a source of knowledge about foreign culture, and helps the organization in meeting the challenges of globalization. Đerđa's study draws a number of strands that explore the role of international experience. These are the following:

- International experience and degree of internationalisation
- International experience and strategic choices
- International experience and foreign market entry
- International experience and firm performance

However, in all of these areas, the subjects of research are the large enterprises with significant international activities. Among the few available, referring to SMEs, are the publications of Hsu *et al.*, (2013) and Ruzzier *et al.* (2007), which, albeit insufficiently, confirm the role of international experience in management development. These publications, in addition to confirming the Upper Echelon Theory, refer to some earlier studies focusing on the role of the entrepreneur for the internationalisation of the busi-

ness (Andersson, 2000, and Reuber, R.A., & Fischer, E., 1997). However, they also look for connection between the characteristics of the entrepreneur and the success of internationalisation rather than for the reverse dependence – between the international experience and the management development.

The Bulgarian entrepreneurs and their managerial competences

As it was pointed in the introduction, the essence and the dynamics of the managerial qualification of the Bulgarian entrepreneurs is poorly researched. The majority of entrepreneurs in 90s created their own business with an activity they have been doing for many years in state-owned enterprises as a visible problem with this type of entrepreneurs is the lack of sufficient management and economic culture, which leads to difficulties in the orientation in the economic problems, in the selection and motivation of the staff in forming a strategy for the development of their enterprises (Todorov, 2015). The available analyses of the educational profile of the Bulgarian entrepreneurs give some information, which can serve as a starting point for the assessment of the entrepreneurs' managerial preparedness. One of the most significant analyses in this regard are the one of Davidkov (2010) and these of the teams, which produced the latest official reports on the state of SMEs in Bulgaria.

According to data of the National Statistical Institute, after 1997 the educational structure of the Bulgarian entrepreneurs is relatively stable: those with secondary education are between 38% and 41%; with a semi-higher – 4-6%; and those with higher (and above higher) education – 50-54%. According to data for 2011, medium-sized enterprises have the highest share of entrepreneurs with higher education (83%), followed by the small ones (63%), while in micro-enterprises they are 40%. Depending on the sector of activity, the entrepreneurs with higher education predominate in industry (65%) and they are significantly under-represented among those in trade (39%). Among the entrepreneurs up to the age of 54, those with higher education are just over half, while those with secondary education prevail over the 55-year age group (according to data of the Bulgarian Small and Medium-sized Enterprises Promotion Agency).

Analyses of Davidkov (2010) on the role of education indicate that highly educated entrepreneurs show stronger initiative and have better skills to work with people; better deal with management of business risk. The listed qualities are an important prerequisite for entrepreneurial success. For entrepreneurs with higher education the labour values cooperation, training, development and challenges have greater value than for their counterparts with lower education.

Other studies show that, as a rule, better-educated entrepreneurs run larger businesses. They have beneficial business partnerships more often.

They have plans to expand their existing businesses and to start new ones (entrepreneurs with lower education are more likely to maintain the existing situation).

For Bulgaria, there is no official information and targeted research on managerial training and, respectively, on the managerial competencies possessed by the entrepreneurs and their impact on the success of the SMEs they manage. A number of authors are of the opinion that Bulgarian entrepreneurs do not have enough knowledge and skills to make a smooth transition from an entrepreneurially to a professionally managed company. In addition, a large number of entrepreneurs do not want (and cannot) delegate rights and responsibilities.

The majority of Bulgarian SMEs are micro-enterprises, personally managed by their founders, and this process is a function of the personal and behavioural characteristics of entrepreneurs who often have not undergone adequate management training. As managers, most of them rely much more on their curve of experience and intuition than on professional approaches, methods and motivation to form competitive behaviour. For the SMEs' needs, there are no developed methods and forms of management that to use their specific characteristics and resources, and most of their owners-managers have no affinity and motivation to acquire such (Todorov, 2006). Besides this opinion of the researchers, the Bulgarian entrepreneurs have a high self-assessment for their managerial preparedness – between 74% and 88% among different investigated groups declare that they have a very good one (Davidkov, 2010).

Research proposition

The main research proposition that this paper will try to defend is:

In the relatively small economies that have undergone a transition from a comparatively closed economic system, without private enterprises, to a modern market economy, the experience of entrepreneurs in an international environment has a positive impact on their managerial development, which in turn reflects on a higher efficiency of the company's activity.

Findings from empirical research

In recent years, teams of the Chair of Entrepreneurship (University of National and World Economy, Sofia, Bulgaria), in which the paper's authors participated, conducted two empirical investigations with a different research focus on the SME sector, but both surveyed the profiles of entrepreneurs. The first investigation was conducted as part of the research project "Internationalisation of Bulgarian Family Small and Medium-Sized Enterprises in the Globalizing Economy", 2014-2015, and covered 357 enterprises, 337 of which SMEs, and the second as a part of the research project

“Professionalization of SMEs’ Management (Development of Managerial Competences of Entrepreneurs), 2016-2017, and covered 76 SMEs.

Using data from both studies does not aim at full comparability, but it is driven by the pursuit of a deeper understanding of the role of the international experience in the managerial development. In this context, the value of the data from the first study is the focus on international experience (which is explored in more details), and of the second – the accent on specific managerial qualities of the respondents.

From the entrepreneurs’ profile data, it will be exposed and analysed those reflecting education, international experience, and managerial qualifications. These data will be compared in order significant relationships and dependencies to be highlighted. They will be related also to the data describing the performance of the company’s business in various aspects – sales, profits, presence in competitive markets, etc.

Entrepreneurs with higher education (bachelor degree) predominate in the first survey (48%), followed by those with a master or higher degree (23%). In the second survey, due to the predetermined limitations in the size structure (over-proportional representation of small and especially medium-sized enterprises) the entrepreneurs with master and higher degree of education predominate (38,7%).

Among the types of education, the technical one prevails (48,7%), followed by the economic one (31,7%). Juridical education has only 1,4% of the respondents and 13,7% have indicated other type of education.

If we look for a connection between the degree of education and its type, it can be assumed that with increasing the education the share of the economic education also increases at the expense of the technical one.

As subject of the paper is the international experience of the entrepreneur, the picture outlined by the empirical data is set out in Table 1.

Table 1. *International experience of entrepreneurs*

	Survey 1	Survey 2
Never	52,10%	56,58%
Practical training	11,76%	7,89%
Theoretical training	4,20%	9,21%
Both	14,29%	17,11%
Job abroad	13,17%	7,89%
Other	1,40%	1,32%
n.a.	3,08%	0,00%
Total	100,00%	100,00%

It can be seen that a significant number of entrepreneurs have never had an international experience. The experience of those, who have such, is expressed in almost equal shares of both practical and theoretical training and job abroad.

The connection between the presence of international experience and the age of the entrepreneur shows that the youngest entrepreneurs (those up to 29) have almost no international experience, whereas in the other age groups there are no significant deviations from the general picture, which confirms the relatively high degree of international isolation of generations of Bulgarians.

The other possible link of the international experience is with the educational degree of the entrepreneurs. We can observe a direct proportionality – the higher the education, the more entrepreneurs have international experience. This, of course, is not surprising, at least because of the greater opportunities that the education provides for training and work in other countries.

Regarding the managerial development and the question of how the international experience affects this development, the empirical investigations provide us with information about the general approach and practices in the management of the surveyed SMEs.

Here the main questions, from which conclusions can be drawn, are two – how the entrepreneur makes decisions and to what extent he/she works with a management team. Survey data are shown in Table 2.

Table 2. Managerial approaches and practices in decision-making

	Survey 1
Fully independent decision-making	24,1%
With the help of family members	44,3%
With the help of company's managers	30,3%
With the help of external advisors	14,0%
Delegation of the decision-making	6,4%

It is clear that the predominant decision-making manner is the independent one (fully or using the help of different closely situated persons), as a significant proportion of decisions are made after counselling with family members (however, the family businesses are the dominant type among SMEs). From the point of view of the management development, i.e. the management effectiveness, it is considered to be more appropriate to use the expertise of the employed managers and external advisors. The delegation of the decision-making could be interpreted in two ways – on the one hand, the entrepreneur considers him/herself insufficiently pre-

pared as a manager and, on the other, he/she has reached a sufficiently high level of managerial competence and has managed to build a management system in which decision-making has been delegated.

The presence (or absence) of international experience reflects in the following manner on the style of the decision-making. The share of the entrepreneurs with international experience is highest among those delegating the decision-making (71,4% / 100%)¹², who make decisions with the help of the company's managers (61,3% / 66,7%), and those who use the help of external advisors (52,0% / 83,3%), while this share is the lowest among decision-makers with the help of family members (this can be interpreted as indirect proof of paternalism in SME management).

The data about managing with the help of management teams also confirm the positive role of the international experience. The degree of management with the help of a team is presented in Table 3.

Table 3. *Management with a team*

	Survey 1	Survey 2
I myself am the management team	24,9%	36,5%
No management team, different from owners	29,1%	12,2%
Management team is ineffective and creates extra work	1,1%	4,1%
Management team is effective in their daily work, but further work is needed	17,6%	29,7%
Management team is effective in their daily work	26,9%	17,6%
n.a.	0,3%	0,0%
Total	100%	100,0%

It is obvious that in only from two-thirds to three-quarters of the cases we can speak about management teams and in a significant proportion of them (about 40% in the first survey) the teams consist of the owners. The impact of the international experience is also significant in this managerial aspect. The share of the internationally experienced entrepreneurs is the highest among those who assess their management team as effective (59,1% / 61,5%), followed by those who, although satisfied with their team, believe that there is still room for improvement (54,8% / 54,5%). The smallest is the share of entrepreneurs with international experience where the team consists only of owners (32% / 22,2%), followed by those who manage alone (41,6% / 25,9%).

¹² The data from the two surveys are shown in parallel.

The second survey goes into greater depth, and although it covers a smaller number of research objects, it gives additional clarity about managerial competencies and the impact of international experience on them. Managerial competencies are addressed by a set of four types of competencies:

- Entrepreneurial – related to identifying opportunities;
- Leadership ones – related to the management of the employees in the enterprise;
- Organizational – related to the understanding of the organization, the strategy, the management structure and the overall functioning of an enterprise through its interaction with the environment;
- Technical – needed for performing specialised technical tasks.

In the self-assessments of the entrepreneurial competencies, the role of international experience stands out in the forms of a job abroad, practical or combined with theoretical training expressed in the higher scores in assessments (Figure 1).

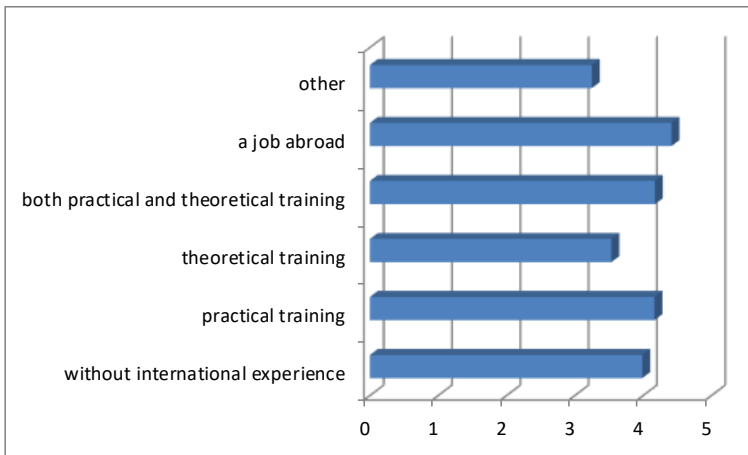


Figure 1. *Self-assessments of the entrepreneurial competences according to the presence and the type of international experience*

In the case of the leadership competences, an important factor is the practical training abroad, while experience in the form of a job abroad is not connected with high assessment of these skills (Figure 2).

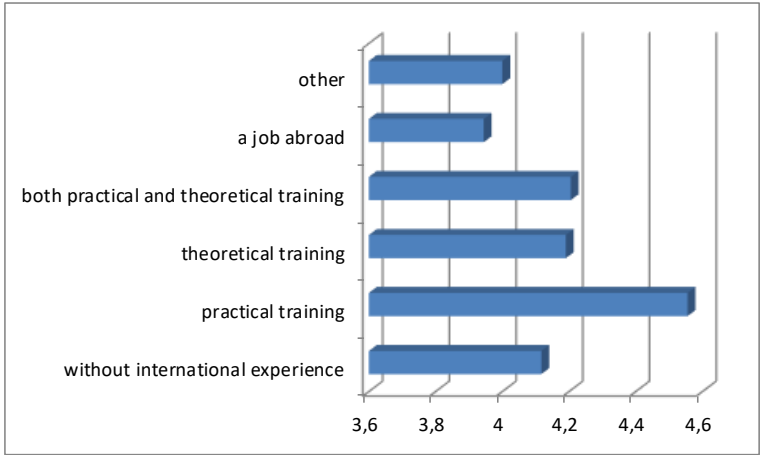


Figure 2. *Self-assessments of the leadership competencies according to the presence and the type of international experience*

The results of the survey are surprising by the fact that among entrepreneurs with high self-assessment of their organizational competences are only those who have worked abroad but not those who have gone through practical and theoretical trainings (Figure 3).

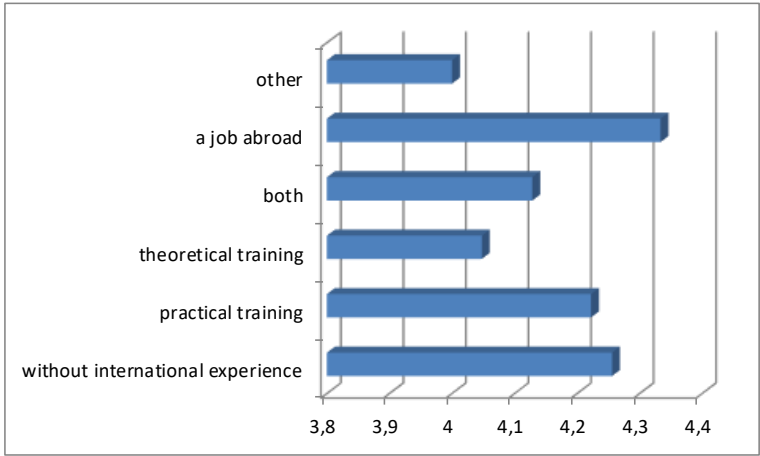


Figure 3. *Self-assessments of the organisational competencies according to the presence and the type of international experience*

According to entrepreneurs' self-assessments, the technical competences are also a function of the international experience. Only entrepreneurs who have gone only through practical training abroad appreciate their

technical competencies lesser than entrepreneurs without international experience (Figure 4).

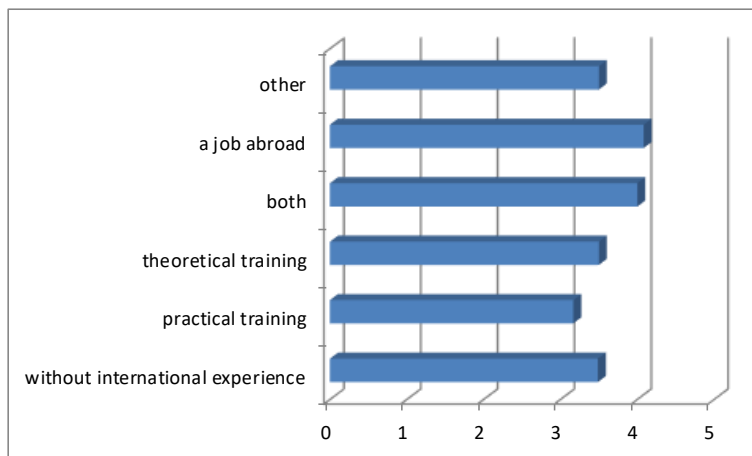


Figure 4. *Self-assessments of the technical competencies according to the presence and the type of international experience*

In summary it can be assumed that there are certain links between the type of international experience and the development of a given type of managerial competences. For example, according to the data presented, the practical training has greater importance in the development of the leadership competences; the job abroad – in the development of the other types of competencies. On the other hand, it is clear that although the internationally experienced entrepreneurs generally appreciate their management competencies higher than those with no such experience, the entrepreneurs whose international experience is limited to theoretical and / or practical training, do not assess their organizational skills higher compared to those without such experience.

An additional effect of the international experience can be found in the strategic dimension of the managerial qualities of the entrepreneurs. Indicators for these qualities are the levels of centralization of strategic management, the formalization of the strategic management process and the adequacy of strategy formulation and implementation. The latter is judged by the degree of involvement of competent associates in enterprises, the continuity of this process and the market feedback. We assume that entrepreneurs with a higher degree of their managerial development are less centralizing the strategic management process, but at the same time more formalizing it. Besides this, as a result they achieve a higher degree of adequacy of this management.

After processing the data, it appears that the degree of centralization of the strategic management is higher among entrepreneurs without international experience, but to the same extent among those who have worked in other countries (Figure 5). This situation fully corresponds to the expectations, having in mind the tradition of centralized management in Bulgaria, justified in other surveys.

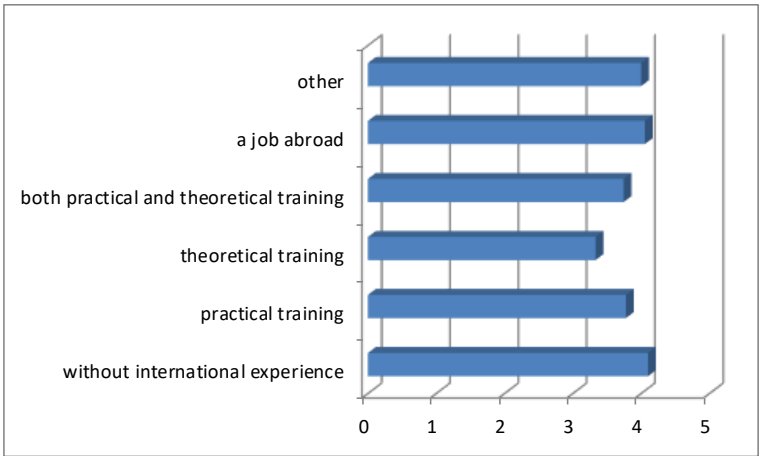


Figure 5. *Relationship between the entrepreneur's international experience and the degree of centralisation of the strategic management*

The expectations for the dependence between the international experience and the degree of formalization of the strategic management are fully confirmed by the empirical survey data. Management with higher degree of formalization is carried out by entrepreneurs who have undergone practical and / or theoretical training in other countries, while those without international experience do not formalize the strategic management process significantly (Figure 6). These results are also in line with the national traditions in management.

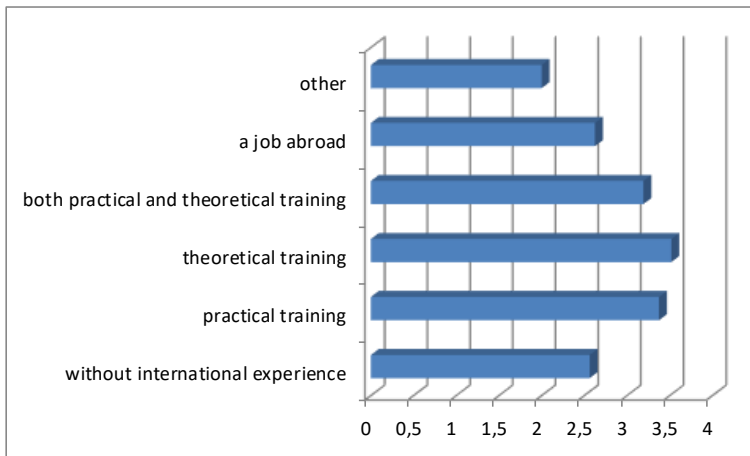


Figure 6. *Relationship between the entrepreneur's international experience and the degree of formalisation of the strategic management*

The adequacy of the strategic management is also positively influenced by the international experience of the entrepreneurs, but only with regard to the one expressed in theoretical or combined with practical training (Figure 7). The absence of an international one, however, does not mean a much lower degree of adequacy.

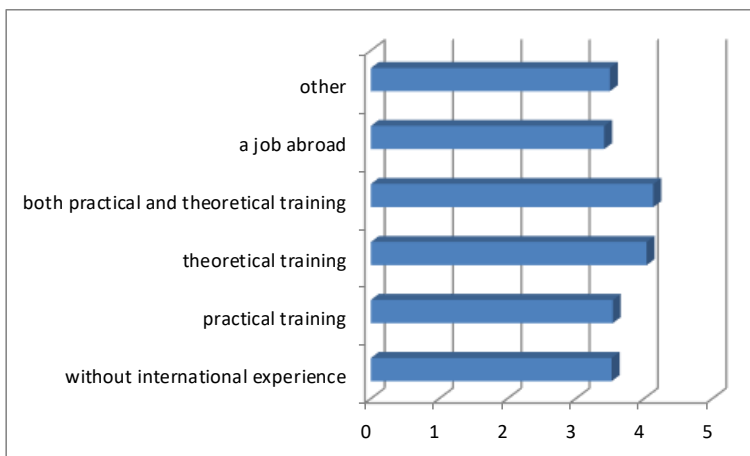


Figure 7. *Relationship between the entrepreneur's international experience and the adequacy of the strategic management*

In summary, the data from the strategic management survey reaffirms the thesis about the importance of the international experience in the entrepreneurs' managerial development.

When examining the links between the international experience and the degree of internationalisation, measured by the number of countries in which the company exports and the share of exports in the total sales volume, the positive role of the international experience is also confirmed. For the management efficiency, as a result of the level of managerial development of the entrepreneurs, we can also judge from some indirect indicators, for which our surveys give data and through which we can isolate the influence of sectorial affiliation. Such indicators are the growth of employment and of sales growth for the last accounting year. The analysis of these links also shows that enterprises run by entrepreneurs with international experience make more significant growth in both employment and sales.

Conclusion

The two empirical investigations, although limited in scope and covered themes of the managerial development area, provide some basis for accepting the defended thesis, namely: the international experience of entrepreneurs has a positive impact on their managerial development and the effectiveness of their managerial efforts. The various degrees of impact of different types of international experience on diverse types of managerial competencies are also highlighted, confirming some of the theories of management learning outlined in the literature review.

At the same time, the empirical data do not allow us to analyse the managerial learning processes in an international environment, as well as to specify the different aspects of learning from other countries. These are the directions in which future research efforts should be concentrated in order the research thesis to be convincingly defended.

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The Impact Study of Job Insecurity on Employees' Creativity

Aihua Huang, Li Yang and Zisen Li

Abstract

From the perspective of Conservation of Resources Theory, this study was conducted to explore the relationship between job insecurity and employees' creativity, as well as the mediating role of knowledge hiding and the moderating role of task interdependence between job insecurity and employees' creativity. We analyzed 180 samples from different industries in the Pan Pearl River Delta of Guangdong province, such as financial industry, manufacturing industry, internet industry and so on. The results indicated that job insecurity negatively predicted employees' creativity, and knowledge hiding mediated the negative relationship between job insecurity and employees' creativity. In addition, task interdependence moderated the relationship between task interdependence and knowledge hiding, which was weaker when task interdependence was high, and stronger when task interdependence was low. Furthermore, Bootstrap test showed that the mediating effect of knowledge hiding on the relationship between job insecurity and employees' creativity was more salient when task interdependence was low.

Key words: job insecurity, employees' creativity, knowledge hiding, task interdependence

1 Introduction

The academia and business circle has attached great importance to and devoted a lot to the research of what influences employees' creativity for several years, because creativity is defined as the start and driving force of innovation. And creativity will definitely make a difference in the improvement of organizational effectiveness, which helps keeping the competitive advantage for organization (Černe et al., 2014; Choi, 2004; Shalley et al., 2004). Therefore, the exploration of effect factors and process mechanism of employees' creativity has become hot topics in both theoretical and practical circles (Chang et al., 2014; Liu et al., 2012; Zhang & Bartol, 2010).

Under the background of fierce market competition nowadays, the dilemma that bothers most organizations tends to be the expectation of greater employees' creativity whilst the compulsory implement of incentive system and competition mechanism, such as the elimination system, layoffs, mergers, and various ways of working including part-time and temping, etc. (Greenhalgh & Rosenblatt, 1984; Hellgren & Sverke, 2003; Hellgren et al., 1999). And these transformation actions are originally aimed at an increasing flexibility of the corporation operation and a better guarantee of the employees' creativity. However, several researchers pointed out that the result may turn out to be just the opposite of the original intention of the transformations (Hellgren & Sverke, 2003). It is found that an increasing number of employees began to worry about their jobs and positions when faced with enterprise transformations (Burchell, 2002), even generated a persistent anxiety of the prospect and trends of their jobs in the future, which is also called job insecurity (Cheng & Chan, 2008; De Witte, 1999; Magnus et al., 2002). Meanwhile, such enterprise transformations may weaken employees' creativity and executive force for their increasing dislike of risk (Probst et al., 2007).

On the contrary, some researchers argued that job insecurity will promote employees' creativity in a way instead (Zhou H&Long L R, 2011; Ren & Zhang, 2015). Although many scholars have realized the existence of a potential relation between job insecurity and employees' creativity, specific empirical research about the internal relation is still rare and general conclusions have not been drawn at present (Zhou H&Long L R, 2011; Yang F& Zhang L H, 2012; Zhang Y&Long L R, 2013; Niesen et al., 2014; Probst et al., 2007; Ren & Zhang, 2015). As a result, this paper will discuss the relation between job insecurity and employees' creativity first.

Recent researches about the relation between job insecurity and employees' creativity mainly focus on the influence of certain situation, such as the responding to the environment (Probst et al., 2007), VSR (Zhou H & Long L R, 2011), Socialization theory (Yang F & Zhang L H, 2012), Threat Rigidity theory (Niesen et al., 2014), etc. In addition, there are also some researches concentrating on the features about creative activities, like tak-

ing a risk or challenge (Zhang Y & Long L R, 2013). However, there are several limitations about recent researches. On the one hand, apart from taking a risk or challenge for any employee, the creative activity actually largely depends on the process of sharing different knowledge, statements and methods with other members in a group or corporation, which will leads to more valuable thoughts and more effective solutions (Greenhalgh & Rosenblatt, 2010; Hammond et al., 2011). On the other hand, job insecurity is a perception or stress about the threat to resource and values in essence (Hobfoll, 2002). Hence, employees are sure to take actions to reduce the pressure of the threat to a loss of the limited resource (Ren & Zhang, 2015; Magnus et al., 2002). Compared with VSR Theory and others, Conservation of Resources Theory (Hobfoll, 2002) pointed out that employees, especially the knowledge-based employees, are apt to maintain and reserve existing resource via their own knowledge and skills under the pressure of a loss of the limited resource and information base (König et al., 2010). Therefore, based on the existing researches, this paper will explore the complicated and detailed process and mechanism of how the job insecurity influence the employees' creativity from the perspective of Conservation of Resources Theory.

At present, most scholars have reached a consensus that the job insecurity will influence the employees' creativity. Besides, researches about the relation between job insecurity and employees' creativity under certain working condition or based on specific personal traits of employee prevail currently (Zhou H & Long L R, 2011; Yang F & Zhang L H, 2012; Niesen et al., 2014). Nonetheless, recent research results indicate the difference and contradictions. Undoubtedly, both working condition and personal traits are critical factors influencing the relation between job insecurity and employees' creativity. With the main theoretical framework of Conservation of Resources Theory, the employees who maintain and reserve existing resource via their own knowledge and skills under the pressure of a loss of the limited resource and information base tend to keep competitive advantage and lower the job insecurity (Cheng & Chan, 2008). What should be noticed is that task can be regarded as the carrier and performance of knowledge and values of employees (Lin & Huang, 2010), which used to a blank area among the formal researches. Therefore, another breakthrough of the explanation of current research results arises. To be more specific, the work task of every employees differs to some degree, and there are two extreme cases. One is that employees just work independently, almost without any dependence with others. On the contrary, another is that employees highly depend on each other, no matter the roles or responsibility. According to Connelly (2012), employees have to turn to frequent and broad interpersonal interaction to finish work task if there exist close connections between tasks, although employees tend to reserve personal knowledge and values. Otherwise, the employee is to blame for the failure

of execution of duty, which will intensify the job insecurity instead. And this can be regarded as an exchange or treat among members of an organization or employees in a corporation (Černe et al., 2014). Hence, whether the task interdependence will make an influence on the relation between job insecurity and employees' creativity is what this paper focuses on, also the third main research topic.

2 Theory and hypotheses

2.1 Job insecurity and employees' creativity

Job insecurity was "perceived powerlessness to maintain desired continuity in a threatened job situation" (Greenhalgh & Rosenblatt, 1984), and it refers to "the anticipation of this stressful event in such a way that the nature and continued existence of one's job are perceived to be at risk" (Sverke & Hellgren, 2010).

In the past ten years, there are more and more researches about employee job insecurity. In general, the researches focus on two factors caused by job insecurity: on the one hand, the influence on employee himself/herself, such as mental health problems (Sverke & Hellgren, 2010; Cheng & Chan, 2008), turnover (Cheng & Chan, 2008; Magnus et al., 2002; Probst et al., 2007; Staufenbiel & König, 2010), reduced organizational citizenship behaviours (Reiselet al., 2010). On the other hand, the influence on organization, such as lower job satisfaction (Sverke & Hellgren, 2010), decline of the efficiency (Chirumbolo & Areni, 2005). However, regarding the relation of job insecurity with creativity, the literature is far less developed. Three central review articles on employee creativity did not even mention job insecurity as a possible explanatory variable (Hammond et al., 2011; Shalley & Gilson, 2004; Shalley et al., 2004).

Nevertheless, a variety of theoretical models predict significant (negative) consequences of job insecurity in terms of creativity. For example, Greenhalgh and Rosenblatt (1984) termed that employees insecure jobs feel less obliged and motivated to solve work-related problems that go beyond the scope of their normal job description. Similarly, job adaptation theory (Hulin, 1991) suggested that employees facing job insecurity would develop strategies of withdrawal from the stressor. Empirical study results (Probst et al., 2007) also support job insecurity negative effect on employees' creativity.

In the study, creativity was often argued to be divergent thinking, or the ability to "think outside the box" to produce novel solutions (Vincent et al., 2002). It involves gathering information from multiple sources and recognizing unusual connections (Dyne et al., 2002). As one of the most significant organizational stressors encountered by employees (Greenhalgh & Rosenblatt, 2010), job insecurity may interfere with novel or creative processes: firstly, creativity was a kind of employee behavior focused on

changing aspects of the work or the organization. As such, creativity can be related to worsened relations with co-workers and supervisors. Innovative employees run the risk of getting into conflict with other employees as these might resist the change. However, those employees who faced job insecurity might not be willing to take these risks, as a conflict with the supervisor could further jeopardize their future employment chances (Janssen et al., 2004; Janssen, 2003). Secondly, according to Conservation of Resources theory (Hobfoll, 2002), where there is already a threat of resource loss, he/she people refrain from investing their remaining resources such as knowledge.

Building on this, we hypothesize that:

H1. Job insecurity is negatively related to employees' creativity

2.2 Mediation by knowledge hiding

Knowledge hiding refers to an intentional attempt to conceal or to withhold knowledge that others have requested—may represent a threat to beneficial outcomes (Connelly et al., 2012). Connelly et al. (2012) argue that knowledge hiding is different from lack of knowledge sharing because, in addition to the omission of knowledge sharing, it also includes withhold knowledge that someone else has requested. Prior studies have come to conclusion that knowledge hindered the different point of view and knowledge sharing between team members (Černe et al., 2014; Connelly et al., 2012), which led to distrust between team members (Staples & Webster, 2012). As a result, new ideas and new methods could not be formed.

However, knowledge hiding was not spontaneous, according to Conservation of Resources theory (Hobfoll, 2002), people may strive to retain, protect, and build valued resources if people experience (1) the threat of resource loss, (2) actual resource loss or (3) a lack of resource gain after resource investment. In COR theory, resources were “objects, personal characteristics, conditions, or energies that were valued by the individual or that serve as a means for attainment of these objects, personal characteristics, conditions, or energies” (Hobfoll, 2002). Specifically, the knowledge acquisition, especially tacit knowledge acquisition cost a lot of energy of employee, and when he/she felt insecure about the organization environment, he/she would retain and protect his/her knowledge resource, which reduced feelings of stress.

In the study, when the organization took transformation actions, employee may feel a resource threat, and they strived to minimize net loss of resources (Hobfoll, 2002). On the one hand, they might try to minimize effort investment in any tasks at work they have to do and rather switch to activities that were less resource demanding (e.g. knowledge was more resource demanding). On the other hand, being altruistic and showing helping and supporting behaviors require additional resource investment

which people might possibly try to minimize in a situation where their job is in danger, in other words, when he/she felt insecure about the organization environment, he/she would retain and protect his/her knowledge resource (König et al., 2010), which reduced feelings of stress because knowledge acquisition, especially tacit knowledge acquisition cost a lot of energy of employee. And generations of innovative ideas and methods relied on integration of different points of view, however, conservation of resources behavior makes it hard for knowledge flow, which led to decline of innovation behavior.

Building on this, we hypothesize that:

H2. Knowledge hiding mediates the relationship between job insecurity and employees' creativity

2.3 Moderation by task interdependence

As a necessary situation variable, task interdependence plays an important role in organization (Campion et al., 1993). Task interdependence refers to a structural relation between personal work task and others', such as the connection with goals, the coherence of processes, the reconciliation of progress, the distribution and allocation of resource, and the requirement of teamwork (Wageman, 1995). Hence, it is the task interdependence that drives the employees to deal with frequent and broad interpersonal interaction, in order to finish their work task (Wageman & Gordon, 2005). Based on the interaction with each other, exchange of thoughts and discussion about different opinions, the integrated and systematic ideas ultimately will be of great help to put forward efficient solutions for high-quality products (Ute R et al., 2009).

It is believed that task interdependence is the mode and way that employees behave when working with task, and kinds of ways of behavior will influence the work task differently. On the basis of Conservation of Resources Theory, employees with job insecurity are likely to refuse to share their redundant resource with others but hide it deliberately instead. Nevertheless, employees usually do not hide the knowledge related to the specific work task, because it is their duty to provide such task-related knowledge. Meanwhile, it is difficult to explain the reasons why not offer the useful knowledge and information. Otherwise, they will be considered as inefficient employees with a lack of responsibility (Connelly et al., 2012), which will certainly result in worse negative effects and job insecurity. That is to say, employees will probably not hide observable task-related knowledge if there is a high task interdependence, even though they are not willing to spend time and energy on sharing the knowledge with others. It is the belief for most employees that responding to colleagues is their duty and hiding such information may be contrary to their career goals (Lin & Huang, 2010). And this statement also fits the interdependence theory.

On the contrary, if the task interdependence is low, the possibility of a sharing of knowledge depends, influenced by the kind of supervision and evaluation from superiors or colleagues. Without compulsory demands, the employees are more likely to keep their own competitive advantage, which may lead to unavoidable knowledge hiding and negative effects on the employees' creativity.

Building on this, we hypothesize that:

H3. Task interdependence moderates the relationship between job insecurity and knowledge hiding (H3a). Specifically, task interdependence will weaken the link between job insecurity and knowledge hiding. Furthermore, task interdependence plays a moderated mediation role in the relationship between job insecurity and employees' creativity (H3b).

The whole hypothesized research model is depicted in Figure 1.

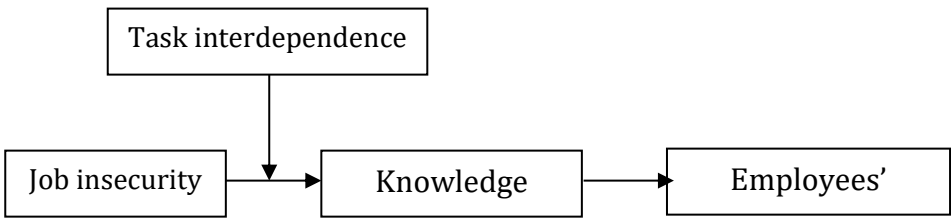


Figure 1. *Research framework*

3 Method

3.1 Sample and Procedure

All participants came from different industries in the Pan Pearl River Delta of Guangdong province, such as financial industry, manufacturing industry, internet industry and so on. Finally, 180 participants finished questionnaire in effect. In the final sample, 81 participants were male and 89 were female. The mean age of respondents was 29years old and the mean organizational tenure was 6 years.

3.2 Measure

Since the survey was performed in China, all the English measurements were translated into Chinese following the back-translation procedure. The Appendix provides a listing of the measures for all constructs.

Job insecurity was measured using a 7-item developed by Hellgren (1999). An exemplar item was: "I am worried about having to leave my job before I would like to". A seven-point Likert scale ranging from 1 to 7(1 =strongly disagree to 7 = strongly agree). Cronbach's coefficient α for knowledge hiding was 0.69.

Knowledge hiding was measured by a 12-item scale developed by Connelly (2012). An exemplar item was: "Withhold helpful information or knowledge from others". A seven-point Likert scale ranging from 1 to 7 (1 =strongly disagree to 7 = strongly agree). Cronbach's coefficient α for knowledge hiding was 0.96.

Creativity was self-reported and assessed with a 4-item questionnaire developed by Farmer (2003). A seven-point Likert scale ranging from 1 to 7 (1 =strongly disagree to 7 = strongly agree). Cronbach's coefficient α for knowledge hiding was 0.90.

Task interdependence was measured by a 5-item scale developed by Lin and Huang (2008). A seven-point Likert scale ranging from 1 to 7 (1 =strongly disagree to 7 = strongly agree). Cronbach's coefficient α for knowledge hiding was 0.86.

Control variables. Previous studies have shown that the nature of work, creativity required for position, work complexity may affect the predictive variables (Connelly et al., 2012; Černe et al., 2014). Thus, it is important to control for these factors that may have potential to influence the studied variables. In this study, gender, age, educational background, corporation nature and organizational tenure were included as control variables.

4 Results

4.1 Common Method Variance

As the data for this research were all measured at the employee level using a single method, the results of the analysis and the estimates might be biased because of common method variance. According to Podsakoff (2003), Bollen (1991) and Vandenberg (2000), this study used SEM analysis to test common method factor, as shown in Table 1. In CFA, the tests (χ^2/df , CFI, RMSEA, AIC, NNFI) are used to assess the overall fit of the various model under study. The results showed four-factor model showed good fit ($\chi^2=877.34$, $df=345$, $\chi^2/df=2.54$, CFI=0.88, RMSEA=0.08, AIC=899.26, NNFI=0.91) comparing to other models.

Table 1. *The results of CFA (N=180)*

Model	χ^2	df	χ^2 / df	CFI	RMSEA	AIC	NNFI
Single-factor model	1951.25	350	5.58	0.60	0.16	2122.64	0.57
Two-factor model	1516.75	349	4.35	0.71	0.14	1675.80	0.68
Three-factor model ^A	1195.73	348	3.44	0.74	0.13	1233.58	0.70
Three-factor model ^B	1101.42	348	3.17	0.76	0.12	1187.71	0.72
Three-factor model ^C	1174.50	348	3.38	0.73	0.13	1225.34	0.70
Four-factor model	877.34	345	2.54	0.88	0.08	899.26	0.91

Notes: Single-factor model: Job insecurity + Creativity + Knowledge hiding+ Task interdependence

Two-factor model: Job insecurity + Creativity, Knowledge hiding+ Task interdependence

Three-factor model ^A: Job insecurity + Creativity, Knowledge hiding, Task interdependence

Three-factor model ^B: Job insecurity, Creativity + Knowledge hiding, Task interdependence

Three-factor model ^C: Job insecurity, Creativity, Knowledge hiding + Task interdependence

Four-factor model: Job insecurity, Creativity, Knowledge hiding, Task interdependence

4.2 Descriptive statistics

Table 2 presents the means, standard deviations, and correlations. Notably, job insecurity is negatively and significantly related to knowledge hiding ($r=0.39$, $p<0.01$) and job insecurity is negatively and significantly related to creativity ($r=-0.38$, $p<0.01$), which provides preliminary support for the hypothesis.

Table 2. Means, standard deviations, and correlations among study variables

Variables	<i>M</i>	<i>SD</i>	1	2	3	4	5	6	7	8	9	10	11
1.Gender	0.55	0.15											
2.Age	2.07	0.31	-0.02										
3.Educational background	2.18	0.62	0.38**	0.11									
4.Organizational tenure	1.63	1.08	-0.25**	0.57**	-0.20**								
5.Corporation nature	2.80	1.44	0.01	0.11	0.27**	-0.09							
6.Work nature	2.48	1.40	0.17*	0.12	0.13	0.11	0.31**						
7.Creativity required for position	4.33	1.38	0.02	0.14	0.32**	-0.01	0.02	-0.16*					
8.Work complexity	4.17	1.38	0.16*	0.25**	0.32**	0.10	0.02	-0.03	0.59**				
9. Job insecurity	3.83	0.93	-0.25**	0.04	0.15*	0.27**	-0.31**	-0.03	0.26**	0.14			
10. Knowledge hiding	3.39	1.39	-0.12	-0.20**	0.10	0.13	-0.31**	-0.01	-0.17**	-0.07	0.39**		
11.Creativity	4.91	1.13	-0.15*	0.11	0.11	0.41**	-0.11	0.02	0.21**	0.19**	-0.38**	-0.23**	
12.Task interdependence	4.39	1.30	-0.23**	0.28**	-0.08	0.52**	0.01	0.10	-0.05	-0.06	0.39**	0.21**	0.24**

Notes: n=180; * $p<0.05$; ** $p<0.01$

4.3 Hypothesis Testing

Tests of H1 and H2: The results for the hypothesized mediation are presented in Table 3. The results show that job insecurity was negatively associated with creativity (Model 5: $\beta = -0.25$, $p < 0.01$), providing support for H1.

The results also showed support for H2 (Model 2: $\beta = 0.34$, $p < 0.01$; Model 6: $\beta = -0.2$, $p < 0.01$) according to Baron and Kenny (1986). However, Baron and Kenny's (1986) three conditions for establishing mediation was challenged by scholars for its rationality and effectiveness (Hayes, 2009; Zhao et al., 2010). Instead, they supported using bootstrap test to measure mediating effect implemented by Preacher and Hayes (2004, 2008). In the study, we used bootstrap test to test hypotheses 2 further. We set t bootstrap samples to 5000 and set confidence level at 95%. The results showed that the mean indirect effect from the bootstrap analysis was negative and significant ($a*b = -0.146$) and the confidence interval did not include 0 (LLCI = -0.218, ULCI = -0.063), which indicated that the indirect effect was significant, and mediation was established. Further, when the variable of knowledge hiding was controlled, job insecurity was still negatively and significantly related to creativity ($p < 0.05$, LLCI = -0.157, ULCI = -0.052). Therefore, H2 was supported.

Test of H3: Table 3 also presented the results for H3, which predicted that task interdependence would moderate the link between job insecurity and knowledge hiding. Results suggested that two-way interaction effect of job insecurity and task interdependence was significantly negative (Model 3: $\beta = -0.19$, $p < 0.01$). The graph of the significant interaction (Aiken and West, 1991) is shown in Figure 2. Supporting Hypothesis 3, simple effects showed that job insecurity increased knowledge hiding under high task interdependence conditions ($\beta = 0.51$, $p < 0.01$), but not in low task interdependence conditions, the effect is not significant ($\beta = 0.03$, ns). Thus, H3a was supported.

Table 4 presented the conditional indirect effects of job insecurity on knowledge hiding across low (i.e. one standard deviation below the mean), medium (i.e. mean), and high levels (i.e. one standard deviation above the mean) of task interdependence. Results showed that, the conditional indirect effect of knowledge hiding was negative and significant in the low and medium task interdependence (low: LLCI = -0.202, ULCI = -0.012, medium: LLCI = -0.123, ULCI = -0.005) but was not significant in the high task interdependence condition (high: LLCI = -0.055, ULCI = 0.027). Hence, H3b was totally supported.

Table 3. Multilevel Analysis Results

	Knowledge hiding			Creativity		
	Model 1	Model2	Model3	Model4	Model5	Model6
C	5.82***	5.68***	5.81***	3.84***	3.76***	-7.26**
Gender	-0.63**	-0.42**	-0.49**	-0.33*	-0.20	-0.39
Age	-1.74***	-1.54***	-1.38***	-0.25	-0.13	-0.42
Educational back-ground	1.02***	0.82***	0.83***	0.44**	0.32**	0.54**
Organizational tenure	0.43***	0.34**	0.18	0.46***	0.40***	0.51***
Corporation nature	-0.35***	-0.26***	-0.28***	-0.11**	-0.06	-0.15**
Work nature	0.05	0.02	0.02	0.03	0.02	0.04
Creativity required for position	-0.27***	-0.32***	-0.31***	0.12*	0.08	0.09
Work complexity	0.05	0.06	0.04	0.03	0.03	0.03
Job insecurity		0.34**	0.28**		-0.25**	
Knowledge hiding						-0.2**
Task interdependence			-0.13			
Job insecurity*Task interdependence			-0.19**			
F	11.26***	11.26***	10.69***	7.84***	7.58***	7.27***
R ²	0.34	0.38	0.41	0.27	0.29	0.30
ΔR^2		0.34**	0.37**		0.25**	0.24**

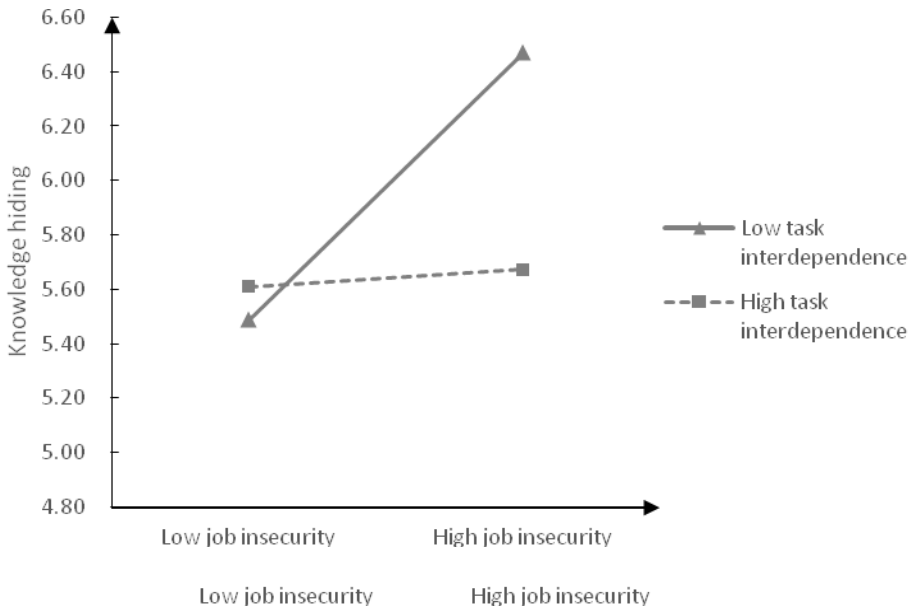


Figure 2. Interaction between job insecurity and task interdependence

Table 4. *Moderated mediation effect test*

Mediator	Task interdependence	Effect	Boot LLCI	Boot ULCI
Low=mean-1SD	-1.296	-0.078	-0.202	-0.012
Medium= mean	0.000	-0.042	-0.123	-0.005
High=mean+1SD	1.296	-0.006	-0.055	0.027

5 Discussion

From the perspective of Conservation of Resources Theory, this study was conducted to explore the relationship between job insecurity and employees' creativity, as well as the mediating role of knowledge hiding and the moderating role of task interdependence between job insecurity and employees' creativity. The results indicated that job insecurity negatively predicted employees' creativity, and knowledge hiding mediated the negative relationship between job insecurity and employees' creativity. In addition, task interdependence moderated the relationship between task interdependence and knowledge hiding, which was weaker when task interdependence was high, and stronger when task interdependence was low.

Furthermore, Bootstrap test showed that the mediating effect of knowledge hiding on the relationship between job insecurity and employees' creativity was more salient when task interdependence was low. This study can make a number of contributions to this new and emerging area.

5.1 Theoretical implications

First, Prior studies on knowledge sharing have tended to probe from comparatively positive perspectives, basing research models on theories of trust, social capital, reward expectation, task-technology fit, or information system success. However, very few studies have explained why people did not contribute their knowledge (Tsay et al., 2014). In the study, we found that the measures (such as elimination system, layoffs, mergers and so on) taken by organization would lead to an increasing number of employees feel insecure about the future existence of their jobs, which make them reluctant to share their knowledge resources, hampering employee innovative behavior.

Second, from the perspective of Conservation of Resources Theory, this study supported the mediating role of knowledge hiding between job insecurity and employees' creativity through the empirical research. In prior studies, there very few studies on the relationship between job insecurity and employees' creativity, which the conclusions were inconsistent and confusing. Besides, prior studies related to job insecurity and employees' creativity have tended to probe from circumstance perspectives, basing research models on theories of VSR theory (Zhou H & Long L R,2011), Socialization theory (Yang F & Zhang L H, 2012), Threat Rigidity theory (Nie-

sen et al., 2014) and so on, without probing the features of creative activity. In fact, creative activity depended more on knowledge sharing between team members, however, job insecurity led to employees' resource protection behavior, which hindered the flow of knowledge and different solutions. The results of the study provided a new perspective of research on employees' creativity influenced factors, and further opened the "Black Box" between job insecurity and employee creativity.

Finally, the study also explored the moderating role of task interdependence between job insecurity and employees' creativity, which explained employees' different behavior even they were faced with the same job insecurity. Specifically, although employees who were worried about their job security may be reluctant to share knowledge to coworkers for protecting their knowledge resources, an exception may occur if the task is related to others. Employees may be less likely to hide knowledge if his/her task is related to others, because there may be a belief that providing answers to relevant questions from colleagues is a part of their job accomplishment. The results of the study supported our hypothesis.

5.2 Practical implications

First, superior has tried to enhance employees' creativity. However, in reality, organization had to implement some incentive mechanism of competition (e.g. elimination system, layoffs, more flexible forms of employment, etc.), which led to employees' job insecurity. In general, superior paid attention to incentive factors of creativity without much attention to hygienic factor, and they paid attention to enhancing employees' knowledge sharing without much attention to the reason why employee do not want to share knowledge. The results indicated that job insecurity negatively predicted employees' creativity. Thus, in the management practice, superior could provide a safe, stable working environment for employee. Specifically, organization should set up reasonable competition mechanism, evaluation mechanism and good protection system and try to avoid employees' continuous worries about losing their job.

Second, the study found that job insecurity may affect employees' creativity through knowledge hiding, which was the key factor inhibiting employee creativity. At the same time, task interdependence can weaken job insecurity positive influencing on knowledge hiding, thus can reduce the negative impact on creativity. In the management practice, particularly for knowledge-based team, it is important to strengthen employee task interdependence and improve the task visibility through evaluation mechanism. So, employee would seek other methods to reduce his/her job insecurity rather than hiding their knowledge. And the methods could be in superior's control.

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***Entrepreneurship,
New Ideas, Models***

Rethinking Enterprise

Simon Bridge

Abstract

This paper suggests that building an understanding of enterprise has involved making a number of assumptions, some of which now appear to be questionable. To demonstrate this the paper considers the evolution of our supposed knowledge about enterprise (and associated concepts) and examines examples of assumptions which, with hindsight, now seem to be wrong. This, it concludes, makes a prima facie case for rethinking enterprise.

Key words: Enterprise, rethinking, questionable assumptions, half-life of knowledge

Introduction – The Need to Rethink

It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so.

Mark Twain

The first business textbook this author read was initially published in 1958 with the title 'Business Enterprise' (Edwards and Townsend, 1958). It purported to be 'a study of the economic and political organisation of British industry' and to describe and analyse its variety – however, what now what seems to be particularly noticeable about it, is not what it says but what it doesn't say. Although it does acknowledge that some businesses are small and that most businesses start small, nowhere does it treat small businesses as being in any way distinct or worthy of separate consideration. It generally focuses on firms, with little regard for their 'founders', and it identifies someone starting from scratch to do something new as 'an innovator' who, it suggests, is 'generally giving a longer rein to his enthusiasm than to his common sense'. Also, it does not appear to use the word entrepreneur at all.

Today it would be very unlikely for a book on enterprise not to give specific acknowledgement to the associated fields of 'entrepreneurship' and/or small business – which are the subject of wide interest. As Gibb (2000) pointed out nearly 20 years ago: 'since the 1980s and particularly into the 1990s there has been an explosion of research into entrepreneurship and the small and medium enterprise' which has been reflected in a substantial growth in both academic literature and in press and journal articles and consultant reports. This has to a considerable extent been driven by government economic interest in this area and it has led to enterprise being widely researched and taught in academic institutions.

However, this has not necessarily led to an increase in reliable knowledge – and Gibb (2000) added that 'despite the increase in academic knowledge, indeed perhaps because of it, there has been a growth of ignorance'. Since the 1990s Bridge and O'Neil have been trying to summarise what we know about this field in successive editions of their book *Understanding Enterprise, Entrepreneurs and Small Business* (fifth edition due 2018). However, they have increasingly perceived that much of our received wisdom in this area does not stand up to close scrutiny and it was because of such concerns that, in producing the fourth edition of their book, they rearranged it to include a section on 'Challenges to the Traditional View' (2013). This paper follows up on such suggestions of a need to rethink what we think we know about enterprise by examining the evolution of this knowledge and by identifying and questioning some of the assumptions upon which it appears to be based.

The 'half-life' of knowledge

This could be seen as an example of the 'half-life' of knowledge. Borrowing a term used to describe the decay of radio-active substances, knowledge is said to have a 'half-life' which, in a particular field of study, is the period of time after which 50 per cent of the current knowledge in that field is likely to be shown to be incorrect and/or superseded – because it is found to be wrong, obsolete or irrelevant. Proponents of some applied sciences have been said to suffer from 'physics envy' because they have wished that in their subject, someone could establish theories or 'laws' which would provide basic more or less universal foundations on which to build further understanding as Newton did for physics. However, even in physics, such knowledge is not necessarily everlasting and, for instance, in the study of gravity the explanation provided by Newton was eventually found to be less accurate than the ideas of Einstein.

A clear example of the transitory nature of some knowledge is in medicine where, in some areas, the rate at which new knowledge is being generated and therefore old knowledge disproved, discarded and/or disregarded is very fast – and half-lives of less than ten years are quoted. Medicine is a very 'applied' science and it has been suggested that, if our understanding of 'enterprise' is in any way a science, it too is very applied and therefore might similarly be expected to have a short half-life.

Purpose – To Make the Case for Rethinking

This paper therefore seeks to make a case for rethinking enterprise. It does this first by suggesting how and why our knowledge of enterprise has evolved and then by identifying some examples where aspects of this understanding would appear to have been based on assumptions which, with hindsight, would seem to be questionable if not definitely wrong. By demonstrating that at least some of the assumptions are questionable, it then makes the case for caution when relying on conventional wisdom in exploring this subject.

Background – The Evolution of Our Enterprise Knowledge

Much of our current understanding about enterprise appears to have developed in the 1970s and 1980s. There were earlier academic studies of 'entrepreneurship', for instance in the USA a paper by Cole entitled 'Entrepreneurship as an Area of Research' was published in 1942, and the first entrepreneurship course was said to have been delivered in Harvard in 1947 (Katz, 2003). Interest in small businesses and entrepreneurship was increasing in the 1970s (Dale Meyer, 2009), however the 1970s was also a time of rising unemployment, which governments were anxious to stem, and it would seem that it was the finding by Birch in 1979 that it was small businesses which were the net job creators which especially focused gov-

ernment attention on this area. If small businesses created jobs, governments wanted more of them, and therefore, in the belief that enterprise led to entrepreneurs creating small business, they wanted more enterprise.

Governments therefore wanted to know how to get more enterprise and, to support this government interest, there were government budgets. This fuelled the 'explosion' of research in enterprise and a desire to build a core of knowledge about it – not least in order to understand how to influence it. Such understanding has to start somewhere and the accepted scientific method is to start by forming a hypothesis about how something behaves which seems to work but which should then be tested - although it may be used in the meantime. However, in the development of this relatively new subject, assumptions appear to have been made which seemed reasonable and were not immediately disproved – and so they were used and subsequently passed on as the received knowledge.

This approach was supported by a deterministic way of thinking. Following the example of Newton a belief had arisen that if we look carefully enough we will be able to determine the mechanism behind things and then use that knowledge to predict and/or control them. Sir Karl Popper (1973) identified this as clock-like thinking which assumed that most physical systems behaved like clocks which may be complicated but which nevertheless are regular, orderly, and highly predictable in their behaviour. Therefore, if the components and mechanisms can be identified, the behaviour of such systems can be predicted. Thus, deterministic explanations were sought which, once established and accepted, acquired the force of custom and practice. As Kahneman says:

'Once you have accepted a theory and used it as a tool in your thinking, it is extraordinarily difficult to notice its flaws. If you come upon an observation that does not seem to fit the model, you assume that there must be a perfectly good explanation that you are somehow missing. You give the theory the benefit of the doubt, trusting the community of experts who have accepted it. ... As the psychologist Daniel Gilbert observed, disbelieving is hard work.' (Kahneman, 2011)

However, it is suggested that the time is now coming when enterprise assumptions should have been tested sometime ago. It is not however easy to list all such assumptions – but four examples are identified and analysed in the next section.

Assumptions – Examples of Questionable thinking

The following four specific examples of the application of apparently questionable assumptions about enterprise are described, not as a comprehensive review, but as a sample to demonstrate why a more thorough revision may be necessary to correct our thinking.

Example 1 – The application of big business-based thinking

We have presumed that small businesses and enterprise are a sub-set of business, assigning their study for instance to business schools – and as a result we have applied to them an understanding of businesses based essentially on big business behaviour. Much of our so-called business understanding is based on big businesses as that is the basis for business school teaching – and indeed for how business schools themselves are organised often with different functions in different silos.

However small businesses are not small big businesses. Small enterprises in the supposedly private and third sectors have lot more in common with each other than they do with larger organisations supposedly in the same sector. Many businesses start small but, as they became larger, they change into very different organisations – as observed by Edith Penrose:

‘The differences in the administrative structure of the very small and the very large firms are so great that in many ways it is hard to see that the two species are of the same genus. ... We cannot define a caterpillar and then use the same definition for a butterfly.’ (Penrose, 1959)

Nevertheless most business ‘professionals’ – such as big business managers, accountants, consultants and academics – learn about business from a big business basis. A result is that often such professionals do not really understand small business issues and, for example, as Bridge and O’Neill (2018: 159) describe, they often have a different view of what constitutes business success than that of small business owners.

Example 2 – Advocating a causal approach of forecasting and planning

One example of a big business-based approach is the advocacy of business plans as the essential tool for starting a business – and this comes from assumptions about how best to prepare for the future.

It would seem that in conditions of uncertainty human beings seek predictions from whatever source might to be available. Hence soothsayers and astrologers have been consulted and today, in business, economists and management ‘gurus’. Big business thinking advocates preparing for the future by research and planning – so businesses are supposed to undertake market research to determine what will happen should they try something new and then to plan on the basis of the research findings.

But there are problems with that approach and it is not the only way of approaching an uncertain future. For example:

- a) Market research is not necessarily reliable. Indeed Graves, who has worked in the area and studied consumer behaviour, suggests that ‘the findings obtained from most market research are completely unreliable’ (Graves, 2010).

- b) Sarasvathy reports that the expert entrepreneurs she interviewed generally distrusted market research and preferred what she had termed an 'effectual' approach to a casual one (2008).
- c) Popper suggested that, despite appearances, most things are not predictable clocks but highly unpredictable clouds (1973).
- d) The concept of lean start-up acknowledges that consumer reaction to a new product is not predictable and therefore advocates trying a prototype on a limited but real market as soon as practical because the feedback thus obtained can be surprising and therefore helpful to improve the offering (Reis, 2011). This is the basis of what is often referred to as 'trial and error' which is not really 'error' and is the way most successful innovations are developed.
- e) Taleb (2013) invented the word 'antifragile' to describe things which get better/stronger when exposed to harsh reality. He also suggests that many successful venture funders make funding decisions, not on the balance of chances of the maximum potential gain (based on logical forecasting), but on the minimum possible loss: "make sure that the probability of the unacceptable (ie the risk of ruin) is nil." (Taleb, 2013: 166)
- f) Trying to apply a logical model to provide the answer is a very left-brained approach, and McGilchrist (2010) suggests that we have become too accustomed to rely on the left brain and need to use the right brain as well:

'One way of looking at the difference would be to say that while the left hemisphere's *raison d'être* is to narrow things down to a certainty, the right hemisphere's is to open them up into possibility. In life we need both.' (Rowson and McGilchrist, 2013)

Therefore it might be said that, when addressing the future, there are in essence two broad approaches which might be taken: one involves predicting, forecasting and planning and is associated with a fear of failure and rigorous business plans – whereas the other is based on accepting uncertainty, exploration and effectuation and is associated with concepts such as trial and error, lean start-up and antifragility. Have we been assuming the value of the former, and therefore been advocating it, instead of realising that the latter is often the better way?

Example 3 – Ignoring the social dimension

We often appear to have followed the lead of traditional economics in assuming that, in their business dealings, humans are essentially guided by reason and logic and therefore that, if someone decides to start a business,

it much be because they have rationally concluded that it offers them better returns than alternative occupations. That, however, is being discounted by behavioural economists who recognise other influences on human actions, such as perceived social pressure:

'The notion that we are rational individuals who respond to information by making decisions consciously, consistently and independently is, at best, a very partial account of who we are. A wide body of scientific knowledge is now telling us what many have long intuitively sensed – humans are a fundamentally social species, formed through and for social interaction.' (Rowson and McGilchrist, 2013)

Have we nevertheless largely ignored the impact of social influence – and therefore the importance of what has been termed 'social capital'? Coleman, for instance, has identified three forms of social capital as 'obligations and expectations, information channels and social norms' (1988) - all of which can be very influential on a business:

- a) Obligations and expectations can embrace a set of mutual relationships between individuals and organisations based on established trust, which, depending on their nature, can deliver benefits such as:
 - Advocacy and mentoring,
 - Introductions and linkages,
 - Partnerships,
 - Bridging and linking.
- b) The channels provided by social connections can help individuals and organisations to access information from within or from outside their organisations – such as:
 - Where to find things such as suppliers, customers or sources of finance,
 - The requirements of particular markets or customers,
 - How to do things like word a contract or conduct a job interview,
 - To whom to go for reliable advice or guidance on specific issues.
- c) A particularly strong aspect of social capital can be its ability to encourage individuals and/or organisations to share values and ways of thinking including the imposition and/or reinforcement of commitments and/or norms of behaviour. By imposing and reinforcing what has been referred to as society's 'rules of the game'

(Baumol, 1990), this aspect of social capital can, for instance, influence:

- Whether people will contemplate starting a new business,
- How they will behave once they are in business.

The implication is that social connections can deliver social capital which, it has been suggested, can be as crucial for the health of a business as vitamins are for the health of a person (Bridge and O'Neill, 2018: 252). Nevertheless, it appears to have been assumed that such social connections are not relevant to enterprise – so they are not mentioned in enterprise teaching, not considered to be relevant for inclusion in standard business plan formats and not advocated as something worth understanding and developing.

Example 4 – Assuming that entrepreneurship exists

The word 'entrepreneurship' seems to have been coined in the 1930s by adding the suffix 'ship' to the originally French word 'entrepreneur' and it appears initially to have been used to refer to the concept of being an entrepreneur – but also became associated with something that itself generated or stimulated entrepreneurial activity. A stimulus to this latter interpretation came in the 1980s when governments wanted more small businesses and therefore wanted there to be something which would stimulate the entrepreneurs who they hoped would create them.

Thus, we wanted there to be something which stimulated entrepreneurs and in 'entrepreneurship' we had a word for it – so it was easy to believe that it existed. Then universities became more involved in teaching and researching 'entrepreneurship' and many of the academics involved wanted it to be accepted as an academic discipline – so to give it a supposedly scientific basis the following assumptions seem to have been made:

- a) That entrepreneurship exists as a specific discrete identifiable phenomenon which somehow produces more and/or better entrepreneurs.
- b) And that this phenomenon is deterministic – that it operates in a consistent way in accordance with 'rules' which, once identified can be used to predict its behaviour.

But subsequent evidence does not support either of those assumptions: we still can't uniquely define entrepreneurship and we can't identify its 'rules'. Therefore, it has been suggested, we must assume that it doesn't exist as the concept we have supposed it to be. Further, Bridge (2017) has suggested that, because its use can be confusing when there is no common definition of it, and because its application to different things can be misleading when it is taken as implying some commonality between them, we should stop using the word. This might then also lead to us looking else-

where for what does influence people to start businesses and what are the necessary components and/or conditions for economic growth – two misdirections which, he implies, have been attributable to the assumption of its existence.

In Conclusion

The paper suggests that building an understanding of enterprise has involved making a number of assumptions, possibly unconsciously, which seemed reasonable at the time and which could thus provide the foundation for further learning – and therefore which have subsequently been passed on as established facts. However, both as an applied science and a relatively new subject for academic interest, our supposed knowledge about it might be expected to have a relatively short half-life – and therefore it would be appropriate to identify and test the original assumptions.

To make the case for such a review this paper has considered the evolution of our ‘knowledge’ about enterprise (and associated concepts) and highlighted four assumptions which it indicates which do indeed appear to be questionable. This, therefore, should at least make a *prima facie* case for rethinking enterprise.

The conclusion is that our current received wisdom about enterprise and its associated concepts of ‘entrepreneurship’ and small business is indeed based on a number of inappropriate assumptions. By demonstrating that at least some of the assumptions are questionable, it makes the case for wide caution when learning about or exploring this subject – which should therefore be treated warily and in many cases ‘rethought’..

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An Empirical Investigation of Platform Firms' Business and Revenue Models

Zong Dai

Abstract

The purpose of this study is to explore a new perspective of how emerging platform firms from different industries innovate their business and revenue models for competitive advantage, operational efficiency, and financial performance. The case study approach is employed for this initial research.

The existing theories of business and revenue models have been developed into a normal paradigm. However, the existing paradigm is not sufficient for us to understand emerging platform businesses, such as ecosystems, value proposition, business and revenue models, the digitalization of products/services, and business process etc.

Particularly, while few initial studies of platforms have documented in the literature, there is much we do not know (Evans & Gawer, 2016). What are newly emerging platform business and revenue models? What are components of the platform business models that are different from that of pipeline businesses (traditional businesses)? How platforms implement their strategies, create value, and conduct business processes? This study aims to explore these issues.

It is suggested that the case study approach is deemed proper for a research project that is exploratory in nature, especially appropriate in new topic areas (Yin, 1994, Kathleen, 1989 and Schwandt, 1997). This paper conducts a case study of several platforms. Case of different platform patterns are selected across industries based on data availability. Data is collected and analyzed at the corporate levels. The paper develops a set of research propositions for the future studies in the area.

Key words: platform, business model, value proposition, revenue model, business process

Introduction

Platform businesses have been increasingly becoming an important economic force and a growing number of traditional firms are incorporating with or transferring their businesses into platform businesses (Evans & Gawer, 2016). This landscape change in the business world will bring fundamental challenges to the both of business practice and management research and many questions have not yet been investigated. Particularly, the scientific investigation of business models is a relatively new research field and platform model research is rarely documented in the literature (e.g., Wirtz, et al., 2016).

This paper is an initial effort of exploring platform business and revenue models. The case study approach is used for this early explorative study, as suggested for a research project that is exploratory in nature, especially appropriate in new topic areas (Yin, 1994, Kathleen, 1989 and Schwandt, 1997). Cases are selected from platform businesses, based on data availability. After case analysis, findings and research propositions derived from the case analysis for the future research are discussed.

Platform Business Cases

Five platform firms are selected. One (Amazon) is chosen from a global platform survey (Evans & Gawer, 2016), and the rest from Board of Innovation's *+50 business & revenue model examples* (2017).

Dark data of the five platforms are collected from their websites and other sources for this initial case study. Dark data is the pool of untapped, untagged, non-inventoried data (Tittel, 2014; Mackey, 2016; Gartner, 2017) from which insights may be derived (Johnson, 2015). Some successful case studies have been conducted by using dark data (e.g., Wiebe & Allison, 2015).

The data are initially analyzed and highlighted in the following tabular form. The main attributes in the tabulation are based on the four components of the business model developed by Johnson, Chistensen & Kagermann, 2008), i.e., value proposition, profit formula, key resources, and key processes.

<i>Company</i>	<i>Description</i>	<i>Value Proposition</i>	<i>Revenue Stream</i>	<i>Key Resources</i>	<i>Key Processes</i>	<i>Data Source</i>
3D Hubs	Founded in 2013 as an online 3D printing service platform. It operates in over 150 countries.	Facilitate transactions between 3D printing services (Hubs) and engineering/product designers that want to make 3D prints.	A commission fee of 15% on every 3D printed product, ordered through the platform.	The platform and network of global 3D design and printing; globally distributed 3D manufacturing, matchmaking algorithms for the best 3D design.	Three key processes, first, customers upload their parts, second, they get instant printability feedback, third, select a 3D printing service by price, speed and quality.	3D Hubs (2017). Board of Innovation (2017).
AirBnB	Launched in 2008, named AirBnB in 2009, it is as an online marketplace and hospitality service platform, enabling people in 191 countries to lease or rent short-term lodging.	Connects hosts and travelers and facilitates the process of renting without owning any rooms itself. Moreover, it cultivates a sharing-economy by allowing property owners to rent out private flats.	Online registration and account creation are free. On each booking, the company charges guests a 6%-12% guest services fee and charges hosts a 3% host service fee.	An all-in-one global trip-planning platform that is a firm-market hybrid operating in 191 countries, and an appropriate platform culture – shared norms, values and capabilities among the providers.	Users search for lodging using a variety of filters. Before booking, users provide a valid email address, telephone number, a scan of an ID. The company also offers various mobile applications	AirBnB (2017). Board of Innovation (2017).
Amazon	An American electronic commerce and cloud computing company that was founded in 1994, the largest Internet-based	Best in hardware, prices, content ecosystem, interoperability, customer service. Three core benefits of convenience, speed,	As of 2016, 72.1% of the total net sales from electronics and other General merchandise, 17.8% from	The combination of physical, financial, and human resources, and a network of supply chain. Physical	Amazon runs the lines of businesses as 1) online retail, 2) internet services, and 3) the Kindle ecosystem. For	Amazon (2017). Statista (2017). Miglani (2016 and 2017). Noren (2013).

	retailer in the world by total sales and market capitalization.	and choice make up Amazon's unique selling proposition.	media, 9.0% of from Amazon Web Services, 1.1% from other.	capabilities include its distribution center, payment system, customer data-bases, technology infrastructures.	online retail, ad and shipping are handled by sellers. internet services are deeply intertwined with both its retail business and the Kindle ecosystem.	
Kaggle	In 2010, founded as a platform for predictive modeling and analytics competition. In 2016, it had over 536,000 registered users in 194 countries.	Provide a platform for data science problem solving, and job matching in data science.	A fee for a competition on data science problem solving, and a fee for job matching in data science.	The combination of talented core team, network, platform, and data scientific and analytic capacity.	Two key processes, first, competition for data problem solving, second, crowdsource for the best data science talents hiring.	Kaggle Inc (2017). Board of Innovation (2017). Hamner, B. (2017).
Uber	Officially launched in 2011, as a transportation network company operating in 570 cities worldwide. It develops, markets and operates the Uber car transportation and food delivery mobile apps.	Offers time-and-cost-efficient taxi service, discounted and flexible taxi fares, different cab models to cater to everyone.	5-20% commission on all the rides done through its service.	Technological platform, the network of skilled drivers, unique surge pricing technology, tracking and rating systems for customer's riding experience.	Four step processes: 1) user requests a cab through a mobile app, 2) an instant matching of the customer and a cab driver, 3) the user gets ride, 4) Payment and an optional ride rating.	Uber (2017). Board of Innovation (2017). Statista (2017). Juggernaut (2015).

Discussion

From the above summarized information, the following ideas can be proposed as the future research propositions:

- The platforms' value creation takes place mainly on their value net, different from the Porter (1985)'s value chain.
- The platforms' major value source is relied on the network effects, which is that one user of a good or service has on the value of that product to other people. When a network effect is present, the value of a product or service is dependent on the number of others using it (*Shapiro & Varian, 1999; Parker & Alstyne, 2005*).
- *Some competitive forces interacted on the platform are different from the five competitive forces addressed by Porter (2008). For example, the interaction between users and developers is a new type of relationship in the platform competition arena.*
- The platforms create new types of revenue streams, such as hosting fees, fee for a competition etc.
- The platforms develop and evolve new types of key resources and competencies, such as capability of generating network effects, data algorithm, and apps.
- The platforms' key business processes are based on the value net, not on the traditional linear value chain.

This is a very initial study of the platform business and revenue model. Many limitations are unavoidable, such as lack of the detailed literature review of business model and deep investigation of platform phenomena, large sample size of cases, data cleansing and analysis. However, it provides some initial insights for the future studies in this important area.

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Based on the Equity Structure View of the Relationship between TMT Heterogeneity and Innovation Performance

Li Weining and Wang Menghan

Abstract

This study highlights the role of the shareholding proportion of the largest shareholder in the relationship of top management team (TMT) heterogeneity and corporate innovation performance. Based on a sample of 18 China listed household appliance industry from 2004-2014, the empirical study makes use of a panel smooth transition regression model (PSTR) to investigate the nonlinear relationship. The results show that as the shareholding proportion of the largest shareholder becomes different, a nonlinear transition is found in relationship between TMT heterogeneity and innovation performance.

Key words: TMT heterogeneity, shareholding proportion of the largest shareholder, innovation performance, PSTR

1. Introduction

Since Hambrick and Mason (1984) proposed Upper Echelon Theory, there have been many researches focused on the theory. Scholars generally hold that corporate sustainable development not only depends on a single person, but also is achieved by top management team (TMT) that consist of members having different characteristics, skills, educational backgrounds and social experiences. In order to make more all-sided and in-depth analysis on TMT characteristics as well as their influence on corporate, the concept of heterogeneity, which is used to measure the convergence of knowledge and capabilities and members' specific characteristics caused by the difference of members' characteristics (including demographic characteristics, cognitive difference, social values and work experience), is introduced into TMT researches. As TMT members' values and cognitive abilities are difficult to be measured directly, scholars in empirical studies use demographic characteristics (age, tenure and educational background) and their heterogeneity as substitute variables to investigate TMT influences on strategic decisions and performance, for example Pelled (1996) chose educational background heterogeneity and Jehn (1995) chose information heterogeneity.

With the new economic era coming, competition among corporations becomes stronger under the rapid and complicated environmental change. Therefore, the focus in theoretical fields and business circles is shifted to the formation and development of corporate dynamic competitive capabilities, and TMT is the important driving force of corporate creativity and innovative capabilities. Given that, this study analyzes data of 18 listed companies in China appliance industry from 2004-2014 to investigate the nonlinear relationship between TMT heterogeneity (education, age and tenure) and innovation performance under different shareholding proportion of the largest shareholder, by use of panel smooth transition regression models (PSTR) of Gonzalez et al. (2005).

The PSTR model explores whether the relationship between TMT heterogeneity and corporate innovation performance exhibits nonlinear changes in response to changes in shareholding proportion of the largest shareholder. This study's findings may guide efforts to improve the methodological rigor of future studies that will use panel smooth transition regression model (PSTR) as a research strategy, resulting in greater reliability and validity for the results of studies. Furthermore, this study aims to add to the literature by providing evidence about how the shareholding proportion of the largest shareholder influence the relationship of top management team (TMT) heterogeneity and corporate innovation performance.

2. Literature review

In this section, this study first review the prior research work on the relationship of the TMT heterogeneity and corporate innovation. Based on the context, it points out that there is rare in-depth research on relationship between TMT and corporate innovation.

Hambrick, Cho and Chen (1996) found that TMT heterogeneity was positively related with corporate behavior disposition, strategic significance and scale. TMT collective capabilities of strategic formulation and structural reaction are regarded as the effective ways facing with business environment complexity (Murray 1989). A lot of research results show that, the higher TMT educational level is, the more scientific and comprehensive decisions are, which contributes to more corporate innovation (Hambrick and Mason 1984; Bantel and Jackson 1989). The researches on relationship between TMT heterogeneity and innovative performance have achieved fruitful results. In the early 1980s, since educational levels of top managers improved the capabilities of opportunity recognition and judgment as well as capabilities of information processing that helped to discover innovation opportunities, market innovation in American airlines was owed to TMT heterogeneity (Labich and Kenneth 1990). However, other results show negative influence of TMT heterogeneity on corporate innovation. O'Relly, Snyder and Boothe (1993) found that TMT heterogeneity was negatively related with dynamic adaptive capabilities when they researched on electronic companies. Contradictions from communication in heterogeneous teams reduce decision efficiency, so heterogeneity even makes the origin of communicative obstruction and conflicts. Besides, Hambrick et al. (1996) found that TMT heterogeneity was negatively related with speed of corporate behavioral implementation.

Previous researches are focused on whether TMT can support corporate innovation, but there is rare in-depth research on relationship between TMT and corporate innovation. Carpenter (2002) proposed that corporate strategy or social environment variables should be introduced into the relationship between TMT and corporate performance. For example, organizational characteristics and environmental characteristics should be considered in researches on relationship between TMT heterogeneity and innovation performance. Equity structure that reflects investors' position in corporate decisions influences corporate performance through governance mechanism. Jakub Kastl, David Martimort and Salvatore Piccolo (2013) took Italian manufacturing listed companies as samples, and found that operators were more inclined to make long-term strategic decisions and showed more positive attitude toward R&D input as more centralized ownership alleviated interest conflicts between operators and owners. Sanghoon Lee (2012) took Korean listed companies as research subjects, by use of fixed-effect feasible generalized least squares(FGLS) regression

model and dynamic gaussian mixture model(GMM) regression model, to analyze the influence of equity concentration on R&D input, the result of which showed equity concentration positively affected R&D input. Jackie Di Vito, Claude Laurin and Yves Bozec (2010) found that highly centralized equity negatively affected R&D input by study on Canadian manufacturing listed companies, which is same as the results of Yafeh and Yosha (2003). La Porta (1999) found that shareholding balance contributed to R&D input, as the balance situation made up of several large shareholders can effectively control the impact of individual interest on R&D input decision. Liu Shengqiang and Liu Xing (2010) found that R&D input turned out to decrease first and then increase with the shareholding proportion of the largest shareholder going up, by taking A Share Manufacturing Listed Companies from 2002 to 2008 as samples and using mixed data regression and panel data model. Bai Yixin et al. (2008) confirmed that there was an inverted U-shape relationship between shareholding proportion of the largest shareholder and R&D input based on panel data Vogt model. Wen Fang (2008) proposed that there was interval effect and cubic curvilinear relationship between shareholding proportion of controlling shareholders and R&D input by study on China listed companies from 1999 to 2006. Feng Genfu and Wen Jun (2008) made an empirical research by use of a listed companies data from 2005 to 2007, and concluded that there was a U-shape relationship between equity concentration and technological innovation. Yu Tao (2012) took A share manufacturing companies listed in Shanghai and Shenzhen as research subjects, and found that equity concentration had no influence on R&D investment activities through multiple regression. Besides, Yang Jianjun and Sheng Suo (2007) concluded that equity concentration was negatively related with technological innovation in ways of questionnaire.

From literature review, there is rare in-depth research on relationship between TMT and corporate innovation, ignoring the effect of equity structure between team member and innovation performance. Despite the paucity of empirical research, the literature indicates that shareholding proportion of the largest shareholder can significantly influence the relationship. At the same time, enterprise decision-making and collaboration won't show a fixed percentage or causal relationship, but it is usually characterized by a nonlinear feedback. And, the relationship between TMT heterogeneity and innovation performance will be a nonlinear relationship with the dynamic change of shareholding proportion of the largest shareholder. Moreover, the role of shareholding proportion of the largest shareholder has become an important research direction in the field of strategic management. Given the above observation, the empirical study makes use of a panel smooth transition regression model (PSTR) to investigate the nonlinear relationship between top management team (TMT) heterogeneity and

corporate innovation performance in listed companies of household appliance industry.

3. Study design

3.1 Sample selection

Research data in this study is collected from China Stock Market Trading Database (CSMAR), Gildata and corporate annual statements. The companies of household appliance industry listed in A share Shanghai and Shenzhen exchanges during 2004-2014 are selected as research samples. This study filters the samples as follows: samples with delist during research period or data deficiencies are eliminated; samples with financial problems or ST are eliminated.

3.2 Variables definition

explained variable. This study selects amount of the application for patent, which reflects the capabilities of corporate innovation, to measure corporate innovation performance. Considering the original data may exaggerate the exceptional situation, this study uses natural logarithm of patent applications.

explanatory variable. This study selects differences in educational level, tenure and age to measure TMT heterogeneity, which is used most generally and frequently (Carpenter 2002). The Herfindal-Hirschman coefficient (also called the Blau coefficient) is calculated for educational level

heterogeneity (HEDU) by use of the formula $H = 1 - \sum_{i=1}^n p_i^2$, where p_i

refers to the ratio of i-type members in the group, and the value of H is between 1 and 0. Allison (1978) compared different measures, and proposed that coefficient of variation (the ratio of the standard deviation to the mean) as a measure of invariable ratio should be better than standard deviation and variance in measuring continuous variables (such as age and tenure). Hence, this study uses coefficient of variation to measure age heterogeneity (HAGE) and tenure heterogeneity (HTEN).

transition variable. This study takes the shareholding proportion of the largest shareholder as the transition variable.

control variable. Firm age (AGE), firm size (SIZE), and asset-liabilities ratio (DEBT) are selected as control variables. Corporate age is calculated by the observed year minus the foundation year; corporate size is calculated by the natural logarithm of total assets; asset-liabilities ratio is calculated by total liabilities divided by total assets. Table1 shows the descriptive statistics results of each variable.

Table 1. Descriptive Statistics Results

Variable	Code	Mean	Standard deviation	Skewness	Kurtosis
Age heterogeneity	HAGE	0.17	0.36	0.38	0.42
Education heterogeneity	HEDU	0.63	0.79	-0.43	0.30
Tenure heterogeneity	HTEN	0.42	0.33	0.51	-0.32
Firm size	SIZE	22.45	1.30	0.35	-0.29
Firm age	AGE	20.06	10.09	1.45	0.93
Asset-liabilities ratio	DEBT	0.59	0.20	-0.07	2.96
Patent applications	PAT	3.5	2.18	-0.22	-1.03
Shareholding proportion of the largest shareholder	TOP1	0.33	0.14	0.62	-0.02

3.3 Panel smooth transition regression model

In order to investigate whether the relationship between TMT heterogeneity and corporate innovation performance exhibits nonlinear changes with changes in shareholding proportion of the largest shareholder, this study uses PSTR model of Gonzalez et al. (2005) to make an in-depth analysis . A PSTR model with a transition variable is defined as follows:

$$y_{it} = \mu_i + \beta_0 x_{it} + \beta_1 x_{it} g(q_{it}; \gamma, c) + \varepsilon_{it} \quad (1)$$

for $i=1, 2, \dots, N$, and $t=1, 2, \dots, T$, where N and T respectively represent the cross-section and time dimensions of the panel. The transition function $g(q_{it}; \gamma, c)$ is the continuous function of the transition variable q_{it} and is normalized to be bounded between 0 and 1. The logistic specification is:

$$g(q_{it}; \gamma, c) = \{1 + \exp(-\gamma \prod_{j=1}^m (q_{it} - c_j))\}^{-1} \quad (2)$$

where: $\gamma > 0$, $c_1 \leq c_2 \leq \dots \leq c_m$. The parameter γ determines the smoothness of the transitions; c is the location parameter; and m generally equals 1 or 2.

3.4 Parameter estimation

The estimation results of model parameter in Table2 show that the model is divided into high and low regimes in which threshold value is $c=0.3144$ and transition slope is $\gamma =552.7579$. Consequently, the results in Table2 lead to the complete PSTR model about the nonlinear relationship between TMT heterogeneity and corporate innovation performance:

$$PAT_{it} = \mu_i + \beta_0 x_{it} + \beta_1 x_{it} g(TOP1_{it}; 552.7579; 0.3144) + \varepsilon_{it} \quad (3)$$

$$\beta_0 = (-0.2135, -4.3877, 0.4038, 0.4652, -0.0154, 0.1064)$$

$$\beta_1 = (-7.0791, 1.8784, -0.4462, -0.0856, 0.0161, -0.0032)$$

$$x_{it} = (HAGE_{it}, HEDU_{it}, HTEN_{it}, SIZE_{it}, DEBT_{it}, AGE_{it})$$

Table 2. Descriptive Statistics Results

	β_0	T-value	β_1	T-value
HAGE	-0.2135	-0.0887	-7.0791*	-1.8293
HEDU	-4.3877***	-2.8431	1.8784	1.0365
HTEN	0.4038*	1.8247	-0.4462	-1.4028
SIZE	0.4652 ***	3.6476	-0.0856	-1.1683
DEBT	-0.0154***	-2.7227	0.0161**	1.9953
AGE	0.1064***	3.9542	-0.0032	-0.2181
Threshold value c		0.3144		
Slope parameter γ (Transitor slope)		552.7579		

Note: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$, two-tailed test.

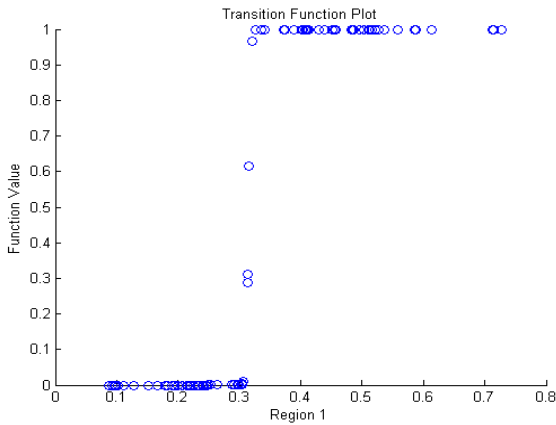


Figure 1. Graph of transition function

4. Related findings and conclusions

The research results show that the model is divided into low regime and high regime at the point of $TOP1=0.3144$. When $TOP1 < 0.3144$, the model is in a low regime. When $TOP1 > 0.3144$, the model is in a high regime. Since equity structure and equity concentration varies in different regimes, the influence of TMT heterogeneity on corporate innovation performance has nonlinear changes as well. The conclusions of this study are as follows:

When the shareholding proportion of the largest shareholder is below 0.3144, the power of large shareholders is restricted and there are supervisions and balances among shareholders. The TMT members who have heterogeneous educational levels have experienced different growing envi-

ronments and educational modes which lead to heterogeneous values and behavioral manners. Therefore, TMT with higher educational level heterogeneity has more specified labor division in the process of innovation investment and technological update strategies formulation. The educational level heterogeneity makes members too caught in controversies to miss development opportunities and has no contribution to innovation performance in the low regime where power among shareholders keeps balanced. The TMT members whose tenures experience different development stages and events in companies have interpretations to organizations and strategies (KATZ 1982). With different reactions and interpretations to the external and internal environments, various capabilities which make full use of social network to obtain resources and supports and formulate diversified strategies (Dutton and Duncan 1987), tenure heterogeneity provides more opportunities to transform the original management modes and reconstruct strategies (Fan and Jiao 2011). Tihanyi *et al.* (2000) found that TMT with high tenure heterogeneity could control risks and uncertainties with rich social experiences and business practices to push corporate forward. Since the tenures of TMT members influence coordination and operation, and further affect decision scientificity and efficiency, Srivastava and Lee (2005) pointed that TMT with higher tenure heterogeneity would produce new products more quickly and promote technological accumulation to lead to industrial development. In the low regime where shareholders keep balanced, TMT with high tenure heterogeneity has more comprehensive knowledge of developing stages, which helps to take innovation strategies.

When the shareholding proportion of the largest shareholder is higher than 0.3144, the controlling status of the controlling shareholders becomes firmer. In China, as listed companies have highly centralized equity, state-owned shareholding proportion of the largest shareholder is much higher than the sum of that of the second to the fifth largest shareholders, which lead to little voice and influence of other shareholders. As age presents a manager's experiences and inclination to bear risks, age heterogeneity reflects members' differences in experiences that is closely related to managerial experience, innovative awareness, learning and adaptive capabilities. Since TMT with low age heterogeneity have similar experiences, values, behavioral manners and strategic choices, the team usually has more cohesiveness and less sentimental conflicts to reach agreements and strategic decisions with high efficiency. Therefore, the high shareholding proportion of the largest shareholder contributes to innovation decisions formulation. However, TMT with high age heterogeneity have various views, cognitive levels and values on same things. Members with high age heterogeneity may make decisions against corporate innovation and long-term development out of the largest shareholder's interests in front of complex economic environment and violent competition.

5. Research suggestions and limitations

This study analyzes panel data from 18 China listed companies in Shanghai and Shenzhen exchanges in 11 consistent years, by use of PSTR model to investigate the nonlinear relationship between TMT heterogeneity and corporate innovation performance. It not only provides a new perspective on TMT researches theoretically and methodologically, and reveals the relationship among TMT, shareholding proportion of the largest shareholder and innovation performance, but also provides practical directions about how to choose TMT members and make innovation decisions for household appliance industry. However, there still are some limitations. First, the measurement of tenure by use of TMT members' duration in their current positions does not accurately reflect TMT's tenure characteristics. Since a TMT member may have had other senior positions in the company before, the measurement of duration in the current position is hard to reflect the cooperation and cohesiveness among TMT members. The total time at the company or total time at the decision-making level can be considered to measure the tenure in future studies. Second, while the shareholding proportion of the largest shareholder is selected as the transition variable, other variables are not considered, such as competitive characteristics in the industry and differences of external institutional environments, which also have influences on relationship between TMT heterogeneity and corporate performance. Third, household appliance industry is a competitive industry, the characteristics of which are not reflected in this study, as industrial characteristics have influences on relationship between equity concentration and corporate performance.

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The International Entrepreneurship: Trends, Challenges, Achievements

The 8th International Conference on International Entrepreneurship: Trends, Challenges, Achievements was held from 6 to 9 June 2017 in the St. St. Constantin and Helena Resort, near Varna, Bulgaria. This Proceedings book includes a selection of the papers presented at the conference. Others have been directed to the IRE journal. Like the previous conferences, the 8th continued the tradition of a relatively small ('boutique' as some of the foreign participants say) conference but of high quality and with a warm atmosphere for networking and relaxation.

First of all, it is worth mentioning the contribution of our renown keynote speakers:

- Prof. Eric Flamholtz (UCLA, Management Systems Consulting Corporation, USA)
- Prof. David Smallbone (Kingston University, UK, Past President of the ECSB and ICSB)
- Prof. Andrew Burke (Trinity College Business School, Dublin, Ireland, Editor-in-Chief of the IRE)
- Prof. Simon Bridge (Ulster University Business School, UK).

Interesting presentations and constructive discussions continued during the parallel sessions. Below are a selection of the papers presented. We start with the winner of the Best Paper Award at the Conference Tanja Leppäaho (Finland), who presented her paper *“Getting Embedded for and during Internationalization”*. Prior to the conference, she received 2017 Bertarelli Family Best Paper Award from Babson College Entrepreneurship Research Conference (BCERC) together with Professor Sarah Jack from University of Lancaster School of Management as co-author of their research paper.

A very important feature of the conference, valid for 2017, was the pleasant atmosphere for networking with the aim of creating future scientific and business partnerships. The fact is that a number of participants took part in several editions of the conference. We hope that all of these achievements will be reflect even more in the upcoming 9th and of course in the anniversary 10th conference.

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